

RESOLUTION NO. 2014 - 24

RESOLUTION OF THE BOARD OF DIRECTORS OF THE RANCHO MURIETA COMMUNITY SERVICES DISTRICT, ACTING AS THE LEGISLATIVE BODY OF RANCHO MURIETA CSD COMMUNITY FACILITIES DISTRICT NO. 2014-1 (RANCHO NORTH/MURIETA GARDENS), AUTHORIZING THE (1) ISSUANCE OF THE RANCHO MURIETA CSD COMMUNITY FACILITIES DISTRICT NO. 2014-1 (RANCHO NORTH/MURIETA GARDENS) SPECIAL TAX BONDS, 2014 SERIES, (2) APPROVAL, EXECUTION AND DELIVERY OF A FISCAL AGENT AGREEMENT, AND (3) APPROVAL OF A PRELIMINARY LIMITED OFFERING MEMORANDUM IN CONNECTION THEREWITH

WHEREAS, the Board of Directors (the "Board") of the Rancho Murieta Community Services District (the "District") has conducted proceedings under and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the "Act"), to form Rancho Murieta CSD Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) ("CFD 2014-1"), to authorize the levy of special taxes upon the real property within CFD 2014-1, and to issue bonds secured by said special taxes, the proceeds of which are to be used to finance the purchase, construction, expansion or rehabilitation of certain public infrastructure facilities and other governmental facilities with an estimated useful life of five years or longer, which CFD 2014-1 is authorized by law to construct, own or operate and that are necessary to meet increased demands placed upon the District as a result of development or rehabilitation occurring within the proposed CFD 2014-1, including but not limited to the improvements to the District's Water Treatment Plant #1, and related costs including design, construction, inspections, professional fees, connection fees and acquisition costs (the "Facilities"); and

WHEREAS, the Board, acting as the legislative body of the CFD, intends by this resolution to authorize the issuance of bonds under the Act to provide funding for the Facilities and related costs, which are designated "Rancho Murieta CSD Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) Special Tax Bonds, 2014 Series" (the "Bonds"); and

WHEREAS, the District has entered into the Rancho North Properties and Murieta Gardens Financing and Services Agreement dated as of May 27, 2014 (the "FSA") with owners of properties within the District identified in the FSA (the "Owners"), pertaining, *inter alia*, to the design, engineering, permitting and construction of the Facilities, under which one or more of the Owners may advance funds to the District to facilitate the payment of expenditures for the Facilities in anticipation of the issuance of the Bonds (the "Original Expenditures"), to the reimbursement of all or a portion of which Original Expenditures the District intends to allocate proceeds of the Bonds and to apply such proceeds to the satisfaction of such Owner advances; and

WHEREAS, there have been submitted to this Board certain documents providing for the issuance of the Bonds and this Board, with the aid of its staff, has reviewed said documents and found them to be in proper order; and

WHEREAS, all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of said Bonds and the levy of said special taxes as contemplated by this Resolution and the documents referred to herein, exist, have happened and have been performed in due time, form and manner as required by the laws of the State of California, including the Act.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE RANCHO MURIETA COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The Board hereby authorizes the issuance of the Bonds in an amount not to exceed \$6,750,000 for the purpose of financing the Facilities, funding of a debt service reserve account and paying costs of issuance related to the Bonds. Furthermore, the Board hereby expresses its intent to apply all or a portion of the proceeds of the Bonds to the reimbursement of Original Expenditures, and, in the case of an Original Expenditure initially paid out of monies made available for such purpose to the District by an Owner, to satisfy its obligation to repay such Owner such monies in whole or in part through application of all or a portion of such reimbursement. It is the intent that this Resolution satisfy the requirements of section 1.150-2 of the Treasury Regulations promulgated under the Internal Revenue Code of 1986. The District recognizes that under said requirements the allocation of proceeds of the obligations to an Original Expenditure (other than to certain de minimis expenditures or preliminary expenditures described in section 1.150-2(f) of the Treasury Regulations) will be recognized only if (i) that Reimbursable Expenditure was paid not earlier than 60 days prior to the adoption of this Resolution and (ii) the allocation of proceeds of the Obligations to such reimbursement is made not later than the later of (a) 18 months after the date of actual payment of the Original Expenditure or (b) 18 months after the date upon which the Facilities are placed in service or abandoned, but in no event more than three years after the date of actual payment of the Original Expenditure.

Section 2. The Board hereby approves the Fiscal Agent Agreement in substantially the form annexed hereto. The President, the Vice President or the General Manager (each, a "Responsible Officer") is hereby authorized to select the fiscal agent for the Bonds and execute the Fiscal Agent Agreement with such revisions, amendments and completions as shall be approved by any Responsible Officer executing the same, with the advice of Bond Counsel or General Counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The Board hereby approves the Preliminary Limited Offering Memorandum relating to the Bonds, substantially in the form annexed

hereto, with such revisions, amendments and completions as shall be approved by any Responsible Officer with the advice of Bond Counsel or General Counsel. Any Responsible Officer is authorized and directed to execute and deliver a final Limited Offering Memorandum in substantially the form hereby approved, with such additions and changes as may be approved by Bond Counsel or General Counsel and any Responsible Officer executing the same, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The Board hereby approves the sale of the Bonds pursuant to a limited offering or a private placement, and depending on the method of sale as approved by a Responsible Officer, the Board hereby authorizes the preparation and execution and delivery of a bond purchase agreement or a private placement agreement (the "Purchase Agreement") with an underwriter or a placement agent, as approved by a Responsible Officer. Provided, however, that (a) the Purchase Agreement shall provide for a true interest cost (including original issue discount shown) not greater than 12.00%, and an underwriter's discount or a private placement agent fee not greater than 2.0% of the principal amount of Bonds, and (b) the Bonds and Purchase Agreement must comply with the District Comprehensive Mello-Roos Goals and Policies and the Responsible Officers shall not approve any Purchase Agreement for Bonds that would violate the Goals and Policies (subject to Board-approved waivers as allowed therein). In the event a private placement is determined to be the method of sale of the Bonds, the Preliminary Limited Offering Memorandum and the final Limited Offering Memorandum referenced in Section 3 above shall be converted to a Private Placement Memorandum.

Section 5. Each Responsible Officer is hereby authorized and directed, for and in the name and on behalf of CFD 2014-1, to do any and all things and take any and all other actions, including the publication of any notices necessary or desirable in connection with the sale of the Bonds and execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, deem necessary or advisable in order to consummate the lawful issuance and sale of the Bonds and the consummation of the transactions as described herein, so long as the action is consistent with the Act and District Comprehensive Mello-Roos Goals and Policies (subject to Board-approved waivers as allowed therein).

Section 6. This Resolution shall take effect upon its adoption.

PASSED, APPROVED AND ADOPTED this 5th day of September, 2014, by the following Roll Call Vote:

Ayes: Pasek, Ferraro, Gumbinger, Martel
Noes: None
Abstain: None
Absent: Belton



Gerald Pasek, President of the Board
Rancho Murieta Community Services District

ATTEST:



Suzanne Lindenfeld
District Secretary

PRELIMINARY LIMITED OFFERING MEMORANDUM DATED _____, 2014

NEW ISSUE - BOOK-ENTRY ONLY

NOT RATED

In the opinion of Fulbright & Jaworski LLP, Los Angeles, California, Bond Counsel, a member of Norton Rose Fulbright, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein. See "TAX MATTERS" herein.

STATE OF CALIFORNIA

SACRAMENTO COUNTY

§ _____ *

**RANCHO MURIETA CSD
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(RANCHO NORTH/MURIETA GARDENS)
SPECIAL TAX BONDS, 2014 SERIES**

Dated: Date of Delivery

Price: 100.0%

Due: September 1, 20__

Interest Rate: _____ %

CUSIP: _____ †

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The Rancho Murieta CSD Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) Special Tax Bonds, 2014 Series (the "Bonds") are being issued by the Rancho Murieta CSD Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) (the "CFD"), which was established by the Rancho Murieta Community Services District (the "District"), pursuant to a Fiscal Agent Agreement, dated as of September 1, 2014 (the "Fiscal Agent Agreement"), by and between the CFD and _____, as fiscal agent (the "Fiscal Agent"), and will be secured as described herein. The Bonds are being issued to (i) finance a portion of improvements to the District's Water Treatment Plant #1, (ii) fund a reserve account for the Bonds, (iii) fund capitalized interest on the Bonds for approximately [24] months commencing on the date of delivery of the Bonds, and (iv) pay the costs of issuance of the Bonds. See "THE FINANCING PLAN" herein.

The Bonds will be issued in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Interest on the Bonds shall be payable on each March 1 and September 1, commencing March 1, 2015 (the "Interest Payment Dates") to the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, by check mailed on such Interest Payment Date or by wire transfer to an account in the United States of America made upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See "THE BONDS -- Book-Entry System" herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

The Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from Special Tax prepayments prior to maturity as set forth herein. See "THE BONDS - Redemption" herein.

The Bonds are limited obligations of the CFD. The Bonds are payable solely from the Special Taxes (as defined herein) to be levied on and collected from the owners of the taxable land within the CFD, and from certain other funds pledged under the Fiscal Agent Agreement, all as further described herein. The Special Taxes are to be levied according to a Rate and Method of Apportionment of Special Tax approved by the qualified electors within the District on September 5, 2014.

THE BONDS ARE BEING OFFERED ONLY TO CERTAIN "ACCREDITED INVESTORS" OR "QUALIFIED INSTITUTIONAL BUYERS" AND ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER. SEE "NOTICE TO INVESTORS" HEREIN.

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

THE PURCHASE OF THE BONDS IS AN INVESTMENT SUBJECT TO A HIGH DEGREE OF RISK, INCLUDING THE RISK OF NONPAYMENT OF PRINCIPAL AND INTEREST. SEE "SPECIAL RISK FACTORS" HEREIN FOR A DISCUSSION OF SUCH 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 quick reference only. It is *not* a complete summary of the Bonds. Investors must read the entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued, subject to approval as to their legality by Fulbright & Jaworski LLP, Los Angeles, California a member of Norton Rose Fulbright, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by the District's General Counsel with respect to the issuance of the Bonds. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about September ____, 2014.

[UNDERWRITER LOGO]

Dated: _____, 2014

* Preliminary; subject to change.

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

RANCHO MURIETA COMMUNITY SERVICES DISTRICT COMMUNITY FACILITIES DISTRICT NO. 2014-1 (RANCHO NORTH/MURIETA GARDENS)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels within Community Facilities District No. 2014-1 (CFD No. 2014-1) of the Rancho Murieta Community Services District, other than Assessor's Parcels classified as Exempt Property as defined herein, and collected each Fiscal Year commencing in Fiscal Year 2014-2015, in an amount determined by the CFD Administrator through the application of the procedures described below. All of the real property within CFD No. 2014-1, 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:

"Acreage" means the land area in acres 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 in acres shown on a recorded Subdivision document recorded with the County. The square footage of an Assessor's Parcel is equal to the Acreage of such parcel multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated expenses related to the administration of CFD No. 2014-1: the costs of determining the amount of the levy of Special Taxes, the collection of Special Taxes, including the expenses of collecting delinquencies, the payment of a proportional share of salaries and benefits of any District employees and District overhead whose duties are related to the administration of CFD No. 2014-1, costs associated with responding to public inquiries regarding CFD No. 2014-1, and any and all other costs incurred in connection with the administration of CFD No. 2014-1.

"Assessor's Parcel" means a lot or parcel within CFD No. 2014-1 shown on an Assessor's Parcel Map with an assigned assessor's parcel number.

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

"Authorized Facilities" means those facilities eligible to be funded by CFD No. 2014-1.

"Boundary Map" means a recorded map of CFD No. 2014-1 which indicates by a boundary line the extent of the territory identified to be subject to the levy of Special Taxes.

"Building Permit" means a permit issued for the construction of a Residential or Nonresidential structure.

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

“**CFD Administrator**” means an official of the District, or designee thereof, responsible for determining the Special Tax Requirement, and providing for the levy and collection of the Special Taxes for CFD No. 2014-1.

“**CFD No. 2014-1**” means Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) of the Rancho Murieta Community Services District established by the District under the Act to fund Authorized Facilities.

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

“**Debt Service**” means the total amount of bond principal, interest, and the scheduled sinking fund payments of the bonds.

“**Developed Parcel**” means a parcel receiving one of the following development approvals from the County:

<u>Land Use</u>	<u>Development Approval</u>
Single Family Parcel	Final Subdivision Map
Multi-Family Use Residential	Building Permit issuance
Nonresidential Use	Building Permit issuance

“**District**” means the Rancho Murieta Community Services District.

“**District Board**” means the Board of Directors of the District, acting as the legislative body of CFD No. 2014-1.

“**Estimated Special Tax Delinquency Amount**” means an amount equal to a reasonable estimate of delinquencies expected to occur in the Fiscal Year in which Special Taxes will be levied.

“**Exempt Property**” means all Assessor’s Parcels within CFD No. 2014-1 that are exempt from the Special Tax pursuant to the Act or Section G herein.

“**Final Map Parcel**” means a Taxable Parcel designated for new development, which is part of a Final Subdivision Map. Once a parcel is classified as a Final Map Parcel, it shall remain a Final Map Parcel.

“**Final Subdivision Map**” means a recorded map in compliance with the Subdivision Map Act (California Government Code § 66410 et seq.).

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

“**Indenture**” means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2014-1 bonds are issued, as modified, amended and/or supplemented from time to time or any instrument(s) replacing the same.

“**Maximum Special Tax**” means for each Assessor’s Parcel of Taxable Property, the maximum Special Tax determined in accordance with Section C, which may be levied in a given Fiscal Year on such Assessor’s Parcel.

“**Maximum Special Tax Revenue**” means the greatest amount of revenue that can be collected in total from a group of parcels (such as developed parcels) by levying the Maximum Special Tax.

“**Maximum CFD Special Tax Revenue**” means the sum of the Maximum Special Tax levied on all Taxable Parcels in the CFD in a Fiscal Year.

“**Multifamily**” or “**Multifamily Residential Parcel**” means any parcel designated or

developed for more than one residential dwelling unit per parcel. Such uses may consist of apartments, condominiums, townhomes, time-share units, row houses, duplexes, or triplexes.

“Nonresidential Parcel” means a Taxable Parcel with land uses other than Residential Uses.

“Original Parcel” means an Assessor’s Parcel identified and assigned a Maximum Special Tax in Table 1 of Section C.1 below.

“Outstanding Bonds” means all CFD No. 2014-1 bonds, notes or other debt instruments which are outstanding under an Indenture or other documentation of such debt.

“Property Owner Association Property” means, for each Fiscal Year, any Assessor’s Parcel that was owned by a property owner association, including any master or sub-association, as of January 1 of the prior Fiscal Year.

“Proportionately” means for Taxable Property that the ratio of the actual Special Tax levy to Maximum Special Tax is the same for all Assessor’s Parcels.

“Public Property” means all Assessor’s Parcels which, as of the January 1 preceding the Fiscal Year in which the Special Tax is being levied, are (i) owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State, the County, District or any other public agency (each, a “Public Entity”), provided, however, that any property leased by a Public Entity to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified according to its use; or (ii) encumbered by an unmanned utility easement making impractical its utilization for other than the purpose set forth in the easement.

“Single-Family Parcel” means, in any Fiscal Year, all parcels in the CFD for which a Building Permit was issued or may be issued for construction of a dwelling unit designated for Residential Use other than Multifamily Residential Use.

“Special Tax” means the special tax authorized to be levied within CFD No. 2014-1 pursuant to this Rate and Method of Apportionment and the Act to fund the Special Tax Requirement.

“Special Tax Requirement” means for each Fiscal Year, the amount, as determined by the CFD Administrator, to: (i) pay Debt Service on all Outstanding Bonds due in the calendar year commencing in such Fiscal Year; (ii) pay periodic costs associated with the Outstanding Bonds, including but not limited to the costs of credit enhancements and federal rebate payments due in the Calendar Year commencing in such Fiscal Year; (iii) pay Administrative Expenses associated with Special Tax; (iv) establish or replenish any operational reserve fund; (v) pay incidental expenses related to the Authorized Facilities; (vi) fund the Estimated Special Tax Delinquency Amount; (vii) pay directly for the acquisition or construction of Authorized Facilities; and (viii) fund the shortfall, if any, in Special Tax revenues collected in the preceding Fiscal Year necessary to fund the Special Tax Requirement for such Fiscal Year where the shortfall resulting from delinquencies in the payment of Special Taxes exceeded the Estimated Special Tax Delinquency Amount.

“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 66140 *et seq.*); recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual lots for which building permits may be issued; other actions that result in a change of Assessor’s Parcel boundaries or numbering within CFD No. 2014-1; or a combination of the foregoing.

“Successor Parcel” means an Assessor’s Parcel created by the Subdivision of one or more Original Parcels or other Successor Parcels.

“Taxable Acreage” means that area of a parcel that is determined by the Administrator to become a Taxable Parcel or Parcels upon further Subdivision. In determining the Taxable Acreage of a Taxable Parcel, the CFD Administrator should consider the development potential of a Taxable Parcel.

“Taxable Property” or “Taxable Parcel” means a parcel that is not exempt from the Special Tax pursuant to the Act or Section G.

“Tentative Map” means a tentative subdivision map as defined by the Subdivision Map Act.

“Undeveloped Parcel” means a Taxable Parcel that is not a Developed Parcel or Final Map Parcel.

B. CLASSIFICATION OF ASSESSOR’S PARCELS

Each Fiscal Year, beginning with Fiscal Year 2014-2015, each Assessor’s Parcel shall first be classified by the CFD Administrator as an Original Parcel or a Successor Parcel. In addition, each such Fiscal Year, each Successor Parcel shall be further classified by the CFD Administrator as Taxable Property or Exempt Property. In addition, each such Fiscal Year, Taxable Property shall be further classified by the CFD Administrator as a Developed Parcel, Final Map Parcel, or Undeveloped Parcel. Commencing with Fiscal Year 2014-2015 and for each subsequent Fiscal Year, all Taxable Property shall be subject to the levy of Special Taxes pursuant to Section C below.

C. MAXIMUM SPECIAL TAX

1. Original Parcels

Each Fiscal Year commencing in Fiscal Year 2014-2015, each Assessor’s Parcel classified as an Original Parcel shall be subject to the Special Tax. The Maximum Special Tax for each Original Parcel shall be equal to the amount shown in Table 1 below.

TABLE 1
FISCAL YEAR 2014-2015
MAXIMUM SPECIAL TAX

APN	Maximum Special Tax
073-0470-004	\$24,336
073-0470-005	\$36,786
073-0470-006	\$1,132
073-0180-029	\$22,638
073-0090-062	\$28,297
073-0790-023	\$113,188
073-0800-003	\$155,633
073-0800-007	\$566
073-0800-008	\$84,891
073-0800-009	\$70,743

2. Successor Parcels

For any Fiscal Year, each Assessor's Parcel classified as a Successor Parcel shall be subject to the Special Tax. For Successor Parcels that were valid Assessor's Parcels in the previous Fiscal Year, the Maximum Special Tax for the current Fiscal Year shall be equal to the Maximum Special Tax assigned to such Assessor's Parcel in the previous Fiscal Year. For Successor Parcels that were not valid Assessor's Parcels in the previous Fiscal Year, the Maximum Special Tax shall be determined by the CFD Administrator based on the method of apportionment described in Section D below and shall apply for all future years that such Assessor's Parcel is valid and the Special Tax is applicable.

D. METHOD OF APPORTIONMENT OF SPECIAL TAX

Commencing with Fiscal Year 2014-2015 and for each following Fiscal Year, the District Board shall apportion the annual Special Tax as set forth below until the amount of Special Taxes equals the Special Tax Requirement.

First: All Original Parcels will be assigned the Maximum Special Tax shown in Table 1 of Section C above.

Second: All Successor Parcels that have been assigned a Maximum Special Tax in a previous Fiscal Year will be assigned that same Maximum Special Tax for the current Fiscal Year.

Third: Each Successor Parcel that has not been assigned a Maximum Special Tax in a previous Fiscal Year will be assigned a Maximum Special Tax by the CFD Administrator using the following apportionment formula:

- a) For each Subdivision, (i) all Original Parcels and Successor Parcels that were assigned a Maximum Special Tax in a previous Fiscal Year but are no longer valid Assessor's Parcels shall be designated "Parent Parcels" and (ii) all Successor Parcels that are within the boundaries of CFD No. 2014-1 but have not been assigned a Maximum Special Tax in a previous Fiscal Year shall be designated "Child Parcels".
- b) The Maximum Special Tax assigned to a Parent Parcel included within the Subdivision shall be apportioned to the Child Parcels based on the following procedures:
 - (1) If the Subdivision creates Single-Family Parcels or condominiums, divide the sum of the Maximum Special Tax assigned to the Parent Parcel by the number Final Map Parcels in the Subdivision.
 - (2) If the Subdivision creates Multifamily Parcels or Nonresidential Parcels allocate the Maximum Special Tax based upon each Child Parcel's proportionate Taxable Acreage of Taxable Parcels within the Subdivision. Under no circumstances shall the sum of Maximum Special Tax amounts for the Child Parcels associated with any Subdivision be less than the sum of Maximum Special Tax amounts of the Parent Parcels associated with such Subdivision (all Child Parcels shall henceforth be considered Successor Parcels). If a Tentative Map has been approved for all or portions of the Subdivision, the CFD Administrator shall use the Tentative Map to assign Taxable Acreage to Child Parcels. If the Subdivision creates Single-Family Parcels, use the procedures in the following section to assign the Maximum Special Tax to Single-Family Parcels.
 - (3) If Child Parcels are created by means other than a Subdivision allocate the Maximum

Special Tax based upon each Child Parcel's proportionate Taxable Acreage of Taxable Parcels. The CFD Administrator shall use development records and other records of the County to determine the developable portion of a Child Parcel to determine the Taxable Acreage of such parcels.

Fourth: The Administrator will compute the Special Tax Requirement. The Administrator then will determine the tax levy for each Taxable Parcel using the following process:

- a. Compute the Special Tax Requirement using the definition of Special Tax Requirement in **Section 2**.
- b. Compute 100 percent of the Maximum Special Tax revenue for all Developed Parcels.
- c. If the amount from **Step b** is greater than the Special Tax Requirement in **Step a**, Proportionately reduce the Special Tax levy on all Developed Parcels until just equal to the Special Tax Requirement.
- d. If the amount from **Step b** is less than the Special Tax Requirement in **Step a**, increase proportionately the Maximum Special Tax levy for each Final Map Parcel up to 100 percent of the Maximum Special Tax for each Final Map Parcel until the sum of the amount computed in **Step b** for all Developed Parcels plus the levy of the Maximum Special Tax on Final Map Parcels equals the Special Tax Requirement.
- e. If the amounts from **Step b** for all Developed Parcels and **Step d** for all Final Map Parcels together are less than the Special Tax Requirement in **Step a**, increase proportionately the Maximum Special Tax levy for each Undeveloped Parcel up to 100 percent of the Maximum Special Tax for each Undeveloped Parcel until the sum of the amounts computed in **Steps b** and **d** plus the levy of Maximum Special Tax on Undeveloped Parcels equals the Special Tax Requirement.
- f. Levy on each Taxable Parcel the amount calculated above.
- g. Prepare the tax collection schedule and, unless an alternative method of collection has been selected pursuant to **Section I**, send it to the County Auditor requesting that it be placed on the general, secured property tax roll for the Fiscal Year. The Tax Collection Schedule will not be sent later than the date required by the Auditor for such inclusion.

Fifth: If as a result of the allocation of the Maximum Special Tax to Child Parcels results in tax burdens that seem disproportionate to other such Child Parcels, a property owner may request that the CFD Administrator reapportion the Maximum Special Tax across other Taxable Parcels with 100-percent consent of all affected property owners.

E. PREPAYMENT OF SPECIAL TAX

1. Prepayment in Full

The obligation of the property within CFD No. 2014-1 to pay the Special Tax may be satisfied through prepayment as described herein only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of the Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor's Parcel. The CFD Administrator may charge such owner a reasonable fee for providing this service. Prepayment must be made not less than 30 days prior to a date that notice of redemption of CFD No. 2014-1 Outstanding Bonds from the

proceeds of such prepayment may be given to the Trustee pursuant to the Indenture that is specified in the report of the Special Tax Prepayment Amount (defined below).

The Special Tax Prepayment Amount shall be calculated as summarized below (capitalized terms defined in the following paragraphs of this section):

	Bond Redemption Amount
plus (+)	Redemption Premium
plus (+)	Future Facilities Amount
plus (+)	Defeasance Amount
plus (+)	Administrative Fees and Expenses
less (-)	Reserve Fund Credit
less (-)	Capitalized Interest Credit
less (-)	Reinvestment Earnings Credit
equals (=):	Special Tax Prepayment Amount

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

Paragraph No.:

1. Confirm that no Special Tax Delinquencies apply to such Assessor's Parcel.
2. Divide the Maximum Special Tax for such Assessor's Parcel by the total estimated Maximum Special Tax levy for CFD No. 2014-1 that could be levied in the current fiscal year excluding any Assessor's Parcels that have been prepaid (the "Prepayment Percentage").
3. Multiply the Prepayment Percentage by the amount of bonds that are expected to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year (the "Bond Redemption Amount").
4. Multiply the Bond Redemption Amount calculated in paragraph 3 by the applicable redemption premium (i.e. the redemption price less 100 percent), if any, on the Outstanding Bonds referenced in paragraph 3 (the "Redemption Premium").
5. Compute the "Future Facilities Costs" which is equal to \$4,136,099 minus (i) the cost of Authorized Facilities previously paid from the Improvement Fund, (ii) moneys currently on deposit in the Improvement Fund and available to pay for Authorized Facilities, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance the costs of Authorized Facilities.
6. Multiply the Prepayment Percentage by the Future Facilities Costs computed in paragraph 5 (the "Future Facilities Amount").
7. Add the amount (if any) needed to pay interest on the Bond Redemption Amount between the prepayment date and the redemption date to the Special Tax levied on such Assessor's Parcel in the current Fiscal Year that has not yet been paid (the "Defeasance Amount").
8. Determine the administrative fees and expenses associated with computation of the Special Tax Prepayment Amount and redemption of previously issued bonds ("Administrative Fees and Expenses").
9. Determine the expected reduction in the reserve requirement (as defined in the Indenture) associated with the prepayment (the "Reserve Fund Credit"). If the amount on deposit in the reserve fund at the time of prepayment is less than the reserve requirement (as defined in the Indenture) then the Reserve Fund Credit shall equal zero.

10. If any capitalized interest for the Previously Issued Bonds will not have been expended as of the date immediately following the first interest and/or principal payment following the current Fiscal Year, that amount shall be multiplied by the Prepayment Percentage (the "Capitalized Interest Credit").
11. Determine the amount the CFD Administrator reasonably expects to derive from the reinvestment of the Bond Redemption Amount, the Defeasance Amount and the Future Facilities Amount between the date of prepayment and the date those funds are expended (the "Reinvestment Earnings Credit").
12. The Special Tax prepayment amount is equal to the sum of the amounts computed in paragraphs 3, 4, 6, 7 and 8 less the amounts computed in paragraphs 9, 10 and 11 (the "Special Tax Prepayment Amount").

The Bond Redemption Amount, Redemption Premium and Defeasance Amount less the Reserve Fund Credit, Capitalized Interest Credit and Reinvestment Earnings Credit associated with those amounts 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 Future Facilities Amount less the portion of the Reinvestment Earnings Credit associated with that amount shall be deposited into the Improvement Fund. The Administrative Fees and Expenses associated with the prepayment shall be retained by CFD No. 2014-1.

The Special Tax Prepayment Amount may be insufficient to redeem a full \$5,000 increment of Outstanding 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 CFD No. 2014-1 bonds or to make debt service payments.

Upon confirmation of the payment of the current Fiscal Year's Special Tax levy associated with paragraph 7 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. For any Assessor's Parcel that is prepaid, the County shall cause a suitable notice to be recorded in compliance with the Act to indicate that the prepayment of the Special Tax and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless, at the time of such proposed prepayment, the amount of Maximum Special Taxes that may be levied on Taxable Property within CFD No. 2014-1 both prior to and after the proposed prepayment is at least equal to the sum of (i) the Administrative Expenses as defined in Section A above and (ii) 1.10 times the annual debt service on the Outstanding Bonds for each remaining Fiscal Year.

2. Prepayment in Part

The obligation of an Assessor's Parcel to pay the Special Tax may be partially prepaid as described herein, provided that a partial prepayment may only be made if there are no delinquent Special Taxes associated with such Assessor's Parcel at the time of partial prepayment. The full Special Tax Prepayment Amount shall be calculated as described in Section E.1 above, then the partial prepayment amount will be determined by using the following formula:

$$PP = [(PE - A) \times F] + A$$

These terms have the following meaning:

- PP = the partial prepayment amount
- PE = the Special Tax Prepayment Amount determined according to Section E.1 above
- F = the percentage, expressed as a decimal, by which the owner of the Assessor's Parcel is

partially prepaying the Special Tax
A = the Administrative Fees and Expenses calculated in paragraph 8 of Section E.1 above

The owner of any Assessor's Parcel who desires to make a partial prepayment shall notify the CFD Administrator of such owner's intent and the percentage of Special Tax obligation that the owner intends to prepay. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax within 30 days of the request and may charge a reasonable fee for providing this service. The CFD Administrator shall (i) distribute or cause to be distributed the funds remitted to it according to Section E.1 and (ii) indicate in the records of CFD No. 2014-1 that there has been a partial prepayment of the Special Tax.

F. TERMINATION OF SPECIAL TAX

The Special Tax shall be levied as long as necessary to meet the Special Tax Requirement for a period not to exceed fifty years commencing with Fiscal Year 2014-15, provided however that the Special Tax will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined that all required interest and principal payments on CFD No. 2014-1 bonds have been paid.

G. EXEMPTIONS

For each Subdivision that takes place within CFD No. 2014-1, for the Fiscal Year immediately following the Subdivision of such property, the CFD Administrator shall classify as Exempt Property all Public Property and Property Owner Association Property resulting from such Subdivision. If an Assessor's Parcel of Taxable Property becomes Public Property or Property Owner Association Property in its entirety, it will remain Taxable Property and must be prepaid in full in accordance with Section E.1 above prior to it being transferred to the public entity or property owner's association.

H. APPEALS

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the CFD Administrator not later than twelve months after having paid the first installment of the Special Tax that is disputed. The CFD Administrator shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the decision of the CFD Administrator requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made, but an adjustment shall be made to the Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s) to compensate for the overpayment of the Special Tax.

I. MANNER OF COLLECTION

The annual Special Taxes shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that the Special Taxes may be billed and collected at a different time or in a different manner if necessary to meet the financial obligations of CFD No. 2014-1.

APPENDIX B

DUE DILIGENCE REPORT/MARKET ABSORPTION STUDY

APPENDIX C
SUMMARY OF FISCAL AGENT AGREEMENT

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
RANCHO MURIETA, CALIFORNIA**

BOARD OF DIRECTORS

Gerald Pasck, President
Roberta Belton, Vice- President
Betty Ferraro, Director
Paul Gumbinger, Director
Michael Martel, Director

DISTRICT STAFF

Joseph Blake, General Manager
Suzanne Lindenfeld, Secretary
Richard P. Shanahan, District Counsel

PROFESSIONAL SERVICES

Bond Counsel

Fulbright & Jaworski LLP
Los Angeles, California

Financial Advisor

_____, California

Underwriter

_____, California

Special Tax Consultant

Willdan Financial Services
Temecula, California

Appraiser

_____, California

Fiscal Agent

_____, California

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No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Bonds described herein, other than as contained in this Limited Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the CFD, the District or the Underwriter. This Limited Offering Memorandum 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 any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the CFD, the District, and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the CFD, the District or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum. The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with 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 stated herein are subject to change without notice. The delivery of this Limited Offering Memorandum shall not, under any circumstances, create any implication that there has been no change in the affairs of the CFD, the District or any major property owner within the District since the date hereof. The Limited Offering Memorandum is submitted in connection with the sale of Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Limited Offering Memorandum is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Limited Offering Memorandum 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 a representation of facts.

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 LAW OF ANY STATE.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS LIMITED OFFERING MEMORANDUM CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "ESTIMATE," "PROJECT," "ANTICIPATE," "BUDGET," OR OTHER SIMILAR WORDS.

[INSERT AREA MAP]

[INSERT ARIAL PHOTOGRAPH
SET UP AS FACING PAGE]

LIMITED OFFERING MEMORANDUM

§ _____*

**RANCHO MURIETA CSD
COMMUNITY FACILITIES DISTRICT NO. 2014-1 (RANCHO NORTH/MURIETA GARDENS)
SPECIAL TAX BONDS, 2014 SERIES**

INTRODUCTORY STATEMENT

General

This Limited Offering Memorandum, including the cover page, the inside cover page and the Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by the Rancho Murieta CSD Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) (the "CFD") of its Special Tax Bonds, 2014 Series (the "Bonds") in the aggregate principal amount of \$ _____* being issued in connection with the financing of certain improvements to the Rancho Murieta Community Services District (the "District") Water Treatment Plant #1. The Bonds will be issued pursuant to the provisions of a Fiscal Agent Agreement, dated as of September 1, 2014 (the "Fiscal Agent Agreement"), by and between the CFD and _____, as fiscal agent (the "Fiscal Agent"), and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act").

The Act was enacted by the California Legislature to provide an alternate method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified electors within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and levy and collect special taxes to repay its bonds.

The Bonds will be issued in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. See "THE BONDS." The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See "THE BONDS -- Book-Entry System" herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

Use of Proceeds

The Bonds are being issued to finance certain improvements to the District's Water Treatment Plant #1, to fund a reserve account for the Bonds, to fund capitalized interest on the Bonds for approximately [24] months commencing on the date of delivery of the Bonds, and to pay the costs of issuance of the Bonds. See "THE FINANCING PLAN" herein.

The Special Tax

On September 5, 2014, at an election held pursuant to the Act, the four landowners who comprised the qualified electors of the CFD authorized the CFD to incur bonded indebtedness in an

* Preliminary; subject to change.

aggregate amount not to exceed \$6,750,000, approved a Rate and Method of Apportionment of Special Tax (the "Rate and Method"), approved the levy of special taxes within and for the CFD to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the CFD equal to the maximum amount of bonded indebtedness authorized to be incurred for the CFD. See "SECURITY FOR THE BONDS," "THE CFD" and "APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Security for the Bonds

The Bonds are secured by the pledge of Special Taxes and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expense Account therein). Special Taxes means the amount of all Special Tax as described in the Rate and Method authorized to be levied within the CFD, together with the proceeds collected from the sale of property pursuant to the foreclosure provision of the Fiscal Agent Agreement for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions. See "SECURITY FOR THE BONDS - General."

The CFD has established a Reserve Account pursuant to the Fiscal Agent Agreement. The Reserve Account will be funded from the proceeds of the Bonds in the initial amount of \$ _____. The Reserve Requirement as of any date of calculation will be an amount equal to the lowest of (1) 10% of the issue price (as defined pursuant to section 148 of the Code), (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds. Provided, however, the Reserve Requirement on any date of calculation shall not exceed the Reserve Requirement as of the date of delivery of the Bonds. See "SECURITY FOR THE BONDS - Reserve Account."

The CFD

The CFD consists of approximately _____ gross acres of unimproved land. At buildout, it is anticipated that the CFD will contain _____ detached residential dwelling units in a gated community to be known as "Rancho North" and a 83 room hotel and 24 extended stay units project known as "Murieta Gardens" (collectively, the "Development"). See "THE DEVELOPMENT" for further information regarding the Development.

The following landowners own certain of the land, and collectively own all of the land, within the CFD:

- Cosumnes River Land, LLC, a Delaware limited liability company ("CRL")
- Murieta Industrial Park, LLC, a Delaware limited liability company ("MIP")
- Murieta Lakeside Properties, LLC, a Delaware limited liability company ("MLP")
- Murieta Highlands, LLC a Delaware limited liability company ("MH," and together with CRL, MIP and MLP, the "Property Owners")

Rancho Murieta Properties, LLC, a California limited liability company (the "Developer") owns or controls the Property Owners.

Foreclosure Covenant

The District has covenanted for the benefit of the owners of the Bonds that, under certain circumstances described herein, the District will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the District, and will diligently pursue such proceedings to

completion. See “SECURITY FOR THE BONDS – The Special Taxes” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure.”

Limited Obligations

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

See the section of this Limited Offering Memorandum entitled “SPECIAL RISK FACTORS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

Further Information

Brief descriptions of the Bonds, the security for the Bonds, special risk factors, the District, the CFD, the Developer (as such terms are hereinafter defined) and other information are included in this Limited Offering Memorandum. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Fiscal Agent Agreement, resolutions and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Fiscal Agent Agreement, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors’ rights. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the Bonds, see “APPENDIX C – SUMMARY OF FISCAL AGENT AGREEMENT” hereto.

Copies of such documents may be obtained from the office of the General Manager of the District.

Forward Looking Statements

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

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 CFD DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS LIMITED OFFERING MEMORANDUM.

NOTICE TO INVESTORS

The Bonds are being offered and sold only to investors represented by _____ (the "Bondholder Representative"). In connection with such offering and sale, the Bondholder Representative will represent and agree on behalf of itself and the Owners of the Bonds referred to below, as follows:

1. The Bondholder Representative is the duly elected representative of the owners of 100% in outstanding aggregate principal amount of the Bonds. The Bondholder Representative is delivering this Certificate on behalf of such owners and all other owners of the Bonds from time to time represented by the Bondholder Representative (the "*Owner*" or "*Owners*").

2. Each Owner is informed that the Bonds are not general obligations of the District, but are special, limited obligations payable and secured solely as provided for in the Fiscal Agent Agreement.

3. Each Owner has full power and authority to carry on its business as now conducted.

4. Each Owner is (a) a bank as defined in section 3(a)(2) of the Securities Act of 1933, as amended (the "*Securities Act*") or a savings and loan association or other institution as defined in Section 3(a)(5) of the Securities Act whether acting in its individual or fiduciary capacity; or (b) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"); or (c) an insurance company as defined in Section 2(13) of the Exchange Act; or (d) an investment company registered under the Investment Company Act of 1940, as amended (the "*Investment Company Act*"), or a business development company as defined in Section 2(a)(48) of the Investment Company Act; or (e) a Small Business Investment Company licensed by the small Business Administration under Section 301(c) or Section 301(d) of the Small Business Investment Act of 1958, as amended; or (f) a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivision for the benefit of its employees, if investment decisions are made by a plan fiduciary which is a bank, savings and loan association, insurance company, or registered investment advisor and the plan establishes fiduciary principles the same as or similar to those contained in Sections 404-407 of Title I of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"); or (g) an employee benefit plan within the meaning of ERISA if investment decisions are made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if the employee benefit plan has total assets in excess of \$5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors; or (h) any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds \$2,000,000; or (i) the trustee of a trust whose securities are registered pursuant to an effect registration statement under the Securities Act.

5. Each Owner has retained _____ to advise and represent the Owner regarding the purchase and sale of securities such as the Bonds. Each Owner has the ability to bear the economic risks of an investment in the Bonds, and is an "accredited investor" as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act, or a "qualified institutional buyer" as that term is defined under Rule 144A of the Securities and Exchange Commission.

6. Each Owner is not now, and has never been, controlled by, or under common control, with the Developer, or any affiliate thereof. The Developer has never been, and is not now, controlled by any Owner. No Owner has entered into any arrangements with the Developer in connection with the Bonds, other than as disclosed to the District.

7. The Bondholder Representative and each Owner acknowledges that the District and the Fiscal Agent have not undertaken and will not undertake steps to ascertain the accuracy or completeness of the information furnished to the Bondholder Representative or any Owner with respect to

Development. Neither the Bondholder Representative nor any Owner has relied or will rely upon the District or the Fiscal Agent in any way with regard to the accuracy or completeness of the information furnished to the Bondholder Representative or such Owner with respect to the Development in connection with the purchase of the Bonds by such Owner, nor has the District made any representation to the Bondholder Representative or any Owner with respect to that information.

8. The Bondholder Representative is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of municipal and other tax-exempt debt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bonds, and it is capable of and has made its own investigation of the District, the CFD and the Development in connection with its decision to purchase the Bonds on behalf of the Owners.

9. The Bonds are purchased by every Owner for the purpose of investment and each Owner intends to hold the Bonds for its own account as a long-term investment, without a current view to any distribution or sale of the Bonds. Each Owner is informed that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.

10. Each Owner is informed that the Bonds will not be listed on any stock or other securities exchange and were issued without registration under the provisions of the Securities Act, or any state securities laws, and the Bonds may not be resold, transferred, pledged or hypothecated, in whole or in part, unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from registration is available. Each Owner is informed that the Bonds will not carry any rating from any rating service. Each Owner is informed that, unless the Bonds have an investment grade rating, the Bonds may be transferred only to an “accredited investor” as that term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended, a “qualified institutional buyer” as that term is defined under Rule 144A of the Securities and Exchange Commission, or a broker-dealer of securities.

CONTINUING DISCLOSURE

The CFD and the Property Owners each have covenanted in separate Continuing Disclosure Agreements for the benefit of the owners of the Bonds to provide, or cause to be provided, annually, and in the case of the Property Owners annually and semi-annually, certain financial information and operating data, and to provide notices of the occurrence of certain enumerated events. The Property Owners’ annual and semi-annual and enumerated event reporting obligations will terminate if and when the land owned by the Property Owners is subject to less than 20% of the Special Tax levy in the CFD. See APPENDIX F – FORMS OF CONTINUING DISCLOSURE AGREEMENTS. The covenants of the CFD and the Property Owners have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The CFD and the Property Owners have never had any prior obligation or undertaking under the Rule. A default by the CFD or the Property Owners under a Continuing Disclosure Agreement will not, in itself, constitute a default under the Fiscal Agent Agreement.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and used of funds relating to the issuance of the Bonds is set forth below:

Sources of Funds

Principal Amount of the Bonds	
Less: Underwriter’s Discount	
Total Sources	

Uses of Funds

Deposit to Acquisition and Construction Fund	
Deposit to Reserve Account	
Deposit to Interest Account ⁽¹⁾	
Deposit to Costs of Issuance Account ⁽²⁾	
Deposit to Administrative Expense Account.....	
Total Uses.....	

- (1) Capitalized interest on the Bonds for approximately [24] months commencing on the date of delivery of the Bonds.
- (2) Includes fees for Bond Counsel, [Financial Advisor], the Appraiser, the Fiscal Agent and its counsel, costs of printing the Limited Offering Memorandum, and other costs of issuance of the Bonds.

THE FINANCING PLAN

The District presently owns and operates two water treatment plants and facilities known as Water Treatment Plant #1 and Water Treatment Plant #2. Water Treatment Plant #1 has reached its useful life and Water Treatment Plant #2 is also technologically outdated. The proceeds of the Bonds will be used to finance a portion of the cost for expansion and upgrade of Water Treatment Plant #1.

THE BONDS

Description of the Bonds

The Bonds will be issued as fully registered bonds, in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof and will be dated and bear interest from the date of their delivery (the “Dated Date”), at the rate set forth on the cover page hereof. The Bonds will be issued in fully registered form, without coupons.

Interest on the Bonds will be paid in lawful money of the United States of America semiannually on March 1 and September 1 of each year (each, an “Interest Payment Date”), commencing on March 1, 2015. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall 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 occurring after the issuance of such Bond, in which event interest shall be payable from the dated date of such Bond; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that Bond shall 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 that Bond, interest on that Bond shall be payable from its dated date.

The Bonds are subject to optional redemption, special mandatory redemption from Special Tax prepayments and mandatory sinking fund redemption as described below.

Redemption

Optional Redemption

The Bonds are subject to redemption prior to maturity at the option of the CFD on any date on or after _____, as a whole or in part, by lot, from any available source of funds at the following redemption prices (expressed as a percentage of the principal amount of Bonds to be), together with accrued interest thereon to the date fixed for redemption:

Redemption Dates

Redemption Prices

Mandatory Redemption from Special Tax Prepayments

The Bonds are subject to mandatory redemption prior to maturity on any date on or after _____, as a whole or in part, in a manner determined by the CFD from prepayments of Special Taxes at the following redemption prices (expressed as a percentage of the principal amount of Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption:

Redemption Dates

Redemption Prices

In connection with such redemption, the CFD may also apply amounts in the Reserve Account which will be in excess of the Reserve Requirement as a result of such Special Tax prepayment to redeem Bonds as set forth above.

Mandatory Sinking Fund Redemption

The Bonds are subject to mandatory redemption, in part by lot, on September 1 in each year commencing September 1, 20___, from the Sinking Fund Payments that have been deposited into the Redemption Account at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date of redemption as set forth in the following schedule; provided, however, that (i) in lieu of redemption thereof, the Bonds may be purchased by the CFD and tendered to the Fiscal Agent, and (ii) if some but not all of the Bonds have been redeemed, the total amount of all future sinking payments will be reduced by the aggregate principal amount of the Bonds so redeemed, to be allocated among such sinking payments on a pro rata basis (as nearly as practicable) in integral multiples of \$100,000 or any integral multiples of \$5,000 in excess thereof as determined by the CFD.

Redemption Date
(September 1)

Principal Amount

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 shall be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Fiscal Agent shall treat such Bonds 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.

Notice of Redemption

When Bonds are due for redemption under the Fiscal Agent Agreement, the Fiscal Agent shall give notice, in the name of the CFD, of the redemption of such Bonds; provided, however, that a notice of a redemption to be made from other than from Sinking Fund Payments shall be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the Bonds to be redeemed. Such notice of redemption shall (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds of a maturity are subject to redemption, or all the Bonds of one maturity, are to be redeemed, the bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Fiscal Agent. Such notice shall further state that on the date fixed for redemption, there shall 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 shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond or the original purchaser of any Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date.

Effect of Notice of Redemption

Notice of redemption having been duly given, as described above, 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:

(1) The Bonds, or portions thereof, designated for redemption shall, 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;

(2) Upon presentation and surrender thereof at the office of the Fiscal Agent, the redemption price of such Bonds shall be paid to the Owners thereof;

(3) As of the redemption date the Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds, or portions thereof, shall cease to bear further interest; and

(4) As of the date fixed for redemption no Owner of any of the Bonds, or portions thereof so designated for redemption shall be entitled to any of the benefits of this 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.

The Fiscal Agent

_____ has been appointed as the Fiscal Agent for all of the Bonds under the Fiscal Agent Agreement. For a further description of the rights and obligations of the Fiscal Agent pursuant to the Fiscal Agent Agreement, see “APPENDIX C – SUMMARY OF FISCAL AGENT AGREEMENT” hereto.

Book-Entry System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants. See “APPENDIX G – BOOK-ENTRY ONLY SYSTEM.”

Debt Service Schedule

The following is the annualized debt service schedule for the Bonds, assuming no redemptions other than mandatory sinking fund redemptions.

<u>Year Ending (September 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
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Total

SECURITY FOR THE BONDS

General

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY OF SACRAMENTO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN. EXCEPT FOR THE SPECIAL TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED

OBLIGATIONS OF THE CFD PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

The Bonds are secured by a pledge of Special Taxes of the CFD and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expense Account therein). Special Taxes means the amount of all Special Tax as described in the Rate and Method (the "Special Taxes" or the "Special Tax") received by the CFD, together with the proceeds collected from the sale of property pursuant to the foreclosure provision of the Fiscal Agent Agreement for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions.

In the event that delinquencies occur in the receipt of the Special Taxes within the CFD in any fiscal year, the CFD may increase its Special Tax levy on property within the CFD in the following fiscal year up to the maximum amount permitted under the Rate and Method. Under no circumstances, however, will Special Taxes levied against any parcel used for private residential purposes be increased by more than 10 percent as a consequence of delinquency or default by the owner of any other parcel or parcels within the CFD. Although the Special Tax levy on property within the CFD may be increased, Special Taxes resulting from the increase may not be available to cure any delinquencies for a period of one year or more. In addition, an increase in the Special Tax levy may adversely affect the ability or willingness of property owners to pay their Special Taxes. See "Rate and Method of Apportionment of Special Taxes" below and "APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto for a description of the CFD's procedures for levying Special Taxes within the CFD, and "SPECIAL RISK FACTORS – Insufficiency of Special Taxes."

OWNERSHIP OF THE BONDS IS SUBJECT TO A SIGNIFICANT DEGREE OF RISK. POTENTIAL INVESTORS ARE ADVISED TO CAREFULLY READ THE SECTION OF THIS LIMITED OFFERING MEMORANDUM ENTITLED "SPECIAL RISK FACTORS."

The Special Taxes

The Special Taxes are to be apportioned, levied and collected according to the Rate and Method. See "– Rate and Method of Apportionment of Special Taxes" below and "APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto.

Beginning in Fiscal Year 2014-15 and so long as any Bonds issued under the Fiscal Agent Agreement are Outstanding, the CFD has covenanted to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay the Special Tax Requirement (as defined in the Rate and Method). See "SPECIAL RISK FACTORS" for a discussion of certain factors affecting the actual timely collection of such Special Tax levies.

Special Tax Fund

Pursuant to the Fiscal Agent Agreement, there is established a "Special Tax Fund" to be held and maintained by the Fiscal Agent. In the Special Tax Fund there is further established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account.

The amounts on deposit in the foregoing funds and accounts will be held by the Fiscal Agent in trust and the Fiscal Agent will invest and disburse the amounts in such funds and accounts in accordance with the provisions of the Fiscal Agent Agreement and will disburse investment earnings thereon in accordance with the provisions of the Fiscal Agent Agreement.

The CFD will, on each date on which it receives Special Taxes, transfer the Special Taxes to the Fiscal Agent for deposit in the Special Tax Fund in accordance with the terms of the Fiscal Agent Agreement to be held in trust. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Fiscal Agent Agreement in the following order of priority:

1. The Administrative Expense Account of the Special Tax Fund;
2. The Interest Account of the Special Tax Fund;
3. The Principal Account of the Special Tax Fund;
4. The Redemption Account of the Special Tax Fund;
5. The Reserve Account of the Special Tax Fund; and
6. The Surplus Fund.

Administrative Expense Account. The Fiscal Agent will transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund an amount equal to the Administrative Expense Requirement for the Fiscal Year, which will be disbursed by the Fiscal Agent upon the Written Request of the CFD. Amounts deposited in the Administrative Expense Fund are not pledged to the repayment on the Bonds.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption including sinking fund redemption, will be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. At least five Business Days prior to each March 1 and September 1, the Fiscal Agent will make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

1. To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date will be equal to the installment of interest due on the Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due.

2. To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 20__ shall at least equal the principal payment due on the Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account will be used for the payment of the principal of such Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund. On each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Interest Account and the Principal Account of the Special Tax Fund, the Fiscal Agent will next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding

Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency will be made up by an immediate transfer from the Reserve Account. Moneys so deposited in the Redemption Account will be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Fiscal Agent Agreement and in any Supplemental Fiscal Agent Agreement for such Term Bonds.

All prepayments of Special Taxes shall be deposited in the Redemption Account to be used to redeem Bonds on the next date for which notice of redemption can timely be given.

Surplus Fund. Moneys deposited in the Surplus Fund shall be transferred by the Fiscal Agent (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including mandatory Sinking Fund Payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses or, upon the Written Request of the CFD, may be disbursed to the CFD to be expended for any other lawful purpose of the CFD. The amounts in the Surplus Fund are not pledged to the repayment of the Bonds.

Reserve Account

Moneys in the Reserve Account will be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, the Fiscal Agent will withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund, as applicable, moneys necessary for such purposes.

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers under the Fiscal Agent Agreement, the Fiscal Agent will transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the CFD elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the CFD will include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy for property within the CFD to the extent of the maximum permitted Special Tax rates, however, Special Taxes on residential parcel may not be increased more than 10% from the prior Fiscal Year.

Rate and Method of Apportionment of Special Taxes

See "APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the CFD is authorized by the Act to order institution of an action in the Superior Courts of the State to foreclose any lien therefor. In such action, the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The ability of the CFD to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal agencies. See "SPECIAL RISK FACTORS – Bankruptcy and Foreclosure" and "SPECIAL RISK FACTORS – Tax Delinquencies." Such judicial foreclosure proceedings are not mandatory.

However, in the Fiscal Agent Agreement, the CFD has covenanted for the benefit of the Owners of the Bonds that it will determine or cause to be determined, no later than March 1 and August 1 of each year, whether or not any owner of the property within the CFD are delinquent in the payment of Special Taxes and, if such delinquencies exist, the CFD will order and cause to be commenced no later than April 15 (with respect to the March 1 determination date) or September 1 (with respect to the August 1 determination date), and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due.

There could be a default or a delay in payments to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the CFD of foreclosure sale proceeds, if any, and subsequent transfer of those proceeds to the CFD. However, up to the maximum amount permitted under the Rate and Method, the CFD may adjust the Special Taxes levied on all property within the CFD to provide the amount required to pay debt service on the Bonds, but not more than a 10% increase on a residential parcel from the prior Fiscal Year.

Under current law, a judgment debtor (property owner) has at least 140 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revised judgment and any liens extinguished by the sale are revised as if the sale had not been made (Section 701.680 of the Code of Civil Procedure of the State of California).

No Obligation of the District Upon Delinquency

The District is under no obligation to transfer any funds of the District into the Special Tax Fund or any other funds or accounts under the Fiscal Agent Agreement for the payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure" for a discussion of the CFD's obligation to foreclose Special Tax liens upon delinquencies.

No Parity Obligations

Other than refunding bonds, the CFD may not issue bonds, notes or other similar evidences of indebtedness payable from the Special Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Bonds.

Appraisal and Value-to-Lien Analysis

The Bonds are secured by Special Taxes which may include amounts realized upon foreclosure sale of delinquent parcels. Therefore, the ability of the CFD to meet debt service on the Bonds may

depend on the ability of delinquent parcels to generate sufficient proceeds upon foreclosure sale to pay delinquent Special Taxes. The District, on behalf of the CFD, has commissioned _____, _____, California (the "Appraiser") to perform an appraisal (the "Appraisal") of the property values of parcels within the CFD. See "APPENDIX D – APPRAISAL REPORT" hereto. The Appraisal was prepared with a date of value of September __, 2014. In the opinion of the Appraiser, the discounted "bulk-sale" value of the properties within the CFD, as of the date of value stated in the Appraisal, is \$ _____, which is approximately _____ times the aggregate principal amount of Bonds issued, excluding any direct or overlapping debt. See "APPENDIX D – APPRAISAL REPORT" for description of the valuation methodology. The following table sets forth the appraised value of each parcel and the respective value-to-lien ratio.

Value-to-Lien Analysis

<u>APN</u>	<u>Number of Gross Acres</u>	<u>FY 2014-15 Maximum Special Tax</u>	<u>Bond Amount⁽¹⁾</u>	<u>Appraised Value</u>	<u>Value-to-Lien Ratio</u>
073-0180-029		\$22,638			
073-0800-007		566			
073-0800-008		84,891			
073-0800-009		70,743			
073-0090-062		28,297			
073-0790-023		113,188			
073-0800-003		155,633			
073-0470-004		24,336			
073-0470-005		36,786			
073-0470-006		<u>1,132</u>			
Total		\$538,210	\$	\$	to 1

⁽¹⁾ Based upon each parcel's respective share of the Fiscal Year 2014-15 Maximum Special Tax allocation. Preliminary; subject to change.

Source: Special Tax Consultant and District.

There can be no assurance that property values set forth in the Appraisal will not decrease, or that at any time the amount that could be realized upon sale of a particular parcel in a foreclosure sale for nonpayment of Special Taxes will equal that parcel's appraised value.

THE DISTRICT

The District was formed in 1982 by California Government Code 61000 to provide essential services in Rancho Murieta, which is an unincorporated community within Sacramento County's 4th Supervisor District. The District provides essential services to an area of 3,500 acres (covering roughly five and a half square miles). The approved master plan calls for residential development on 1,920 acres with single-family residences, townhouses, apartments, and mobile homes for a total of 5,189 units. Current estimates indicate Rancho Murieta has 2,500 households with a population of approximately 5,488 persons (2010 census). The community is a balanced blend of both custom and production homes, townhouses, mobile homes, and a thriving retail complex. In addition, an airport, office building, fire station, and equestrian center are located in the District. The District currently maintains over \$43,000,000 in plant, property and equipment assets.

The District is an independent special district which provides the following services:

- Water supply collection, treatment, and distribution
- Wastewater collection, treatment, and reuse
- Storm drainage collection, disposal, and flood control
- Security
- Solid Waste collection

While each service maintains and operates under its own separate budget, a combination of taxes and user fees fund these services.

The District's affairs are directed and governed by a five-member (5) Board of Directors, elected at large by registered voters within the jurisdiction. Policy direction is set by the Board of Directors and administered by the General Manager.

THE CFD

On August 1, 2014, the Board adopted a Resolution of Intention to form a community facilities district under the Act, to levy a special tax and to incur bonded indebtedness for the purpose of financing the improvements to the District's Water Treatment Plant #1. After conducting a noticed public hearing, on September 5, 2014, the Board adopted the Resolution of Formation, which established the CFD and set forth the Rate and Method for the levy and collection of Special Taxes within the CFD.

On September 5, 2014, an election was held within the CFD in which the landowners eligible to vote unanimously approved the incurrence of bonded indebtedness in an amount not to exceed \$6,750,000 and the levy of the Special Tax within the CFD.

The CFD consists of approximately _____ gross acres of unimproved land. At buildout, it is anticipated that the CFD will contain _____ detached residential dwelling units in a gated community to be known as "Rancho North" and a 83 room hotel and 24 extended stay units project known as "Murieta Gardens" (collectively, the "Development"). See "THE DEVELOPMENT" for further information regarding the Development.

Direct and Overlapping Debt

The following table details the direct and overlapping debt currently encumbering property within the CFD.

[TO COME IF NECESSARY?]

THE PROPERTY OWNERS AND THE DEVELOPER

The following landowners own certain of the land, and collectively own all of the land, within the CFD:

- Cosumnes River Land, LLC, a Delaware limited liability company (“CRL”)
- Murieta Industrial Park, LLC, a Delaware limited liability company (“MIP”)
- Murieta Lakeside Properties, LLC, a Delaware limited liability company (“MLP”)
- Murieta Highlands, LLC a Delaware limited liability company (“MH,” and together with CRL, MIP and MLP, the “Property Owners”)

Rancho Murieta Properties, LLC, a California limited liability company (the “Developer”) owns or controls the Property Owners.

[DESCRIBE DEVELOPER ENTITY IN TERMS OF THE MANAGING MEMBER AND ITS EXPERIENCE WITH RESPECT TO DEVELOPING PROJECTS]

THE DEVELOPMENT

Unpaid Special Taxes do not constitute a personal indebtedness of the Property Owners, its affiliates or any subsequent owners of the parcels within the CFD and the Property Owners have made no enforceable commitment to pay the principal of or interest on the Bonds or to support payment of the Bonds in any manner. There is no assurance that the Property Owners have or any subsequent owners will have the ability to pay the Special Taxes or that, even if they have the ability, they will choose to pay such taxes. An owner may elect not to pay the Special Taxes when due and cannot be legally compelled to do so. Neither the CFD nor any Bondowner will have the ability at any time to seek payment from the Property Owners or any subsequent owners of property within the CFD of any Special Tax or any principal or interest due on the Bonds, or the ability to control who becomes a subsequent owner of any property within the CFD. See “SECURITY FOR THE BONDS” and “SPECIAL RISK FACTORS” herein.

The Developer has provided the information set forth under the headings “-Environmental Assessment,” “- Financing Plans,” and “THE OWNERS AND THE DEVELOPER.” No assurance can be given that all information is complete. Although the Property Owners currently owns all of the property within the CFD, the Property Owners intend to build and sell the residential properties to individual homeowners. When such sales occur, the ownership of the land within the CFD will become more diversified. No assurance can be given that development of the property will be completed, that it will be completed in a timely manner or that it will occur as described herein.

General

Monterey Advisory Group, LLC prepared its Due Diligence Report dated June 15, 2013 (the “Due Diligence Report”). The Whitney Group prepared a Market Absorption Study dated June 14, 2013 (as updated in September 2013, the “Market Absorption Study”). The Due Diligence Report and the Market Absorption Study were commissioned by CRL and DeRegt Development, Inc. (the “venture”) in connection with the venture’s contemplation of acquiring and assemblage of 24 generally non-contiguous parcels, totaling approximately 1,138.71 acres in the Rancho Murieta community (the “Rancho Murieta

Master Plan”). The CFD constitutes a portion of the Rancho Murieta Master Plan. See “APPENDIX B – DUE DILIGENCE REPORT/MARKET ABSORPTION STUDY” for a description of the Rancho Murieta Master Plan.

[DESCRIBE ANY DEVELOPMENT PLAN THAT HAS BEEN DEVELOPED SINCE THE DUE DILIGENCE REPORT/MARKET ABSORPTION STUDY AS WELL AS AN UPDATE ON THE STATUS OF ENTITLEMENT AND OVERALL DEVELOPMENT. ALSO, DESCRIBE THE DEVELOPMENT PLAN WITH RESPECT TO THE CFD PORTION OF THE MASTER PLAN]

Financing Plans

[DESCRIBE FINANCING ARRANGEMENTS IN PLACE AND HOW THE OWNERS/DEVELOPER WHAT FUTURE FINANCINGS WILL BE REQUIRED TO DEVELOP THE PROJECT]

SPECIAL RISK FACTORS

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. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the CFD to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the CFD to make full and punctual payments of debt service on the Bond. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the CFD.

Concentration of Ownership

The Property Owners own 100% of the land in the CFD. As buildout and market absorption continues within the CFD, property ownership can be expected to become diversified. Lack of diversity of ownership presents a risk to Bondowners, in that failure of a large taxpayer within the CFD to pay Special Taxes when due could result in the depletion of the Reserve Account prior to the replenishment thereof from moneys realized upon resale of property from foreclosure or otherwise, or delinquency redemptions after a foreclosure sale.

Risks of Real Estate Secured Investments Generally

The Bondowners 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 CFD, the supply of or demand for competitive properties in such area, and the market value of residential properties and/or sites in the event of sale or foreclosure, (ii) changes in real estate tax rates and other operating expenses, government rules (including, without limitation, zoning laws and restrictions relating to threatened and endangered species) and fiscal policies and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses, or natural disasters elsewhere in the country or other parts of the world affecting supply of building materials that may cause delays in construction.

Future Land Use Regulations and Growth Control Initiatives

Bondowners should assume that any event that impacts the ability to develop land in the CFD could cause the land values within the CFD to decrease and could affect the willingness and ability of the

owners of land within the CFD to pay the Special Taxes when due. See “SECURITY FOR THE BONDS – Appraisal.”

In evaluating the investment quality of the Bonds, investors should assume that the possible enactment of more restrictive land use regulations by the CFD or the County of Sacramento, or by voter initiative presents a substantial risk to the timely construction and completion of development, except with respect to units for which building permits have already been issued and substantial work and liabilities have been incurred in good faith reliance thereon prior to the date of adoption of any such land use regulations.

The failure to complete the Development as planned, or substantial delays in the completion of the Development, due to litigation or other causes may reduce the value of the property within the CFD, and will increase the amount of Special Taxes to be paid by the owners of undeveloped property and may affect the willingness and ability of the owners of land within the CFD to pay the Special Taxes when due. Depending on the nature of the Development eventually approved and completed, the value of the land within the CFD may be reduced.

Failure to Develop Properties

Land development operations are subject to comprehensive Federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect land development operations. In addition, there is the risk that lawsuits challenging the County’s approval of the Development will be instituted.

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits.

Development of certain portions of the land within the CFD is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, gas, telephone and electrical facilities, as well as local in-tract improvements including site grading. While certain of these improvements have been or are expected to be constructed with proceeds of the Bonds, there can be no assurance that all of these improvements will be constructed. The cost of these public and private in-tract and off-site improvements could increase the public and private debt for which the land within the CFD provides security. This increased debt could reduce the willingness and/or ability of the property owners to pay the annual Special Taxes levied against their property.

Moreover, there can be no assurance that the means and incentive to conduct land development operations within the CFD will not be adversely affected by a future deterioration of the real estate market and economic conditions of future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds.

Another risk to the Bondowners involves the value of undeveloped property. The inability or failure to develop property due to adverse regulatory or economic conditions may reduce the value of undeveloped property. The undeveloped property also provides less security to the Bondowners should it

be necessary for the CFD to foreclose on undeveloped property in the CFD due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the CFD as currently proposed will make the Bondowners more dependent upon timely payment of the Special Tax levied on the undeveloped property. Because of the current concentration of ownership of the undeveloped property in the Developer, the timely payment of the Bonds depends upon the willingness and ability of the present owner of the undeveloped property to pay the Special Taxes levied on the undeveloped property when due. See “SPECIAL RISK FACTORS – Concentration of Ownership” above. A slowdown or stoppage in the continued development of the CFD could reduce the willingness and ability of the Property Owners to make Special Tax payments on undeveloped property, and could greatly reduce the value of such property in the event it has to be foreclosed upon.

Disclosure to Future Homebuyers

Pursuant to Section 53328.3 of the Act, the CFD has recorded a Notice of Special Tax Lien in the Office of the Sacramento County Recorder. The sellers of property within the CFD are required to give prospective buyers a Notice of Special Tax in accordance with Sections 53340.2 and 53341.5 of the Act. While title companies normally refer to the Notice of Special Tax Lien in title reports, there can be no guarantee that such reference will be made or the seller’s notice given or, if made and given, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a home or commercial facility or the lending of money thereon. Failure to disclose the existence of the Special Taxes may affect the willingness and ability of future owners of land within the CFD to pay the Special Taxes when due.

Parity Taxes and Special Assessments

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property. The CFD, however, has no control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the CFD. In addition, the landowners within the CFD may, without the consent or knowledge of the CFD, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes. See “THE CFD – Direct and Overlapping Debt.”

Appraised Value; Land Value

The value of land within the CFD is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of Special Tax installments, the CFD’s only remedy is to judicially foreclose on that property. Prospective purchasers of the Bonds should not assume that the property within the CFD could be sold for the assessed or appraised value described in the Limited Offering Memorandum at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. Reductions in property values within the CFD due to a downturn in the economy or the real estate market, events such as earthquakes, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the Special Taxes.

The property values set forth herein are the property values determined by the Appraiser. The Appraisal was prepared for the purpose of estimating and confirming the market value of the property in the CFD as of September , 2014 in its as is condition on the basis of certain assumptions. Prospective

purchasers of the Bonds should not assume, however, that the land within the CFD could be sold for the appraised amount described herein at the present time or at a foreclosure sale for delinquent Special Taxes. See the Appraisal included as Appendix D hereto for a brief description of the analysis used and assumptions made by the Appraiser. The actual value of the property is subject to future events that might render invalid the assumptions relied upon by the Appraiser in determining the appraised value.

The actual market value of the property is subject to future events such as a downturn in the economy, and occurrences of certain acts of nature, all of which could adversely impact the value of the land in the CFD which is the security for the Bonds. As discussed herein, many factors could adversely affect property values or prevent or delay land development within the CFD. Furthermore, the estimated value-to-lien ratio of individual parcels may vary. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes.

Value to Lien Ratios

Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is mathematically a fraction, the numerator of which is the value of the property (usually a market value as determined by an appraiser) and the denominator of which is the “lien” of the assessments or special taxes. A value to lien ratio should not, however, be viewed as a guarantee for credit-worthiness. Land values are more volatile in the early stages of a development, and are especially sensitive to economic cycles. A downturn of the economy or other market factors such as increase in building materials cost or labor cost to construct homes may depress land values and hence the value-to-lien ratios, by increasing risk to investors and lenders, and lengthening the absorption period for new development projects. Further, the value-to-lien ratio cited for a bond issue is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a ratio below 1:1, the land is worth less than the debt on it.) If property ownership in a community facilities district is highly concentrated during the early stages of development, the delinquency of a major property owner can deplete the bond’s reserve fund and threaten the timely payment of the debt service, even though the value-to-lien ratio is adequate. Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. Finally, local agencies may form overlapping community facilities districts or assessment districts because they typically do not coordinate their bond issuances. Debt issuance by another entity can dilute value-to-lien ratios, as set forth in the table in the section above entitled “THE CFD - Direct and Overlapping Debt.” See “SECURITY FOR THE BONDS – Estimated Appraisal and Value-to-Lien Analysis.”

Insufficiency of Special Taxes

The Act provides that, if any property within the CFD not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by a 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. MOREOVER, IF A SUBSTANTIAL PORTION OF LAND WITHIN THE CFD 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 COULD OCCUR WITH RESPECT TO THE PAYMENT OF SUCH PRINCIPAL AND INTEREST.

Tax Delinquencies

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

See “SECURITY FOR THE BONDS – Reserve Fund” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure,” for a discussion of the provisions which apply, and procedures which the CFD is obligated to follow under the Fiscal Agent Agreement, in the event of delinquency in the payment of Special Tax installments.

Future Indebtedness

The cost of any additional improvements may well increase the public and private debt for which the land in the CFD provide security, and such increased debt could reduce the ability or desire of property owners to pay the Special Taxes levied against the land in the CFD. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements may have a lien on a parity with the lien of the Special Taxes. See “THE CFD – Direct and Overlapping Debt.”

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of significant rainfall. According to the California Emergency Management Agency, the Development is located in an area subject to “moderate” ground shaking (which is typical for properties located in California), and is not located in an area subject to earthquake-induced landslides or liquefaction. Seismic hazards encompass both potential surface rupture and ground shaking. The occurrence of seismic activity, fires or flooding in or around the CFD could result in substantial damage to properties in the CFD, which, in turn, could substantially reduce the value of such properties. As a result of the occurrence of such an event, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due, and the reserve fund for the Bonds may become depleted. In addition, the value of land in the CFD could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Endangered and Threatened Species

On a regular basis, new species are proposed to be added to the State and federal protected species lists. Any action by the State or federal governments to protect species located on or adjacent to the property within the CFD could negatively affect the Property Owners’ ability to complete the development of the properties within the CFD as planned. This, in turn, could reduce the ability or

willingness of the property owners to pay the Special Taxes when due and would likely reduce the value of the land and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

Hazardous Substances

A serious risk in terms of the potential reduction in the value of a parcel within the CFD is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the CFD may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the CFD be affected by a hazardous substance, will be to reduce the marketability and value of such parcel by the costs of remedying the condition, because the prospective purchaser, upon becoming the owner, will become obligated to remedy the condition just as the seller is.

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

Bankruptcy and Foreclosure

The payment of property owners' taxes and the ability of the CFD to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

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

In addition, bankruptcy of a property owner (or a property owner's partner or equity owner) would likely result in a delay in procuring Superior Court foreclosure proceedings unless the bankruptcy court consented to permit such foreclosure action to proceed. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

Under 11 U.S.C. Section 362(b)(18), in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for ad valorem taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S.C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like ad valorem taxes for this purpose.

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

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

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

Property Controlled by FDIC

The CFD’s ability to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Tax payments may be limited in certain respects with regard to properties in which the Internal Revenue Service, the Drug Enforcement Agency, the Federal Deposit Insurance Corporation (the “FDIC”) or other similar federal agencies has or obtains an interest. The CFD is not aware of any such interest of a federal agency in the land within the CFD. On June 4, 1991 the FDIC issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes. The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the “Policy Statement”). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its proper tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a

special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The FDIC has filed claims against one California county in United States Bankruptcy Court contending, among other things, that special taxes authorized under the Act are not ad valorem taxes and therefore not payable by the FDIC, and seeking a refund of any special taxes previously paid by the FDIC. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC's positions and, on August 28, 2001, the United States Court of Appeals for the Ninth Circuit affirmed the decision of the Bankruptcy Court, holding that the FDIC, as an entity of the federal government, is exempt from post-receivership special taxes levied under the Act. This is consistent with provision in the Law that the federal government is exempt from special taxes.

The CFD is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase such a parcel at a foreclosure sale. Owners of the Bonds should assume that the CFD will be unable to foreclose on any parcel owned by the FDIC. Such an outcome would cause a draw on the Reserve Account and perhaps, ultimately, a default in payment of the Bonds. The CFD has not undertaken to determine whether the FDIC or any FDIC-insured lending institution currently has, or is likely to acquire, any interest in any of the parcels, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn, along with various other factors, can lead to problems in the collection of the special tax. In some community facilities districts, taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by a community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the CFD which were entered on the Assessment Roll of the County Assessor by January 1 of the previous Fiscal Year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Ordinarily, these Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the CFD is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Collection of Special Taxes

In order to pay debt service on the Bonds, it is necessary that the Special Tax levied against property within the CFD be paid in a timely manner. It is possible that delays in the payment of debt service may be the result of the County processing subdivisions or by the transfer of ownership of property within the CFD. The CFD has covenanted in the Fiscal Agent Agreement under certain conditions to institute foreclosure proceedings against property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were instituted, any mortgage

or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Taxes to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Taxes installment. Although the Act authorizes the CFD to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the CFD with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure.”

Maximum Special Tax Rates

Within the limits of the Rate and Method, the CFD may adjust the Special Taxes levied on all property within the CFD to provide the amount required each year to pay annual debt service on the Bonds and to replenish the Reserve Account to an amount equal to the Reserve Requirement. However, the amount of Special Taxes that may be levied against a parcel is subject to the maximum tax rates set forth in the Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that the maximum tax rates for property in the CFD would be sufficient to meet debt service obligations on the Bonds. See “SECURITY FOR THE BONDS – The Special Taxes” and “APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.”

Exempt Properties

Under the Rate and Method, the CFD will classify as Exempt Property: (i) Public Property, or (ii) Assessor’s Parcels used exclusively by a homeowners’ association.

In addition, the Act provides that properties or entities of the State, federal or local government are exempt from the Special Taxes; provided, however, the property within the CFD acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Taxes, will continue to be subject to the Special Taxes. The Act further provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. In particular, insofar as the Act requires payment of the Special Taxes by a federal entity acquiring property within the CFD, it may be unconstitutional.

If for any reason property within the CFD becomes exempt from taxation by reason of its status under the Rate and Method, or by reason of its ownership by a nontaxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized rates, the Special Taxes will be reallocated to the remaining taxable properties within the CFD. This would result in the owners of such property paying a greater amount of the Special Taxes and could have an adverse impact upon the timely payment of the Special Taxes.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which articles contain a number of provisions affecting the ability of the CFD to levy and collect both existing and future taxes, assessments, fees and charges. According to the “Official Title and Summary” of Proposition 218 prepared by the California State Attorney General, Proposition 218 limits the “authority of local governments to impose taxes and property-related assessments, fees and charges.” On July 1,

1997 California State Senate Bill 919 (“SB 919”) was signed into law. SB 919 enacted the “Proposition 218 Omnibus Implementation Act,” which implements and clarifies Proposition 218 and prescribes specific procedures and parameters for local jurisdictions in complying with Articles XIIC and XIID.

Article XIID of the State Constitution reaffirms that the proceedings for the levy of any Special Taxes by the CFD under the Act must be conducted in conformity with the provisions of Section 4 of Article XIII A. The CFD has completed its proceedings for the levy of Special Taxes in accordance with the provisions of Section 4 of Article XIII A. Under Section 53358 of the California Government Code, any action or proceeding to review, set aside, void, or annul the levy of a special tax or an increase in a Special Tax (including any constitutional challenge) must be commenced within 30 days after the Special Tax is approved by the voters.

Article XIIC removes certain limitations on the initiative power in matters of local taxes, assessments, fees and charges. 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 a resolution to reduce the rate of any special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that exercise by the voters of the initiative power referred to in Article XIIC to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the Board, as the legislative body of the CFD, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce the Special Taxes if such repeal or reduction would interfere with the timely retirement of the Bonds.

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

Proposition 218 and the implementing legislation have yet to be extensively interpreted by the courts; however, the California Court of Appeal in April 1998 upheld the constitutionality of Proposition 218’s balloting procedures as a condition to the validity and collectability of local governmental assessments. A number of validation actions for and challenges to various local governmental taxes, fees and assessments have been filed in Superior Court throughout the State, which could result in additional interpretations of Proposition 218. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and the outcome of such determination cannot be predicted at this time with any certainty.

Ballot Initiatives and Legislative Measures

Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process; and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the CFD or other local districts to increase revenues or to increase appropriations or on the ability of a landowner to complete the development of property. See “SPECIAL RISK FACTORS – Future Land Use Regulations and Growth Control Initiatives” above.

No Acceleration

The Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement or upon any adverse change in the tax status of interest on the Bonds. There is no provision in the Act or the Fiscal Agent Agreement for acceleration of the Special Taxes in the event of a payment default by an owner of a parcel within the CFD. Pursuant to the Fiscal Agent Agreement, a Bond Owner is given the right for the equal benefit and protection of all Bond Owners to pursue certain remedies described in “APPENDIX C – SUMMARY OF FISCAL AGENT AGREEMENT.”

Loss of Tax Exemption

As discussed under the caption “CONCLUDING INFORMATION – Tax Exemption,” in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the CFD has covenanted in the Fiscal Agent Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the CFD or the District in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Fiscal Agent Agreement.

Limitations on Remedies

Remedies available to the Bond Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor’s rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Fiscal Agent Agreement. 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 Bond Owners.

Enforceability of the rights and remedies of the Bond Owners, and the obligations incurred by the CFD, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure.”

Limited Secondary Market

As stated herein, investment in the Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Bonds or, if a secondary market exists, that the

Bonds can or could be sold for any particular price. No application has been made for a credit rating for the Bonds, and it is not known whether a credit rating could be secured either now or in the future for the Bonds.

TAX MATTERS

Tax Exemption

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The District, on behalf of itself and of the CFD, has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski LLP, Los Angeles, California, Bond Counsel, a member of Norton Rose Fulbright, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the Fiscal Agent Agreement, and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the District, on behalf of itself and of the CFD in connection with the issuance of the Bonds, the each of the District and the CFD will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by each of the CFD and the District with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the CFD and the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing

program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the CFD as the “taxpayer”, and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the CFD may have different or conflicting interest from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in APPENDIX D.

Tax Accounting Treatment of Bond Premium and Original Issue Discount on Bonds

To the extent that a purchaser of a Bond acquires that Bond at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is “original issue discount.” Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering

Persons considering the purchase of Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Other Federal Income Tax Consequences

Although interest on the Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequences.

CONCLUDING INFORMATION

Underwriting

The Underwriter purchased the Bonds at a purchase price of \$_____, representing the principal amount of the Bonds less an Underwriter's discount of \$_____. The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Limited Offering Memorandum, which prices may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

Legal Opinion

The legal opinion of Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright, approving the validity of the Bonds, in substantially the form set forth in APPENDIX E hereto, will be made available to purchasers of the Bonds at the time of original delivery. A copy of the legal opinion for the Bonds will be provided with each definitive bond. Bond Counsel has not undertaken on behalf of the Owners or the Beneficial Owners of the Bonds to review the Limited Offering Memorandum and assumes no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the CFD by the District Counsel with respect to the issuance of the Bonds.

No Litigation

A certificate of the CFD to the effect that no litigation is pending or threatened concerning the validity of the Bonds will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the District nor the CFD are aware of any litigation pending or threatened which questions the existence of the District or the CFD or contests the authority of the CFD to levy and collect the Special Taxes or to issue the Bonds.

No Rating on the Bonds

The Bonds are not rated and the CFD does not anticipate applying for a rating on the Bonds.

Miscellaneous

All of the preceding summaries of the Fiscal Agent Agreement, other applicable legislation, agreements and other documents are made subject to the provisions of such documents and do not purport to be complete documents of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith.

This Limited Offering Memorandum does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Limited Offering Memorandum involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Board of Directors of the District has duly authorized the General Manager to execute and deliver this Limited Offering Memorandum on behalf of the CFD.

RANCHO MURIETA CSD COMMUNITY FACILITIES
DISTRICT NO. 2014-1 (RANCHO NORTH/MURIETA
GARDENS)

By: _____
General Manager of the Rancho Murieta Community
Services District on behalf of the Rancho Murieta CSD
Community Facilities District No. 2014-1 (Rancho
North/Murieta Gardens)

APPENDIX D
APPRAISAL REPORT

APPENDIX E
FORM OF BOND COUNSEL OPINION

[Dated the Date of Closing]

Rancho Murieta CSD Community Facilities
District No. 2014-1 (Rancho North/Murieta Gardens)
15160 Jackson Road
Rancho Murieta, California 95683

\$ _____
Rancho Murieta CSD
Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens)
Special Tax Bonds, 2014 Series

Ladies and Gentlemen:

We have acted as Bond Counsel to the Rancho Murieta CSD Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) (the "CFD"), in connection with the issuance of its \$ _____ Special Tax Bonds, 2014 Series (the "Bonds"). The Bonds are being issued under the provisions of Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"), and pursuant to a Fiscal Agent Agreement, dated as of September 1, 2014 (the "Fiscal Agent Agreement"), by and between the CFD and _____, as fiscal agent (the "Fiscal Agent").

The Bonds are limited obligations of the CFD secured under the Fiscal Agent Agreement by a pledge of Special Taxes and certain other moneys held under the Fiscal Agent Agreement.

In our capacity as Bond Counsel, we have reviewed the Fiscal Agent Agreement, certifications of the CFD, the Fiscal Agent and others, opinions of counsel to the CFD and the Fiscal Agent, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Fiscal Agent Agreement.

Based upon the foregoing, we are of the opinion that:

1. The Bonds constitute valid and binding limited obligations of the CFD as provided in the Fiscal Agent Agreement, and are entitled to the benefits of the Fiscal Agent Agreement.

2. The Fiscal Agent Agreement has been duly and validly authorized, executed and delivered by the CFD and, assuming the enforceability thereof against the Fiscal Agent, constitutes the legally valid and binding obligation of the CFD, enforceable against the CFD in accordance with its terms. The Fiscal Agent Agreement creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Special Taxes and certain other amounts held by the Fiscal Agent in certain funds and accounts established pursuant to the Fiscal Agent Agreement, subject to the provisions of the

Fiscal Agent Agreement permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. Under existing law, and assuming compliance with the covenants mentioned below, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing law, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, receipt or accrual of interest on Bonds owned by a corporation may affect the computation of its alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed. We are further of the opinion that interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. Pursuant to the Fiscal Agent Agreement, and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986* being delivered by the CFD in connection with the issuance of the Bonds, the CFD is making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by the CFD with its covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bond or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Bonds and the Fiscal Agent Agreement may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Fiscal Agent Agreement is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Limited Offering Memorandum or other offering material relating to the Bonds.

Respectfully submitted,

APPENDIX F
FORMS OF CONTINUING DISCLOSURE AGREEMENTS

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix G concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with 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 certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Principal, premium (if any), and interest 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 CFD 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 Trustee, or the CFD, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the CFD 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the CFD or the Fiscal Agent. Under such circumstances, in the event that a

successor depository is not obtained, certificates representing the Bonds are required to be printed and delivered.

The CFD may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the Bonds will be printed and delivered to DTC in accordance with the provisions of the Fiscal Agent Agreement.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the CFD believes to be reliable, but the CFD takes no responsibility for the accuracy thereof.