UPLAND CITY COUNCIL

AGENDA
October 22, 2018
City Council Chamber

DEBBIE STONE, MAYOR
CAROL TIMM, MAYOR PRO TEM
GINO L. FILIPPI, COUNCILMEMBER
JANICE ELLIOTT, COUNCILMEMBER
SID ROBINSON, COUNCILMEMBER

BILL R. MANIS, CITY MANAGER
JAMES L. MARKMAN, CITY ATTORNEY

DISRUPTION OF MEETINGS

Individuals who demonstrate disruptive conduct during City Council meetings that prevent the City Council from conducting its meeting in an orderly manner are guilty of a misdemeanor as stated in PC403, disrupting a public meeting, and are subject to removal from the chamber or arrest.

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6:00 PM - Closed Session

1. CALL TO ORDER AND ROLL CALL

2. ADDITIONS-DELETIONS TO AGENDA

3. ORAL COMMUNICATIONS

This is a time for any citizen to comment on item listed on the closed session agenda only. Anyone wishing to address the legislative body is requested to submit a speaker card to the City Clerk at or prior to speaking. The speakers are requested to keep their comments to no more than three (3) minutes. The use of visual aids will be included in the time limit.

4. CLOSED SESSION

A. GOVERNMENT CODE SECTION 54957.6 - CONFERENCE WITH LABOR NEGOTIATORS

Agency designated representatives: Legal Counsel Edward Zappia, Assistant City Manager Jeannette Vagnozzi, Human Resources Manager Kelly Gonzales

Employee organizations: Upland Mid-Management Association, Upland City Employees Association, Upland Police Officers Association, and Upland Police Management Association

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7:00 PM

5. INVOCATION

Reverend Cathleen "Catie" Coots, First United Methodist Church of Upland

6. PLEDGE OF ALLEGIANCE

7. PRESENTATIONS

Senator Anthony Portantino's State of the State Presentation

Introduction of Mark Eckel, Mayor of Mildura, Australia, Upland Sister City

8. CITY ATTORNEY

9. ORAL COMMUNICATIONS

This is a time for any citizen to comment on any item listed on the agenda only. Anyone wishing to address the legislative body is requested to submit a speaker card to the City Clerk at or prior to speaking. The speakers are requested to keep their comments to no more than three (3) minutes. Speakers will be given five (5) minutes during public hearings. The use of visual aids will be included in the time limit.

10. COUNCIL COMMUNICATIONS

11. CONSENT CALENDAR

All matters listed under the Consent Calendar are considered to be routine and will be enacted by one roll call vote. There will be no separate discussion of these items unless members of the legislative body request specific items be removed from the Consent Calendar for separate action.

A. APPROVAL OF MINUTES

Approve the Regular Meeting Minutes of October 8, 2018. (Staff Person: Jeannette Vagnozzi)

B. ESTOPPEL CERTIFICATE - AGREEMENT FOR SEWERAGE AND STORM WATER DISPOSAL SERVICE

Authorize the City Manager to approve the Estoppel Agreement and accept public sewer and storm water improvements constructed by the developer,

Bravepark Commercial Property, LLC at Planning Areas 4 & 5, Sycamore Commercial. (Staff Person: Rosemary Hoerning)

C. EMERGENCY PURCHASE AND INSTALLATION OF EQUIPMENT AND PROFESSIONAL SERVICES FOR WATER SYSTEM IMPROVEMENTS

Receive and file the status update. (Staff Person: Rosemary Hoerning)

D. ANNUAL MEETING OF THE POMONA VALLEY PROTECTIVE ASSOCIATION (PVPA)

Appoint Rosemary Hoerning as proxy to vote all shares at the annual shareholder's meeting of the Pomona Valley Protective Association. (Staff Person: Rosemary Hoerning)

E. SAN ANTONIO WATER COMPANY STOCK AUCTION

Receive and file the report. (Staff Person: Rosemary Hoerning)

12. PUBLIC HEARINGS

13. COUNCIL COMMITTEE REPORTS

14. BUSINESS ITEMS

A. APPROVAL OF AGREEMENT WITH INFOSEND FOR UTILITY BILL PRINT MAIL AND ONLINE PAYMENT SERVICES

Approve an agreement with InfoSend, Inc., retroactively to July 1, 2018, to provide utility bill print, mail, and online payment services for the next three years with an option of an additional 24 month extension, and authorize the City Manager to execute the agreement. (Staff Person: Londa Bock-Helms)

B. ISSUANCE OF SPECIAL TAX BONDS FOR COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND), IMPROVEMENT AREA NO. 1

Acting as legislative body of Community Facilities District No. 2016-1 (Harvest at Upland) adopt a resolution to authorize the issuance of its Special Tax Bonds, Series 2018 (Improvement Area No. 1), and approving certain documents and taking certain other actions in connection therewith. (Staff Person: Steven H. Dukett)

C. AMENDMENT TO THE CITY'S LAND SECURED FINANCING POLICY FOR SPECIAL ASSESSMENT AND MELLO-ROOS COMMUNITY FACILITY DISTRICT FINANCING

Adopt a resolution amending the City's Land Secured Financing Policy for special assessment and Mello-Roos community facility district financing. (Staff Person: Steven H. Dukett)

15. ORAL COMMUNICATIONS

This is a time for any citizen to comment on any item not listed on the agenda. Anyone wishing to address the legislative body is requested to submit a speaker card to the City Clerk at or prior to speaking. The speakers are requested to keep their comments to no more than three (3) minutes. The use of visual aids will be included in the time limit. Public comments and questions for the purpose of hearing current matters of concern in our community and to provide citizens a method for the public to hear those concerns in an open venue is encouraged. However, under the provisions of the Brown Act, the City Council is prohibited from discussion of items not listed on the agenda, and therefore, the City Council, City Manager, or City Attorney will take communications under

advisement for consideration and appropriate response or discussion at a later time.

16. CITY MANAGER

17. ADJOURNMENT

The next regularly scheduled City Council meeting is Monday, November 12, 2018.

NOTE: If you challenge the public hearing(s) or the related environmental determinations in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the City of Upland, at, or prior to, the public hearing.

All Agenda items and back-up materials are available for public review at the Upland Public Library, downstairs reference desk at 450 North Euclid Avenue, the City Clerk's Office at 460 North Euclid Avenue and the City website at www.ci.upland.ca.us, subject to staff's ability to post the documents before the meeting.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk's Office, 931-4120. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting. [28 CFR 35.102-35.104 ADA Title II]

POSTING STATEMENT: On October 18, 2018 a true and correct copy of this agenda was posted on the bulletin boards at 450 N. Euclid Avenue (Upland Public Library) and 460 N. Euclid Avenue (Upland City Hall).

MINUTES OF THE REGULAR MEETING OF THE
UPLAND CITY COUNCIL
OCTOBER 8, 2018

OPENING The regular meeting of the Upland City Council was called to order by Mayor Debbie Stone at 7:00 p.m. in the Council Chamber of the Upland City Hall.

1. ROLL CALL

Present: Mayor Debbie Stone, Council Members Carol Timm, Gino Filippi, Janice Elliott, and Sid Robinson

Staff: City Manager Bill R. Manis, City Attorney James L. Markman, and Assistant City Manager/City Clerk Jeannette Vagnozzi

2. ADDITIONS/DELETIONS TO AGENDA None

3. ORAL COMMUNICATIONS None

4. CLOSED SESSION None

5. INVOCATION Pastor Jarrell Jones, 11th Street Baptist Church

6. PLEDGE OF ALLEGIANCE City Manager Manis

7. PRESENTATIONS

Certificates of Completion were presented to the Upland Community Emergency Response Team (CERT).

8. CITY ATTORNEY None

9. ORAL COMMUNICATIONS

A number of individuals spoke about the skate park at Memorial Park, including the need for better lighting at the facility, the requirement for safety gear, extending the hours of operation and the fee structure. The following spoke:

Steve Alba, Alta Loma
Todd McDonagh, Fontana
Victoria Serna, Rancho Cucamonga
Keith Goff, Ontario
Willough Gage-Chavez, Upland
Masayuki Shudo, Fontana
Dylan White, Upland
Steve Gabriel, Chino Hills
Mike Pike, Ontario
Ralph Cavallo, Upland
Mike Pattison, Upland

10. COUNCIL COMMUNICATIONS

Councilmembers announced various activities throughout the community, including providing an update on the meetings they attended.

11. CONSENT CALENDAR

Councilmember Elliott removed Consent Calendar Item 11E for separate action. Motion by Councilmember Robinson to approve the remainder of the Consent Calendar, seconded by Councilmember Timm and carried unanimously.

A. APPROVAL OF WARRANT AND PAYROLL REGISTERS SEPTEMBER 2018

Approved the September Warrant Registers and Direct Disbursements (check numbers 22039-22484) totaling $10,955,151.52 and Payroll Registers totaling $1,218,022.44 (check numbers 160188-160270 and EFTs 10620-11102).

B. APPROVAL OF MINUTES

Approved the Regular Meeting Minutes of September 24, 2018.

C. TREASURER'S REPORT AUGUST 2018

Received and filed the August 2018 Treasurer's Report.

D. EMERGENCY PURCHASE AND INSTALLATION OF EQUIPMENT AND PROFESSIONAL SERVICES FOR WATER SYSTEM IMPROVEMENTS

Received and filed the status update.

ITEM REMOVED FOR SEPARATE ACTION

E. AMENDMENT TO THE AGREEMENT WITH THE ZAPPIA LAW FIRM FOR LABOR AND EMPLOYMENT LAW SERVICES

Assistant City Manager Vagnozzi and City Attorney Markman answered questions from the Council regarding hourly rates for service, the difference between general and specialty legal services, and the bid process.

Motion by Councilmember Elliott to table the item and not extend the contract with Zappia Law Firm, there being no second, the motion failed.

Motion by Councilmember Robinson to authorize the City Manager to execute an amendment to the agreement with the Zappia Law Firm for labor and employment law services, seconded by Councilmember Filippi, and carried with Councilmember Elliott opposed.

12. PUBLIC HEARINGS None

13. COUNCIL COMMITTEE REPORTS

A. ECONOMIC DEVELOPMENT COMMITTEE MEETING, OCTOBER 1, 2018

Councilmember Timm provided a recap of the meeting, which is on file in the City Clerk's Office. This was for information only and no action was required.

14. BUSINESS ITEMS

A. IN-LIEU FEE ARROW VISTA VILLAGE DEVELOPMENT

Public Works Director Hoerning presented the staff report, which is on file in the City Clerk's Office.

There was discussion on coordinating the work with the US Army Corp.

Motion by Councilmember Timm to adopt Resolution No. 6470 approving an in-lieu fee in satisfaction of a portion of Condition 40.5.4 concerning the extension of the box culvert of site plan 16-30 for the development of 44 apartment units on real property located on the south east corner of Arrow Route and Monte Vista Avenue, seconded by Councilmember Filippi, and carried unanimously.

B. UPDATE ON SKATE PARK

Recreation Services Manager Story presented the staff report, along with a PowerPoint, which are on file in the City Clerk's Office.

There was discussion on updating the lighting at the skate park and addressing issues brought up by the public.

The Council received and filed the update; and requested the item be brought back for future discussion.

15. ORAL COMMUNICATION (items not on the agenda)

Nick McLean, Upland, announced the upcoming production of "The Wolves" by the Upland High School Theater Department.

Steve Viero, San Antonio Heights, commented on an Ordinance adopting the Fire District fees.

Allen Nicely, Upland, stated his opinion that the City needs a change of leadership.

Yvette Walker, Upland, encouraged residents to participate in CERT training.

Mike Pattison, Upland, stated dissatisfaction with the current state of the City.

April McCormick, Upland, addressed comments made on social media.

Courtney Zuniga, Upland, addressed issues with campaign practices in the current election.

Karen May, Upland, stated that it was Indigenous People's Day and provided the Council with information on the subject.

Irmalinda Osuna, Upland, suggested more outreach to inform citizens of current projects and programs in the City.

Rudy Zuniga, Upland, introduced himself as a candidate in the upcoming election.

16. CITY MANAGER

17. ADJOURNMENT

Mayor Stone adjourned the meeting at 8:43 p.m. The next regularly scheduled City Council meeting is Monday, October 22, 2018.

SUBMITTED BY Jeannette Vagnozzi, City Clerk

APPROVED October 22, 2018

STAFF REPORT

ITEM NO. 11.B.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	ROSEMARY HOERNING, PUBLIC WORKS DIRECTOR PONCE YAMBOT, PRINCIPAL ENGINEER
SUBJECT:	ESTOPPEL CERTIFICATE - AGREEMENT FOR SEWERAGE AND STORM WATER DISPOSAL SERVICE

RECOMMENDED ACTION

It is recommended that the City Council authorize the City Manager to approve the Estoppel Agreement and accept public sewer and storm water improvements constructed by the developer, Bravepark Commercial Property, LLC (Bravepark) at Planning Areas 4 & 5, Sycamore Commercial.

GOAL STATEMENT

The proposed action supports the City Council's objective of promoting orderly development and ensuring that adequate public and private utility services are provided and maintained.

BACKGROUND

On April 28, 2016, the City of Upland Development Review Team conditionally approved the Sycamore Hills Commercial Project, an approximately 78,000 square foot development that lies in both cities of Upland and Claremont.

In Upland, the proposed development includes seven buildings totaling 62,000 square feet which are to be occupied by a grocery store, drug store and other retailers. Two buildings were proposed for construction within the Claremont limits, totaling 16,000 square feet.

Due to the Freeway 210 barrier, Claremont does not have sewer or storm water facilities to serve the portion of the development located in the City of Claremont. The extension of sewer and storm water service facilities would have been cost prohibitive. As such, the cities of Upland and Claremont and Bravepark entered into a sewer and storm water service agreement allowing Upland to provide these needed services and outlining the terms of service.

In addition, due to the natural site topography, site grading and building pads elevations, the developer needed to employ private lift stations to convey site sewer flow to the nearest Upland public sewer system. The on-site sewer system and lift stations are private facilities and are not publicly maintained.

The City of Upland retained the services of a specialty sewer lift station inspector to ensure the improvements were constructed in accordance with the project plans. At this time the city inspectors do not have any outstanding work items for the sewer and storm water collection systems on the commercial properties.

ISSUES/ANALYSIS

At various stages of the construction, Upland Public Works performed inspections at proposed improvements and found them to be in conformance to standards. Deputy sewer lift station inspector witnessed testing of the lift stations and found them to be operational.

Bravepark retained the services of Coreland/Bennet Plumbing to provide the needed lift station maintenance services. Conditions, Covenants, & Restrictions (CCR) was also reviewed, approved and recorded for orderly management and development of the site as required by the Agreement.

FISCAL IMPACTS

The proposed action does not have fiscal impact.

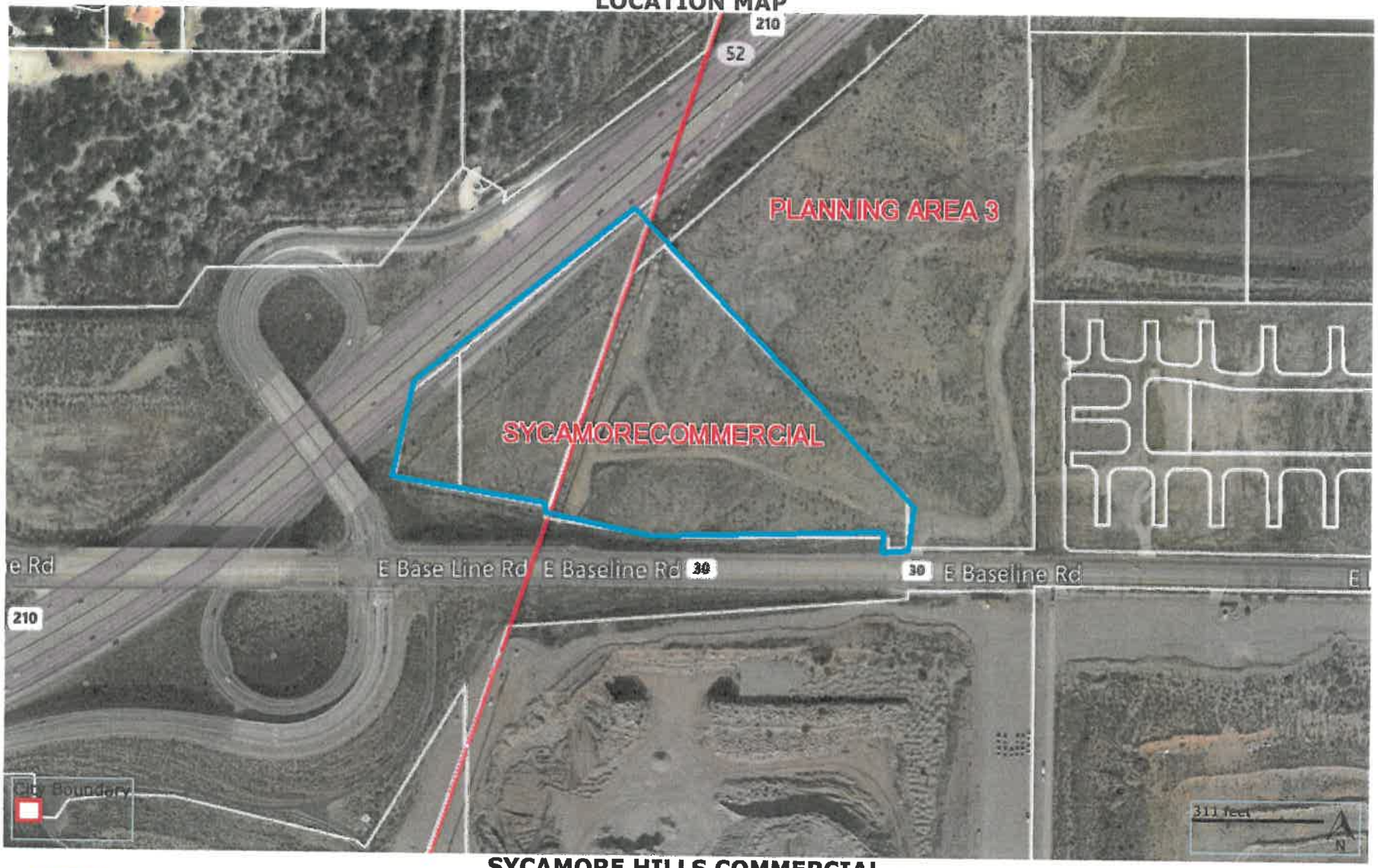
ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

Location Map
Estoppel Certificate
Sewer Agreement

LOCATION MAP



SYCAMORE HILLS COMMERCIAL

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ESTOPPEL CERTIFICATE
AGREEMENT FOR SEWERAGE AND STORM WATER DISPOSAL SERVICE

LA Acquisition Company, LLC
c/o AEW Capital Management, L.P.
601 S. Figueroa St., Suite 2150
Los Angeles, CA 90017

Re: Agreement for Sewerage and Storm Water Disposal Service Between City of Upland, City of Claremont and Bravepark Commercial Property LLC, dated December 12, 2016, recorded in the Official Records of Los Angeles County on January 27, 2017 as Document No. 20170116518 (the "**Sewer Agreement**").

LA Acquisition Company, LLC, a Delaware limited liability company (the "**Buyer**") intends to acquire that certain commercial property commonly known as "Sycamore Hills Plaza" located in the cities of Claremont and Upland, California (the "**Property**") from Bravepark Commercial Property LLC, a Delaware limited liability company (the "**Seller**"). The undersigned hereby confirms to Buyer, its current and future lenders, First American Title Insurance Company (the "**Title Company**") and their respective successors and assigns, as of the date hereof, as follows:

1. No Defaults. To the best of the undersigned's knowledge, there are no defaults under the Sewer Agreement by the undersigned or any other party under the Sewer Agreement.

2. No Amendments. The Sewer Agreement has not been modified or amended.

3. Full Force and Effect. The Sewer Agreement is in full force and effect.

4. Acceptance of Facilities and Infrastructure. As and to the extent required under the Sewer Agreement, the undersigned has accepted the existing public facilities and infrastructure required to be installed by "Developer" as defined in and under the Sewer Agreement.

5. Due Authorization. The undersigned is duly authorized to sign and deliver this estoppel certificate, and no other signatures are required or necessary in connection with the execution and validity of this estoppel certificate.

IN WITNESS WHEREOF, the undersigned has executed and delivered this estoppel certificate as of _____, 2018.

CITY OF UPLAND

By: _____
Name: Bill R. Manis
Title: City Manager

This page is part of your document - DO NOT DISCARD

20170116518

Pages:
0016

Recorded/Filed in Official Records
Recorder's Office, Los Angeles County,
California

01/27/17 AT 02:29PM

FEES:	60.00
TAXES:	0.00
OTHER:	0.00
PAID:	60.00

LEADSHEET

201701273340006

00013296135

008111267

SEQ:
02

DAR - Counter (Upfront Scan)

THIS FORM IS NOT TO BE DUPLICATED

E534321

RECORDING REQUESTED BY
Bravepark Commercial Property LLC

AND WHEN RECORDED MAIL DOCUMENT TO:
City of Upland
460 N. Euclid Ave.
Upland, CA 91786

01/27/2017
20170116518

Space Above This Line for Recorder s Use

AGREEMENT FOR SEWERAGE
AND STORM WATER DISPOSAL SERVICE

BETWEEN
CITY OF UPLAND, CITY OF CLAREMONT AND
BRAVEPARK COMMERCIAL PROPERTY LLC

THIS SERVICE AGREEMENT made and entered into this 12th day of December, 2016, hereinafter referred to as the "Agreement", by and between the CITY OF UPLAND, a California municipal corporation located in the County of San Bernardino ("Upland"), CITY OF CLAREMONT, a California municipal corporation located in the County of Los Angeles ("Claremont"), and BRAVEPARK COMMERCIAL PROPERTY LLC, a Delaware Limited Liability Company and its transferees, successors and assigns ("Developer").

RECITALS

WHEREAS, Developer owns a vacant land situated in both Upland and Claremont, such that most of the lot is in Upland, but approximately 2.4 acres of the lot is in Claremont, as shown in Exhibit A (the "Property");

WHEREAS, Developer intends to develop the Property with retail stores and requires disposal services for sewerage and storm water runoff;

WHEREAS, Claremont does not have facilities or services in the Property's immediate vicinity;

WHEREAS, it would be more economical for Upland to provide the above disposal services than Claremont;

WHEREAS, Upland owns and operates a sewer system to collect and convey sewerage to the Inland Empire Utility Agency ("IEUA"), for treatment and disposal

WHEREAS, Upland is willing to accept sewerage from the Property;

WHEREAS, Upland is a party to the IEUA Regional Sewage Service Contract, and would collect IEUA sewage treatment fees in addition to the sewage service fees assessed by Upland, including but not limited to, the sewer connection and development impact fee and the monthly disposal charges;

WHEREAS, Upland owns and operates a storm drain collection system and is a permittee of the San Bernardino County's National Pollution Discharge Elimination System ("NPDES") permit, thus being required to comply with storm water disposal requirements, including runoff and discharge to the Upland storm drain system; and

WHEREAS, Developer desires to use the above utility services provided by Upland for the Property and is willing to construct necessary facilities or infrastructure, at no cost to Upland, to receive such services.

NOW, THEREFORE, in consideration of the respective representations and agreements contained herein, the parties hereto agree as follows:

I. Conditions for Service

Subject to the terms and conditions of this Agreement, Upland agrees to provide utility services to users on the Property, provided that all provisions of this Agreement are upheld by the parties hereto, as follows:

(A) General Conditions

1. To receive utility services from Upland, Developer shall construct necessary facilities or infrastructure, in the public right-of-way, for Upland to deliver the services to the Property, including sewerage and storm drain lines connecting to the Upland service mains. Separate development agreements, bonds, payments or plans may be required to facilitate such infrastructure construction. Upland shall own the facilities or infrastructure upon their completion by Developer and acceptance by Upland.

2. Developer shall construct a sewer collection and storm drain collection system within its Property to provide the utility services received from Upland to the Property.

3. The design, material and method of construction of the above-mentioned facilities or infrastructure and collection systems shall meet all applicable legal standards including those of Upland and Claremont.

4. Prior to construction, Developer shall provide drawings and specifications to Upland's public works department and the City of Claremont for review. Claremont will take reasonable efforts to incorporate any reasonable modifications requested by Upland into the final drawings and specifications.

5. Developer shall obtain proper permits, required by Upland and Claremont, to facilitate the construction. No construction is allowed without proper permits issued by Upland and Claremont.

6. Developer shall bear the entire cost of constructing the above mentioned facilities or infrastructure and collection systems.

7. Upland and Claremont representatives shall have the right to inspect facilities, infrastructure and collection systems constructed by Developer during and after the construction. Upland and Claremont may consult with the designer of record for requests for information, review contractor submittals and to engineer changes to the specifications and drawings (in the case of a change order). For the life of this Agreement, Upland shall have access to the Property to maintain and repair its facilities thereon.

8. Developer agrees to comply with all ordinances, rules, regulations and policies for use of utility services provided by Upland.

(B) Sewer Service Condition

Upland agrees to receive and dispose of sewage originating from the Property, provided that:

1. Developer shall be responsible for all tenants, renters, lessees, shop owners, or other entities or individuals ("Users") occupying the Property. Developer's agreements with Users shall provide that Users of the Upland sewer service are required to comply with Section 13.32.140- General Restrictions and Prohibitions on the Use of the Community Sewers of the Upland Municipal Code, relating to the discharge of materials into the Upland sewer, as well as other applicable county, state, federal or local regulations applicable to sewage discharge, as they may be amended from time to time. Developer shall record a restrictive covenant that binds future owners of the Property to ensure Users comply with all applicable regulations. Developer agrees to be subject to Upland's Municipal Code and all generally applicable policies or requirements for all enforcement of sewer violations.

2. Upland agrees to provide sewer services for any use of the Property that is currently permitted by right under Claremont's Park View Specific Plan. Any change to the Specific Plan that adds additional uses or prior to the approval of a conditionally permitted use will be subject to the City of Upland's review to determine if the new use would create an increase in sewer usage; if there is an increase, then Upland is not required to, but may opt to provide sewer service to accommodate such increase.

3. No storm water, roof drain water or subsurface footing drain water shall be permitted to enter the Upland sewer system. Construction methods and materials used in the development area shall be such as to minimize sources of infiltration into the Upland sewer system. Upon notice by Upland of such storm, roof drain or subsurface footing drain water discharge into the sewer system, Developer shall immediately resolve discharge in a manner satisfactory to Upland. Developer shall record a restrictive covenant that binds future owners of the Property to ensure future owners of the Property comply with the provisions of this paragraph.

4. Claremont shall not issue any a certificate of occupancy for the Property, unless Claremont ensured that Users desiring to discharge non-domestic sewage to the Upland sewer system obtained a discharge permit issued by Upland. Developer shall require that all transferees of such permits obtain such permits in their own name upon taking possession/ownership of the Property.

5. Developer shall seek and obtain approval on all sewer plans from Upland, prior to submittal to Claremont. Developer shall provide sufficient evidence of Upland's approval to Claremont at the time of the submittal of the plans, and Claremont shall not approve plans unless Claremont receives sufficient evidence of Upland's approval. Claremont shall not approve any proposed use of the Property or issue any permits whereby sewer users would discharge sewage to the Upland sewer system unless Claremont receives written evidence that all fees pertaining to such discharge, including sewer connection fee, due to Upland and IEUA have been paid to Upland. Claremont shall not be financially responsible for payments to Upland for the fees Developer or users are required to pay Upland and IEUA.

6. If a User has a sewer connection or discharge to the Upland sewer system without paying applicable fees to Upland, User shall promptly pay to Upland such fees or cause them to be paid to Upland by such User. Upland may take all steps to enforce generally applicable sewer connection and use requirements.

7. In the event that a user discharges sewage that found to be inhibited or in violation of the Upland or IEUA discharge requirements, Claremont, if requested by Upland, shall cooperate with Upland and/or appropriate agencies to provide enforcement actions against such discharge and take necessary action to cease it.

8. Developer shall be responsible for disposing of sewage, wastes or material from the Property that is in violation of this Agreement and, in such case, shall pay or cause payment to be made directly to Upland for (a) the cost of repair of any damage to the Upland sewer system and (b) any fines, charges or costs imposed upon Upland on Developer or on users due to such discharge.

(C) Rainwater Runoff Condition

Upland agrees to provide perpetual rainwater collection runoff service to the Property, provided that:

1. Users located in the geographical jurisdiction of Claremont shall comply with the storm water and surface water runoff discharge requirements of the National Pollutant Discharge Elimination System (NPDES) permit, issued and implemented by Claremont and the Los Angeles Regional Water Quality Control Board. Developer shall also be in compliance with LA County MS4 Permit. Prior to plan approval, additional NPDES requirements for the County of San Bernardino, established by the Santa Ana Regional Water Quality Control Board, can be imposed if the aggregate storm water and surface water runoff discharge into the Upland storm drain has a potential to affect Upland's ability to comply with its NPDES requirements and if the conditions imposed have a nexus to the impact, and the requirements bear rough proportionality to the impact.

2. Developer shall bear the entire cost of constructing necessary storm drains within its development to convey rainwater runoff to the Upland storm drain system in the public right-of-way.

3. Developer shall be responsible for maintenance and operation of their onsite storm drains upstream of the connection point to the Upland storm drain system in the public right-of-way.

4. Developer shall provide storm drain maintenance records in accord with all applicable regulatory requirements.

5. Breaches of the provisions of this section shall be cured within a reasonable amount of time and shall not result in termination of service.

II. Charges for Service

1. Users of the Upland utility services shall pay fees and make deposits required for the services, including fees, deposits and fines determined by local, state and federal agencies that Upland has to comply with. Upland may cut off utility services for non-payment and utility services shall not resume until all delinquent charges together with any charges or security necessitated by the resumption of such services have been fully paid.

2. Fees for out-of-service area are subject to be higher than normal fees paid by users situated within the Upland limit. Extra territorial service fees, if assessed, either by Upland or its service providers, are to be paid to Upland.

3. All fees for services provided by Upland shall be paid to Upland, based on the fee and rate schedules adopted by the Upland City Council as if services are being provided to properties within the jurisdiction of Upland. Fees for sewer utility service shall be charges not only against the user, owner or tenant to or for whom services are rendered, but also charges against the lot or parcel of land to which the services were rendered.

III. Be it Mutually Agreed, as follows

1. The Upland City Clerk shall record the Agreement with the County Recorder in both San Bernardio and Los Angeles Counties.

2. Agreement Runs with Land.

The benefit to the Land will inure to the benefit of subsequent owners, their heirs, successors, and assigns, and the agreements, conditions, and covenants contained herein shall be binding upon them and run with the land.

3. Term of the Agreement.

The term of this Agreement shall become effective upon the date hereinabove written and shall continue until being superseded. In the event that Claremont desires to provide the utility services, in all or in part, notice shall be given to Upland and both parities shall, in good faith, develop and execute an agreement to supersede this Agreement.

4. Entire Agreement.

Each party to this Agreement acknowledges that no representation by any party, which is not embodied herein, nor any other agreement, statement, or promise not contained in the Agreement shall be valid and binding. Any modification of this Agreement shall be effective only if it is in writing signed by all parties.

5. Interpretation.

This Agreement shall be construed according to its fair meaning and as if prepared by all parties hereto. Any rule of law (including without limitation California Civil Code Section 1654) or legal decision that would require interpretation of any ambiguities in this Agreement against the party that has drafted it is not applicable and is hereby waived.

6. Captions.

The captions used in this Agreement are for convenience only and therefore do not constitute a part of this Agreement and do not amplify or limit the meaning of the provisions of this Agreement.

7. Governing Law.

This Agreement shall be construed in accordance with the laws of the State of California. Venue shall be in the Superior Court of the County of San Bernardino or the equivalent Federal District Court.

8. Indemnification.

Developer, its heirs, successors, permitted assigns agree to defend, indemnify, protect and hold harmless Claremont and Upland, its officers, officials, employees, attorneys and volunteers from and against any and all claims, demands, losses, defense costs or expenses, including attorney fees and expert witness fees, or liability of any kind or nature which Claremont or Upland, its officers, agents and employees may sustain, incur or be imposed upon them from, including, but not limited to, injury to or death of persons, or damage to property arising out of and to the extent of acts or omissions arising out of or in any way related to the performance or non-performance of this Agreement, excepting only liability arising out of and to the extent of the sole negligence of Claremont or Upland or its officers, officials, employees and volunteers.

9. Remedies for Breach.

In the event of a violation of any obligation set forth herein, Upland and Claremont shall be entitled to all applicable remedies at law or equity, including, but not limited to, the right to seek an injunction against any violation hereof or injunction prohibiting the use of the utility services provided by Upland and the right to liens imposed against the premises, to which the utility services were furnished, for any delinquent and unpaid fees.

10. Notices.

All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when sent registered, certified or electronic media with formal letterhead addressed or delivered to the addresses on record of other parities.

11. Severability.

In the event any provisions of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction; such holding shall not invalidate or render unenforceable any other provision hereof.

12. Attorneys' Fees.

In the event of any controversy, claim, or dispute relating to this Agreement or the breach thereof, the prevailing party shall be entitled to recover from the opposing party reasonable attorneys' fees and costs in an amount determined by the court to be reasonable.

13. Authority of Signatories.

Each person executing this agreement warrants and represents to the parties of this Agreement that the party on whose behalf he or she is signing has approved this Agreement pursuant to all applicable laws and corporate authorities and that he or she is duly authorized to execute this Agreement on behalf of the party.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed by their respective officials thereunto duly authorized.

CITY OF UPLAND

Debbie Stone

Name: Debbie Stone
Title: Mayor

Attest:

Jeanette Vagnozzi, City Clerk

Approved as to form:

Richard L. Adams II, City Attorney

CITY OF CLAREMONT

Tony Ramos, City Manager

Attest:

Shelley Desautels, Claremont City Clerk

Approved as to form:

Claremont City Attorney

BRAVEPARK COMMERCIAL PROPERTY LLC

By:

Name: Steven Vining

Title: Operating Member Representative

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California
County of San Bernardino)

On Dec 21, 2016 before me, Keri Johnson, Notary Public
(insert name and title of the officer)

personally appeared Debbie Stone,
who proved to me on the basis of satisfactory evidence to be the person(~~s~~) whose name(~~s~~) is/~~are~~ subscribed to the within instrument and acknowledged to me that ~~he~~/she/~~they~~ executed the same in ~~his~~/her/~~their~~ authorized capacity(~~ies~~), and that by ~~his~~/her/~~their~~ signature(~~s~~) on the instrument the person(~~s~~), or the entity upon behalf of which the person(~~s~~) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

NRO1 KERI JOHNSON COMM. #2099400 Notary Public - California San Bernardino County My Comm. Expires Feb. 8, 2019 NRO1

Signature Keri Johnson (Seal)

ILLEGIBLE NOTARY SEAL DECLARATION

GOVERNMENT CODE 27361.7

I certify under penalty of perjury that the notary seal on the document to which this statement is attached reads as follows:

Name of Notary DEBBIE STONE

Date Commission Expires FEB. 8, 2019

Notary Identification Number 2099400
(For Notaries commissioned after 1/1/1992)

Manufacturer/Vendor Identification Number NR01
(For Notaries commissioned after 1/1/1992)

Place of Execution of this Declaration SAN BERNARDINO

Date Dec 01/27/17

Signature (Firm name if any)

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT **CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Los Angeles)

On December 8, 2014 before me, Jamie L. Costanza, Notary Public,
Date *Here Insert Name and Title of the Officer*

personally appeared Tony Ramos & Shelley Desautels
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

JAMIE L. COSTANZA
Commission # 2052229
Notary Public - California
Los Angeles County
My Comm. Expires Dec 17, 2017

Signature Jamie L. Costanza
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document

Title or Type of Document: _____ Document Date: _____

Number of Pages: _____ Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer(s)

Signer's Name: _____
☐ Corporate Officer — Title(s): _____
☐ Partner — ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator
☐ Other: _____
Signer Is Representing: _____

Signer's Name: _____
☐ Corporate Officer — Title(s): _____
☐ Partner — ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator
☐ Other: _____
Signer Is Representing: _____

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CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT **CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Los Angeles)
On December 14, 2016 before me, Jamie L. Costanza, notary Public,
Date *Here Insert Name and Title of the Officer*
personally appeared Kylee Otto
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

JAMIE L. COSTANZA
Commission # 2052229
Notary Public - California
Los Angeles County
My Comm. Expires Dec 17, 2017

Signature Jamie L. Costanza
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document

Title or Type of Document: _____ Document Date: _____
Number of Pages: _____ Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer(s)

Signer's Name: _____
☐ Corporate Officer — Title(s): _____
☐ Partner — ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator
☐ Other: _____
Signer Is Representing: _____

Signer's Name: _____
☐ Corporate Officer — Title(s): _____
☐ Partner — ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator
☐ Other: _____
Signer Is Representing: _____

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STATE OF NORTH CAROLINA)
) ss.
County of Wake)

The foregoing instrument was acknowledged before me this 1st day of December, 2016, by Steven Vining, known by me to be the Operating Member Representative of BRAVEPARK COMMERCIAL PROPERTY LLC, a Delaware limited liability company.

Sandra M. Maher
Notary Public Sandra M. Maher

My Commission Expires: 09/03/2017

SANDRA M MAHER
Notary Public
Wake County
NORTH CAROLINA

EXHIBIT A

LEGAL DESCRIPTIONS

The land in Claremont referred to in this Agreement, presented in the attached Map A (Sheet 2 of ALTA/ACSM Land Title Survey), is described as follows:

Parcel Four (8671-001-017):

That certain parcel of land as described in the Certificate of Compliance No. #04-CC03 Recorded on April 19, 2005 as Instrument no. 2005-0906211 of Official Records of the County of Los Angeles, State of California, more particularly described as follows:

COMMENCING at the intersection of the center line of Base Line Road, said center line being the southerly line of Section 35, Township 1 North, Range 8 West, San Bernardino Meridian with the easterly boundary line of the County of Los Angeles, as shown on map filed in Book 83, Page 25 of records of survey, in the Office of the County Recorder of said County;

Thence along said easterly boundary line, North 18°28'04" East 134.70 feet, to the southerly line of that certain parcel of land as described in the Certificate of Compliance No. #04-CC04 Recorded on April 19, 2005 as Instrument No. 2005-0906212 of Official Records of said County.

Thence along said southerly line, North 79°40'57" West, 183.67 feet to the southeasterly corner of said Certificate of Compliance No. #04-CC03, being the intersection with the east line of the west one-half of the Southwest Quarter of said Section 35, and the TRUE POINT OF BEGINNING;

Thence continuing North 79° 40' 57" West, 147.99 feet to the southwesterly corner of said Certificate of Compliance No. #04-CC03;

Thence North 00°42'59" West, 49.09 feet, to the northwesterly corner of said Certificate of Compliance No. #04-CC03;

Thence North 49°04'40" East, 187.98 feet to the northeasterly corner of said Certificate of Compliance No. #04-CC03, being the intersection with said east line of the west one-half of the Southwest Quarter of Section 35;

Thence along said east line, South 01°12'09" East 198.77 feet to the TRUE POINT OF BEGINNING.

Containing 17,935 square feet (0.412 acres) of land, more or less.

Parcel Five (8671-001-015):

That certain parcel of land as described in the Certificate of Compliance No. #04-CC04 Recorded on April 19, 2005 as Instrument no. 2005-0906212 of Official Records of the County of Los Angeles, State of California, more particularly described as follows:

COMMENCING at the intersection of the center line of Base Line Road, said center line being the southerly line of Section 35, Township 1 North, Range 8 West, San Bernardino Meridian with the easterly boundary line of the County of Los Angeles, as shown on map filed in Book 83, Page 25 of records of survey, in the Office of the County Recorder of said County;

Thence along said easterly boundary line, North 18°28'04" East 134.70 feet, to the southeasterly corner of said Certificate of Compliance No. #04-CC04 and the TRUE POINT OF BEGINNING;

Thence North 79°40'57" West, 183.67 feet to the southwesterly corner of said Certificate of Compliance No. #04-CC04, being the intersection with the west line of the east one-half of the Southwest Quarter of said Section 35;

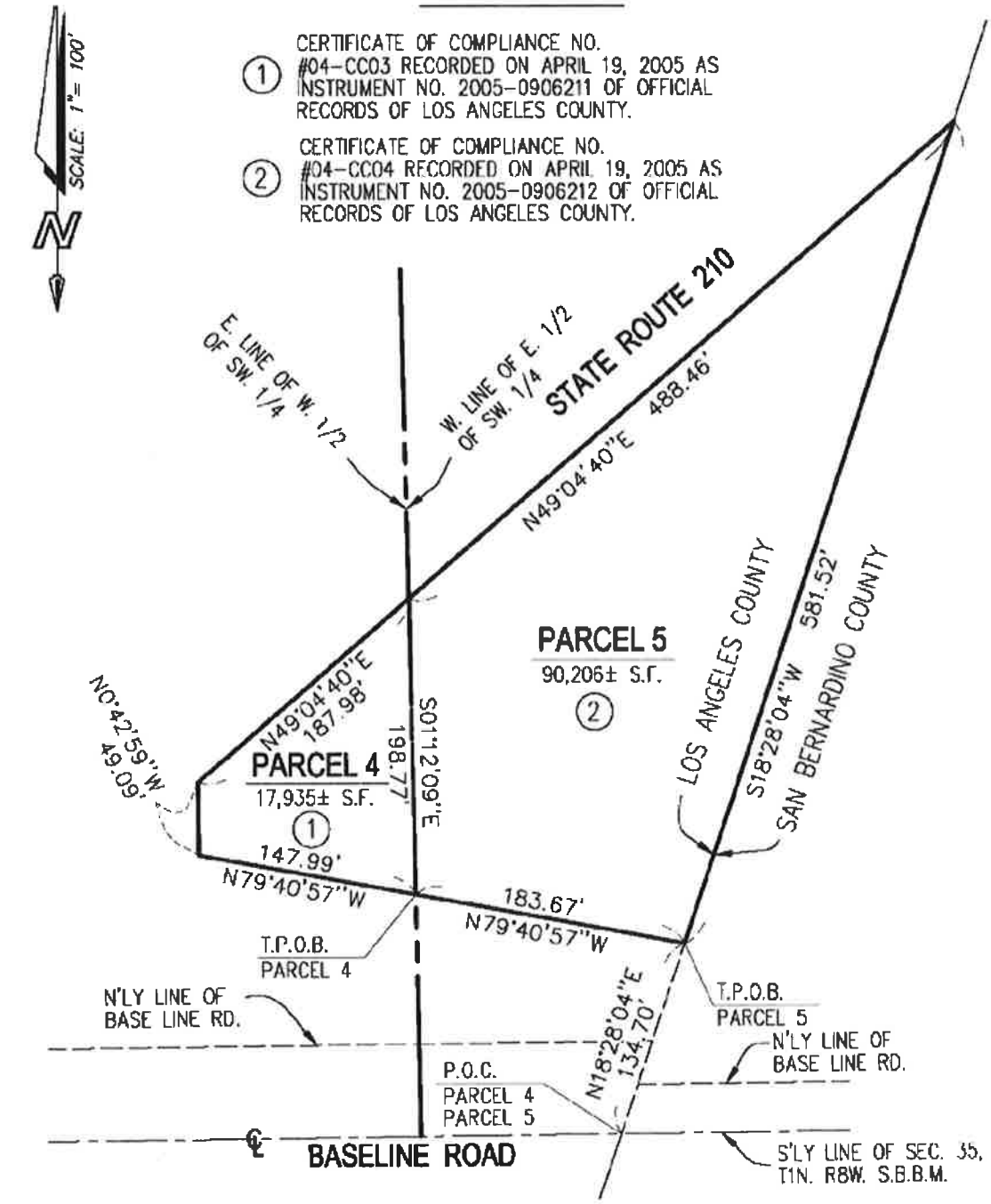
Thence along said west line, North 01°12'09" West 198.77 feet to the northwesterly corner of said Certificate of Compliance No. #04-CC04;

Thence North 49°04'40" East, 488.46 feet to the northeasterly corner of said Certificate of Compliance No. #04-CC04, being the intersection with said easterly boundary line of the County of Los Angeles;

Thence along said easterly boundary line, South 18°28'04" West 581.52 feet to the TRUE POINT OF BEGINNING.

Containing 90,206 square feet (2.071 acres) of land, more or less.

MAP A



PLAT TO ACCOMPANY LEGAL DESCRIPTION

DAVID EVANS AND ASSOCIATES INC.
4200 Concours, Suite 150
Ontario California 91764
Phone: 909.481.5750

DATE OF PREPARATION: 4/05/2016

LEGEND

P.O.C. POINT OF COMMENCEMENT
T.P.O.B. TRUE POINT OF BEGINNING

STAFF REPORT

ITEM NO. 11.C.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	ROSEMARY HOERNING, PUBLIC WORKS DIRECTOR KEVIN WATSON, UTILITIES OPERATION MANAGER
SUBJECT:	EMERGENCY PURCHASE AND INSTALLATION OF EQUIPMENT AND PROFESSIONAL SERVICES FOR WATER SYSTEM IMPROVEMENTS

RECOMMENDED ACTION

It is recommended that the City Council receive and file the status update.

GOAL STATEMENT

The proposed action supports the City's goal to maintain water facilities in good operable condition in order to provide safe reliable service to the community.

BACKGROUND

On October 10, 2016, the City Council adopted a Resolution declaring an emergency condition and approved the Emergency Work Plan Phase 1. Continuing progress update reports have been provided to the City Council. At this time, the City has completed the Well 7A, Reservoir 4, Well 20, temporary measures at the existing 7.5 million gallon reservoir, and the construction documents and entitlement work needed for the replacement reservoir of the Phase I emergency work program.

The remaining involves the implementation of the Replacement Reservoir at north west corner of 17th Street and Benson Avenue.

ISSUES/ANALYSIS

Reservoir at 17th and Benson Work:
Staff has completed the project plans and specifications for a 7.5 million gallon replacement reservoir; the environmental documentation and Notice of Determination; the property

appraisal, secured the Intent to Purchase a portion of the San Antonio Water Company property, and on June 1, 2017, began submitting application paperwork necessary for up to a $16.5 million Drinking Water State Revolving Loan. Staff has submitted all of the required documents to the State for the loan request. The State Project Manager has verbally indicated the application is technically complete. Staff has been working with the State assigned Project Manager to get major elements like the environmental work. The State submitted the environmental to the State Historic Preservation Office (SHPO) in August and is awaiting their clearance.

In general, the State Revolving Fund application must be complete before the formal review begins. Typically, it takes the State approximately 6 months to complete its review effort. However, staff is working closely with the State to expedite the process if possible. Based on a recent conversation with the State staff, we are targeting completion of the loan process by the end of the year.

Once funding is secured it is anticipated the construction will take 12-18 months.

FISCAL IMPACTS

Sufficient funds are available in the FY 2018-19 budget to complete the Phase I emergency work program. Phase II, the construction is dependent upon receiving the State loan. The FY 2018-19 budget includes sufficient funds to provide construction cash flow and will require fund draws under the loan. The actual amount of the loan will be only the amount of funds required to implement the emergency work.

At this time, staff is waiting for additional instruction from the State and will periodically make progress inquiries. The City Attorney's Office will participate in the legal consultation with the State counsel to prepare the loan documents.

Staff is also exploring other possible funding opportunities. However, the State loan appears to be the most cost effective funding mechanism.

ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

No Attachments Available

STAFF REPORT

ITEM NO. 11.D.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	ROSEMARY HOERNING, PUBLIC WORKS DIRECTOR
SUBJECT:	ANNUAL MEETING OF THE POMONA VALLEY PROTECTIVE ASSOCIATION (PVPA)

RECOMMENDED ACTION

It is recommended that the City Council appoint Rosemary Hoerning as proxy to vote all shares at the annual shareholder's meeting of the Pomona Valley Protective Association.

GOAL STATEMENT

The proposed action supports the City's goal to maintain reasonable water rates that allow for recovery of costs by implementing management and financial controls.

BACKGROUND

The Pomona Valley Protective Association (PVPA) was incorporated in 1910 to protect the rights of the water producers in the Claremont, Pomona, Upland, and La Verne areas. PVPA owns and operates spreading facilities on approximately 800 acres of Association owned land along the San Antonio and Thompson Creeks for the purpose of recharging groundwater basins.

PVPA spreading facilities receive runoff from several canyons in the San Gabriel Mountains, including San Antonio Canyon, Thompson Canyon, Live Oak Canyon, and a number of smaller canyons. Captured runoff percolates into the ground and replenishes the Six Basins groundwater aquifer. PVPA is identified in the Six Basins judgment as the party responsible for spreading and recharge operations to replenish the Six Basin groundwater basin. In fall of 1998, the parties and PVPA entered into a stipulated judgement. Since the implementation of the judgment PVPA has recharged over 20,000 million gallons of water in the Six Basins for use as local water supply.

The City of Upland owns 939.47 shares (1.6% of all shares) of PVPA, a private nonprofit company dedicated to water conservation. A nine member Board of Directors governs the Association.

ISSUES/ANALYSIS

Each year the Association holds an annual shareholder's meeting in November to elect the Board of Directors for the upcoming year and conduct other annual business. The City must authorize a person to carry the City's proxy and to vote at the annual meeting.

FISCAL IMPACTS

None

ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

2018 PVPA - Upland Proxy

PROXY TO THE POMONA VALLEY PROTECTIVE ASSOCIATION

CITY OF UPLAND

DOES HEREBY APPOINT

Rosemary Hoerning

As its authorized representative or agent to represent said organization and its 939.47 shares of PVPA stock at any and all meetings of the **shareholders of the Pomona Valley Protective Association,** the annual meeting of said Shareholders to be held November 14, 2018 which will address the items identified in the attached agenda, and any adjourned or specially called meetings thereof. The above-mentioned organization also appoints the above-mentioned individual to act as its agent or representative for any and all meetings of PVPA's consumers on the above-mentioned date.

By Debbie Stone, Mayor

Dated 10/22/2018

Please return proxy to:

Stephen M. Yoss, Secretary/Treasurer
Pomona Valley Protective Association
414 Yale Ave. Suite I
Claremont, Ca. 91711

STAFF REPORT

ITEM NO. 11.E.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	ROSEMARY HOERNING, PUBLIC WORKS DIRECTOR
SUBJECT:	SAN ANTONIO WATER COMPANY STOCK AUCTION

RECOMMENDED ACTION

It is recommended that the City Council receive and file the report.

GOAL STATEMENT

The proposed action will support the City's goal to increase water rights holdings to ensure cost effective water supply is available for the community's benefit.

BACKGROUND

On October 9, 2018 the San Antonio Water Company (SAW Co.) held a Stock Auction. The auction consisted of 11 stocks, 10 each for 1/4 Share and 1 each at 1/2 Share. Upland submitted bids for all 11 stock offerings. The bids were publicly opened and Upland was the successful bidder on 9 of the sealed bid proposals. This action adds 2.5 shares of water to the City's existing shareholders ownership of 4,336.5 shares for a total of 4,339 shares owned. In addition to the stock owned, the City currently leases 173.5 shares. The company has issued 6,389 shares.

ISSUES/ANALYSIS

It is desirable to secure additional shares of water stock to increase access to local water supplies to reduce the City's dependence on imported water supply and to build operational flexibility with rights to varied water sources.

Acquisition of additional SAW Co. shares provides a perpetual right to future company water supplies. At this time, the entitlement 1 share = 1.73AF/share. These rights also increase the City's financial obligations associated with company water operations and infrastructure reinvestment.

FISCAL IMPACTS

The City was successful in 9 of the 11 stock certificate offerings resulting in an additional 2.5 shares of stock. The cost of acquiring these shares was $138,300. The stock purchase was made from the Water Fund (Fund 640).

The share entitlement right is in perpetuity under the company right holdings. Therefore, the financial investment rate of return will be eventually realized and surpassed. SAW Co. is one of the City's cheapest sources of water supply. For FY 2017-18 SAW Co. water cost the City approximately $350/AF. By contrast imported Metropolitan Water District water supply cost the City approximately $908/AF for the same period.

ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

No Attachments Available

STAFF REPORT

ITEM NO. 14.A.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	JEANNETTE VAGNOZZI, ASSISTANT CITY MANAGER LONDA BOCK-HELMS, FINANCE OFFICER
SUBJECT:	APPROVAL OF AGREEMENT WITH INFOSEND FOR UTILITY BILL PRINT MAIL AND ONLINE PAYMENT SERVICES

RECOMMENDED ACTION

It is recommended that the City Council approve an agreement with InfoSend, Inc., retroactively to July 1, 2018, to provide utility bill print, mail, and online payment services for the next three years with an option of an additional 24 month extension, and authorize the City Manager to execute the agreement.

GOAL STATEMENT

The proposed action supports the City's goal to provide fiscal oversight.

BACKGROUND

The City has contracted with InfoSend, Inc., for utility bill print, mail and online payment services since 2003. InfoSend performs the bi-weekly printing, mailing and insert services for City of Upland utility customers. InfoSend also provides a number of important on-line features via the City's website. Account access is available 24-hours a day. Customers can set up payments online that fit their personal preferences including making one-time payments or recurring payments. Customers can elect to go paperless and receive email notifications with an electronic version of their monthly statement and inserts. It was recently discovered that the most recent contract is expired.

ISSUES/ANALYSIS

Upland's utility customer service division is currently in the process of implementing the Munis Utility Billing software module, which is a major undertaking. Staff is requesting that Council approve a new contract with the existing vendor (InfoSend) in order to provide

consistent service during the software implementation period. Staff is also considering the impact to customers as a result of switching to a new utility billing provider. Changing to another provider would require that customers with online accounts (approximately 11,100) would need to re-establish their accounts via the new third party online payment system. This process would be an imposition to customers and very disruptive to staff during the utility billing software implementation.

The purchasing policy and the Upland Municipal Code provide for exceptions to the formal bidding process when competitive bidding has been completed by another government agency. Administrative Policy No. 214 section 7.d. states, "Prices quoted through a competitive bidding process by another public agency, including pricing from the California Multiple Award Schedule where the price to the City is equal to or better than the price to the public agency that completed the competitive bid process, may be used for purchasing supplies, vehicles, equipment, and services for use in the City, or may be used as one of the three required bids for competitive purchasing (UMC 2.48.080)."

In October of 2017, the City of Chino Hills issued a request for proposal (RFP) for utility bill print and mail services for approximately 23,000 bills monthly. Out of 5 respondents, InfoSend was determined to be the lowest responsible bidder.

In June of 2017, the City of Chino issued an RFP for utility bill print and mail services along with third party bill payment services. Two companies responded. The lowest bidder was Dataprose with an annualized cost savings of $2,169. The City of Chino elected to extend their contract with their existing service provider, InfoSend. Their justification was that the cost incurred by staff for the conversion to a new vendor would far out weigh the $2,169 they would save by contracting with the lowest bidder. In addition, they considered the impact to customers. Changing to another vendor would require their 10,200 customers with online accounts to re-establish their accounts via the new third party vendor.

Both bids provide rates that are comparable to the rates listed in the attached agreement. Staff is requesting that Council accept the results of the RFP process recently undertaken by the Cities of Chino and Chino Hills and authorize an agreement with InfoSend, Inc., for utility bill print and mailing services and third party payment processing services.

FISCAL IMPACTS

No additional appropriations are necessary as this is a regularly budgeted service. The total three-year contract price not to exceed $350,000 includes: the current annual cost of approximately $106,000; an annual CPI cost increase; an allowance for additional accounts resulting from new development and; postage increases.

ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

InfoSend Agreement
City of Chino Hills - InfoSend
City of Chino - InfoSend

InfoSend Service Agreement

This Agreement entered into as of _____ in Anaheim, California, by and between **InfoSend, Inc.** having its main office at 4240 E. La Palma Ave, Anaheim, California 92807 and **City of Upland**, "Client" having its main office at: 460 North Euclid Avenue, Upland, CA 91786. InfoSend's primary phone number is (714) 993-2690.

Section 1. Term of Agreement

The "Initial Term" of this Agreement shall be a period of thirty-six (36) months, with two automatic annual renewals commencing unless either party shall:

- Execute a mutually agreeable Agreement Amendment prior to the expiration of the current term that documents a different mutually agreeable renewal period length.
- Give written notice of non-renewal at least 60 days prior to the end of the current term. The party giving non-renewal notice can indicate if it prefers for the contract to be terminated at the end of the current term or for it to continue on a month-to-month basis if mutually agreeable to the other party. This notice must be sent in writing via certified mail, FedEx, UPS, all with delivery signature requested to cancel the automatic renewal of the Agreement for Renewal Period should a mutually agreeable Agreement Amendment not be signed before the end of the current term.

This Agreement automatically terminates any prior contracts, terms or agreements previously executed between InfoSend and Client to cover the same services contained in this Agreement, unless specifically referenced herein.

Section 2. InfoSend Services

Subject to the terms and conditions of this Agreement, InfoSend will provide to Client, and Client will purchase from InfoSend, the services listed in Exhibit A ("Scope of Primary Services") to this Agreement for the pricing set forth in Exhibit B ("InfoSend Fees"). In the event Client requires other consulting, installation, development and/or customization services, InfoSend shall perform and Client shall purchase such services in accordance with the provisions of Exhibit C ("Professional Services") of this Agreement.

Section 3. Termination

This Agreement and any future amendments to the Agreement may be terminated for cause as follows:

(a) If either party breaches any material term or condition of this Agreement, other than for Client's failure to pay and other than a failure to perform due to the causes described in Section 8, "Force Majeure," and fails either to substantially cure breach within thirty (30) days after receiving written notice specifying the breach, or, for those breaches which cannot reasonably be cured within thirty (30) days, to promptly commence curing such breach and thereafter proceed with all due diligence to substantially cure such breach, then the party not in breach may, by giving written notice to the breaching party, terminate this Agreement in its entirety, or as it pertains to a particular Product, Deliverable, Service or Professional Service, as of a date specified in such notice of termination. All of the obligations of the parties contained in this Agreement, except for Client's obligation to pay fees, shall be deemed to have been performed in an acceptable manner unless the party not in breach provides the breaching party with written notice as stated above within sixty (60) days of the event giving rise to the breach.

(b) If Client fails to pay when due any payables owed hereunder within thirty (30) days of receiving written notice of such failure to pay thereof, InfoSend may, at InfoSend's option, terminate this Agreement in its entirety or only as it pertains to a particular Product, Deliverable, Service or Professional Service, by giving written notice to Client, as of a date specified in such termination notice.

(c) In the event that either party hereto becomes or is declared insolvent or bankrupt, is the subject of any proceedings related to its liquidation, insolvency or for the appointment of a receiver or similar officer for it, makes an assignment for the benefit of all or substantially all of its creditors, or enters into an agreement for the composition, extension or readjustment of all or substantially all of its obligations, then the other party

hereto may, by giving written notice thereof to such party, terminate this Agreement as of the date specified in such notice of termination.

Upon termination of this Agreement or any portion hereof for any reason, all rights granted to Client under this Agreement with respect to terminated Products, Deliverables, Services and Professional Services, will cease and Client will promptly pay to InfoSend any and all charges due, including but not limited to payables that are due pursuant to this Agreement, the Discontinuance Fee set forth in Section 4 below and accrued finance charges; however, Client shall not be responsible for paying the Discontinuance Fee if this Agreement is terminated by InfoSend other than as a result of Client's breach of its obligations hereunder or is terminated by Client pursuant to Paragraph 3(a).

Section 4. Discontinuance Fee
Waived.

Section 5. Confidentiality of Information
All information and data relating to Client's business submitted by Client to InfoSend under this Agreement shall be treated as confidential by InfoSend and shall not, unless otherwise required by law, be disclosed to any third party by InfoSend without Client's written consent. InfoSend shall promptly notify Client should InfoSend be served with a summons, complaint, subpoena, notice of deposition, request for documents, interrogatories, requests for admission, or other discovery request or court order from any third party regarding this Agreement and/or the Services performed under this Agreement.

InfoSend takes great care in both data security and human resource security. InfoSend has a Human Resources policy that requires all new employees to pass a background check performed by an outside company. All new employees must pass a drug-screening test as well. These practices will remain in place for the duration of the Agreement.

Section 6. Limitation of Liability and Indemnification
InfoSend will not be responsible for actions or omissions resulting from receiving data and/or following instructions received from Client. No damages shall be assessed against InfoSend when any delay or breach on InfoSend's part is caused by failure of Client to perform Clients' responsibilities or any other reason beyond the control of InfoSend.

InfoSend is a service provider, as such; Client acknowledges that data processing involves the risk of human and machine errors that InfoSend shall not be liable for any errors, omissions, delays or losses. In no event shall InfoSend be liable for indirect, special or consequential damages even if InfoSend has been advised of the possibility of such potential claim, loss or damage. The foregoing limitation of liability and exclusion of certain damages shall apply regardless of the success or effectiveness of other remedies. Notwithstanding anything to the contrary contained herein, InfoSend shall not be responsible for delays in receipt of Client information or processing Client information because of causes beyond its reasonable control, including, without limitation, failures or limitations on the availability of third party telecommunications or other transmission facilities and Clients' failure to properly enter and/or transmit information.

Section 7. Invoicing and Payment
InfoSend will issue monthly invoices. Invoice terms are NET 15. Should Client dispute any invoiced charges it must do so in a reasonable time frame. Disputes must be made within 3 months of the invoice date. Past due invoices are subject to a 1.5% per month finance charge.

Client acknowledges that past due invoices must be paid in a timely fashion to avoid service interruptions. The recurring nature of InfoSend's services result in a rapid rise in the Client's account balance if Client's accounts payable process is delayed. This is especially true if InfoSend is invoicing client for postage charges. It is therefore necessary for InfoSend to put service on hold if past due account balances are not paid in a timely manner. The Past Due Accounts Receivable notes and procedures are outlined below:

- InfoSend is at significant risk of financial loss if clients default on their past due debt. InfoSend's Accounts Receivable staff must therefore constantly monitor past due account balances and evaluate the risk of a client defaulting on debt if courtesy emails and finance charges do not reduce this risk. InfoSend reserves

the right to reduce this risk by notifying Client's staff in writing that it must pay at least the portion of the account balance that is past due within five (5) days to avoid InfoSend's services being put on hold.

- Should a hold be instated it will immediately be removed once payment is received.
- Additionally, unpaid balances can result in cancellation of the agreement as per Section 3(b).

Section 8. Force Majeure

Neither party will be liable for any failure or delay in performing an obligation under this Agreement that is due to causes beyond its reasonable control, including, but not limited to, fire, explosion, epidemics, earthquake, lightning, failures or fluctuations in electrical power or telecommunications equipment, accidents, floods, acts of God, the elements, war, civil disturbances, acts of civil or military authorities or the public enemy, fuel or energy shortages, acts or omissions of any common carrier, strikes, labor disputes, regulatory restrictions, restraining orders or decrees of any court, changes in law or regulation or other acts of government authority, transportation stoppages or slowdowns or the inability to produce parts or materials. These causes will not excuse Client from paying accrued payables due to InfoSend through any available lawful means acceptable to InfoSend.

Section 9. Miscellaneous

The substantive laws of the state of California shall govern this Agreement. It constitutes the entire Agreement between the parties with respect to the subject matter hereof. No representations and agreements modifying or supplementing the terms of this Agreement will be valid unless in writing, signed by persons authorized to sign agreements on behalf of both parties. This Agreement is not intended to, and shall not be construed to, create or confer any right in or upon any person or entity not a party to it.

City of Upland		**InfoSend, Inc.**	
Name:	Bill R. Manis	Name:	
Title:	City Manager	Title:	
Signature:		Signature:	
Date:		Date:	

Exhibit A - Scope of InfoSend Primary Services

Client will select one or more of InfoSend's Primary Services from the list below by checking the box next to the Primary Service name. Any Primary Services not selected prior to the execution of this Agreement can be added at a later date via an Agreement Amendment. Optional Service Features can be turned on or off at any time without incurring a termination fee when turned off.

☑	Data Processing, Printing and Mailing Service ("DPPM Service"): During the term of this Agreement, InfoSend will provide data processing, printing and mailing services. The Service consists of processing data, printing documents, mail preparation, applying postage (where applicable) and sending via the United States Postal Service. Document types include but are not limited to bills, postcards and letters.
☑	InfoSend will provide eBusiness services (the "eBusiness Services"). During the term of this Agreement InfoSend can provide eBusiness Services. These services can include presenting bills online and/or accepting payment transaction information to facilitate ACH and/or credit card payments.

Section 1. Scope of DPPM Service:

Data Transfer and Processing

- Client to transmit data to InfoSend in an agreed upon format. Should Client make changes to data file format after initial setup is complete it agrees to pay for the professional services required to accommodate the new file format. See Exhibit C – Professional Services for information on initial setup and ongoing programming changes.

- A File Transfer Report will be emailed to the Client representatives who have opted-in to this email. A copy of this report is also available to download from the InfoSend website.

- Client will have access to an online Job Tracking application that shows the progress of each file as it is processed and becomes a batch of documents to be printed and mailed. Client can see both the original input file name and the InfoSend-assigned "Job Code".

- InfoSend will process the mailing addresses and perform the following functions:
    - Apply CASS-certified address validation
    - Comply with USPS requirements to obtain pre-sort automation rates
    - InfoSend will stay current with all USPS regulations required to mail presorted first class mail
- InfoSend will provide proofs of the final print-ready PDF files to Client to be reviewed and approved before printing begins (if requested).

Document Printing and Mailing

- Batches are printed by InfoSend using a high-speed production process onto the agreed upon forms.

- Printed documents are put through a quality control process and then released to the mailing department to be inserted into outgoing envelope. The return envelope and any applicable inserts are included as well.

- After a batch of mail is completed in InfoSend's system it will be marked as such in the online Job Tracker and a Process Confirmation Report will be emailed to the Client representatives who have opted-in to this email. A copy of this report is also available to download from the InfoSend website.

Section 2. Scope of eBusiness Services:

Online BillPay (EBPP)

- Fully featured EBPP service (Electronic Bill Presentment and Payment).
- Customers self-enroll for the service and create a username and password to securely access their eBills and make payments.
- Multiple payment options include checking/savings account (ACH), and credit/debit cards.
- Payment accounts are stored as a Payment Profile for easy repetitive use.
- Go Green! Eliminate paper bills and reduce the fuel used to deliver them with paperless billing.
- Customers can view their eBills and view the account balance before making a payment.
- Customer-activated AutoPay and other features.

Online QuickPay (No Enrollment)

- This service can be used in addition to Online BillPay or as a stand-alone offering.
- Online payment portal that customers can use to make credit/debit card or ACH payments, depending on your preferences.
- No enrollment is necessary for customers to use this service. Customers validate their account number by entering it and one other field that is present on their bill.
- All payments are initiated immediately. There are no saved Payment Profiles or scheduled payments. Customers view their account balance before making a payment.

CSRPay

- This service can be purchased as an optional addition to one of the above services.
- This service gives your CSRs the ability to take live payments over the phone or in person.

Exhibit B - InfoSend Fees

Section 1. Price Escalations to InfoSend Fees

InfoSend Fees can be adjusted once every twelve (12) months to account for increases in the cost of materials, labor, and other overhead costs. InfoSend reserves the right to increase InfoSend Fees on a yearly basis (starting with the first anniversary of the Agreement date). The Client will be notified, in writing, at least 30 days prior to such price increase. An amendment to this Agreement will not be required if the Fees are changed, unless the terms or conditions of the Agreement have changed. Price increases will be limited to California CPI, plus 1.5%. Postage fees can change at any time per USPS regulations and do not require an Agreement amendment.

Section 2. DPPM Fees:

Sales tax is not included. Any applicable sales tax will be collected per government regulations.

Cost of Materials		
Statement Paper Stock Cost 8.5x11", 24 pound paper stock with a micro-perforation.	$ 0.015	Per Sheet
Outgoing Envelope Cost Double window #10 envelope with security tint.	$ 0.017	Per Envelope
Return Envelope Cost Single window #9 envelope with security tint.	$ 0.015	Per Envelope
Flat Envelope Cost Applies only to multi-page bills that do not fit in the standard double window #10 envelopes.	$ 0.16	Per Envelope

Service Fees		
1 Page Bill Service Fee Includes file transmission, data processing, simplex black or black with one color bill printing, mail preparation (folding, inserting a 1-page bill and the return envelope into an outgoing envelope), and delivery to the USPS.	$ 0.071 for 4/1 color or 0.078 for 4/4	Per 1 Page Bill 4/1 means full color variable data on the front and black or grey on back. 4/4 means full color variable data on both front and back of the bill
Additional Bill Pages Service Fee Per-page cost to print and insert additional pages if the bill contains more than 1 page.	$ 0.071 for 4/1 color or 0.078 for 4/4	Per Additional Page
Shadow Billing Up to 3 months of shadow billing for budget-based rate structure	$ Same as base charges, plus programming charges to setup shadow billing program	Per 1 Page Bill

Optional Service $0.30 per Address Update, $0.01 per Drop Shipped Insert, $0.20 per mail piece for House Holding into oversize Flat Envelope	
Bill Design Changes	$ 150.00 per hour

Additional Optional Service: Print Image Archive service stores PDF bill images on InfoSend's servers for manual lookup via the infosend.com portal or third party application access via a secure API. Pricing is $0.012 for 12 months retention, $0.016 for 24 months retention, or $0.021 for 36 months retention. Paperless bills can optionally be included in the Print Image Archive as well, but then there is a $0.025 data processing and document composition charge in addition to the print and mail charge (this fee is not charged for printed bills as it's bundled in the Bill Service Fee).

Section 2.1. Custom Forms/Envelopes

If Client has selected the Printing and Mailing Service and at any time requests that InfoSend Fees include the cost of custom Client-specific materials (either in this Agreement or since its execution), then Client understands and accepts that these materials will be purchased in bulk to achieve the lowest possible per-unit cost. Client agrees to purchase any remaining supplies of requested custom materials (normally forms or envelopes) if Client stops using InfoSend's Service for any reason. Client agrees to purchase the remaining supply of custom forms/envelopes upon Client's request to change the custom forms/envelopes before the supply has been depleted.

Section 2.2. USPS Postage Rates

Postage rates are determined by the United States Postal Service. All postage rate changes are determined directly by USPS and are independent of any InfoSend service or materials fees. In no event shall any change in the postage rates affect the InfoSend service or materials fees. The Client will be invoiced the amount of excess for overweight and foreign mail.

Section 2.3. Postage Deposit

InfoSend purchases the postage needed to mail Client documents on the day of mailing. The postage charges are later invoiced to Client based on the Client's payment terms. InfoSend requires Client to submit a postage deposit prior to the first mailing to facilitate the payment terms. This amount will remain in deposit for the duration of the Agreement. Upon Agreement expiration or termination Client must pay in full any outstanding invoices from InfoSend for payables created under this Agreement; the postage deposit will be refunded within fifteen (15) days of the date that the last open invoice is paid.

The postage deposit is subject to an annual review and may be adjusted to account for changes to Client average mailing volume or changes to USPS postage rates. There will be no more than one adjustment requested per year, if at all.

The postage deposit amount is calculated by multiplying the estimated number mail pieces per month by the current 5-Digit pre-sorted first class postage rate. The postage deposit amount on hand for your account is $6,097.

Section 3. eBusiness Service Fees:

Service Fees		
Initial Set-up Costs: Online BillPay		
Online BillPay (EBPP) Upgrade Cost to Updated Version		Waived
QuickPay Initial Set-up Charge		Waived
SSTPay Intial Set-up Costs		Waived
Professional Services Fees	Hourly	$150.00
Pricing: Online BillPay (EBPP) Service		
eBill Loading and Storage Fee	Per eBill	$0.02
Per Enrolled Use Fee	Per User	$0.04
Payment Initiation and PCI Compliance Fee	Per Payment	$0.04
Monthly Support Fee	Per Month	$150.00
Pricing: QuickPay Service		
Pricing: Payment Initiation & PCI Compliance Fees	Per Payment	$0.04
Monthly Support Fee	Per Month	Waived
Monthly Support Fee and Setup Fee	Per Month	Waived
Pricing: CSRPay Monthly Service Fees		
Payment Initiation and PCI Compliance Fee	Per Payment	$0.04
Monthly Support Fee and Setup Fee	Per Month	$0.04

Exhibit C – Professional Services

Section 1. Price Escalations to InfoSend Professional Services Fees

InfoSend Professional Services Fees can be adjusted once every twelve (12) months to account for increases to the cost of providing these services. InfoSend reserves the right to increase Professional Services Fees on a yearly basis, starting with the first anniversary of the Agreement date, if needed. The Client will be notified, in writing, at least 30 days prior to such price increase. An amendment to this Agreement will not be required if the Professional Services Fees are changed, unless the terms or conditions of the Agreement have changed.

Section 2. Definition of Professional Services

InfoSend Professional Services are the technical services that are required to perform the initial setup of the InfoSend Primary Services defined in Exhibit A and the technical services required to make changes to these Primary Services after the initial setup is complete. Once any Primary Service is live and operational Professional Services will not be required unless Client requests a change or makes changes to its data file format or business rules which necessitates a change to InfoSend's system configuration or programming. Examples of InfoSend Professional Services:

- Project requirements gathering and analysis hours
- Project management and/or consulting hours
- Software development and system configuration hours related to the processing of Client's data
- Software development and system configuration hours related to document design, web portal setup, business rule configuration, or any other applicable technical services
- Application testing and deployment hours

Section 3. Professional Services Fee and Process for Approval and Payment of Fee

The current Professional Services Fee is **$150.00 per hour.**

Anytime a project will incur billable Professional Services hours Client will be informed before work begins. InfoSend and Client will execute a Statement of Work for project that Client wants InfoSend to undertake. The payment terms for the project depend on the size and scope of the project. The Statement of Work can include payment terms that are different than the terms listed in this Agreement for InfoSend Fees, otherwise these terms will apply and the project fees will be invoiced upon project completion. Small projects that incur less than five (5) hours of Professional Services can be initiated without a Statement of Work if Client accepts and executes a Programming Quote for this work.

All projects that will take more than five (5) hours of Professional Services work will require both parties execute a formal Statement of Work. Depending on the nature of the work required InfoSend will provide one of the following quotation methods:

- Fixed Quote – a fixed project cost will be set. InfoSend may elect to waive this cost in some circumstances. Client understands and accepts that it must accept the terms and conditions of the Statement of Work for the project and that changes made to the project requirements, data file structure, etc. after the Statement of Work and any amendments to it have been finalized will require Client to pay for these changes on a Time and Materials basis. Client will be notified immediately if this scenario happens and given an option to keep the original project specifications to keep the fixed quote in place.

- Time and Materials quote – should it not be possible to provide a fixed quote due to the nature of a Client's requested project then InfoSend will provide an estimated number of hours to complete the project and bill the hours on a Time and Materials basis. The Statement of Work will include the terms and conditions for these project types and Client will be invoiced weekly for the hours spent on the project.

COUNCIL AGENDA STAFF REPORT

TO:	HONORABLE MAYOR AND CITY COUNCIL MEMBERS	DATE:	JANUARY 23, 2018
FROM:	CITY MANAGER	ITEM NO:	14
SUBJECT:	BILL, PRINT AND MAIL SERVICES		

RECOMMENDATION:
Authorize the execution of a three-year agreement with two, one-year renewal options with Infosend, Inc., to provide bill, print and mail services in an amount not-to-exceed $785,000.

BACKGROUND/ANALYSIS:
Currently, utility bill print and design services are provided by Infosend, Inc. The City electronically receives the bill print file and City staff prints the bills. The printed bills are picked-up at City Hall by County staff to stuff into envelopes and mail. Since the City is currently implementing new utility billing software, many of the processes related to utility billing are being evaluated and revised to be more efficient and cost effective.

On October 19, 2017, the City issued a Request for Proposal for Utility Bill Print and Mail Services. On November 9, 2017, five proposals were received and evaluated by Finance staff based on the scope of work, company background/experience, staff qualifications and experience, reporting, and cost effectiveness. On December 4, 2017, City staff invited the top two respondents to participate in an interview process. As a result, it was determined that consolidating the bill, print and mail function under one vendor would save the City approximately $30,000 annually.

Staff is recommending the use of Infosend, Inc., to generate, print and mail the utility bills on behalf of the City. The not-to-exceed amount of $785,000 is based on approximately 23,000 bills processed monthly and includes Infosend's cost for materials and labor along with postage.

ENVIRONMENTAL (CEQA) REVIEW:
This proposed action is exempt from review under the California Environmental Quality Act (California Public Resources Code §§ 21000, et seq.; "CEQA") and CEQA regulations (14 California Code Regulations §§ 15000, et seq.) because it does not involve any commitment to a specific project which could result in a potentially significant physical impact on the environment; and constitutes an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. Accordingly, this action does not constitute a "project" that requires environmental review (see specifically 14 CCR § 15378(b)(4-5)).

FISCAL IMPACT:
There is sufficient funding in the Finance - Utility Customer Service operating budget to cover the Infosend, Inc., contract for bill, print and mail services for fiscal year 2017/18. Future contract costs will be budgeted for in the appropriate fiscal year.

REVIEWED BY OTHERS:
None.

Respectfully Submitted,

Konradt Bartlam
City Manager

Recommended By:

Christa Buhagiar
Finance Director

Attachments Agreement

Exhibit A
Scope of Services

Data Transfer and Processing

- Client to transmit data to InfoSend in an agreed upon format. Should Client make changes to data file format after initial setup is complete it agrees to pay for the professional services required to accommodate the new file format.

- A File Transfer Report will be emailed to the Client representatives who have opted-in to this email. A copy of this report is also available to download from the InfoSend website.

- Client will have access to an online Job Tracking application that shows the progress of each file as it is processed and becomes a batch of documents to be printed and mailed. Client can see both the original input file name and the InfoSend-assigned "Job Code".

- InfoSend will process the mailing addresses and perform the following functions:
    - Apply CASS-certified address validation
    - Comply with USPS requirements to obtain pre-sort automation rates
    - InfoSend will stay current with all USPS regulations required to mail presorted first class mail
- InfoSend will provide proofs of the final print-ready PDF files to Client to be reviewed and approved before printing begins (if requested).

Document Printing and Mailing

- Batches are printed by InfoSend using a high-speed production process onto the agreed upon forms.

- Printed documents are put through a quality control process and then released to the mailing department to be inserted into outgoing envelope. The return envelope and any applicable inserts are included as well.

- After a batch of mail is completed in InfoSend's system it will be marked as such in the online Job Tracker and a Process Confirmation Report will be emailed to the Client representatives who have opted-in to this email. A copy of this report is also available to download from the InfoSend website.

Exhibit B
Pricing

Single Page Mail Piece Summary - Letter Size Statements			
Single Mail Piece Summary	**Non-Materials Service Fee:** Processing of your unique data, PDF creation, CASS address validation, presorting, color duplex printing, folding, and mail insertion. **Assumes 4 color printing on the front of the page and 1 color printing on the back of the page.**	Per page	$0.056
	Paper Stock: InfoSend Standard blank white 8.5" x 11" perforated paper.	Per sheet	$0.014
	Outgoing Envelope: InfoSend Standard blank #10 Double Window Outgoing Envelope.	Each	$0.016
	Return Envelope: InfoSend Standard blank #9 Single Window Remit Envelope.	Each	$0.014
	Total per mail piece without postage	Each	**$0.10**
	Estimated Postage: Price for qualified mail pieces which earn the Full Service intelligent mail USPS discount. Not all mail pieces will qualify for lowest discount. Subject to USPS mandated changes.	Each	$0.378
	Total per mail piece with estimated postage	**Each**	**$0.478**

Set-up Fee - DPPM

InfoSend's Fees – Initial Set-up Costs Implementation, professional services, and optional services fees.		
Professional Services Fees	**InfoSend has already implemented the City's data processing, so there are no setup costs for the SunGard implementation. InfoSend also offers the City a NO COST conversion to the Tyler Munis platform when the City makes that change.** **Option 1 - Express PDF Implementation: Waived** With this option you control the formatting of your documents and do not pay maintenance fees. **Option 2 - Data-Only (e.g. flat files, XML) Implementation: Waived** When this option is selected InfoSend creates, hosts and maintains an application to generate your bills. Your current document design will be matched. Please note that data manipulations are not part of the standard offering. **Document Redesign Service: Waived** We will assist you in redesigning the format of your printed documents if needed. We will become responsible for later changing the format of the documents, if needed (Professional Services Fees will apply for future changes. Please note that Clients must sign off on requirements documents (Statement of Work, project plan, etc.) before programming and system configuration can begin. Client can be charged additional fees and/or have the project go-live date delayed if requirements are changed after they have been finalized and signed off.	
	Professional Services Fee Per hour and performed only upon request. For customizations made to your data processing application after go-live. Work is only started after receiving your approval of a formal quote.	**Per Hour** $150

Pricing: **Data Processing, Print & Mail Service Fees**

InfoSend's Fees – Turnkey Data Processing, Print & Mail Service:
The individual prices shown in the table below apply only to the turnkey Data Processing Print & Mail service for the following document types. Other types of document printing and or mailing can be quoted later, if needed.

		Per Item	Options Below:
Primary Services	**Turnkey Data Processing Print & Mail service** Price is per physical page. Includes processing of your unique data, CASS address validation, presorting, printing, and mail insertion. Finished mail pieces are delivered to the USPS **within one (1) business day.** If samples (proofs) are requested then the mailing will be completed within one day of sample approval. File upload deadline for next-day mailing is 3:00PM local time at the production facility designated for your account. If samples are required then they must be approved by 5:30PM for the file to be mailed by the next business day. Excludes materials, sales tax (where applicable), and postage. A postage deposit will be required prior to go live. For the quoted prices to apply InfoSend must have the right to combine data files sent by your organization with other files you have sent, when possible. Higher pricing	**All Utility Bills and Notices** (Per Sheet) Est. Volume 30,000 documents/month Multiple Batches/month Different options are available at different prices. Numbers fewer than 4 equal individual colors, 4 equals full color. The number 1 means black or grey. All sheets are billed at the same rate; the price for the sheet with the highest number of colors is the applicable fee. **4 equals CMYK (full color).** Up to 4/1 Printing 4/4 Printing	 $0.056 $0.061
		Inline Inserts (Per Sheet) Price for inserts printed on demand as additional pages	$0.041 or $0.046 based on above selected color option
		Multiple Page Mail Piece Surcharge – Handwork This surcharge is assessed per mail piece (not per page). This surcharge only applies to multiple page bills that have too many pages to be inserted into the #10 envelope by machine. This surcharge covers the necessary manual labor required to process these mail pieces.	$0.35
		Postage (for all job types) You will be invoiced for the exact postage used. You must use one of the two USPS approved Move Update methods to get the presort discounts:	Pass Through

	applies if files must be printed separately.	**Electronic Address Updates – NCOALink or ACS** Per reported update. InfoSend electronically reports the addresses it received in your data that need to be updated because the customer filed a Change of Address Report with the USPS. Cost is per update.	$0.35

Material Component Fees – Data Processing Print & Mail Service

These material prices only apply if InfoSend is printing and mailing your documents. The use of InfoSend's printing service requires the use of InfoSend's paper stock. And the use of InfoSend's mailing service requires the use of InfoSend's envelopes.

	Forms		
	All Documents: 8.5x11" white paper stock with or without perforation. Paper is 8.5x11" and 24lb. Price includes all inventory costs.	Per Sheet	$0.014
Materials	**InfoSend Standard Window Envelopes**		
	Standard Window Envelopes These envelopes include security tint printed on the inside of the paper stock and clear film that prevent the contents of the envelope from being viewed. These envelopes also use sustainably logged paper (SFI). 30% post-consumer recycled paper stock is available for $0.004 additional per piece.	**Per Standard Envelope**	**Options Below:**
		#10 InfoSend Standard Double Window Outgoing	$0.016
		#9 InfoSend Standard Single Window Return Envelope	$0.014
	Other Envelopes		
	Flat Single Window Envelope – only used for multiple page statements that do not fit in the #10 envelope.	Per Flat Envelope	$0.16
	Custom #10 Envelope – City's Current Poly Window 24# White Wove	Per Envelope	$0.021
	Custom #9 Envelope – City's Current 24# Blue Wove	Per Envelope	$0.022

Pricing: Optional Services

	Drop-Shipped Inserts & Inserting of InfoSend-Printed Inserts Clients can print and fold inserts and ship them to InfoSend to be mailed with the statements. If folding is required add $0.01 to the fee. InfoSend-printed inserts are quoted upon request. No additional service cost to use selective inserting to selectively include inserts with certain bill types as long as at least 3,000 customers are targeted (set-up costs can apply in some situations for advanced selective inserting criteria). Cost includes all inventory costs. Additionally, we can add PDF images of each insert to both the Print Image Archive (which is priced below) and to the eBill files that are used by the EBPP system for an additional cost of $0.002 per insert.	Per Insert	$0.01
	Print Image Archive Each bill is stored as a PDF and indexed in a database. Search by account number or other key fields. You are charged one up-front fee per document to process it, index it, and store it for a set number of months.	Per PDF (No Set-up Fee)	$0.01 - For 12 Months of Retention $0.014 - For 18 Months of Retention $0.018 - For 24 Months of Retention
	Professional Services Per hour and performed only upon request. For customizations made to document processing program or document format after go-live. Work is only started after receiving your approval of a formal quote.	Per Hour	$150.00

MEMORANDUM
CITY OF CHINO
FINANCE DEPARTMENT

COUNCIL MEETING DATE: JUNE 20, 2017

TO: MATTHEW C. BALLANTYNE, CITY MANAGER

FROM: ROB BURNS, DIRECTOR OF FINANCE

SUBJECT: AWARD A PROFESSIONAL SERVICES AGREEMENT TO INFOSEND INC..

RECOMMENDATION

Award a Professional Services Agreement with InfoSend, Inc., Anaheim, CA for utility billing and on-line payment services for an estimated amount of $135,000 annually (approximately $45,000 for vendor services and $90,000 for postage), and authorize the City Manager to execute all necessary documents on behalf of the City.

FISCAL IMPACT

Sufficient funds are available in the Proposed FY17-18 Budget.

Revenue: 5403120-43650, 5503130-43650	Expenditure: 5203100-43650, 5303110-43650,
Transfer In:	Transfer Out:

BACKGROUND

The City of Chino has utilized InfoSend, Inc. (InfoSend), located in Anaheim, CA since 2005. InfoSend performs the weekly printing and mailing service for Chino's utility billing function. InfoSend also provides a number of important on-line features for Chino utility customers. One of these features is the City's secure website. This website allows Chino customers to view and process account information and transactions 24 hours a day. Customers can set up payments on-line that fit their personal preferences, such as making one-time payments or establish reoccurring payment arrangements. Additionally, customers can elect to go paperless and receive email notifications with an electronic version of their monthly statement. This option saves resources such as paper and postage. The City entered into a contract with InfoSend which expires June 30, 2017.

ISSUES/ANALYSIS

Finance staff compiled a comprehensive list of utility billing service requirements and prepared an RFP for these services. Upon completion, the RFP was distributed via PlanetBids. The City received two responses to the RFP. The RFP's were reviewed by Finance staff and results are as follows:

Company	Location	Bill Printing	Third Party Bill Payment Services	Total Annual Cost
Dataprose	Coppell, TX	$25,559	$70,291	$95,850
InfoSend, Inc.	Anaheim, CA	$42,048	$55,971	$98,019

The RFP required the company to provide bill printing and online payment services to the City of Chino. Because Dataprose does not offer an in-house solution for bill payment services, their bid proposed the use of a third party for these services. Therefore, the table above represents the total cost for bill printing and on-line payment services. InfoSend's bill printing costs are more because InfoSend performs some the services that would be provided by the third party under the Dataprose proposal.

Based on an annualized estimated volume of transactions, Dataprose presented the lowest cost at $2,169 less than InfoSend for bill printing, and on-line payment services.

In addition to cost, several other important features were analyzed to determine which company could provide the best overall services to Chino's customers. As the annual cost for bill printing and on-line payment services was essentially the same for each company, staff focused on the bill payment services offered by each company. Staff evaluated the bill payment systems of each company noting that each company has similar features, except that only InfoSend could fully integrate with the City's web page.

Staff also considered the impact to the customers as a result of switching to a new utility billing provider. Changing to Dataprose would require that customers with online accounts (approximately 10,200) would need to re-establish their accounts via the new third party online payment system. This process would be very disruptive to customers and staff during a transition process.

Based on a review of the overall proposals of both Dataprose and InfoSend, it is staff's recommendation that InfoSend be selected to continue providing utility billing and payment services for the City of Chino. While Dataprose has a slightly lower cost, this cost difference is

not enough to offset InfoSend's current expertise and experience in providing this service, and the impact to existing customers in switching to a new service provider.

Finally, the City incurs the cost of postage for mailing all utility bills. InfoSend pays this expense when the bills are mailed and then passes this cost on to the City, with no mark-up, during the invoicing process. Therefore, the contract with InfoSend will include an additional $90,000 for the postage pass-through expenses.

Based on the above, staff recommends that the City Council approve a one year contract with InfoSend, Inc. with two additional one-year extension options, which includes the pass-through postage costs.

RB:hm

EXHIBIT 2

EXHIBIT 1
COMPENSATION SCHEDULE

Initial and Ongoing Professional Services Fees		
One-Time Implementation Fee Includes all phases of the project prior to the production phase: initial programming, testing, and implementation.	$ N/A, already live	One-Time Fee
Professional Services Charges For requested programming changes after initial implementation.	$ 150.00	Per Hour

Cost of Materials		
Statement Paper Stock Cost 8.5x11", 24 pound paper stock with a micro-perforation.	$ 0.015	Per Sheet
Outgoing Envelope Cost Double window #10 envelope with security tint.	$ 0.017	Per Envelope
Return Envelope Cost Single window #9 envelope with security tint.	$ 0.015	Per Envelope
Flat Envelope Cost Applies only to multi-page bills that do not fit in the standard double window #10 envelopes.	$ 0.16	Per Envelope

Service Fees		
1 Page Bill Service Fee Includes file transmission, data processing, simplex black or black with one color bill printing, mail preparation (folding, inserting a 1-page bill and the return envelope into an outgoing envelope), and delivery to the USPS.	$ 0.071 for 4/1 color or 0.078 for 4/4	Per 1 Page Bill 4/1 means full color variable data on the front and black or grey on back, 4/4 means full color variable data on both front and back of the bill
Additional Bill Pages Service Fee Per-page cost to print and insert additional pages if the bill contains more than 1 page.	$ 0.071 for 4/1 color or 0.078 for 4/4	Per Additional Page
Shadow Billing Up to 3 months of shadow billing for budget-based rate structure	$ Same as base charges, plus programming charges to setup shadow billing program	Per 1 Page Bill

Optional Service $0.30 per Address Update, $0.01 per Drop Shipped Insert, $0.20 per mail piece for House Holding into oversize Flat Envelope	
Bill Design Changes	$ 150.00 per hour

Additional Optional Service: Print Image Archive service stores PDF bill images on InfoSend's servers for manual lookup via the infosend.com portal or third party application access via a secure API. Pricing is $0.012 for 12 months retention, $0.016 for 24 months retention, or $0.021 for 36 months retention. Paperless bills can optionally be included in the Print Image Archive as well, but then there is a $0.025 data processing and document composition charge in addition to the print and mail charge (this fee is not charged for printed bills as it's bundled in the Bill Service Fee).

EXHIBIT TWO
SUPPLEMENTAL FEE SCHEDULE

Service Fees		
Initial Set-up Costs: Online BillPay		
Online BillPay (EBPP) Upgrade Cost to Updated Version		Waived
QuickPay Initial Set-up Charge		Waived
SSTPay Intial Set-up Costs		Waived
Professional Services Fees	**Hourly**	$150.00
Pricing: Online BillPay (EBPP) Service		
eBill Loading and Storage Fee	Per eBill	$0.02
Per Enrolled Use Fee	Per User	$0.04
Payment Initiation and PCI Compliance Fee	Per Payment	$0.04
Monthly Support Fee	Per Month	$150.00
Pricing: QuickPay Service		
Pricing: Payment Initiation & PCI Compliance Fees	Per Payment	$0.04
Monthly Support Fee	Per Month	Waived
Monthly Support Fee and Setup Fee	Per Month	Waived
Pricing: CSRPay Monthly Service Fees		
Payment Initiation and PCI Compliance Fee	Per Payment	$0.04
Monthly Support Fee and Setup Fee	Per Month	$0.04

STAFF REPORT

ITEM NO. 14.B.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	STEVEN H. DUKETT, DEVELOPMENT SERVICES CONSULTANT DOUG ANDERSON, FINANCIAL ADVISOR
SUBJECT:	ISSUANCE OF SPECIAL TAX BONDS FOR COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND), IMPROVEMENT AREA NO. 1

RECOMMENDED ACTION

It is recommended that the City Council, acting as legislative body of Community Facilities District No. 2016-1 (Harvest at Upland) adopt a resolution to authorize the issuance of its Special Tax Bonds, Series 2018 (Improvement Area No. 1), and approving certain documents and taking certain other actions in connection therewith.

GOAL STATEMENT

The proposed action supports the City's goal of providing sound fiscal stewardship and providing decent housing, a suitable living environment and expanded economic opportunities for residents.

BACKGROUND

Community Facilities District No. 2016-1 (the "District") was formed and established by the City on June 27, 2016 following a public hearing by the City Council, as legislative body of the District, and a landowner election which authorized the incurrence of bonded indebtedness and approved the levy of special taxes. Improvement Area No. 1 of the District is authorized to issue bonds in an aggregate principal amount not to exceed $10,000,000.

ISSUES/ANALYSIS

The proposed Special Tax Bonds (the "2018 Bonds") will be issued to finance certain public facilities and certain development impact fees of the City of Upland relating to public facility

improvements serving property within Improvement Area No. 1 of the District, fund a reserve fund, and pay for bond issuance costs. The special taxes will be levied by the District and collected by the San Bernardino County Treasurer-Tax Collector on taxable parcels within Improvement Area No. 1 of the District in the same manner and at the same time as ad valorem property taxes. The repayment of principal and interest on the 2018 Bonds will be secured solely by the special taxes levied within Improvement Area No. 1 of the District, and the 2018 Bonds will not be a debt of the City's general fund.

The 2018 Bonds will have a 30-year term and will be issued in two series (Series A on a tax-exempt basis, and Series B on a taxable basis) with a total estimated principal amount of approximately $7.94 million, with annual debt service payments of approximately $513,000 per year. In furtherance of Section VIII of the City's Land Secured Financing Policy, debt service on the 2018 Bonds will be structured so that the annual special taxes (less an amount of $20,000 for the District's annual administrative expenses and based on the maximum special taxes authorized in the formation proceedings for Improvement Area No. 1) are projected to provide 110 percent debt service coverage for the 2018 Bonds in all years. The final repayment schedule will be determined when the 2018 Bonds are priced and final interest rates are determined, which is expected to occur by the third week of October. The estimated closing date and distribution of proceeds would occur by the second week of November.

Summary of Documents

1. Preliminary Official Statement – this is the District's offering document that will be presented to potential investors in the 2018 Bonds, and includes information about the City and the District, as well as a summary of the terms and payment obligations of the District for the 2018 Bonds and disclosure to investors about the risks of investing in the 2018 Bonds. The final interest rates and terms will be inserted after the 2018 Bonds are priced.
2. Bond Indenture - this document defines the payment terms and conditions, and funds and accounts of the 2018 Bonds which will be administered by the Trustee, U.S. Bank N.A., on behalf of the District, including the debt service Reserve Account.
3. Bond Purchase Agreement - this document provides the terms and conditions by which the Underwriter, Hilltop Securities Inc., will purchase the 2018 Bonds. The final interest rates and terms will be inserted after the 2018 Bonds are priced.
4. Continuing Disclosure Agreement - the Disclosure Agreement defines the City's obligation to provide annual updates of information related to the District and the special tax revenues, for the benefit of the Bondholders and other interested parties, pursuant to federal regulations.

FISCAL IMPACTS

The proposed 2018 Bonds are limited obligations of the City payable solely from the special taxes collected in the District, and are not a debt of the City's General Fund. All costs of issuance on the 2018 Bonds will be paid from net bond proceeds.

The following are the good faith estimates from the City's underwriter and financial advisor pursuant to SB 450 (effective, January 1, 2018):

i) The true interest cost of the Bonds is estimated at 4.52% per annum;

ii) The finance charge of the Bonds (i.e., the sum of all fees and charges paid to third parties) is estimated to be $324,400;

iii) Proceeds from the sale of the Bonds, less the finance charge of the Bonds described in item (B) and any reserves paid or funded with proceeds fo the Bonds, are estimated to be $7,556,997; and

iv) The total payment amount (i.e., the sum total of all debt service payments on the Bonds) is estimated to be $15,273,767.

ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

Resolution
Preliminary Official Statement
Bond Indenture
Bond Purchase Agreement
Continuing Disclosure Agreement

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF UPLAND, CALIFORNIA, ACTING AS LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, TO AUTHORIZE THE ISSUANCE OF ITS SPECIAL TAX BONDS, SERIES 2018 (IMPROVEMENT AREA NO. 1), AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

Intent of the Parties and Findings

(i) In 2016, the City Council (the "City Council", and hereinafter sometimes referred to also as the "legislative body of the District") of the City of Upland, California (the "City"), has heretofore undertaken proceedings and declared the necessity of Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "District") to issue bonds with respect to Improvement Area No. 1 designated therein, pursuant to the terms and provisions of the 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

(ii) Based upon Resolution Nos. 6340 and 6342 adopted by the legislative body of the District on June 27, 2016 and an election held on June 27, 2016 authorizing the levy of a special tax and the issuance of bonds by Improvement Area No. 1 of the District, Improvement Area No. 1 of the District is authorized to issue bonds for one or more series, pursuant to the Act, in an aggregate principal amount not to exceed $10,000,000; and

(iii) At this time, the legislative body of the District desires to issue all or a portion of such authorized bonds for Improvement Area No. 1 of the District under the Act to finance certain public facilities which Improvement Area No. 1 of the District is authorized to finance, and the District desires to accomplish the financing of such public facilities to serve Improvement Area No. 1 of the District through the issuance of bonds up to an aggregate principal amount not to exceed $10,000,000 to be designated as the "Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Series 2018 (Improvement Area No. 1)" (the "Bonds"); and

(iv) In order to effect the issuance of the Bonds, the City Council, as the legislative body of the District, desires to approve the form of a Preliminary Official Statement for the Bonds and to approve the forms of, and authorize the execution and delivery of, a Bond Indenture, a Bond Purchase Agreement, and a Continuing Disclosure Agreement for the Bonds, the forms of which are on file with the City Clerk; and

(v) The legislative body of the District has determined that it is prudent in the management of its fiscal affairs to issue the Bonds; and

(vi) The value of the real property in Improvement Area No. 1 of the District subject to the special tax to pay debt service on the Bonds is not less than three times the principal amount of the Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within Improvement Area No. 1 of the District, which fact is required as a precondition to the issuance of the Bonds; and

(vii) On June 26, 2017, the City Council approved a local debt policy (the "Local Debt Policy") in furtherance of Section 8855(i) of the California Government Code, as amended by SB 1029, enacted as Chapter 307, Statutes of 2016.

NOW, THEREFORE, the City Council of the City of Upland, Acting as the Legislative Body of the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, hereby finds, determines and resolves as follows:

Section 1. The above recitals, and each of them, are true and correct.

Section 2. The legislative body of the District hereby determines that (a) the Local Debt Policy is consistent with the requirements of Government Code Section 8855(i), and (b) the proposed Bonds to be issued in accordance with the parameters set forth in this Resolution are consistent with the Local Debt Policy.

Section 3. The legislative body of the District hereby finds and determines that, as determined in accordance with Section 53345.8 of the Act and as required by the City of Upland amended and restated policies adopted on October 22, 2018 pursuant to Section 53312.7 of the Act (the "Mello-Roos Goals and Policies"), the value of the real property in Improvement Area No. 1 of the District subject to the special tax to pay debt service on the Bonds is not less than three times the principal amount of the Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within Improvement Area No. 1 of the District. This determination is based on the value of the real property within Improvement Area No. 1 of the District in an appraisal prepared for the District, which appraisal has been made in a manner consistent with the Mello-Roos Goals and Policies.

Section 4. The issuance of the Bonds in an aggregate principal amount not to exceed $10,000,000 is hereby authorized, with the exact principal amount of the Bonds to be determined by the official signing the Bond Purchase Agreement in accordance with Section 7 below. The Bonds may be issued as a single issue, or as separate series, as determined by the City Manager in consultation with Bond Counsel to comply with applicable tax law. The legislative body of the District hereby determines that it is prudent in the management of its fiscal affairs to issue the Bonds. The Bonds shall mature on the dates and pay interest at the rates set forth in the Bond Purchase Agreement to be executed on behalf of the District in accordance with Section 7 hereof. The Bonds shall be governed by the terms and conditions of the Bond Indenture presented at this meeting, on file with the City Clerk and incorporated herein by reference (the "Indenture"). The Indenture shall be executed by the Mayor of the City of Upland (the "Mayor"), or in the absence of the Mayor, the Mayor Pro Tem of the City of Upland (the "Mayor Pro Tem"), or the City Manager of the City of Upland (the "City Manager", and collectively with the Mayor and the Mayor Pro Tem, the "Authorized Officers") in substantially the form presented at this meeting, with such additions thereto and changes therein as may be approved by such officer upon consultation with Richards, Watson & Gershon, A Professional Corporation ("Bond Counsel"). Approval of such changes shall be conclusively evidenced by the execution and delivery of the Indenture by any one of the Authorized Officers. The date or dates, maturity or maturities, pledge or assignment of any revenues of Improvement Area No. 1 of the District to the repayment of the Bonds, the manner of investment of any bond proceeds and other revenues, manner of payment, interest rate or rates, interest payment dates, denominations, form, registration privileges, manner of execution, place of payment, terms of redemption, rebate provisions, funds designated to pay the costs of issuance of the Bonds, and other terms of the Bonds shall be as provided in the Indenture as finally executed and shall be in conformance with any such terms set forth in the Bond Purchase Agreement described in Section 7 below and Official Statement described in Section 8 below and delivered to the purchasers of the Bonds. Capitalized terms used in this Resolution which are not defined herein have the meanings ascribed to them in the Indenture.

Section 5. The Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Mayor and the seal of the District or the City of Upland, or a facsimile thereof may be impressed or imprinted thereon and attested with the manual or facsimile signature of the City Clerk. U.S. Bank National Association is hereby appointed to act as trustee for the Bonds.

Section 6. Pursuant to Section 53356.1 of the Act, the legislative body of the District hereby covenants, for the benefit of the Bondowners, to commence and diligently pursue any foreclosure action regarding delinquent installments of any amount levied as a special tax for the payment of interest or principal of the Bonds, such foreclosure action to be commenced and pursued as more completely set forth in the Indenture.

Section 7. The form of the Bond Purchase Agreement by and between the District and Hilltop Securities Inc. (the "Underwriter") presented at this meeting, on file with the City Clerk and incorporated herein by reference (the "Bond Purchase Agreement"), is hereby approved, and any one of the Authorized Officers is hereby authorized to execute the Bond Purchase Agreement in substantially the form hereby approved, with such additions thereto and changes therein as may be approved by such officer upon consultation with Bond Counsel. Approval of such additions and changes shall be conclusively evidenced by the execution and delivery of the Bond Purchase Agreement; provided, however, that the Bond Purchase Agreement shall be signed only if the Bonds are purchased by the Underwriter at an overall interest rate that does not exceed 5.00% per annum for the issue as a whole (calculated utilizing the true interest cost method) and the discount paid to the Underwriter (exclusive of original issue discount) does not exceed 1.30% of the principal amount of the Bonds. The legislative body of the District hereby finds and determines, pursuant to Section 53360.4 of the Act, that the sale of the Bonds at a negotiated sale to the Underwriter, as contemplated by the Bond Purchase Agreement, will result in a lower overall cost than a public sale. Each of the Authorized Officers is authorized to determine the day on which the Bonds are to be priced in order to attempt to produce the lowest borrowing cost for the District and may reject any terms presented by the Underwriter if determined not to be in the best interest of the District.

Section 8. The form of the Preliminary Official Statement presented at this meeting, on file with the City Clerk and incorporated herein by reference (the "Preliminary Official Statement") is hereby approved, and the Underwriter is hereby authorized to distribute the Preliminary Official Statement to prospective purchasers of the Bonds in substantially the form hereby approved, together with such additions thereto and changes therein as are determined necessary by any one of the Authorized Officers, upon consultation with Bond Counsel and Disclosure Counsel, to make the Preliminary Official Statement final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 of the Securities and Exchange Commission, including, but not limited to, such additions and changes as are necessary to make all information set forth therein accurate and not misleading. Each of the Authorized Officers is hereby authorized to execute a final Official Statement in substantially the form of the Preliminary Official Statement, together with such changes as are determined necessary by the Authorized Officer executing the Official Statement to make such Official Statement complete and accurate as of its date. The Underwriter is further authorized to distribute the final Official Statement for the Bonds and any supplement thereto to the purchasers thereof upon its execution on behalf of the District as described above.

Section 9. The form of the Continuing Disclosure Agreement presented at this meeting, on file with the City Clerk and incorporated herein by reference (the "Continuing Disclosure Agreement"), is hereby approved, and any one of the Authorized Officers is hereby authorized and directed to execute the Continuing Disclosure Agreement in substantially the

form hereby approved, with such additions therein and changes thereto as the Authorized Officer or Authorized Officers executing the same deem necessary to cure any defect or ambiguity therein if such change does not materially alter the substance or content thereof, with such approval to be conclusively evidenced by the execution and delivery of the Continuing Disclosure Agreement.

Section 10. All actions heretofore taken by the Mayor, the Mayor Pro Tem, the City Manager, the Development Services Director, the Finance Officer, the Public Works Director, and other officers and agents of the City of Upland and the District with respect to the issuance and sale of the Bonds, or in connection with or related to any of the agreements or documents referenced herein are hereby approved, confirmed, and ratified. The Mayor, each of the Authorized Officers, the Development Services Director, the Finance Officer, the Public Works Director, and other officers and staff of the City of Upland and the District responsible for the fiscal affairs of the District are hereby authorized and directed to take any actions, and execute and deliver any and all documents as are necessary to accomplish (a) the issuance, sale and delivery of the Bonds in accordance with the provisions of this Resolution, (b) the transactions contemplated by the Indenture, the Bond Purchase Agreement, and the Continuing Disclosure Agreement, and (c) the fulfillment of the purposes of the Bonds as described in the Indenture, including, but not limited to, providing certificates as to the accuracy of any information relating to the District which is included in the Official Statement. In the event that the Mayor is unavailable to sign any document authorized for execution herein, any Authorized Officer may sign such document. Any document authorized herein to be signed by the City Clerk may be signed by a duly appointed deputy clerk.

Section 11. This Resolution shall take effect immediately upon its adoption.

Section 12. The City Clerk shall certify to the passage and adoption of this resolution and enter it into the book of original resolutions.

PASSED, APPROVED and ADOPTED this 22nd day of October, 2018.

_____
Debbie Stone, Mayor

I, Jeannette Vagnozzi, City Clerk of the City of Upland, do hereby certify that the foregoing Resolution was adopted at a regular meeting of the City Council held on the 22nd day of October, 2018, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAINED:

ATTEST: _____
Jeannette Vagnozzi, City Clerk

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the date of the Official Statement in its final form.

PRELIMINARY OFFICIAL STATEMENT DATED ____, 2018

NEW ISSUE – BOOK ENTRY ONLY **[NOT RATED]**

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, interest on the Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the corporate alternative minimum tax (applicable only to taxable years beginning before January 1, 2018), and (ii) interest on the Bonds is exempt from State of California personal income taxes. Interest on the Tax-Exempt Bonds may be subject to certain federal income taxes imposed only on certain corporations. Bond Counsel expresses no opinion as to any other tax consequences regarding the Bonds. INTEREST ON THE TAXABLE BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

$4,925,000*
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
SERIES 2018A (IMPROVEMENT AREA NO. 1)

$3,015,000*
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

Dated: Date of Delivery **Due: September 1, as set forth on the inside front cover**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to certain risk factors more fully described herein. See "RISK FACTORS" herein.

The above-captioned Series 2018A Bonds (the "Tax-Exempt Bonds") and the Taxable Series 2018B Bonds (the "Taxable Bonds", and together with the Tax-Exempt Bonds, the "Bonds") are being issued by the Communities Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "District") pursuant to a Bond Indenture, dated as of [November] 1, 2018 (the "Indenture"), by and between the District and U.S. Bank National Association, as Trustee (the "Trustee"). Proceeds of the Bonds will be used to (i) finance certain public facility improvements serving property within the District, (ii) fund a reserve fund, and (iii) pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS." The Bonds will be payable solely from and secured by Net Taxes and certain moneys in the Special Tax Fund (and designated accounts therein, but excluding the Administrative Expenses Account) established under the Indenture as further described herein. Net Taxes are derived from certain special taxes levied on property within Improvement Area No. 1 of the District (the "Special Taxes") according to the rate and method of apportionment of special taxes approved by qualified electors of Improvement Area No. 1 of the District and the City Council of the City of Upland, acting as the legislative body of the District. See "SECURITY FOR THE BONDS" herein.

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2019. The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of $5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of, and interest on, the Bonds will be paid directly to DTC by the Trustee. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System" and "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are subject to optional redemption,* mandatory sinking fund redemption* and extraordinary redemption prior to their maturity, as described herein. See "THE BONDS – Redemption" herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND CERTAIN MONEYS ON DEPOSIT IN THE SPECIAL TAX FUND (AND DESIGNATED ACCOUNTS THEREIN BUT EXCLUDING THE ADMINISTRATIVE EXPENSES ACCOUNT) PLEDGED UNDER THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE CITY, THE COUNTY OF SAN BERNARDINO, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE PORTION OF THE SPECIAL TAXES THAT CONSTITUTE NET TAXES UNDER THE INDENTURE, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

Maturity Schedule
(see inside front cover page)

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Richards, Watson & Gershon, Los Angeles, California, Bond Counsel. Certain legal matters will also be passed on for the District by Richards, Watson & Gershon, Los Angeles, California, as Disclosure Counsel and City Attorney. Certain legal matters will be passed on for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about ___, 2018.

Dated: _____, 2018

HilltopSecurities
A Hilltop Holdings Company.

* Preliminary, subject to change.

MATURITY SCHEDULE*

$4,925,000*
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
SERIES 2018A (IMPROVEMENT AREA NO. 1)

$80,000* Serial Bonds

Maturity Date* (September 1)	Principal*	Interest Rate	Yield	CUSIP† (Base ___)
2019	$15,000			
2020	15,000			
2021	15,000			
2022	15,000			
2023	20,000			

$4,845,000* Term Bonds

$165,000* ____% Term Bond due September 1, 2031,* Yield ___% CUSIP†
$720,000* ____% Term Bond due September 1, 2038,* Yield ___% CUSIP†
$1,740,000* ____% Term Bond due September 1, 2043,* Yield ___% CUSIP†
$2,220,000* ____% Term Bond due September 1, 2048,* Yield ___% CUSIP†

$3,015,000*
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
TAXABLE **SERIES 2018B (IMPROVEMENT AREA NO. 1)**

$3,015,000* Term Bonds

$725,000* ____% Term Bond due September 1, 2024,* Yield ___% CUSIP†
$810,000* ____% Term Bond due September 1, 2029,* Yield ___% CUSIP†
$1,005,000* ____% Term Bond due September 1, 2034,* Yield ___% CUSIP†
$475,000* ____% Term Bond due September 1, 2036,* Yield ___% CUSIP†

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* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2018 American Bankers Association. CUSIP® data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP® numbers are provided for convenience of reference only. Neither the District, the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

CITY OF UPLAND
San Bernardino County, California

City Council Members

Debbie Stone, *Mayor*
Carol Timm, *Mayor Pro Tem*
Gino Filippi, *Council Member*
Janice Elliott, *Council Member*
Sid Robinson, *Council Member*

City Staff

Bill R. Manis, *City Manager*
Jeannette Vagnozzi, *City Clerk*
James Markman, Esq., *City Attorney*

SPECIAL SERVICES

Bond and Disclosure Counsel

Richards Watson & Gershon
A Professional Corporation
Los Angeles, California

Municipal Advisor
Urban Futures, Inc.
Tustin California

Special Tax Consultant and Dissemination Agent

Willdan Financial Services
Temecula, California

Appraiser

Harris Realty Appraisal
Newport Beach, California

Trustee

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the City, the District or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from the City, the District and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the City since the date hereof. All summaries contained herein of the Indenture or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All statements made herein are made as of the date of this document by the City except statistical information or other statements where some other date is indicated in the text.

The Preliminary Official Statement has been "deemed final" as of its date by the District pursuant to Rule 15c2-12 of the Securities and Exchange Commission. The District has also undertaken to provide continuing disclosure on certain matters, including annual financial information and specific enumerated events, as more fully described herein under "CONTINUING DISCLOSURE."

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with 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 Bonds are exempt from registration with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended. The Bonds have not been registered or qualified under the securities laws of any state. The Bonds will not be listed on any stock or securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of the Official Statement or approved the Bonds for sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves 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. Neither the District nor the City plans to issue any updates or revisions to those forward-looking statements if or when the expectations or events, conditions or circumstances on which such statements are based change.

TABLE OF CONTENTS

Page

INTRODUCTION 1

Purpose of Official Statement 1

Authority for Issuance and Use of Proceeds 1

The City 2

The District 2

Property Ownership 2

Appraisal 2

Security and Sources of Payment 3

Risk Factors 3

Miscellaneous 3

ESTIMATED SOURCES AND USES OF FUNDS 4

PLAN OF FINANCE 4

THE BONDS 5

General 5

Authority for Issuance 6

Debt Service Schedule 7

Redemption 8

Book-Entry Only System 12

SECURITY FOR THE BONDS 12

Pledge of Special Taxes 12

Special Tax Fund 13

Covenant to Commence Foreclosure Proceedings 15

Issuance of Parity Bonds 16

Rate and Method of Apportionment of Special Taxes 18

THE DISTRICT 20

TABLE OF CONTENTS
(continued)

Page

General 20

Estimated Maximum Special Tax Proceeds and Debt Service Coverage 21

Appraised Property Value 22

Appraised Value to Lien Ratio 23

Direct and Overlapping Governmental Obligations 25

Estimated Tax Burden on Single Family Home 26

PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT 27

Plan of Development 28

Status of Regulatory Permits, Agreements and Procedures 29

Tax Delinquencies of KB and Its Affiliates and Other Matters 29

Financing Plan 30

RISK FACTORS 30

Limited Obligations of the District 30

Levy and Collection of the Special Taxes 30

Payment of Special Tax is not a Personal Obligation of the Landowner 31

Appraised Values 32

Property Values and Property Development 32

Concentration of Landownership 35

Other Possible Claims Upon the Value of Taxable Property 35

Exempt Properties 36

Depletion of Reserve Account 36

Bankruptcy and Foreclosure Delays and Limitations 36

Disclosure to Future Purchasers 39

Limitation on Remedies; No Acceleration Provisions 40

Impact of Legislative Proposals, Clarifications of the Tax Code and Court Decisions on Tax Exemption 40

TABLE OF CONTENTS
(continued)

	Page
LEGAL MATTERS	42
TAX MATTERS	43
ABSENCE OF LITIGATION	48
CONTINUING DISCLOSURE	49
The District	49
The Landowner	50
NO RATING	50
UNDERWRITING	50
PROFESSIONAL FEES	51
EXECUTION	51

APPENDIX A – GENERAL INFORMATION ABOUT THE CITY OF UPLAND AND SAN BERNARDINO COUNTY A-1
APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES B-1
APPENDIX C – APPRAISAL REPORT C-1
APPENDIX D – FORMS OF OPINIONS OF BOND COUNSEL D-1
APPENDIX E – SUMMARY OF INDENTURE E-1
APPENDIX F – BOOK-ENTRY ONLY SYSTEM F-1
APPENDIX G – FORM OF CONTINUING DISCLOSURE AGREEMENT(ISSUER) G-1
APPENDIX H – FORM OF CONTINUING DISCLOSURE AGREEMENT (MAJOR PROPERTY OWNER) H-1
APPENDIX I – DISTRICT BOUNDARY MAP I-1

OFFICIAL STATEMENT

$4,925,000*
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
SERIES 2018A (IMPROVEMENT AREA NO. 1)

$3,015,000*
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

INTRODUCTION

This Introduction is qualified by reference to the more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Purpose of Official Statement

The purpose of this Official Statement, which includes the cover page, table of contents and appendices hereto (the "Official Statement"), is to provide information concerning the sale of $4,925,000* aggregate principal amount of the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Series 2018A (Improvement Area No. 1) (the "Tax-Exempt Bonds") and $3,015,000* aggregate principal amount of the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1) (the "Taxable Bonds" and together with the Tax-Exempt Bonds, the "Bonds"). Capitalized terms used but not defined herein shall have the meanings set forth in the Bond Indenture, dated as of [November] 1, 2018 (the "Indenture"), by and between the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "District") and U.S. Bank National Association, as trustee (the "Trustee"). See "APPENDIX E – SUMMARY OF INDENTURE" herein.

Authority for Issuance and Use of Proceeds

The Bonds are authorized by and are being issued by the District pursuant to certain resolutions adopted by the City Council of the City of Upland, California, acting as the legislative body of the District (the "City Council"), the Indenture, and in accordance with the Mello-Roos Community Facilities Act of 1982, as amended, constituting Chapter 2.5 (commencing with Section 53311) of Division 2 of Title 5 of the California Government Code (the "Act"). See "THE BONDS – Authority for Issuance" herein.

Proceeds of the Bonds will be used to (i) finance certain public facility improvements serving property within the District, (ii) fund a reserve fund, and (iii) pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF FINANCE".

* Preliminary, subject to change.

The City

The City is located in the western border of San Bernardino County (the "County"), bordered by the cities of Claremont, Montclair, Ontario and Rancho Cucamonga. The City is nestled at the base of the San Gabriel Mountains and encompasses 15.2 square miles. The City was incorporated on May 15, 1906. It has a council-manager form of government, with the Mayor and the Councilmembers elected at-large for staggered four-year terms. For certain information regarding the City and the County, see "APPENDIX A – GENERAL INFORMATION ABOUT THE CITY OF UPLAND AND SAN BERNARDINO COUNTY."

The District

The District and Improvement Area No. 1 contained therein was formed and established by the City on June 27, 2016 pursuant to the Act. The District is located within the southwest portion of the City, south of the 210 Foothill Freeway and north of Interstate 10. The District includes two improvement areas which are being developed into gated housing communities consisting of a total of 318 detached single family homes. Improvement Area No. 1 occupies the western portion of the District and Improvement Area No. 2 occupies the eastern portion of the District. The development known as Springtime at Harvest is situated within the boundaries of Improvement Area No. 1 and is a gated community which will consist of a total of 125 single-family homes at buildout on approximately 15.0 acres of land. Improvement Area No. 2, which is currently owned by Lennar Homes, is expected to be developed into a gated community consisting of 193 townhomes on approximately 12.3 acres of land. **The Bonds are only secured by the Special Taxes from taxable property within Improvement Area No. 1.** See "THE DISTRICT."

Property Ownership

The largest owner of taxable property within Improvement Area No. 1 of the District is KB HOME California LLC, a Delaware limited liability company ("KB" or "Landowner"). KB is developing the property in Improvement Area No. 1 of the District that is subject to the Special Tax as a gated community, known as Springtime at Harvest, with a total of 125 detached single-family homes. As of September 1, 2018, of the 125 lots in Improvement Area No. 1, KB owned 55 lots (approximately 44%) and the remaining 70 lots were owned by individual homeowners. For more detailed information about the Landowner and proposed development plans for the property in Improvement Area No. 1 of the District, see "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT."

Appraisal

An appraisal of the property within Improvement Area No. 1 of the District, dated September 12, 2018 (the "Appraisal"), was prepared by Harris Realty Appraisal, Newport Beach, California (the "Appraiser") in connection with issuance of the Bonds. The purpose of the Appraisal was to ascertain the "as is" market value of the fee simple estate as of the September 1, 2018 date of value for the taxable property in Improvement Area No. 1 of the District, which consisted of 70 completed homes owned by individual homeowners, 9 completed unsold homes (including 4 model homes), 18 homes under construction and 28 physically finished lots. Subject to the assumptions and limitations contained in the Appraisal, the Appraiser estimated that the fee simple interest in the subject property, subject to the lien of the Special Taxes, had an estimated aggregate value of $59,000,000. There is no assurance that the property within Improvement Area No. 1 of the District can be sold for the appraised value described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current landowner or future landowners within Improvement Area No. 1. See "RISK FACTORS — Appraised Values" and APPENDIX C — "APPRAISAL REPORT" herein.

Security and Sources of Payment

The Bonds will be payable solely from and secured by a first pledge of Net Taxes and moneys deposited in the Special Tax Fund (and the Interest Account, the Principal Account, the Redemption Account and the Reserve Account therein, but excluding the Administrative Expenses Account) which the Trustee will establish under the Indenture. Net Taxes mean, generally, Special Taxes received by the District, less amounts set aside to pay the Administrative Expenses (as defined in the Indenture, see "APPENDIX E- SUMMARY OF INDENTURE - Definitions") not to exceed the Administrative Expenses Priority Amount (defined in the Indenture as $20,000 per Bond Year"). "Special Taxes" is defined in the Indenture to mean the taxes authorized to be levied by the District on property within Improvement Area No. 1 of the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the June 27, 2016 election in Improvement Area No. 1 of the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien, and penalties and interest thereon.

The Special Taxes will be levied by the District and collected by the San Bernardino County Treasurer-Tax Collector in the same manner and at the same time as ad valorem property taxes. The District has covenanted in the Indenture to cause foreclosure proceedings to be commenced and prosecuted against parcels with delinquent Special Taxes under certain circumstances. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE BONDS - Covenant to Commence Foreclosure Proceedings." There is no assurance that the property within Improvement Area No. 1 of the District can be sold for the appraised value described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current landowners or future landowners within Improvement Area No. 1 of the District. See "RISK FACTORS — Appraised Values" and APPENDIX C — "APPRAISAL REPORT" herein.

The District has established a Reserve Account pursuant to the Indenture. The Reserve Requirement is defined in the Indenture to mean, as of the date of calculation, an amount equal to the least of (i) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; (ii) 10% of the original amount of the Bonds and Parity Bonds, if any ("amount" meaning the principal amount of each series of the Bonds and any Parity Bonds, unless a series was issued with original issue discount greater than two percent of the principal amount, or original issue premium greater than the sum of two percent of the principal amount plus original issue premium attributable exclusively to reasonable underwriters' compensation, in which case "amount" means issue price); or (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any. See "SECURITY FOR THE BONDS – Special Tax Fund – Reserve Account."

Risk Factors

Investment in the Bonds involves risks that may not be appropriate for some investors. See "RISK FACTORS" for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Bonds.

Miscellaneous

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or other instrument. Included in this Official Statement are summaries of certain provisions of the Indenture and Appraisal. Copies of the Indenture and Appraisal are available for inspection at the offices of the City,

and copies of such documents will be provided by the City upon request and payment of duplication costs.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be deposited into the following funds and accounts established under the Indenture:

SOURCES	Tax-Exempt Bonds	Taxable Bonds
Principal Amount of Bonds	$	$
Plus/Less: Original Issue Premium/Discount		
Less: Underwriter's Discount	( )	( )
Total Sources	$	$
USES		
Project Costs Account		
Costs of Issuance Account (1)		
Reserve Account (2)		
Total Uses		

(1) Includes printing costs, appraisal costs, filing and recording fees, fees and charges of the Trustee and its legal counsel, expenses incurred by the City in connection with the issuance of the Bonds, legal fees and charges, including bond counsel and disclosure counsel, and municipal advisor's fees, and other costs, charges and fees in connection with the foregoing.
(2) Equal to the Reserve Requirement with respect to the Bonds as of their date of delivery.

PLAN OF FINANCE

Tax-Exempt Bonds. A portion of the proceeds of the Tax-Exempt Bonds will used to finance certain public facility improvements serving properties within the District, including water and sewer lines, storm drain, and street improvements including curb and gutter, lighting, signage, striping, adjacent sidewalks, driveway entrances, medians, and traffic signals. All the facilities to be financed with Bond proceeds have been completed.

The following table lists the facilities expected to be financed with the proceeds of the Bonds and the estimated costs:

[***to be confirmed***]

Description of Facilities	
Water and Sewer lines	$2,372,000
Storm Drains and catch basins	1,009,733
Street Improvements	1,802,770
Total	**$5,184,503**

Source: SC Baldy View Development Company, LLC

Taxable Bonds. A portion of the proceeds of the Taxable Bonds will used to finance certain capital facilities fees relating to public facility improvements serving properties within the District. Such eligible fees and estimated costs are set forth in the following table.

[***to be confirmed***]

Description of Eligible Capital Facilities Fees	
Development Agreement Fee (fire truck and 11th street improvements)	$2,100,000
Park Acquisition and Development Fee	256,500
Street and Traffic Facilities Development Fee	156,500
Water Fund Additive Fee	15,000
City Sewer Fee	58,250
Storm Drain Development Fee	101,375
Total	**$2,687,625**

Source: SC Baldy View Development Company, LLC

THE BONDS

General

The Bonds will be dated the date of their delivery and will mature in the amounts and on the dates set forth on the cover page of this Official Statement. The Bonds will be issued in fully registered form in denominations of $5,000 each or any integral multiple of $5,000. The Bonds will bear interest at the annual rates set forth on the cover page of this Official Statement, payable semiannually on each March 1 and September 1, commencing March 1, 2019 (each, an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable by check of the Trustee mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Trustee at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of $1,000,000 or more in aggregate principal amount of Bonds delivered to the Trustee prior to the applicable Record Date. Each Bond shall bear interest 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 date of issuance of the Bonds, in which event interest shall be payable from the dated date of the Bonds.

The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Trustee.

Authority for Issuance

District Proceedings. The Bonds are issued pursuant to the Act and the Indenture. In addition, as required by the Act, the City Council has taken the following actions with respect to establishing the District and authorizing issuance of the Bonds:

Resolutions of Intention: On April 25, 2016, the City Council adopted a resolution stating its intention to establish the District, to designate improvement areas therein, to authorize the levy of a special tax therein. On the same day the City Council adopted a resolution stating its intention to incur bonded indebtedness for the purpose of financing the facilities.

Resolution of Necessity to Incur Bonded Indebtedness. On April 25, 2016, the City Council adopted a resolution declaring the necessity to incur bonded indebtedness in an amount not to exceed $10,000,000 for Improvement Area No. 1 and $12,000,000 for Improvement Area No. 2 within the District and submitting that proposition to the qualified electors of the District.

Resolution of Formation and Calling Election: Following a noticed public hearing, the City Council adopted, on June 27, 2016, a resolution (the "Resolution of Formation") which established the District, designated improvement areas therein (including Improvement Area No. 1) and authorized the levy of a special tax within the improvement areas of the District. In addition, the City Council called an election by the landowners within the District for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness and the establishment of an appropriations limit.

Landowner Election and Declaration of Results: On June 27, 2016, an election was held within Improvement Area No. 1 and Improvement Area No. 2 of the District in which the qualified landowner electors approved ballot propositions authorizing the issuance of bonds in the not to exceed amount of $10,000,000 for Improvement Area No. 1 and $12,000,000 for Improvement Area No. 2 to finance the construction of the facilities, the levy of a special tax within Improvement Area No. 1 and Improvement Area No. 2 and the establishment of an appropriations limit for the District. On June 27, 2016, the City Council adopted a resolution under which the City Council approved the canvass of the votes and declared the District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness and to have the established appropriations limit.

Special Tax Lien and Levy: A Notice of Special Tax Lien for Improvement Area No. 1 was recorded in the real property records of San Bernardino County on July 21, 2016.

Ordinance Levying Special Taxes: On July 11, 2016, the City Council adopted an ordinance authorizing the levy of the Special Tax within Improvement Area No. 1 of the District.

Resolution Authorizing Issuance of the Bonds: On ___, 2018, the City Council adopted a resolution approving issuance of the Bonds in an amount not to exceed $10,000,000 for Improvement Area No. 1.

City's Goals and Policies. As required by the Act, the City adopted "Amended and Restated Goals and Policies for Mello-Roos Community Facilities District Financings" by Resolution No. 6252 adopted on December 8, 2014 (the "Goals and Policies"). The Goals and Policies establish certain credit quality requirements for bonds issued by community facilities districts and improvement areas therein, namely a 3:1 ratio of property value to the lien of the Bonds and other public indebtedness secured by a

lien on real property currently existing against the properties to be taxed. Property value may be based on an appraisal or on assessed values as indicated on the county assessor's tax roll.

The Goals and Policies also require that, for residential property, the maximum annual special tax, together with ad valorem property taxes, and all other special assessments or special taxes collected or to be collected on the annual tax bill for each developed parcel at the time of bond issuance, may not exceed 2% of such parcel's projected assessed value.

Debt Service Schedule*

The following table presents the annualized debt service on the Bonds (including sinking fund redemptions), assuming there are no optional redemptions.

Year Ending September 1	Tax-Exempt Bonds*	Taxable Bonds*	Total Debt Service*
2019	$212,052.67	$187,927.08	$399,979.75
2020	256,662.50	255,562.50	512,225.00
2021	256,212.50	255,462.50	511,675.00
2022	255,762.50	255,150.00	510,912.50
2023	260,162.50	254,625.00	514,787.50
2024	259,362.50	253,887.50	513,250.00
2025	253,712.50	257,937.50	511,650.00
2026	258,225.00	256,187.50	514,412.50
2027	257,575.00	254,212.50	511,787.50
2028	256,925.00	257,012.50	513,937.50
2029	261,275.00	254,362.50	515,637.50
2030	255,462.50	256,487.50	511,950.00
2031	259,812.50	252,700.00	512,512.50
2032	259,000.00	253,675.00	512,675.00
2033	257,750.00	254,175.00	511,925.00
2034	261,500.00	254,200.00	515,700.00
2035	260,000.00	253,750.00	513,750.00
2036	253,500.00	257,250.00	510,750.00
2037	512,250.00	--	512,250.00
2038	513,000.00	--	513,000.00
2039	513,000.00	--	513,000.00
2040	512,250.00	--	512,250.00
2041	510,750.00	--	510,750.00
2042	513,500.00	--	513,500.00
2043	515,250.00	--	515,250.00
2044	511,000.00	--	511,000.00
2045	511,000.00	--	511,000.00
2046	515,000.00	--	515,000.00
2047	512,750.00	--	512,750.00
2048	514,500.00	--	514,500.00
Total:	**$10,749,202.67**	**$4,524,564.58**	**$15,273,767.25**

Source: Underwriter

* Preliminary, subject to change.

Redemption

Optional Redemption.* The Bonds maturing on or before September 1, 20__ are not subject to optional redemption prior to maturity. The Bonds maturing on or after September 1, 20__ are subject to optional redemption prior to maturity from any source of funds on any date on or after September 1, 20__ in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, [at a redemption price equal to 100% of the principal amount to be redeemed, without premium,] together with accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption.[*]

Tax-Exempt Bonds.* The Tax-Exempt Bonds maturing on September 1, 2031, September 1, 2038, September 1, 2043 and September 1, 2048 (collectively, the "Tax-Exempt Term Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on each September 1 in accordance with the respective schedules of Sinking Fund Payments set forth below. The Tax-Exempt Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed Tax-Exempt Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Tax-Exempt Term Bonds Maturing on September 1, 2031*

Redemption Date* (September 1)	Principal Amount*
2024	$20,000
2025	15,000
2026	20,000
2027	20,000
2028	20,000
2029	25,000
2030	20,000
2031 (maturity)	25,000

Tax-Exempt Term Bonds Maturing On September 1, 2038*

Redemption Date* (September 1)	Principal Amount*
2032	$25,000
2033	25,000
2034	30,000
2035	30,000
2036	25,000
2037	285,000
2038 (maturity)	300,000

[*] Preliminary, subject to change.

Tax-Exempt Term Bonds Maturing on September 1, 2043*

Redemption Date* (September 1)	Principal Amount*
2039	$315,000
2040	330,000
2041	345,000
2042	365,000
2043 (maturity)	385,000

Tax-Exempt Term Bonds Maturing on September 1, 2048*

Redemption Date* (September 1)	Principal Amount*
2044	$400,000
2045	420,000
2046	445,000
2047	465,000
2048 (maturity)	490,000

Taxable Bonds.* The Taxable Bonds maturing on September 1, 2024, September 1, 2029, September 1, 2034 and September 1, 2036 (collectively, the "Taxable Term Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on each September 1 in accordance with the respective schedules of Sinking Fund Payments set forth below. The Taxable Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed Taxable Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Taxable Term Bonds Maturing on September 1, 2024*

Redemption Date* (September 1)	Principal Amount*
2019	$75,000
2020	120,000
2021	125,000
2022	130,000
2023	135,000
2024 (maturity)	140,000

Taxable Term Bonds Maturing on September 1, 2029*

Redemption Date* (September 1)	Principal Amount*
2025	$150,000
2026	155,000
2027	160,000
2028	170,000
2029 (maturity)	175,000

* Preliminary, subject to change.

Taxable Term Bonds Maturing on September 1, 2034*

Redemption Date* (September 1)	Principal Amount*
2030	$185,000
2031	190,000
2032	200,000
2033	210,000
2034 (maturity)	220,000

Taxable Term Bonds Maturing on September 1, 2036*

Redemption Date* (September 1)	Principal Amount*
2035	$230,000
2036 (maturity)	245,000

In the event of a partial optional redemption or extraordinary redemption of the Tax-Exempt Term Bonds or the Taxable Term Bonds, each of the remaining Sinking Fund Payments for such Tax-Exempt Term Bonds or Taxable Term Bonds, as applicable, will be reduced, as nearly as practicable, on a *pro rata* basis, in integral multiples of $5,000.

Extraordinary Redemption. The Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities on any Interest Payment Date, and shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account, plus amounts transferred from the Reserve Account pursuant to the Indenture, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

Redemption Dates	Redemption Price
On or before March 1, 20__	[103]%
September 1, 20__ and March 1, 20__	[102]
September 1, 20__ and March 1, 20__	[101]
September 1, 20__ and thereafter	[100]

Purchase in Lieu of Redemption. As provided in the Indenture, in lieu or partially in lieu of any optional redemption, extraordinary redemption or mandatory sinking fund redemption, moneys deposited in the Redemption Account, other than Prepayments, may be used to purchase Outstanding Bonds. Such purchases of Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Selection of Bonds for Redemption. If less than all of any Bonds Outstanding are to be redeemed, the Trustee shall select the Bonds to be redeemed from all Outstanding Bonds or such given portion thereof not previously called for redemption, on a pro rata basis among the maturities (unless the maturity or maturities are otherwise specified in the Indenture or in writing by the District) and by lot

* Preliminary, subject to change.

within a maturity in any manner which the Trustee in its discretion shall deem appropriate. For purposes of such selection, all Bonds of a denomination of more than $5,000 shall be deemed to be comprised of separate $5,000 portions, and such portions shall be treated as separate Bonds which may be separately redeemed. The Trustee shall promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption.

Notice of Redemption. When Bonds are due for redemption, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds. At least 30 days but no more than 45 days prior to the redemption date, the Trustee shall mail a copy of the notice of redemption, 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 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. A certificate by the Trustee that notice of such redemption has been given as herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

The District will have the right to rescind any optional redemption by written notice to the Trustee one (1) Business Day prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The District and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

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

Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(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 Indenture, anything in the Indenture or in the Bonds to the contrary notwithstanding;

(2) Upon presentation and surrender thereof at the office of the Trustee, 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 the Indenture or any Supplemental Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

Book-Entry Only System

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond will be issued for the Bonds of each maturity and each interest rate, in the initial aggregate principal amount of such maturity of such series. See APPENDIX F – "Book-Entry Only System."

SECURITY FOR THE BONDS

Pledge of Special Taxes

General. The Bonds will be payable solely from, and secured by, a first pledge of Net Taxes and moneys on deposit in the Special Tax Fund (and the designated accounts therein but excluding the Administrative Expenses Account) established and held under the Indenture. Net Taxes consist of a portion of the Special Taxes levied on the taxable property in Improvement Area No. 1 of the District pursuant to the Rate and Method. The Indenture defines "Net Taxes" as Gross Taxes minus amounts set aside to pay Administrative Expenses not to exceed the Administrative Expenses Priority Amount. The term "Gross Taxes" means (i) the amount of all Special Taxes received by Improvement Area No. 1 of the District, together with (ii) the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions. The Administrative Expenses Priority Amount is equal to $20,000 per Bond Year.

Beginning in Fiscal Year 2018-19 and so long as any Bonds issued under the Indenture are Outstanding, the District has covenanted in the Indenture 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 (1) the principal of and interest on the Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

The Special Taxes will be levied by the District and collected by the San Bernardino County Treasurer-Tax Collector in the same manner and at the same time as ad valorem property taxes In the event that the Special Tax are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expenses), including amounts held in the Reserve Account therein, for the exclusive benefit of the owners of the Bonds, and foreclosure proceeds resulting from the sale of delinquent parcels if and when available.

Special Taxes. The Indenture defines "Special Taxes" as the taxes authorized to be levied by the District on property within Improvement Area No. 1 of the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the June 27, 2016 election in Improvement Area No. 1 of the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien, and penalties and interest thereon.

The District covenants in the Indenture that, subject to the Rate and Method, the District will levy Special Taxes on taxable property within Improvement Area No. 1 in an amount equal to the Special Tax Requirement for Improvement Area No. 1. The District further covenants that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax on taxable property within Improvement Area No. 1 for so long as the Bonds are Outstanding. See "— Rate and Method" below and "APPENDIX E – SUMMARY OF INDENTURE."

The Special Tax levy is limited to the maximum rates set forth in the Rate and Method. In the event of a significant delinquency, the Trustee may have to make a draw on the Reserve Account to pay interest of, and principal on, the Bonds then coming due. The Bonds are not subject to acceleration under the Indenture. Although Special Taxes, when levied, will constitute a lien on parcels subject to taxation within Improvement Area No. 1 of the District, it does not constitute a personal indebtedness of the owners of such parcels. There is no assurance that such property owners will be financially able to pay the Special Taxes or that they will pay such taxes even if financially able to do so. See "RISK FACTORS" for a discussion of certain factors which may affect property owners' ability or willingness to pay Special Taxes.

Limited Obligation. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND CERTAIN MONEYS ON DEPOSIT IN THE SPECIAL TAX FUND (AND DESIGNATED ACCOUNTS THEREIN BUT EXCLUDING THE ADMINISTRATIVE EXPENSES ACCOUNT) PLEDGED UNDER THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE CITY, THE COUNTY OF SAN BERNARDINO, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE PORTION OF THE SPECIAL TAXES THAT CONSTITUTE NET TAXES UNDER THE INDENTURE, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

Special Tax Fund

Pursuant to the Indenture, there is established a "Special Tax Fund" to be held and maintained by the Trustee. 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 will be held by the Trustee, and the Trustee shall invest and disburse the amounts in such funds and accounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

The District will, on each date on which it receives Special Taxes, transfer the Special Taxes to the Trustee for deposit in the Special Tax Fund to be held in accordance with the terms of the Indenture. The Trustee will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture in the following order of priority:

(a) The Administrative Expense Account of the Special Tax Fund;

(b) The Interest Account of the Special Tax Fund;

(c) The Principal Account of the Special Tax Fund;

(d) The Redemption Account of the Special Tax Fund;

(e) The Reserve Account of the Special Tax Fund; and

(f) The Rebate Fund; and

(g) The Surplus Fund.

Notwithstanding the foregoing and any other provision of the Indenture to the contrary, in the event of a shortfall of amounts on deposit in the Special Tax Fund to make the transfers, pursuant to the

Indenture, to the Principal Account of the Special Tax Fund and to the Redemption Account of the Special Tax Fund necessary to pay in full both (x) the principal payment due on the Bonds and any Parity Bonds maturing on the applicable September 1 and (y) the Sinking Fund Payment due on any Outstanding Bonds and any Parity Bonds on such September 1, the Trustee shall transfer the available amount from the Special Tax Fund to the Principal Account and the Redemption Account on a pro rata basis (calculated with reference to the respective principal payment and Sinking Fund Payment coming due and payable on such September 1) at least five (5) Business Days prior to such September 1.

Administrative Expense Account. As set forth in the Indenture, the District may periodically provide the Trustee with a Certificate requesting the payment of Administrative Expenses. Upon its receipt of any such certificate, the Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expenses Account of the Special Tax Fund amounts necessary to make timely payment of any such Administrative Expenses as set forth in such Certificate; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Priority Amount (defined in the Indenture as $20,000 per Bond Year) until such time as there has been deposited (a) to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and any Parity Bonds due in such Bond Year, (b) to the Redemption Account an amount, together with any amounts already on deposit therein, that is sufficient to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in the Indenture and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds, and (c) to the Reserve Account an amount, together with any amounts already on deposit therein, that is sufficient to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Priority Amount may be transferred to the Administrative Expenses Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expenses Account are not pledged to the repayment of the Bonds.

Interest Account and Principal Account. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds will be made when due and after making the transfer required by the Indenture, at least five (5) Business Days prior to each March 1 and September 1, the Trustee shall 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, any Parity 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 (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account five (5) Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity 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 and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five (5) Business Days prior to September 1 of each year, commencing September 1, 2019, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account. On each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund, the Trustee shall 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 shall be made up by an immediate transfer from the Reserve Account. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture.

Reserve Account. Moneys in the Reserve Account shall 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 and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. 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 Trustee shall 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 Indenture, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District 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 shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. 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 District shall include the amount necessary to restore fully the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

Covenant to Commence Foreclosure Proceedings

The District covenants in the Indenture for the benefit of the Owners of the Bonds that it will: (i) commence judicial foreclosure proceedings against any parcel with either (A) [at least four (4) consecutive installments] of delinquent Special Taxes or (B) delinquent Special Taxes in excess of [$10,000] on any one parcel, in each instance by the December 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the December 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year, and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided, however, that the District may elect to defer foreclosure proceedings on any parcel so long as the amount on deposit in the Reserve Account is at least equal to the Reserve Requirement, and such delinquencies will not cause moneys in the Reserve Account to be withdrawn on the next succeeding Interest Payment Date. In no event shall such foreclosure actions exceed the time periods specified in Section 53356.1 of the Act.

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

Notwithstanding the foregoing, the District may elect (but is not obligated) to advance the amount of any particular delinquency (excluding penalties and interest) and deposit such amount to the Special Tax Fund. Upon a deposit of such money in the Special Tax Fund, the District will not need to initiate a foreclosure action as provided above; provided, however, the District may reimburse itself for such advance when the Special Tax on such property is paid in the amount of such advance plus interest on such amount at a rate equal to the yield on the Outstanding Bonds. Interest and penalties paid in excess of the amount advanced by the District shall be deposited in the Special Tax Fund.

Notwithstanding the foregoing, if at any time, the County's Teeter Plan (adopted pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code) is in effect and is made applicable to the District and the Special Taxes being levied in connection with the Bonds, the District may, in its discretion, elect not to commence any judicial foreclosure proceeding pursuant to the Indenture or defer the commencement of such proceedings until such time as the District deems appropriate.

IN THE EVENT FORECLOSURE OR FORECLOSURES ARE NECESSARY, THERE MAY BE A DELAY IN PAYMENTS TO BOND OWNERS PENDING PROSECUTION OF THE FORECLOSURE PROCEEDINGS AND RECEIPT BY THE DISTRICT OF THE PROCEEDS OF THE FORECLOSURE SALE; IT IS ALSO POSSIBLE THAT NO BID FOR THE PURCHASE PRICE OR APPLICABLE PROPERTY WOULD BE RECEIVED AT THE FORECLOSURE SALE. SEE "RISK FACTORS." NOTWITHSTANDING ANY OTHER PROVISION OF THE INDENTURE TO THE CONTRARY, THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS FROM THE CITY TREASURY TO CURE ANY DEFICIENCY IN THE SPECIAL TAX FUND ESTABLISHED UNDER THE INDENTURE.

Issuance of Parity Bonds

The District may at any time after the issuance and delivery of the Bonds issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expenses Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or any Supplemental Indenture; provided, however, Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding, or for financing the Project Costs or other purposes of the District in a principal amount not to exceed $10 million. Parity Bonds issued are subject to the following additional specific conditions, which are conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including, if applicable, a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on a September 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) the denominations and method of numbering of such Parity Bonds;

(6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid

pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a Tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) where the entire principal amount of the Parity Bonds is issued to refund the Bonds or other Parity Bonds, a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds;

(6) where the Parity Bonds are being issued other than to refund the Bonds or other Parity Bonds, a Certificate of the Special Tax Administrator certifying that (i) the maximum Special Taxes that may be levied in each Fiscal Year is not less than 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year plus Administrative Expenses; and (ii) the Value of IA1 Property is not less than three (3) times the sum of Direct Debt for IA1 Property plus Overlapping Debt allocable to all property in Improvement Area No. 1 of the District subject to the Special Tax. For purposes of the foregoing Certificate of Special Tax Administrator, all calculations shall consider the Parity Bonds proposed to be issued to be Outstanding. If all or any portion of the Parity Bonds are issued as Escrow Bonds, each time that amounts are to be released from the escrow account established under a Supplemental Indenture, as a condition of such release, the Trustee shall have received a Certificate of the Special Tax Administrator certifying that (x) following such release, the requirements of (i) and (ii) above will be satisfied, and (y) the amount of Special Taxes levied in such Fiscal Year and to be levied in the following Fiscal Year, together with amounts on deposit in the Interest Account, will be sufficient to pay the principal of and interest on all Outstanding Bonds and Parity Bonds (other than the remaining Escrow Bonds). For purposes of any Escrow Bonds release test, there will be allocated to the property in Improvement Area No. 1 of the District the largest principal amount of Bonds that results in a Value of IA1 Property at least three (3) times the sum of Direct Debt for IA1 Property plus Overlapping Debt allocable to all property in Improvement Area No. 1 of the District subject to the Special Tax; and

(7) such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

Rate and Method of Apportionment of Special Taxes

The following is a synopsis of the provisions of the Rate and Method of Apportionment of Special Tax for Improvement Area No. 1 of the District ("Rate and Method"). This synopsis does not purport to be comprehensive and should be read in conjunction with the complete text of the Rate and Method,

including its attachments, which is attached hereto as "APPENDIX B – Rate and Method of Apportionment of Special Taxes." All capitalized terms not defined in this section have the meanings set forth in APPENDIX B.

Each Fiscal Year, each Assessor's Parcel within the boundaries of Improvement Area No. 1 shall be classified as Taxable Property or Exempt Property. In addition, all Taxable Property within Improvement Area No. 1 shall be classified as Developed Property, Undeveloped Property or Provisional Undeveloped Property, and all such Taxable Property shall be subject to the levy of Special Taxes in accordance with the Rate and Method of Apportionment. Furthermore, each Assessor's Parcel of Developed Property shall be classified to its applicable Land Use Class based on its Building Square Footage.

For each Fiscal Year, the CFD Administrator shall calculate the Special Tax Requirement for Facilities and levy Special Tax on all Taxable Property in accordance with the following steps:

Step 1: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at 100% of the applicable Assigned Special Tax;

Step 2: If additional monies are needed to satisfy the Special Tax Requirement after Step 1 has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax for Undeveloped Property;

Step 3: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Provisional Property up to 100% of the Maximum Special Tax for Provisional Property; and

Step 4: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax amount determined in Step 1 shall be increased Proportionately on each Assessor's Parcel of Developed Property up to 100% of the Maximum Special Tax for Developed Property.

"Special Tax Requirement" is defined in the Rate and Method to mean that amount required in any Fiscal Year to: (i) pay regularly scheduled Debt Service on all Outstanding Bonds; (ii) pay period costs on the Outstanding Bonds, including but not limited to, credit enhancement and rebate payments on the Outstanding Bonds; (iii) pay Administrative Fees and Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities authorized by the District and as required by the Acquisition Agreement provided that the inclusion of such amount does not cause an increase in the Special Tax to be levied on Undeveloped Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the Annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

Notwithstanding the above, under no circumstances will the Special Tax levied in any Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased as a result of delinquency or default in the payment of the Special Tax applicable to any other Assessor's Parcel within Improvement Area No. 1 by more than 10% above what would have been levied in the absence of such delinquencies or defaults.

The Special Tax shall be levied for as long as necessary to meet the Special Tax Requirement for a period not to exceed 40 Fiscal Years, which commenced with Fiscal Year 2016-17, provided however that the Special Tax will cease to be levied in an earlier Fiscal Year if the CFD Administrator has

determined that all Bonds that are expected to be issued have been issued and all required principal and interest payments on all outstanding Bonds have been paid.

THE DISTRICT

General

Description. The District includes two improvement areas which are being developed into gated housing communities consisting of a total of 318 detached single family homes and townhomes. Improvement Area No. 1 occupies the western portion of the District and Improvement Area No. 2 occupies the eastern portion of the District. The development know as Springtime at Harvest is situated within the boundaries of Improvement Area No. 1 and is a gated community consisting of a total of 125 single-family homes at buildout on approximately 15.0 acres of land, with a minimum of __ taxable acres. The gated community development at Springtime at Harvest will have recreational amenities, such as a pool, spa, fitness center, barbeque area, outdoor loggia, public gardens and a club house. Currently, Lennar Homes owns all the property within Improvement Area No. 2, which it expects to develop into a gated community consisting of 193 townhomes on approximately 12.3 acres of land. Lennar intends to start selling homes in June 2019 with final home sales estimated to occur in 2021. **The Bonds are only secured by the Special Taxes from taxable property within Improvement Area No. 1.**

Location and Immediate Surroundings. The District is located within the southwest portion of the City, south of the 210 Foothill Freeway and north of Interstate 10. The District is located east of Monte Vista Avenue, North of 11th Street, South of Foothill Boulevard and West of Dewey Way. The majority of the Foothill Boulevard corridor has been developed over the years with commercial and industrial uses. Specifically, land to the north of the District is developed with several business parks. Located east of the District, are water storage tanks operated by the Monte Vista Water District and an older small commercial center. The southern edge of the District is bordered by 11th Street connecting to Monte Vista Avenue and water recharge basins owned by the Chino Basin Water Conservation District. Unused land owned by Claremont College is located west of the District. See APPENDIX A – "GENERAL INFORMATION ABOUT THE CITY OF UPLAND AND SAN BERNARDINO COUNTY" for certain demographic information on the City and the County. The boundary map of the District and the two improvement areas within the District is attached hereto as APPENDIX I.

The table below shows comparable residential projects in the area:

Upland Market Area
Comparable Residential Project Summary
Detached Single Family Homes
(As of September 1, 2018)

No.	Project Location	Units	Lot Size	Base Price	Unit Size	Price Per Square Foot	Number Sold or In Escrow/Start Date	Overall Monthly Absorption
1	**Springtime at Harvest**	125	2,500	$560,880	2,085	$269.01	94	5.2
	KB HOME California LLC			570,880	2,192	260.44	Feb 2017	
	Upland			580,880	2,230	260.48		
	Subject Property			590,880	2,439	242.26		
2	**Upland Central**	78	TH	$459,300	1,839	$249.76	77	2.4
	MBK Homes		20 du/ac	453,800	1,976	229.66	Jan 2016	
	Upland			488,900	2,277	214.71		
3	**Avondale Villas**	27	2,000	$468,500	1,690	$277.22	27	4.5

	Crestwood Communities			482,000	1,955	246.55	Dec 2017	
	Montclair			497,000	2,111	235.43	sold out 6/2018	
4	**Westridge at Sycamore Hills**	145	2,500	$510,300	1,621	$314.81	19	6.3
	Taylor Morrison Homes			522,600	1,766	295.92	June 2018	
	Upland			532,800	1,815	293.55		
				578,400	2,143	269.90		
				606,800	2,271	267.20		
				617,150	2,362	261.28		

Source: Appraiser

Estimated Maximum Special Tax Proceeds and Debt Service Coverage

The Rate and Method is structured to produce Special Tax revenues from the Assigned Special Tax and the Maximum Special Tax which, when applied to the projected debt service on the Bonds, is anticipated to result in a debt service coverage ratio of at least 110% for the anticipated life of the Bonds. The following table shows the revenue projections for Improvement Area No. 1 of the District.

Revenue Projections

Land Use Class	Building Square Footage	Developed Units Fiscal Year 2018-19	Fiscal Year 2018-19 Maximum Assigned Special Tax Per Residential Unit	Fiscal Year 2018-19 Maximum Assigned Special Tax Revenues	Number of Units at Buildout	Fiscal Year 2018-19 Projected Special Tax Revenues at Buildout[1]
1	greater than 2,050	106	$4,699	$498,094	125	$587,375
2	1,901-2,050	0	4,540	--	0	--
3	1,751-1,900	0	4,381	--	0	--
4	1,601-1,750	0	4,222	--	0	--
5	1,600 or less	0	4,063	--	0	--

Source: Willdan Financial Services.
(1) Assumptions: Full build out using 2018-19 rates.

The following table shows the estimated debt service coverage for the Bonds.

Estimated Debt Service Coverage

Bond Year Ending (September 1)	Maximum Annual Special Tax	Annual Costs	Net Maximum Special Tax	Debt Service[1]*	Debt Service Coverage*
	$		$	$	x

Source: Underwriter

[1] Debt service for each Bond Year ending September 1 will be paid from Special Taxes collected during the immediately preceding fiscal year. For example, debt service for the Bond Year ending September 1, 2019 will be paid from Special Taxes levied and collected during Fiscal Year ending June 30, 2019.

* Preliminary, subject to change.

Pursuant to Section 53321(d) of the Act, the special tax levied in any fiscal year against any assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other assessor's parcel within the district by more than 10% above the amounts that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to the assigned special tax in all years. However, subject to the limitations on the District's ability to levy the necessary amount of Special Taxes as imposed by Section 53321(d) of the Act, the District can levy Special Taxes on Undeveloped Property to make up all or a portion of such shortfall.

Appraised Property Value

The information below is only a summary of certain information contained in the Appraisal. The Appraisal is reprinted herein as Appendix C. The information below is qualified in its entirety by the complete Appraisal. The District makes no representation as to the accuracy or completeness of the Appraisal.

The Appraisal. The Bonds are secured by Special Taxes which may include amounts realized upon foreclosure sale of delinquent parcels. Therefore, the ability of the District 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 City commissioned Harris Realty Appraisal, Newport Beach, California (the "Appraiser") to ascertain the "as is" market value of the fee simple estate for the taxable property in Improvement Area No. 1 of the District. As of the date of the Appraisal, 70 homes were completed and sold to individual homeowners, 9 homes were completed but not sold (including 4 model homes), 18 homes were under construction, and the remainder of the property consisted of 28 physically finished lots. The Appraiser estimated that, as of the September 1, 2018 date of value of the Appraisal, the "as is" market value of the fee simple estate (subject to the lien of the Special Taxes) of all the taxable land and improvements within Improvement Area No. 1 of the District

was $59,000,000, which is approximately 7.43* times the aggregate principal amount of the Bonds. The Appraisal's value estimates reflect certain assumptions set forth in the Appraisal including that all costs reported by KB are accurate, including but not limited to the remaining impact fees and lot costs for the physically finished lots. Any variance in costs could impact the value conclusions reported in this appraisal report. For a full description of the assumptions relied upon by the Appraiser, as well as a description of the valuation methodology, see APPENDIX C – "APPRAISAL REPORT". The Appraisal was prepared in accordance with and subject to the requirements of The Appraisal Standards for Land Secured Financing as published by the California Debt and Investment Advisory Commission, the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. See APPENDIX C – "APPRAISAL REPORT".

Appraised Value to Lien Ratio

The table below shows the projected value to burden ratio for the 125 lots that were the subject of the Appraisal based on the appraised values set forth in the Appraisal and the principal amount of the Bonds. The following value-to-lien ratios only represent estimated averages for the property within Improvement Area No. 1. No assurance can be given that the amounts shown in this table will conform to those ultimately realized in the event of a foreclosure action following delinquency in the payment of the Special Taxes.

* Preliminary, subject to change.

City of Upland
Community Facilities District No. 2016-1 (Harvest at Upland)
(Improvement Area No. 1)
Appraised Values and Value to Lien Ratio
(As of September 1, 2018)

Property Owner	Land Use Classification	# of Residential Lots	Appraised Value(1)	Percentage of Appraised Value	2018 Bonds*(2)	Value to Lien Ratio*	Projected Fiscal Year 2018-19 Special Tax*	Percentage of Total Fiscal Year 2018-19 Special Tax Levy
Individual Owners	Developed (fully built homes)	70	$25,492,857	43%	$3,220,943	7.91:1	$202,057	40.57%
KB	Developed (fully built homes)	9	20,707,143	35	2,022,453	10.23:1	126,873	24.47
KB	Developed (under construction)	18	5,900,000	10	1,348,302	4.37:1	84,582	16.98
KB	Developed (finished lots)	25	6,160,714	10	1,348,302	4.56:1	84,582	16.98
KB	Undeveloped (finished lots)	3	739,286	1	0	NA	0	0.00
	Totals	**125**	**$59,000,000**	**100%**	**$[7,940,000].00**	**7.43:1**	**$498,094**	**100.00%**

Source: Willdan Financial Services
* Preliminary, subject to change.
(1) Based on Appraisal dated September 12, 2018 with a September 1, 2018 date of value.
(2) Allocated based on percentage of projected Fiscal Year 2018-19 Special Tax Levy.

Direct and Overlapping Governmental Obligations

Properties in Improvement Area No. 1 of the District are within the jurisdiction of a number of overlapping local agencies providing public services and assessing property taxes, assessments, special taxes and other charges on the property in Improvement Area No. 1 of the District. Many of these local agencies have outstanding debt.

The direct and overlapping obligations affecting the property in Improvement Area No. 1 of the District as of September 1, 2018, are shown in the following table. *The table was prepared by California Municipal Statistics, Inc., and is included for general information purposes only. Neither the City nor the District has reviewed this report for completeness or accuracy and makes no representation in connection therewith.*

Direct and Overlapping Governmental Obligations

CITY OF UPLAND COMMUNITY FACILITIES DISTRICT NO. 2016-1, I.A. NO. 1

2018-19 Local Secured Assessed Valuation: $38,324,031

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/18
Metropolitan Water District General Obligation Bonds	0.001%	$ 796
Chaffey Community College District General Obligation Bonds	0.034	46,897
Upland Unified School District General Obligation Bonds	0.399	343,282
City of Upland Community Facilities District No. 2016-1, I.A. No. 1	**100.**	-[1]
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$390,975
OVERLAPPING GENERAL FUND DEBT:		
San Bernardino County General Fund Obligations	0.017%	$59,110
San Bernardino County Pension Obligation Bonds	0.017	49,761
San Bernardino County Flood Control District General Fund Obligations	0.017	10,823
Chaffey Community College District General Fund Obligations	0.034	10,708
TOTAL OVERLAPPING GENERAL FUND DEBT		$130,402
COMBINED TOTAL DEBT		$521,377[2]

Ratios to 2018-19 Assessed Valuation:

Direct Debt ..... - %
Total Direct and Overlapping Tax and Assessment Debt..... 1.02%
Combined Total Debt 1.36%

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(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Estimated Tax Burden on Single Family Home

The following table sets forth the estimated total tax burdens on the homes in Springtime at Harvest based on estimated tax rates for Fiscal Year 2018-19.

CITY OF UPLAND
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
IMPROVEMENT AREA NO. 1
Estimated Total Effective Tax Rate
Single Family Units

	Class 1 Greater than 2,050 Sq. Ft.
VALUES	
Median Appraised Value [1]	$592,857
Less Home Owners Exemption	(7,000)
Estimated Property Value	**$585,857**
AD VALOREM PROPERTY TAXES [2]	
Basic Levy	$5,859
Chaffey Community College District	52
School Bonds	323
Metropolitan Water District DS	21
Total	**$6,253**
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES	
MWD Standby [3]	$ 8
SBCO Fire West Valley [3]	153
County Vector Control [3]	8
CFD No. 2016-1 IA1 Special Tax [4]	4,699
CFD No. 2016-2 IA1 Special Tax [4]	300
Total	**$5,168**
PROJECTED TOTAL PROPERTY TAXES	**$11,421**
Estimated Effective Tax Rate	
2018-19 Assigned Special Tax Rate	1.95%

Source: Willdan Financial Services.
(1) Based on the Appraisal dated September 1, 2018.
(2) Based on fiscal year 2017-2018 rates for Tax Rate Area 18249.
(3) Based on fiscal year 2017-18 property tax bills.
(4) Based on fiscal year 2018-19 levy submittal.

PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT

The following information regarding the ownership, developer and planned development of Improvement Area No. 1 in the District has been provided by, or on behalf of, KB HOME California LLC for use in this Official Statement, and has not been independently confirmed or verified by the District or the Underwriter. Neither the District nor the Underwriter makes any representation as to the accuracy or adequacy of this information or the absence of any material change after the date of this Official Statement. No assurance can be given that the proposed development will occur as described herein or that it will be completed in a timely manner.

No assurance can be given that the proposed development within Improvement Area No. 1 will occur as described below. As the proposed land development progresses and parcels are sold, it is expected that the ownership of the land within Improvement Area No. 1 will become more diversified. No assurance can be given that development of the land within Improvement Area No. 1 will occur in a timely manner or in the configuration described herein, or that any landowner described herein will obtain or retain ownership of any of the land within Improvement Area No. 1. The Bonds and the Special Taxes are not personal obligations of any landowners, including KB HOME California LLC, and in the event that a landowner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any landowner. As a result, other than as provided herein, no financial statements or information is, or will be, provided about KB HOME California LLC or any other landowners. The Bonds are secured solely by the Special Tax revenues and other amounts pledged under the Indenture. See "SECURITY FOR THE BONDS" and "RISK FACTORS."

KB HOME California LLC

KB HOME California LLC is an Delaware limited liability company (the "Landowner" or "KB") which, as of September 1, 2018, owned approximately 44.0% of the total lots within Improvement Area No. 1. The remaining landowners are individual homeowners who purchased their homes from KB. KB will construct the homes within Improvement Area No. 1 that will be subject to the Special Tax.

KB is a wholly-owned subsidiary of KB Home, a Delaware corporation ("KB Home"), whose principal executive offices are located in Los Angeles, California. KB Home is a publicly traded company listed on the New York Stock Exchange (the "NYSE") under the ticker symbol "KBH." KB Home files annual, quarterly and current reports, proxy statements and other information with the SEC. KB Home's SEC filings are available to the public at the SEC's website at www.sec.gov, and at KB Home's website at www.kbhome.com. Such Internet addresses are included for reference only, and the information on such Internet sites is not a part of this Official Statement and is not incorporated by reference into this Official Statement.

Founded in 1957, KB Home constructs and sells homes through its operating divisions under the name KB Home. KB Home's ongoing principal operations are in seven states, including California, Arizona, Nevada, Colorado, Texas, Florida, and North Carolina within 36 major markets. KB Home first developed homes in California in 1963. KB Home's homebuilding operations offer a variety of homes designed primarily for first-time, and first move-up homebuyers, including attached and detached single-family homes, townhomes and condominiums.

Other Projects. KB has completed numerous other home developments throughout the Southern California including the following:

Lynbrook at The Preserve, Chino, California;

Jade Tree, Chino Hills, California;

Hadleigh at Park Place PA 9 & Margate at Park Place 12, Ontario, California;

La Ventana & Calabria, Rancho Cucamonga, California;

The Enclave, Willow Ranch, Cimarron Trails and The Lodge, Eastvale, California;

Mahogany Hills & Seneca, Murrieta, California;

Terraces at Alberhill, Lake Elsinore, California;

Silvercreek at Audie Murphy, Menifee, California;

Pinnacle I and II at Roripaugh, Temecula, California; and

Painted Hill and Canyon Oaks, Corona, California.

Plan of Development

SC Baldy View Development Company, LLC ("SC Baldy"), the original owner of all the land within Improvement Area No. 1, has taken all actions necessary to entitle the land within Improvement Area No. 1. Pursuant to an Acquisition Agreement, dated as of May 1, 2016, between the City, SC Baldy and Lewis Management Corp, SC Baldy constructed the backbone infrastructure (i.e., water, sewer and storm drain lines and various street improvements) on the major arterial streets serving the District, which are eligible for acquisition by the City from bond proceeds. SC Baldy sold the property within Improvement Area No. 1 to KB in December 2016. KB will construct and sell to individual homebuyers single-family detached residential homes on such property, and has substantially completed the subdivision streets (except for final lift of paving and sidewalks customarily deferred until after completion of home construction) and utilities within Improvement Area No. 1. As of September 1, 2018, all necessary land entitlements to construct, or contract for the construction of, all necessary improvements and infrastructure in Improvement Area No. 1 have been obtained.

KB will develop a total of 125 single-family homes in 29 phases in Improvement Area No. 1. These homes will be located in a gated planned residential community known as "Springtime at Harvest". The proposed 125 single-family homes in Improvement Area No. 1 of Springtime at Harvest will have two-stories built on approximately 2,529 square foot minimum lots and will have four (4) different home plans ranging in size from 2,085 square feet to 2,439 square feet with base sales prices ranging from $560,880 to $590,880. As of September 1, 2018, the first 17 phases (of 29 phases) of the development were complete, and of the 125 single family homes to be developed, 70 homes were completed and sold to individual homeowners, 9 homes were completed but not sold (including 4 model homes), 18 homes were under construction, and the remaining 28 homes are to be constructed on physically finished lots. KB anticipates the remaining phases of development within Improvement Area No. 1 of the District will be completed in accordance with the following proposed schedule:

Phase	*Number of Units*	*Actual/Projected Start Date*	*Actual/Projected Completion Date*
18	4	5/2/18	9/28/18
19	5	7/18/18	10/31/18
20	4	7/11/18	10/19/18
21	5	6/8/118	9/28/18
22	5	7/9/18	10/18/18
23	4	9/11/18	12/31/18
24	4	9/12/18	1/4/19
25	4	11/26/18	3/20/19
26	4	10/25/18	2/15/19

27	5	12/14/18	4/1/19
28	2	11/26/18	3/20/19
29	5	2/4/19	5/5/19

Source: KB HOME California LLC

A summary of the units in Improvement Area No. 1 of the Springtime at Harvest development by plan type and the estimated sizes and prices of each plan type are set forth below.

SUMMARY OF PROPOSED ACTIVE DEVELOPMENT

Plan	*Proposed Number of Units at Buildout*[1]	*Approximate Square Footage*	*Estimated Base Home Price*
1	31	2,085	$560,880
2	32	2,192	570,880
3	32	2,230	580,000
4	30	2,439	590,000

(1) As of September 1, 2018.
Source: Appraisal and KB HOME California LLC.

Status of Regulatory Permits, Agreements and Procedures

KB represents that subject only to the payment of applicable fees, all material permits other than building permits needed to commence construction of the Springtime at Harvest development project can be obtained and when such fees are paid will be in full force and effect and not subject to appeal or challenge. Various impact fees are due each time a building permit is obtained. KB represents that there are no other conditions to the issuance of the building permits.

Tax Delinquencies of KB and Its Affiliates and Other Matters

KB represents that neither it nor any of its affiliates, members or partners have ever defaulted to any material extent in the payment of special taxes or assessments levied on its property within Improvement Area No. 1 or any other community facilities district or assessment district in California within the past five years. KB HOME California LLC, a Delaware limited liability also represents that neither it nor any of its affiliates, members or partners is in default on any loans, lines of credit or other obligation the result of which could have a material adverse effect on the development of the property owned by it in Improvement Area No. 1. Except as expressly provided herein, KB represents that neither it nor any of its affiliates has ever filed bankruptcy or been declared bankrupt. KB also represents that there is no litigation of any nature in which it has been served or is pending or threatened against it, which if successful, would materially adversely affect the ability of KB to complete the sale and development of the property it currently owns within Improvement Area No. 1 or to pay the Special Taxes and ad valorem tax obligations when due on the property it currently owns within Improvement Area No. 1. Except as described in this Official Statement and except for those consents, permits, authorizations, certifications and approvals of governmental entities required in the ordinary course of development, KB represents that it has no actual knowledge of any impediment which could have a material adverse effect on its ability to complete the planned development of its property within Improvement Area No. 1 within the timeframe and budget described herein.

Financing Plan

As of September 1, 2018, KB had expended approximately $19,876,750 in acquiring its land in Improvement Area No. 1 and approximately $28,988,627 in land improvements, home construction costs and other development, marketing and sales costs (exclusive of internal financing repayment). KB expects the remaining site improvement costs (including all required fees), home construction costs and other development, marketing and sales costs within Improvement Area No. 1 to be approximately $6,929,969.

KB has obtained all the necessary financing to build out the Springtime at Harvest project in Improvement Area No. 1 of the District. KB has financed its land acquisition and various site development costs related to its property in Improvement Area No. 1 with internal sources. Neither KB nor any other related entity is under any legal obligation to expend funds for the development of its property in Improvement Area No. 1.

RISK FACTORS

INVESTMENT IN THE BONDS INVOLVES ELEMENTS OF RISK AND ARE NOT APPROPRIATE INVESTMENTS FOR CERTAIN INVESTORS. THE FOLLOWING SECTION DESCRIBES CERTAIN SPECIFIC RISK FACTORS AFFECTING THE PAYMENT AND SECURITY OF THE BONDS. THE FOLLOWING DISCUSSION OF RISKS IS NOT MEANT TO BE AN EXHAUSTIVE LIST OF THE RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS AND THE ORDER OF DISCUSSION OF SUCH RISKS DOES NOT NECESSARILY REFLECT THE RELATIVE IMPORTANCE OF THE VARIOUS RISKS. POTENTIAL INVESTORS ARE ADVISED TO CONSIDER THE FOLLOWING FACTORS ALONG WITH ALL OTHER INFORMATION IN THIS OFFICIAL STATEMENT IN EVALUATING THE BONDS. THERE CAN BE NO ASSURANCE THAT OTHER RISK FACTORS NOT DISCUSSED UNDER THIS CAPTION WILL NOT BECOME MATERIAL IN THE FUTURE.

Limited Obligations of the District

Funds for the payment of the principal of, and the interest on, the Bonds are derived from the Special Tax levied against the taxable property in Improvement Area No. 1 of the District. While a projected coverage factor has been considered in structuring the annual debt service on the Bonds, the amount of Special Taxes that will be collected by the District could become insufficient to pay principal of, or interest on, the Bonds in certain circumstances. If there is a non-payment by property owners or insufficient proceeds are received from the foreclosure sale of property within Improvement Area No. 1 due to delinquencies, a default on the Bonds may follow upon the depletion of the Reserve Account. The Bonds do not represent the general obligations of the District. The District's obligation with respect to payment on the Bonds is limited to Net Taxes and moneys on deposit in the Special Tax Fund (and designated accounts therein, but excluding the Administrative Expenses Account) held by the Trustee under the Indenture. Neither the faith and credit nor the taxing power of the City, the County or the State or any of its political subdivisions is pledged to the payment of the Bonds.

Levy and Collection of the Special Taxes

The principal source of payment of principal of and interest on the Bonds is the proceeds of the annual levy and collection of the Special Tax against property within Improvement Area No. 1 of the District. The annual levy of the Special Tax is subject to the Maximum Annual Special Tax rate authorized in the Rate and Method. The levy cannot be made at a higher rate even if the failure to do so

means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Bonds when due.

Because the Special Tax formula set forth in the Rate and Method is not based on property value, the levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular parcels of Taxable Property and the amount of the levy of the Special Tax against those parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of the parcels of Taxable Property and their proportionate share of debt service on the Bonds, and certainly not a direct relationship.

The following are some of the factors that might cause the levy of the Special Tax on any particular parcel of Taxable Property to vary from the Special Tax that might otherwise be expected:

- Reduction in the number of parcels of Taxable Property for such reasons as acquisition of Taxable Property by a governmental entity and failure (or refusal) of the governmental entity to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining taxed parcels.

- Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels.

- Development of a parcel of Taxable Property more rapidly than development of other parcels of Taxable Property, thereby resulting in the application of development factors in the Special Tax formula to the parcel and resulting in an increased tax burden on the parcel of Taxable Property.

- Development of other parcels of Taxable Property less rapidly than expected, thereby resulting in delay in application of development factors in the Special Tax formula to the other parcels of Taxable Property and resulting in an increased tax burden on the developed parcel of Taxable Property.

If any Special Tax Installment becomes delinquent, the District can foreclose only upon the parcel or parcels with respect to which the Special Tax is delinquent. The Indenture provides that the Special Tax is to be collected in the same manner as ordinary ad valorem property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE BONDS – Covenant to Commence Foreclosure Proceedings" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ordinary ad valorem property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County.

If sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the District of the proceeds of sale if the Reserve Account is depleted. See "SECURITY FOR THE BONDS – Covenant to Commence Foreclosure Proceedings."

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

An owner of Taxable Property is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation only against the parcels of Taxable Property. If, after a default in the payment of the Special Tax and a foreclosure sale by the District, the resulting proceeds are insufficient, taking into account other obligations also constituting a lien against the parcels of Taxable Property, the District has no recourse against the owner for the delinquency.

Appraised Values

The Appraisal summarized in APPENDIX C estimates the market value of the taxable property within Improvement Area No. 1 of the District. This market value is merely the present opinion of the Appraiser, and is subject to the assumptions and limiting conditions stated in the Appraisal. The District has not sought the present opinion of any other appraiser of the value of the taxed parcels. A different present opinion of value might be rendered by a different appraiser.

The opinion of value relates to sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell or to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information. In addition, the opinion is a present opinion, based upon present facts and circumstances. Differing facts and circumstances may lead to differing opinions of value. The appraised value is not evidence of future value because future facts and circumstances may differ significantly from the present.

No assurance can be given that any of the Taxable Property within Improvement Area No. 1 of the District could be sold for the estimated market value contained in the Appraisal if that property should become delinquent in the payment of Special Taxes and be foreclosed upon.

The Appraisal should be read for a more complete understanding of the assumptions, methodology and analysis used in estimating the market value of the taxable property within Improvement Area No. 1 of the District.

Property Values and Property Development

The value of Taxable Property within Improvement Area No. 1 of the District is a critical factor in determining the investment quality of the Bonds. If a landowner defaults in the payment of the Special Tax, the District's only remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Special Tax and prospective purchasers of the Bonds should not assume that the property within Improvement Area No. 1 of the District could be sold for the appraised or assessed values described herein or an amount adequate to pay delinquent Special Taxes. Land development and land values could be adversely affected by economic and other factors beyond the District and the City's control, such as a general economic downturn, adverse judgments in future litigation that could affect the scope, timing or viability of development, relocation of employers out of the area, stricter land use regulations, shortages of water, electricity, natural gas or other utilities, destruction of property caused by earthquake, flood or other natural disasters, environmental pollution or contamination, or unfavorable economic conditions.

Neither the District nor the City has evaluated development risks. Since these are largely business risks of the type that the landowner customarily evaluates individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel, the District is issuing the Bonds without regard to any such evaluation. Thus, the creation of the District and the issuance of the Bonds in no way implies that either the City or the District has evaluated these risks or the reasonableness of these risks. On the contrary, the City and the District have made no such evaluation and are undertaking acquisition and construction of the facilities being financed by the Bonds even though these risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of Taxable Property values in the event of delinquency and foreclosure.

The following is a discussion of specific risk factors that could affect the timing or scope of property development in the District or the value of property in the District.

Land Development and Land Values. Land values are influenced by the level of development in the area in many respects.

First, undeveloped or partially developed land is generally less valuable than developed land and provides less security to the owners of the Bonds should it be necessary for the District to foreclose on undeveloped or partially developed property due to the nonpayment of Special Taxes.

Second, failure to complete development on a timely basis could adversely affect the land values of those parcels that have been completed. Lower land values would result in less security for the payment of principal of and interest on the Bonds and lower proceeds from any foreclosure sale necessitated by delinquencies in the payment of the Special Tax. See "THE DISTRICT – Appraised Value to Lien Ratio." No assurance can be given that the proposed development within Improvement Area No. 1 of the District will be completed or with respect to the timing of development, and in assessing the investment quality of the Bonds, prospective purchasers should evaluate the risks of noncompletion.

Risks of Real Estate Investment Generally. Purchasers of the Bonds will be subject to the risks generally incident to an investment secured by real estate. These risks affect the value of the property, as well as the property owners' willingness and/or ability to pay Special Taxes when due. Continuing development of land within Improvement Area No. 1 may be adversely affected by changes in general or local economic conditions, fluctuations in or a deterioration of the real estate market, increased construction costs, development, financing and marketing capabilities of the individual landowner, water or electricity shortages, and other similar factors. Development in Improvement Area No. 1 may also be affected by development in surrounding areas, which may compete with the District. In addition, land development operations are subject to comprehensive federal, state and local regulations, including environmental, land use, zoning and building requirements. There can be no assurance that proposed land development operations within the District will not be adversely affected by future government policies, including, but not limited to, governmental policies to restrict or control development, or future growth control initiatives. There can be no assurance that land development operations within the District will not be adversely affected by these risks.

Risk Related to Availability of Construction Financing. The ability of the KB to develop property within Improvement Area No. 1 is partially dependent on the availability of construction financing. At this time, KB believes that sufficient construction financing is available from internal sources to allow it to develop properties in Improvement Area No. 1 as planned. However, no guarantees can be made that such construction financing will remain available. In the event KB is unable to complete development of the property within Improvement Area No. 1, this may adversely impact the value of the Taxable Property and as a result, adversely impact Special Tax revenues available to pay debt service on the Bonds.

Risks Related to Availability of Home Loans. The availability of loans for potential purchasers of units and lots in Improvement Area No. 1 may impact the ability of KB and other owners of property to sell units and the lots within Improvement Area No. 1. No guarantees can be made that such home loans will be available or what impact, if any, such availability will have on KB's ability to develop Improvement Area No. 1 as envisioned.

Natural Disasters. The value of the Taxable Property in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the Taxable Property and the continued habitability and enjoyment of such private improvements. The areas in and surrounding the District, like those in much of California, may be subject to unpredictable seismic activity. According to the City's General Plan

adopted in September 2015, the City is located close to the San Antonio and Alquist-Priolo faults, as well as to other smaller faults in the region. In addition, the City's General Plan states that areas of the City are located in a 100-year flood zone, and therefore, may be subject to flooding. Other natural disasters could include, without limitation, fires, landslides, droughts or tornadoes. One or more natural disasters could occur and could result in damage to improvements of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances there could be significant delinquencies in the payment of Special Taxes, and the value of the Taxable Property may well depreciate or disappear.

Legal Requirements. Other events that may affect the value of Taxable Property include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

Hazardous Substances. Claims regarding hazardous substances can have an adverse impact on the value of Taxable Property. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is one of the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also generally regarded as stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the financial and legal liability of a property owner (and thus affect such owners' ability or willingness to pay Special Taxes when due), as well as the value of the property that is realized upon foreclosure.

The appraised values set forth in this Official Statement do not take into account the possible reduction in marketability and value of any of the Taxable Property by reason of the possible liability of the owner or operator for the remedy of a hazardous substance condition of the parcel. Although the District is not aware that the owner or operator of any of the Taxable Property has such a current liability with respect to any of the Taxable Property, it is possible that such liabilities do currently exist and that the District is not aware of them.

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

Endangered and Threatened Species. It is illegal to harm or disturb any plants or animals in their habitat that have been listed as endangered species by the United States Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California

Endangered Species Act without a permit. Although KB believes that no federally listed endangered or threatened species would be affected by the proposed development within Improvement Area No. 1, the discovery of an endangered plant or animal could delay development of vacant property in Improvement Area No. 1 or reduce the value of undeveloped property.

Concentration of Landownership

As of September 1, 2018, KB owned approximately 44% of the taxable lots in Improvement Area No. 1 of the District. The willingness and ability of KB, as well as other property owners, to pay property taxes and the Special Taxes could be adversely affected by changes in general or local economic conditions, fluctuations in the real estate market and other factors. A description of the Landowner is set forth under the caption "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT." If any Special Tax installment becomes delinquent, the District can foreclose only upon the parcel or parcels with respect to which the Special Tax is delinquent. Failure of any owner of property in Improvement Area No. 1 to pay installments of the Special Tax when due could result in the depletion of the Reserve Account prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Tax and, consequently, an insufficiency of Special Tax proceeds to meet obligations under the Indenture. In that event, there could be a delay or failure in payments of the principal of and interest on the Bonds.

Other Possible Claims Upon the Value of Taxable Property

While the Special Taxes are secured by the Taxable Property, the security only extends to the value of such Taxable Property that is not subject to priority and parity liens and similar claims.

[The table in the section entitled "THE DISTRICT – Direct and Overlapping Governmental Obligations" shows, as of __, 2018, the outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property. The table also states the additional amount of general obligation bonds the tax for which, if and when issued, may become an obligation of one or more of the parcels of Taxable Property. The table does not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.]

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the Bonds. The District does not have any control over the ability of other governmental entities to issue such obligations.

In general, as long as the Special Taxes are collected on the County Tax Roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy. See "– Bankruptcy and Foreclosure Delays" below. The existence of other property taxes, special taxes and special assessments may reduce

the value-to-lien ratio of the affected parcels and increases the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes or the principal of, and interest on, the Bonds when due.

Exempt Properties

Certain properties in Improvement Area No. 1 of the District are exempt from the Special Tax in accordance with the Rate and Method and the Act, which provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. See "SECURITY FOR THE BONDS – Rate and Method of Apportionment of Special Taxes." It is possible that property in Improvement Area No. 1 of the District acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from Special Taxes. In addition, although 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, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

Depletion of Reserve Account

The Reserve Account generally is to be maintained at an amount equal to the Reserve Requirement. See "SECURITY FOR THE BONDS – Special Tax Fund – Reserve Account." Funds in the Reserve Account may be used to pay principal of and interest on the Bonds if insufficient funds are available from the proceeds of the levy and collection of the Special Tax against property within Improvement Area No. 1 of the District for such purpose. If funds in the Reserve Account for the Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bond holders pursuant to the Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within Improvement Area No. 1 at the maximum Special Tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Account will be depleted and not be replenished by the levy of the Special Tax.

Bankruptcy and Foreclosure Delays and Limitations

Bankruptcy. The payment of the Special Tax and the ability of the District to foreclose the lien of a delinquent unpaid tax, as discussed in "SECURITY FOR THE BONDS" and "THE DISTRICT" may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure. 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 bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a landowner or any other person claiming an interest in the property could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments

not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds. To the extent that property in Improvement Area No. 1 continues to be owned by a limited number of landowners, the chances are increased that the Reserve Account established for the Bonds could be fully depleted during any such delay in obtaining payment of delinquent Special Taxes. As a result, sufficient moneys would not be available in the Reserve Account for transfer to the Bond Fund to make up shortfalls resulting from delinquent payments of the Special Tax and thereby to pay principal of and interest on the Bonds on a timely basis.

In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, 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 Special Taxes not being paid in full.

Glasply Marine Industries. On July 30, 1992 the United States Court of Appeals for the Ninth Circuit issued an opinion in a bankruptcy case entitled In re Glasply Marine Industries, holding that ad valorem property taxes levied by a county in the State of Washington after the date that the landowner filed a petition for bankruptcy would not be entitled to priority over the claims of 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 subsequent to the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after the claims of all secured creditors. As a result, the secured creditor was able to foreclose on the subject property and retain all the proceeds from the sale thereof except the amount of the pre-petition taxes. Pursuant to this holding, post-petition taxes would be paid only as administrative expenses and only if a bankruptcy estate has 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 be subject only to current ad valorem taxes (i.e., not those accruing during the bankruptcy proceeding).

The *Glasply* decision is controlling precedent in bankruptcy court in the State of California. If *Glasply* were held to be applicable to Special Taxes, a bankruptcy petition filing would prevent the lien for Special Taxes levied in subsequent fiscal years from attaching so long as the property was part of the estate in bankruptcy, which could reduce the amount of Special Taxes available to pay debt service on the Bonds. However, *Glasply* speaks as to ad valorem property taxes, and not special taxes, and 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.

It should also be noted that on October 22, 1994, Congress enacted 11 U.S.C. §362(b)(18), which added a new exception to the automatic stay for ad valorem property taxes imposed by a political subdivision after the filing of a bankruptcy petition. Under this law, if a bankruptcy petition is filed on or after October 22, 1994, the lien for ad valorem property taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bond owners should be aware that the potential effect of 11 U.S.C. § 362(b)(18) on the Special Taxes also depends upon whether a court were to determine that the Special Taxes should be treated like ad valorem property taxes for this purpose.

Property Owned by FDIC. The ability of the District to foreclose upon the lien on property for delinquent Special Taxes may be limited for properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. On November 26, 1996, the FDIC adopted a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "Policy Statement") (which

superseded a prior statement issued by the FDIC and the Resolution Trust Corporation in 1991). The Policy Statement applies to the FDIC when it is liquidating assets in its corporate and receivership capacities. The Policy Statement provides, in part, that real property of the FDIC is subject to state and local real property taxes if those taxes are assessed according to the property's value, and that the FDIC is immune from ad valorem real property taxes assessed on other bases. The Policy Statement also provides that the FDIC will pay its proper tax obligations when they become due and will pay claims for delinquencies as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC interest in the property is appropriate. It further provides that the FDIC will pay claims for interest on delinquent property taxes owned at the rate provided under state law, but only to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay for any fines or penalties and will not pay nor recognize liens for such amounts. The Policy Statement also provides that 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. No property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, a lien for taxes and interest may attach, but the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

With respect to challenges to assessments, the Policy Statement provides: "The [FDIC] is only liable for state and local taxes which are based on the value of the property during the period for which the tax is imposed, notwithstanding the failure of any person, including prior record owners, to challenge an assessment under the procedures available under state law. In the exercise of its business judgment, the [FDIC] may challenge assessments which do not conform with the statutory provisions, and during the challenge may pay tax claims based on the assessment level deemed appropriate, provided such payment will not prejudice the challenge. The [FDIC] will generally limit challenges to the current and immediately preceding taxable year and to the pursuit of previously filed tax protests. However, the [FDIC] may, in the exercise of its business judgment, challenge any prior taxes and assessments provided that (1) the [FDIC's] records (including appraisals, offers or bids received for the purchase of the property, etc.) indicate that the assessed value is clearly excessive, (2) a successful challenge will result in a substantial savings to the [FDIC], (3) the challenge will not unduly delay the sale of the property, and (4) there is a reasonable likelihood of a successful challenge."

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 simple interest unless the amount of tax is fixed at the time the FDIC acquires its fee simple interest in the property, nor will the FDIC recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Because the Special Taxes are neither ad valorem taxes nor special assessments, and because they are levied under a special tax formula under which the amount of the Special Tax is determined each year, the Special Taxes appear to fall within the category of taxes the FDIC generally will not pay under the Policy Statement.

Following the County of Orange bankruptcy proceedings filed in December 1994, the FDIC filed claims against the County of Orange in the U.S. Bankruptcy Court and the Federal District Court which challenged special taxes that Orange County had levied on FDIC-owned property (and which the FDIC had paid) under the Act. The FDIC took a position similar to that outlined in the Policy Statement, to the effect that the FDIC, as a governmental entity, is exempt from special taxes under the Act. The Bankruptcy Court agreed, finding that the FDIC was not liable for post-receivership Mello-Roos taxes, and the Bankruptcy Appellate Panel affirmed. On appeal, the U.S. Court of Appeals for the Ninth Circuit, while not specifically asked to decide on the issue, stated in its decision filed on August 28, 2001, that "the FDIC, as a federal agency, is exempt from the Mello-Roos tax," and quoted Section 53340(c) of the Act in stating that "'properties or entities' of the federal government are exempt from the tax."

The District is unable to predict what effect the application of the Policy Statement, or the ultimate outcome of the County of Orange case, would have in case of a Special Tax delinquency on a parcel in which the FDIC has an interest. However, prohibiting the judicial foreclosure sale of a FDIC-owned parcel would likely reduce the number of or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the District will be unable to foreclose on parcels of land in Improvement Area No. 1 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.

No investigation has been made as to *whether the FDIC or any other governmental entity currently owns or has an interest in any property in the District.*

Property Owned by Fannie Mae or Freddie Mac. If a parcel of Taxable Property is owned by a federal government entity or federal government-sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of Taxable Property is owned by a federal government entity or federal government-sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited.

Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of Taxable Property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest.

No investigation has be*en made as to whether Fannie Mae, Freddie Mac, or any other governmental entity currently owns or has an interest in any property in the District.*

Disclosure to Future Purchasers

The District has recorded a Notice of the Special Tax Lien in the Office of the San Bernardino County Recorder against the Taxable Property. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land or a home in Improvement Area No. 1 of the District or the lending of money secured by property in Improvement Area No. 1. The Act and the Goals and Policies require the subdivider of a subdivision (or its agent or representative) to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with these requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Limitation on Remedies; No Acceleration Provisions

Under the Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies. See APPENDIX E – "SUMMARY OF INDENTURE." So long as the Bonds are in book-entry form, DTC will be the sole Bondowner and will be entitled to exercise all rights and remedies of Bondowners. Remedies available to Bondowners 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 Tax-Exempt Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, or similar laws generally affecting the enforcement of creditors' rights. Additionally, the Indenture does not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture. Lack of remedies may entail risks of delay, limitation, or modification of Bondowner rights. Judicial remedies, such as foreclosure and enforcement of covenants, are subject to exercise of judicial discretion. A California court may not strictly apply certain remedies or enforce certain covenants if it concludes that application or enforcement thereof would be unreasonable under the circumstances and it may delay the application of such remedies and enforcement.

Investment of Funds

The Reserve Account and all other funds and accounts held under the Indenture are required to be invested in certain Authorized Investments, as defined in the Indenture. See "APPENDIX E – SUMMARY OF INDENTURE." All investments, including Authorized Investments, authorized by law from time to time for investments by the District contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture could have a material adverse effect on the security for the Bonds.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS – Tax Exemption," interest on the Tax-Exempt Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Tax-Exempt Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Indenture. The Indenture does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the Tax-Exempt Bonds were to be includable in gross income for purposes of federal income taxation, the Tax-Exempt Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Tax. See "THE BONDS – Redemption."

IRS Audit of Tax-Exempt Bond Issues

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

Impact of Legislative Proposals, Clarifications of the Tax Code and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Tax Code (as defined under "TAX MATTERS") or court decisions may cause interest on the Tax-Exempt Bonds to be subject,

directly or indirectly, to federal income taxation or the interest on the Bonds to be subject to, or exempted from, state income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest.

The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation.

Proposition 218 and the Initiative Power

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective for most purposes on November 6, 1996. Among other things, Section 3 of Article XIIIC states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states,

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

The initiative power also is limited by the United States Constitution's prohibition against State or local laws "impairing the obligation of contracts." The Bonds represent a contract between the District and the Bondholders secured by the Special Taxes. While not free from doubt, it is likely that, once the Bonds are issued, the Special Taxes would not be subject to repeal or reduction by initiative, at least to the extent the Special Taxes are necessary to enable the District to make timely payment on principal and interest on the Bonds, but not necessarily to the full extent of the authorized tax amount. It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. The interpretation and application of these provisions of Proposition 218, the State Government Code, and the federal Constitution's Contracts Clause will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts.

Proposition 218 is likely to continue to undergo both judicial and legislative scrutiny. For example, in August 2014, in *City of San Diego. v. Melvin Shapiro*, an Appellate Court invalidated an

election held by the City of San Diego to authorize the levying of special taxes on hotels City-wide pursuant to a City charter ordinance creating a convention center facilities district which specifically defined the electorate to consist solely of (1) the owners of real property in the City on which a hotel is located, and (2) the lessees of real property owned by a governmental entity on which a hotel is located. The Court held that such landowners and lessees are neither "qualified electors" of the City for purposes of Articles XIII A, Section 4 of the California Constitution, nor a proper "electorate" under Article XIIIC, Section 2(d) of the California Constitution. The Court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes under Section 53326(b) of the Act (which was the nature of the voter approval through which the District was formed) violates the California Constitution in districts that lack sufficient registered voters to conduct an election among registered voters. Accordingly, this case should have no effect on the levy of the Special Taxes.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues relating thereto. The District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Limited Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Code), or changes in interpretation of the Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

LEGAL MATTERS

The legality of the issuance of the Bonds is subject to the approval of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Bond Counsel's opinions with respect to the Bonds will be substantially in the form set forth in APPENDIX D of this Official Statement. Certain legal matters also will be passed on for the District by Richards, Watson & Gershon, as Disclosure Counsel and City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel Nixon Peabody LLP, Los Angeles, California.

TAX MATTERS

Tax-Exempt Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Tax-Exempt Bonds to be included in gross income for Federal income tax purposes retroactive to their date of issue. These requirements include, but are not limited to, provisions which limit how the proceeds of the Tax-Exempt Bonds may be spent and invested, and generally require that certain investment earnings be rebated on a periodic basis to the United States of America. The City and the District have made certifications and representations and have covenanted to maintain the exclusion of the interest on the Tax-Exempt Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code.

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law and assuming the accuracy of such certifications and representations by, and compliance with such covenants of, the City and the District, (i) interest on the Tax-Exempt Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (ii) the Tax-Exempt Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, interest on the Tax-Exempt Bonds is not a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Bond Counsel is also of the opinion that, under existing law, interest on the Tax-Exempt Bonds is exempt from State of California personal income taxes. Bond counsel expresses no opinion as to any other tax consequences regarding the Tax-Exempt Bonds.

Under the Code, interest on the Tax-Exempt Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the federal corporate alternative minimum tax (applicable only to taxable years beginning before January 1, 2018). In addition, interest on the Tax-Exempt Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Tax-Exempt Bonds. Bond Counsel will express no opinion regarding these and other such consequences.

Bond Counsel has not undertaken to advise in the future whether any circumstances or events occurring after the date of issue of the Tax-Exempt Bonds may affect the tax status of interest on the Tax-Exempt Bonds. Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Tax-Exempt Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of issue of the Tax-Exempt Bonds, will not contain provisions which could eliminate, or directly or indirectly reduce the benefit of the exclusion of interest on the Tax-Exempt Bonds from gross income for Federal income tax purposes, or have an adverse effect on the market value or marketability of the Tax-Exempt Bonds.

For example, federal tax legislation enacted on December 22, 2017, reduces corporate tax rates, modifies individual tax rates, eliminates many deductions, repeals the corporate alternative minimum tax for taxable years beginning after December 31, 2017, and eliminates tax-exempt advance refunding bonds, among other things. This legislation may increase, reduce, or otherwise change the financial benefits currently provided to certain owners of state and local government bonds. In addition, investors in the Tax-Exempt Bonds should be aware that future legislative actions may retroactively change the treatment of all or a portion of the interest on the Tax-Exempt Bonds for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Tax-Exempt Bonds may be adversely affected and the ability of holders to sell their Tax-Exempt Bonds in the secondary market may be reduced. The Tax-Exempt Bonds are not subject to special mandatory redemption, and the interest rates on the Tax-Exempt Bonds are not subject to adjustment, in the event of any such change.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

Certain requirements and procedures contained or referred to in relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Tax-Exempt Bond, or the interest thereon, if any such change occurs or action is taken upon the advice or approval of bond counsel other than Richards, Watson & Gershon, A Professional Corporation.

If the issue price of a Tax-Exempt Bond (the first price at which a substantial amount of the bonds of a maturity are sold to the public) is less than the stated redemption price at maturity of such Tax-Exempt Bond, the difference constitutes original issue discount, the accrual of which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Tax-Exempt Bonds. Further, such original issue discount accrues actuarially on a constant yield method over the term of each such Tax-Exempt Bond and the basis of each Tax-Exempt Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Tax-Exempt Bonds. Purchasers who acquire Tax-Exempt Bonds with original issue discount are advised that they should consult with their own independent tax advisors with respect to the state and local tax consequences of owning such Tax-Exempt Bonds.

If the issue price of a Tax-Exempt Bond is greater than the stated redemption price at maturity of such Tax-Exempt Bond, the difference constitutes original issue premium, the amortization of which is not deductible from gross income for Federal income tax purposes. Original issue premium is amortized over the period to maturity of such Tax-Exempt Bond based on the yield to maturity of that Bond (or, in the case of a Tax-Exempt Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Tax-Exempt Bond), compounded semiannually. For purposes of determining gain or loss on the sale or other disposition of such Tax-Exempt Bond, the purchaser is required to decrease such purchaser's adjusted basis in such Tax-Exempt Bond by the amount of premium that has amortized to the date of such sale or other disposition. As a result, a purchaser may realize taxable gain for Federal income tax purposes from the sale or other disposition of such Tax-Exempt Bond for an amount equal to or less than the amount paid by the purchaser for that Tax-Exempt Bond. A purchaser of that Tax-Exempt Bond in the initial public offering at the issue price for that Tax-Exempt Bond who holds it to maturity (or, in the case of a callable Tax-Exempt Bond, to its earlier call date that results in the lowest yield on that Tax-Exempt Bond) will realize no gain or loss upon its retirement.

Payments of interest on tax-exempt obligations, including the Tax-Exempt Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If an owner of a Tax-Exempt Bond is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Prospective purchasers of the Tax-Exempt Bonds should consult their own independent tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Tax-Exempt Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Tax-Exempt Bonds ends with the issuance of the Tax-Exempt Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the owners of the Tax-Exempt Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Tax-Exempt Bonds, under current IRS procedures, the IRS will treat the District as the taxpayer and the beneficial owners of the Tax-Exempt Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Tax-Exempt Bonds.

Taxable Bonds

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law, interest on the Taxable Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Taxable Bonds. *INTEREST ON THE TAXABLE BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.*

THE LEGAL DEFEASANCE OF THE TAXABLE BONDS MAY RESULT IN A DEEMED SALE OR EXCHANGE OF THE TAXABLE BONDS UNDER CERTAIN CIRCUMSTANCES; OWNERS OF THE TAXABLE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH AN EVENT. PROSPECTIVE PURCHASERS OF THE TAXABLE BONDS SHOULD ALSO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE TAXABLE BONDS.

The following discussion is generally limited to "U.S. owners," meaning beneficial owners of Taxable Bonds that for United States federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), and certain estates or trusts with specific connections to the United States. ***Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. owners).***

In general, interest paid or accrued on the Taxable Bonds, including qualified stated interest on Discount Bonds (described below), if any, will be treated as ordinary income to U.S. owners. A U.S. owner using the accrual method of accounting for U.S. federal income tax purposes must include interest

paid or accrued on the Taxable Bonds in ordinary income as the interest accrues, while a U.S. owner using the cash receipt and disbursement method of accounting for U.S. federal income tax purposes must include interest in ordinary income when payments are received or constructively received by the owner, except as described below

Certain of the Taxable Bonds (Discount Bonds) may be offered and sold to the public at an original issue discount (OID). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Bonds, provided that excess equals or exceeds a statutory *de minimis* amount (one-quarter of one percent of the Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity, or if required by applicable Treasury Regulations, to an earlier call date). The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the time a U.S. owner owns a Discount Bond (i) constitutes interest includable in the U.S. owner's gross income for federal income tax purposes and (ii) is added to the U.S. owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Discount Bond. The effect of OID is to accelerate the recognition of taxable income during the term of the Discount Bond.

Certain of the Taxable Bonds (Premium Bonds) may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such a Premium Bond with "amortizable bond premium" equal in amount to such excess. The U.S. owner may elect (and that election will apply to all securities purchased at a premium by such U.S. owner), in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

Owners of Discount or Premium Bonds (or book entry interests in them) should consult their own tax advisers as to the determination for federal tax purposes of the amount of OID or amortizable bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and amortizable bond premium for purposes of state or local taxes on (or based on) income.

Upon the sale, exchange, retirement or other taxable disposition of a Taxable Bond, a U.S. owner will recognize gain or loss equal to the difference between the amount realized from the sale, exchange, retirement or other disposition and the owner's adjusted basis in the Taxable Bonds or applicable portion of the adjusted basis. The owner's adjusted basis generally will equal the cost of the Taxable Bonds to the owner, increased by any OID includible in the owner's ordinary income for the Taxable Bonds and reduced by any principal payments on the Taxable Bonds previously received by the owner (including any other payments on the Taxable Bonds that are not qualified stated interest payments) and by any amortizable bond premium allowed as a deduction as described above. Any gain or loss recognized upon a sale, exchange, retirement or other disposition of a bond (excluding amounts attributable to accrued interest or OID) will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. owner's holding period in the Taxable Bonds exceeds one year. Long-term capital gains of individuals

are currently eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

General information reporting requirements will apply to payments of principal and interest made on Taxable Bonds and the proceeds of the sale of Taxable Bonds to non-corporate owners, and "backup withholding" at a rate of 24 percent will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of Taxable Bonds that is a U.S. owner generally can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

For taxable years beginning after December 31, 2012, a U.S. owner that is an individual or estate, or a trust not included in a special class of trust that is exempt from such tax, is subject to a 3.8 percent Medicare tax on the lesser of (i) the U.S. owner's "net investment income" for the taxable year, and (ii) the excess of the U.S. owner's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between $125,000 and $250,000, depending on the individual's circumstances). A U.S. owner's net investment income generally includes interest income on, and net gains from the disposition of, Taxable Bonds, unless such interest income or net gains are derived in the ordinary course of a trader business (other than a trade or business that consists of certain passive or trading activities). A U.S. owner that is an individual, estate, or trust, should consult its tax advisor regarding the applicability of the Medicare tax.

Non-U.S. Owners.

Under the Code, interest and OID on any Taxable Bond whose beneficial owner is not a U.S. owner are generally not subject to United States income tax or withholding tax (including backup withholding) if the non-U.S. owner provides the payor of interest on the Taxable Bonds with an appropriate statement as to its status as a non-U.S. owner. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the non-U.S. owner conducts a trade or business in the United States and the interest or OID on the Taxable Bonds held by the non-U.S. owner is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding). The foregoing is a brief summary of certain federal income tax consequences to a non-U.S. owner. ***Non-U.S. owners should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds.***

Foreign Account Tax Compliance Act.

The Foreign Account Tax Compliance Act ("FATCA") generally imposes a 30 percent withholding tax on interest payments and proceeds from the sale of interest-bearing obligations for payments made after the relevant effective date to (i) certain foreign financial institutions that fail to certify their FATCA status, and (ii) investment funds and non-financial foreign entities if certain disclosure requirements related to direct and indirect United States shareholders and/or United States account holders are not satisfied)

Under applicable Treasury Regulations, the FATCA withholding tax of 30 percent will generally be imposed, subject to certain exceptions, on payments of (i) interest on the Taxable Bonds, and (ii) gross proceeds from the sale or other disposition of other Taxable Bonds, on or after January 1, 2017, where such payments are made to persons described in the preceding paragraph.)

In the case of payments made to a "foreign financial institution" (generally including an investment fund), as a beneficial owner or as its intermediary, the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the United States government (a "FATCA Agreement"), or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction (an "IGA"), in either case to, among other things, collect and provide to the United States or other relevant tax authorities certain information regarding United States account holders of such institution. In the case of payments made to a foreign entity that is not a financial institution (as a beneficial owner), the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such entity either provides the withholding agent with a certification that it does not have any "substantial" United States owner (generally, any specified United States person that directly or indirectly owns more than a specified percentage of such entity) or identifies its "substantial" United States owners.

If Taxable Bonds are held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign financial institutions) generally will be required, subject to certain exceptions, to withhold the 30 percent FATCA tax on payments of dividends or the items described above made to (i) a person (including an individual) that fails to comply with certain information requests, or (ii) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement and that is not required to comply with FATCA pursuant to applicable foreign law enacted in connection with an IGA. Coordinating rules may limit duplicative withholding in cases where the withholding described above in "Non-U.S. Owners" or back-up withholding described above also applies.

If any amount of, or in respect of, United States withholding tax were to be deducted or withheld from payments on Taxable Bonds as a result of a failure by an investor (or by an institution through which an investor holds the Taxable Bonds) to comply with FATCA, neither the District, the Trustee, any paying agent or bond registrar nor any other person would, pursuant to the terms of the Taxable Bonds, be required to pay additional amounts with respect to any Taxable Bond as a result of the deduction or withholding of such tax. Non-U.S. Owners should consult their tax advisors regarding the application of FATCA to the ownership and disposition of Taxable Bonds.

Forms of Opinions

A copy of the proposed forms of opinions of Bond Counsel are attached hereto as APPENDIX D.

ABSENCE OF LITIGATION

To the best of the District's knowledge, there is no lawsuit or claim pending or threatened against the District seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds of the Bonds in accordance with the Indenture, the levy and collection of Special Taxes by the District, the application of Special Taxes and other moneys pledged under the Indenture to pay debt service on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, or the Indenture, or contesting the powers of the District or its authority with respect to the Bonds or its ability to perform its obligations under the Indenture.

CONTINUING DISCLOSURE

The District

The District has covenanted in a continuing disclosure agreement, the form of which is set forth in APPENDIX G – "FORM OF CONTINUING DISCLOSURE AGREEMENT (ISSUER)" (the "Issuer Continuing Disclosure Agreement"), for the benefit of holders and beneficial owners of the Bonds, to provide certain financial information and operating data relating to the District and the Bonds by not later than March 31 of each year, beginning on March 31, 2019. The Issuer Continuing Disclosure Agreement also requires the District to provide notices of the occurrence of certain enumerated events. The initial Dissemination Agent under the Issuer Continuing Disclosure Agreement will be Willdan Financial Services. The covenants of the City in the Issuer Continuing Disclosure Agreement will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

Continuing Disclosure History. Prior to the printing of this Official Statement, an examination was conducted of the continuing disclosure filings by the City during the past five years. The result of such examination indicated a few instances of filing delays.

In connection with the Upland Public Financing Authority's (the "Authority") $12,140,000 Water Revenue Refunding Bonds, Series 2011 (the "2011 Bonds"), the City and the Authority entered into a continuing disclosure undertaking under Rule 15c2-12 to file an annual report by January 31 of each year containing, among other information, its audited financial statements, and if not available by such time, the unaudited financial statements. The annual reports due January 31, 2014, January, 31, 2015 and January 31, 2016 were not filed on a timely basis (the reports were filed on February 20, 2014, April 7, 2015 and May 24, 2016, respectively). In addition, on March 18, 2014, Standard and Poor's Ratings Services ("S&P") upgraded the rating of Assured Guaranty Municipal Corp., the bond insurer for the 2011 Bonds, from AA- to AA and the notice of this event was not posted until May 7, 2014, outside of the required 10 business day reporting period.

In connection with the Successor Agency to the Upland Community Redevelopment Agency's (the "Successor Agency"), $22,090,000 Upland Community Redevelopment Project (A Merged Project) Tax Allocation Refunding Bonds, Issue of 2013 (the "2013 Bonds"), the Successor Agency entered into a continuing disclosure undertaking under Rule 15c2-12 to file an annual report by March 31 of each year containing, among other information, its audited financial statements, and if not available by such time, the unaudited financial statements. The annual reports due March 31, 2014 and March 31, 2015 were not filed on a timely basis (the reports were filed on April 7, 2014 and April 6, 2015, respectively). In addition, on March 18, 2014, S&P upgraded the rating of Assured Guaranty Municipal Corp., the bond insurer for the 2013 Bonds, from AA- to AA and the notice of this event was not posted until May 7, 2014, outside of the required 10 business day reporting period.

On September 14, 2016, the Successor Agency issued its $12,275,000 Upland Community Redevelopment Project (A Merged Project) Tax Allocation Refunding Bonds, Issue of 2016 (the "2016 Bonds") in order to refund the Upland Community Redevelopment Agency outstanding Upland Community Redevelopment Project (A Merged Project), Tax Allocation Refunding Bonds, Issue of 2006 (the "2006 Bonds"). Notice of the refunding of the 2006 Bonds was not posted until October 7, 2016, outside of the required 10 business day reporting period.

The City believes that its procedures with its Dissemination Agent are sufficient in the normal due course to assure substantial compliance with its continuing disclosure undertakings in the future. A default under the Issuer Continuing Disclosure Agreement will not, in itself, constitute an Event of

Default under the Indenture, and the sole remedy under the Issuer Continuing Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply will be an action to compel specific performance. However, a failure to comply with a continuing disclosure undertaking must be reported in accordance with the SEC Rule 15c2-12(b)(5) and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds. Therefore, a failure by the City to comply with the provisions of a continuing disclosure agreement may adversely affect the marketability of the Bonds on the secondary market.

The Landowner

KB will covenant in a continuing disclosure agreement, the form of which is set forth in APPENDIX H – "FORM OF DISCLOSURE AGREEMENT (MAJOR PROPERTY OWNER)" (the "Landowner Continuing Disclosure Agreement"), for the benefit of holders and beneficial owners of the Bonds, to provide certain information relating to KB HOME California LLC, and the parcels it owns within Improvement Area No. 1 of the District on a semi-annual basis, and to provide notices of the occurrence of certain enumerated events. The obligations of the Landowner under its Landowner Continuing Disclosure Agreement will terminate on the earlier of (i) legal defeasance, prior redemption or payment in full of all the Bonds, (ii) the date on which the property in Improvement Area No. 1 of the District owned by KB HOME California LLC, is no longer responsible for 20% or more of the Special Taxes, (iii) the date on which KB HOME California LLC, prepays in full all of the Special Taxes attributable to its property within Improvement Area No. 1 of the District; or (iv) upon the delivery to the Landowner to the District of an opinion of bond counsel to the effect that the information required by the Disclosure Agreement is no longer required; provided that such opinion is based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Landowner or a similar entity.

The initial Dissemination Agent under the Landowner Continuing Disclosure Agreement will be Willdan Financial Services. A default under a Landowner Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Indenture, and the sole remedy under the Landowner Continuing Disclosure Agreement in the event of any failure of KB HOME California LLC or the Dissemination Agent to comply will be an action to compel specific performance. KB HOME California LLC has represented to the District that, KB HOME California LLC is not aware of any material failures by it to comply in any material respect with any previous continuing disclosure undertakings in a written certificate or agreement executed by it to provide annual reports, semi-annual reports or notices of listed events respecting securities offerings in southern California in the last five years.

NO RATING

The District has not applied and does not contemplate applying to any rating agency for an assignment of rating on the Bonds.

UNDERWRITING

The Tax-Exempt Bonds have been sold at a net interest rate of ___%. The Tax-Exempt Bonds are being purchased by the Underwriter at a purchase price of $____ (which represents the aggregate principal amount of the Tax-Exempt Bonds, less original issue discount of $___, less an underwriter's discount of $____). The Taxable Bonds have been sold at a net interest rate of ___%. The Taxable Bonds are being purchased by the Underwriter at a purchase price of $____ (which represents the aggregate principal amount of the Taxable Bonds, less original issue discount of $___, less an underwriter's discount of $____). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase

being subject to certain terms and conditions set forth in such purchase agreement. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

The following professionals are participating in this financing:

- U.S. Bank National Association, Los Angles, California, will serve as the Trustee and will perform the functions required of it under the Indenture.
- Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, is Bond and Disclosure Counsel to the City.
- James Markman, a shareholder of Richards, Watson & Gershon, serves as City Attorney to the City.
- Urban Futures, Inc., Tustin, California, is the municipal advisor to the City. Steve Dukettt, a managing principal of Urban Futures, Inc., also serves as Interim Development Services Director of the City.
- Harris Realty Appraisal, Newport Beach, California, prepared the Appraisal.
- Willdan Financial Services, Temecula, California, is the special tax consultant to the City and will serve as administrator to the City with respect to the District and dissemination agent for the District and KB under the Issuer Continuing Disclosure Agreement and Landowner Continuing Disclosure Agreement, respectively.

EXECUTION

The execution and delivery of the Official Statement has been duly authorized by the City of Upland on behalf of the District.

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

By:_____
City Manager

APPENDIX A
GENERAL IN FORMATION ABOUT THE CITY OF UPLAND AND SAN BERNARDINO COUNTY

The following information is included only for the purpose of supplying general information regarding the City of Upland (the "City") and San Bernardino County (the "County"). This information is provided only for general informational purposes, and provides prospective investors limited information about the City, the County and their economic base. The Bonds are secured and will be paid solely from Net Taxes and certain funds and accounts held under the Indenture as described in the forepart of this Official Statement. The Bonds are not a debt of the City, the County, the State of California (the "State") or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General

The City encompasses 15.2 square miles and is located 35 miles east of Los Angeles in the County of San Bernardino. The City was incorporated on May 15, 1906 and operates as a general law city. It has a council-manager form of government. The Mayor and City Council are elected at large.

The average high temperature is 79.5 degrees, and the average low temperature is 50.2 degrees. Annual precipitation ranges between 17 inches and 39 inches, with higher altitude areas generally receiving between 30 and 39 inches, and the lower elevation areas receiving between 17 and 30 inches.

Population

The City's estimated population on January 1, 2018 was 77,017. The following table shows the population data for the City for the last ten years.

CITY OF UPLAND

Year (as of January 1)	Population
2009	72,715
2010	73,732
2011	74,193
2012	74,462
2013	74,615
2014	74,973
2015	75,617
2016	76,016
2017	76,957
2018	77,017

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

Assessed Valuation

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in each City as of the preceding January 1. For assessment and collection purposes, property is classified either as secured or unsecured and is listed accordingly on separate parts of the assessment roll. The Secured rolls is that part of the assessment roll containing State-assessed public utilities property and

property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the unsecured roll.

Property Taxes on the secured roll are due in two installments, on November 1 and February 1 of the Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the Fiscal Year.

Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31, of the Fiscal Year. A 10% penalty attaches to the delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 30 of the Fiscal Year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

A ten year history of the City's taxable assessed valuation is as follows:

	Total Assessed Value	**% change from Previous Year**
2008-09	$7,150,530,459	--
2009-10	6,922,528,388	-3.19%
2010-11	6,841,349,114	-1.17
2011-12	6,944,331,150	1.51
2012-13	7,057,197,912	1.63
2013-14	7,277,753,115	3.13
2014-15	7,682,100,008	5.56
2015-16	8,067,152,634	5.01
2016-17	8,421,459,871	4.39
2017-18	8,884,615,500	5.50

Source: Urban Futures, Inc.

Employment and Industry

The City is located in San Bernardino County. The available labor force employment figures over the last five years for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA) is as follows.

Riverside-San Bernardino MSA
Annual Average Employment by Indsutry
(In Thousands)

Industry	2013	2014	2015	2016	2017
Total Farm	14,500	14,400	14,800	14,600	14,400
Total Nonfarm	1,233,300	1,289,300	1,353,100	1,401,900	1,451,600
Total Private	1,008,100	1,060,500	1,119,800	1,159,600	1,201,600
Goods Producing	158,600	170,200	183,000	191,500	196,600
Mining, Logging, and Construction	71,200	78,900	86,900	92,900	98,000
Mining and Logging	1,200	1,300	1,300	900	900
Construction	70,000	77,600	85,700	92,000	97,000
Manufacturing	87,300	91,300	96,100	98,600	98,700
Service Providing	1,074,700	1,119,100	1,170,100	1,210,500	1,255,000
Private Service Providing	849,600	890,300	936,800	968,200	1,005,000
Trade, Transportation & Utilities	299,700	314,900	333,200	348,100	366,000
Information, Publishing and Telecommunications	11,500	11,300	11,400	11,500	11,300
Financial Activities	41,800	42,900	43,900	44,600	44,500
Professional & Business Services	131,900	138,700	147,400	145,000	147,200
Educational & Health Services	187,600	194,800	205,100	214,300	224,800
Leisure & Hospitality	135,900	144,800	151,700	160,200	165,700
Other Services	41,100	43,000	44,000	44,600	45,600
Government	225,200	228,800	233,300	242,300	250,000
Total, All Industries[1]	1,247,800	1,303,700	1,367,900	1,416,600	1,466,000

[1] Numbers may not add due to rounding.
Source: State Employment Development Department, Labor Market Information Division, as of March 7, 2018.

Commercial Activity

A summary of historic taxable sales within the City for the last five years is shown in the following table.

CITY OF UPLAND
Taxable Sales (Dollars in Thousands)

	RETAIL AND FOOD SERVICES		TOTAL ALL OUTLETS	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	1,302	$755,379	2,029	$ 907,817
2013	1,357	832,874	2,074	1,005,651
2014	1,445	885,860	2,146	1,076,032
2015	1,571	937,690	2,512	1,154,037
2016[1]	--	952,215	--	1,175,962

[1] Latest data available.
Source: California State Board of Equalization.

Construction Activity

The following is a summary of the valuation of building permits issued by the City for the last five calendar years.

CITY OF UPLAND
Building Permit Valuation

	2013	2014	2015	2016	2017[1]
Residential:					
New single-family units	$5,675,480	$13,794,842	$10,329,071	$19,795,475	$29,465,855
New multi-family	--	--	4,322,221	--	--
Additions, alterations	1,161,601	1,559,058	2,720,348	2,164,677	3,274,877
Total Residential	**$6,837,081**	**$15,353,900**	**$17,371,640**	**$21,960,152**	**$32,740,732**
Non-Residential:					
New commercial	--	--	--	--	--
New industrial	--	--	--	--	--
Other	$1,886,802	$2,097,399	$2,866,821	$2,536,768	$3,720,540
Additions, alterations	209,420	360,825	331,000	579,198	202,500
Total Non-Residential	**$2,096,222**	**$2,458,224**	**$3,197,821**	**$3,115,966**	**$3,923,040**
Total Valuation	**$8,933,303**	**$17,812,124**	**$20,569,461**	**$25,076,118**	**$36,663,772**
Number of New Dwelling Units:					
Single-family	32	41	42	80	115
Multi-family	--	--	20	--	--
Total Units	**32**	**41**	**62**	**80**	**115**

Source: Construction Industry Research Board, Building Permit Summary.
(1) Latest data available.

Community Services and Facilities

The Upland Police Department has 79 sworn officers and 23 black and white and 12 detective fully equipped police vehicles. The Upland Fire Department has 3 full-time and 3 reserve fire engines, one aerial ladder truck, plus automatic aid agreements with the Los Angeles County Fire Department, and the Fire Departments of Montclair, Rancho Cucamonga, Ontario, and Chino Valley Independent Fire District for exchange coverage. Upland has a city fire insurance rating of ISO Class 3. The Fire Department has a four to six minute response time from four (4) different fire stations.

Educational services are provided by the Upland Unified School District (Kindergarten through twelfth grade), which has a student population of approximately 10,300. Fourteen schools make up the Upland Unified School District system, including ten elementary, two middle schools and two high schools. Chaffey Community College is located in Rancho Cucamonga, and California State Polytechnic University, Pomona, is located approximately 10 miles to the west. The Claremont Colleges, a group of six private colleges, are located adjacent to Upland.

The City's park system encompasses over 234.5 acres designated for parks, plus 57 undeveloped acres designated for a regional park site inclusive of 13 developed parks ranging in area from less than one acre to more than 40 acres. Park amenities include picnic facilities, soccer, softball, and baseball fields. The Recreation Division offers a wide range of recreation and cultural programs and programs for age groups of three years old to seniors. The Upland Public Library has over 142,834 volumes in its book collection and provides reference, information and cultural services to its citizens. The City is also the

home of the Chaffey Communities Cultural Center, a non-profit corporation whose mission is to preserve local heritage. Among other things, it owns a museum in downtown Upland that displays collections representative of the San Bernardino West Valley's early heritage.

Health facilities for the City include San Antonio Community Hospital, an acute care facility with a 283-bed capacity and 24-hour basic emergency service. There are approximately 500 physicians on staff at the facility. Upland also has 3 convalescent hospital rest homes.

Transportation

The San Bernardino Freeway (Interstate 10) runs east-west to the south of the City, separating Upland from Ontario, its neighboring city to the south. The City's main north-south highway, Euclid Avenue, provides the main access to the City from the San Bernardino Freeway and continues southward through the cities of Ontario and Chino. The Foothill Freeway (Interstate 210) runs east-west in the northern part of the City.

Air cargo and passenger flight services are provided at the Ontario International Airport, three miles southeast of Upland, which provides nation-wide and international service to major cities from 13 major carriers and two commuters. All major freight forwarding organizations are represented in the area. Los Angeles International Airport is located approximately 50 miles to the west of the City. General aviation is provided by Cable Airport located within the City limits.

Freight and passenger bus service is provided by Greyhound lines. Los Angeles Metropolitan Transportation Authority (MTA), OmniTrans and Dial-a-Lift operate regional and local bus service.

Upland has "Metro-Link" commuter train service at the Upland Town Center Station connecting to the San Bernardino line providing service to Los Angeles and San Bernardino.

Environment, Geography and Geology

Upland has a dry, subtropical climate with average yearly precipitation of 18 inches, temperatures averaging 65 degrees and humidity of about 45%. Air quality is similar to that in the rest of the Los Angeles/San Bernardino Basin with seasonally fluctuating levels of secondary air pollutants.

Geologically, the area is characterized by deep unconsolidated alluvium overlying bedrock. Seismic considerations affecting the City are comparable to those affecting most of the surrounding areas. The elevation is 1,060 feet above sea level.

APPENDIX B

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

APPENDIX C

APPRAISAL REPORT

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL

Upon issuance and delivery of the Bonds, Bond Counsel, proposes to render its final approving opinions in substantially the following forms:

[closing date]

[to come]

APPENDIX E

SUMMARY OF INDENTURE

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix 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 Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, 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 Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. 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 Authority 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 Indenture.

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

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT
(ISSUER)

APPENDIX H

FORM OF CONTINUING DISCLOSURE AGREEMENT
(MAJOR PROPERTY OWNER)

APPENDIX I

DISTRICT BOUNDARY MAP

BOND INDENTURE

By and Between

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

with reference to

$_____
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
SERIES 2018A (IMPROVEMENT AREA NO. 1)

and

$_____
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS
TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

Dated as of November 1, 2018

TABLE OF CONTENTS

		Page
ARTICLE I	DEFINITIONS	2
	Section 1.1 Definitions	2
ARTICLE II	GENERAL AUTHORIZATION AND BOND TERMS	15
	Section 2.1 Amount, Issuance, Purpose and Nature of Bonds	15
	Section 2.2 Type and Nature of Bonds and Parity Bonds	16
	Section 2.3 Equality of Bonds and Parity Bonds; Pledge of Net Taxes	16
	Section 2.4 Description of Bonds; Interest Rates	17
	Section 2.5 Place and Form of Payment	18
	Section 2.6 Form of Bonds and Parity Bonds	19
	Section 2.7 Execution and Authentication	19
	Section 2.8 Bond Register	20
	Section 2.9 Registration of Exchange or Transfer	20
	Section 2.10 Mutilated, Lost, Destroyed or Stolen Bonds	21
	Section 2.11 Validity of Bonds and Parity Bonds	21
	Section 2.12 Book-Entry System	21
	Section 2.13 Representation Letter	22
	Section 2.14 Transfers Outside Book-Entry System	22
	Section 2.15 Payments to the Nominee	23
	Section 2.16 Initial Depository and Nominee	23
ARTICLE III	CREATION OF FUNDS AND APPLICATION OF PROCEEDS	23
	Section 3.1 Creation of Funds; Application of Proceeds	23
	Section 3.2 Deposits to and Disbursements from Special Tax Fund	24
	Section 3.3 Administrative Expenses Account of the Special Tax Fund	25
	Section 3.4 Interest Account and Principal Account of the Special Tax Fund	26
	Section 3.5 Redemption Account of the Special Tax Fund	26
	Section 3.6 Reserve Account of the Special Tax Fund	28
	Section 3.7 Rebate Fund	29
	Section 3.8 Surplus Fund	30
	Section 3.9 Costs of Issuance Fund	31
	Section 3.10 Improvement Fund	31
	Section 3.11 Investments	31
ARTICLE IV	REDEMPTION OF BONDS	33
	Section 4.1 Redemption of Bonds	33
	Section 4.2 Selection of Bonds and Parity Bonds for Redemption	36
	Section 4.3 Notice of Redemption	37

TABLE OF CONTENTS (cont.)

Page

	Section 4.4	Partial Redemption of Bonds or Parity Bonds	38
	Section 4.5	Effect of Notice and Availability of Redemption Money	38
ARTICLE V	COVENANTS AND WARRANTY		39
	Section 5.1	Warranty	39
	Section 5.2	Covenants	39
ARTICLE VI	AMENDMENTS TO INDENTURE		42
	Section 6.1	Supplemental Indentures or Orders Not Requiring Bondowner Consent	42
	Section 6.2	Supplemental Indentures or Orders Requiring Bondowner Consent	43
	Section 6.3	Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds	44
ARTICLE VII	TRUSTEE		44
	Section 7.1	Trustee	44
	Section 7.2	Removal of Trustee	45
	Section 7.3	Resignation of Trustee	45
	Section 7.4	Liability of Trustee	46
	Section 7.5	Merger or Consolidation	47
ARTICLE VIII	EVENTS OF DEFAULT; REMEDIES		47
	Section 8.1	Events of Default	47
	Section 8.2	Remedies of Owners	48
	Section 8.3	Application of Revenues and Other Funds After Default	48
	Section 8.4	Power of Trustee to Control Proceedings	49
	Section 8.5	Appointment of Receivers	50
	Section 8.6	Non-Waiver	50
	Section 8.7	Limitation on Rights and Remedies of Owners	50
	Section 8.8	Termination of Proceedings	51
ARTICLE IX	DEFEASANCE AND PARITY BONDS		51
	Section 9.1	Defeasance	51
	Section 9.2	Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness	52
ARTICLE X	MISCELLANEOUS		55
	Section 10.1	Cancellation of Bonds and Parity Bonds	55
	Section 10.2	Execution of Documents and Proof of Ownership	55
	Section 10.3	Unclaimed Moneys	56
	Section 10.4	Provisions Constitute Contract	56
	Section 10.5	Future Contracts	57
	Section 10.6	Further Assurances	57
	Section 10.7	Severability	57

TABLE OF CONTENTS (cont.)

Page

Section 10.8 Notices 57

EXHIBITS:

EXHIBIT A FORM OF SPECIAL TAX BOND, SERIES 2018A (IMPROVEMENT AREA NO. 1) A-1

EXHIBIT B FORM OF SPECIAL TAX BOND, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1) B-1

EXHIBIT C ADMINISTRATIVE EXPENSE PAYMENT REQUEST FORM C-1

EXHIBIT D FORM OF REQUISITION FOR DISBURSEMENT OF PROJECT COSTS ... D-1

BOND INDENTURE

THIS BOND INDENTURE dated as of November 1, 2018 (this "Indenture"), by and between COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA (the "District") and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee"), governs the terms of the Special Tax Bonds, Series 2018A (Improvement Area No. 1) and Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1), of the District and any Parity Bonds issued in accordance herewith from time to time.

RECITALS:

WHEREAS, the City Council (hereinafter sometimes referred to as the "legislative body of the District") of the City of Upland (the "City"), located in San Bernardino County, California, has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the 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

WHEREAS, based upon Resolution Nos. 6340 and 6341 adopted by the legislative body of the District on June 27, 2016 and an election held on June 27, 2016 authorizing the levy of a special tax and the issuance of bonds by Improvement Area No. 1 of the District, Improvement Area No. 1 of the District is authorized to issue bonds for one or more series, pursuant to the Act, in an aggregate principal amount not to exceed $10,000,000; and

WHEREAS, the legislative body of the District intends to finance certain public facilities through the issuance of bonds in an aggregate principal amount of $_____, designated as the "Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Series 2018A (Improvement Area No. 1)" (the "Series 2018A Bonds"), and in an aggregate principal amount of $_____, designated as the "Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1)" (the "Series 2018B Bonds;" and together with the Series 2018A Bonds, the "Series 2018 Bonds"); and

WHEREAS, the District has determined that all requirements of the Act for the issuance of the Series 2018 Bonds have been satisfied;

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Series 2018 Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Series 2018 Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the Series 2018 Bonds and any Parity Bonds (as defined herein) which may be issued hereunder from time to time, as follows:

ARTICLE I

DEFINITIONS

Section 1.1 **Definitions**. Unless the context otherwise requires, the following terms shall have the following meanings:

"Account" means any account created pursuant to this Indenture.

"Acquisition Agreement" means that certain Acquisition Agreement, dated as of May 1, 2016, by and between the City and SC Baldy View Development Company, LLC, a Delaware limited liability company, as developer.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Section 53311 *et seq.* of the California Government Code.

"Administrative Expenses" means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys' fees and other costs related thereto, the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District's compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by the City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District hereunder.

"Administrative Expenses Account" means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Administrative Expenses Priority Amount" means an amount equal to $20,000 per Bond Year.

"Annual Debt Service" means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"); (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the

investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)
  Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

  Senior Debt obligations

- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)

  Consolidated system-wide bonds and notes

- Federal Home Loan Banks (FHL Banks)

  Consolidated debt obligations

- Federal National Mortgage Association (FNMA)

  Senior debt obligations

  Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

- Financing Corporation (FICO)

  Debt obligations

- Resolution Funding Corporation (REFCORP)

  Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by S&P.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC) or fully collateralized by Permitted Investments described in clauses (1), (2), or (3), in banks (including the Trustee and any affiliate) which have capital and surplus of at least $5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated, at the time of investment, "A-1+" by S&P and "Prime-1" by Moody's and issued by an entity meeting the criteria in either clause (A) or (B):

(A) the entity (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of $500,000,000, and (iii) has debt other than commercial paper, if any, that is rated "A" or higher by S&P or Moody's; or

(B) the entity (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond, and (ii) has commercial paper rated "A-1" or higher by S&P or "A1" by Moody's.

(7) Money market funds rated "AAm" or "AAm-G" by S&P, or better (including funds for which the Trustee or its affiliates provide investment advisory or other management services).

(8) "State Obligations," which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by S&P and "Prime-l" ("MIG-1") by Moody's.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

(9) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's, provided that:

(a) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

(b) The Trustee or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) All other requirements of S&P in respect of repurchase agreements shall be met; and

(e) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P or "Aa3" by Moody's; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(C) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(D) the District and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable to the District, and addressed to, the District and the Trustee;

(E) the investment agreement shall provide that if during its term.

(1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws

(other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee; and

(F) The investment agreement shall state and an opinion of counsel shall be rendered, addressed to the District and the Trustee, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(G) the investment agreement must provide that if during its term:

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate, and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep moneys available for the purposes of this Indenture.

(13) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the

Federal Deposit Insurance Corporation, including certificates of deposit placed through the CDARS program.

"Authorized Representative of the City" means the City Manager of the City, the Finance Director (or if there is no Finance Director, then the Finance Officer or Finance Manager) of the City, or any other person or persons designated by the City Manager or the Finance Director (or if there is no Finance Director, then the Finance Officer or Finance Manager) by a written certificate signed by the City Manager or the Finance Director (or if there is no Finance Director, then the Finance Officer or Finance Manager) and containing the specimen signature of each such person.

"Authorized Representative of the District" means the City Manager of the City, the Finance Director (or if there is no Finance Director, then the Finance Officer or Finance Manager) of the City, or any other person or persons designated by the City Manager or the Finance Director (or if there is no Finance Director, then the Finance Officer or Finance Manager) by a written certificate signed by the City Manager or the Finance Director (or if there is no Finance Director, then the Finance Officer or Finance Manager) and containing the specimen signature of each such person.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the Tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Bond Register" means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

"Bondowner" or "Owner" means the person or persons in whose name or names any Bond or Parity Bond is registered.

"Bonds" means the Series 2018 Bonds.

"Bond Year" means the twelve-month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

"Certificate of an Authorized Representative" means a written certificate executed by an Authorized Representative of the City or District, as applicable.

"Certificate of the Special Tax Administrator" means a certificate of an Authorized Representative of the District, or any successor entity appointed by the City, to administer the calculation and collection of the Special Taxes.

"City" means the City of Upland, California.

"Code" means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement dated as of November __, 2018, by and between the District and Willdan Financial Services, as dissemination agent, together with any amendments thereto.

"Costs of Issuance" means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and any Parity Bonds and the preliminary and final official statements for the Bonds and any Parity Bonds, fees of financial consultants, and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

"Costs of Issuance Fund" means the fund by that name created and established pursuant to Section 3.1 hereof.

"Delivery Date" means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

"Depository" means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Bonds, or any other securities depository acting as Depository under Article II hereof.

"Developed Property" shall have the meaning ascribed to such term in the Rate and Method.

"Direct Debt for IA1 Property" means that portion or the entirety, as applicable, of the aggregate principal amount of the Outstanding Bonds and Parity Bonds (exclusive of any Escrow Bonds) which is allocable to the property in Improvement Area No. 1 of the District.

"District" means Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, established pursuant to the Act and the Resolution of Formation.

"Escrow Bonds" means the principal amount of any Parity Bonds deposited in an escrow account established by a Supplemental Indenture which are not secured by a pledge of the Net Taxes while on deposit therein.

"Event of Default" means an "event of default" described in Section 8.1 hereof.

"Federal Securities" means any of the following: (a) non-callable direct obligations of the United States of America ("Treasuries"), (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (c) pre-

refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, (d) securities eligible for "AAA" defeasance under then existing criteria of S&P, or (e) any combination of the foregoing.

"Indenture" means this Bond Indenture, together with any Supplemental Indenture approved and entered into pursuant to Article VI hereof.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

"Gross Taxes" means the amount of all Special Taxes received by Improvement Area No. 1 of the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of this Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

"Improvement Area No. 1" means Improvement Area No. 1 of the District, as depicted on the boundary map for the District recorded in Book 87 of the County of San Bernardino Boundary Maps, at page 16, in the County Recorder's Office as Document No. 20160175378, on May 5, 2016.

"Improvement Fund" means fund by that name created and established pursuant to Section 3.1 hereof.

"Indenture" means this Bond Indenture, together with any Supplemental Indenture approved and entered into pursuant to Article VI hereof.

"Independent Financial Consultant" means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

(1) is in fact independent and not under the domination of the District or the City;

(2) does not have any substantial interest, direct or indirect, in the District or the City; and

(3) is not connected with the District or the City as a member, officer or employee of the District or the City, but who may be regularly retained to make annual or other reports to the District or the City.

"Information Services" means the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board, at www.emma.msrb.org; provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, Information Services shall mean such other organizations providing information with respect to called bonds as the District may designate to the Trustee in writing.

"Interest Account" means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Interest Payment Date" means each March 1 and September 1, commencing [March 1, 2019]; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

"Investment Agreement" means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (11) of the definition of Authorized Investments herein.

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Net Taxes" means Gross Taxes minus amounts set aside to pay Administrative Expenses not to exceed the Administrative Expenses Priority Amount.

"Nominee" shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.16 hereof.

"Ordinance" means Ordinance No. 1908 adopted by the legislative body of the District on July 11, 2016, providing for the levying of the Special Tax.

"Outstanding Bonds" or "Outstanding Bonds and Parity Bonds" means all Bonds and/or Parity Bonds, as applicable, theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.1 hereof;

(2) Bonds and Parity Bonds for payment or redemption of which moneys shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in this Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to Section 2.9 hereof or for which a replacement has been issued pursuant to Section 2.10 hereof.

"Overlapping Debt" means with respect to any property within Improvement Area No. 1 of the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the "Other CFD Bonds") determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year, plus (c) the principal amount of any bonded indebtedness of Improvement Area No. 1 of the District.

"Parity Bonds" means all bonds, notes, or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in this Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

"Participants" shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds as securities depository.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Prepayments" means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the Rate and Method.

"Principal Account" means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Principal Office of the Trustee" means the corporate trust office of the Trustee located in Los Angeles, California, or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

"Project" means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of

the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

"Rate and Method" means the rate and method of apportionment of Special Taxes for Improvement Area No. 1 approved by the Resolution of Formation and appended as Appendix A to the Notice of Special Tax Lien for Improvement Area No. 1 of the District, recorded in the Official Records of the County of San Bernardino Recorder as Document No. 2016-0292605 on July 21, 2016, as it may be amended or modified from time to time.

"Rating Agency" means Moody's and S&P, or both, as the context requires.

"Rebate Fund" means the fund by that name established pursuant to Section 3.1 hereof in which there are established the Accounts described in Section 3.7 hereof.

"Record Date" means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

"Redemption Account" means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Regulations" means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

"Representation Letter" shall mean the Blanket Letter of Representations from the District to the Depository as described in Section 2.13 hereof.

"Reserve Account" means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Reserve Policy" means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to Section 3.6, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is A+ or better from S&P or A1 or better from Moody's; (b) such letter of credit, insurance policy, or surety bond has a term of at least twelve (12) months; (c) such letter of credit, insurance policy, or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy, or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the amount Interest Account and the Principal Account for the purpose of making payments required pursuant to this Indenture.

"Reserve Requirement" shall mean, as of the date of calculation, an amount equal to the least of (i) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; (ii) 10% of the original amount of the Bonds and Parity Bonds, if any ("amount" meaning the principal amount of each series of the Bonds and any Parity Bonds, unless a series was issued with original issue discount greater than two percent of the principal amount, or original issue premium greater than the sum of two percent of the principal amount plus original issue premium

attributable exclusively to reasonable underwriters' compensation, in which case "amount" means issue price); or (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any.

"Resolution of Formation" means Resolution No. 6340 adopted by the City Council of the City on June 27, 2016, pursuant to which the City formed the District.

"S&P" means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, its successors and assigns.

"Series 2018 Bonds" means, collectively, the Series 2018A Bonds and the Series 2018B Bonds.

"Series 2018 Term Bonds" means, collectively, the Series 2018A Term Bonds and the Series 2018B Term Bonds.

"Series 2018A Bonds" means the District's Special Tax Bonds, Series 2018A (Improvement Area No. 1), issued on their Delivery Date in the aggregate principal amount of $_____.

"Series 2018A Term Bonds" means, collectively, the Series 2018A Bonds maturing on September 1, 20__ and September 1, 20__.

"Series 2018B Bonds" means the District's Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1), issued on their Delivery Date in the aggregate principal amount of $_____.

"Series 2018B Term Bonds" means, collectively, the Series 2018B Bonds maturing on September 1, 20__ and September 1, 20__.

"Sinking Fund Payment" means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedules set forth in Section 4.1(b) hereof and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

"Special Tax Fund" means the fund by that name created and established pursuant to Section 3.1 hereof.

"Special Taxes" means the taxes authorized to be levied by the District on property within Improvement Area No. 1 of the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the June 27, 2016 election in Improvement Area No. 1 of the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien, and penalties and interest thereon.

"Subaccount" means any subaccount created pursuant to this Indenture.

"Supplemental Indenture" means any supplemental indenture amending or supplementing this Indenture.

"Surplus Fund" means the fund by that name created and established pursuant to Section 3.1 hereof.

"Tax Certificate" means the Certificate Regarding Compliance with Certain Tax Matters (or similar document) pertaining to the use and investment of proceeds of a series of Bonds, executed and delivered by a duly authorized officer of the District and of the City on the related Delivery Date, including any and all exhibits and attachments thereto.

"Tax-exempt" means, with respect to interest on any obligations of a state or local government, including the interest on the Bonds, that such interest is excluded from gross income for federal income tax purposes whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax, under the Code.

"Term Bonds" means the Series 2018 Term Bonds.

"Trustee" means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, at its corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in Sections 7.2 or 7.3 and any successor thereto.

"Underwriter" means Hilltop Securities Inc., with respect to the Series 2018 Bonds.

"Value of IA1 Property" means for all parcels of property in the Improvement Area No. 1 of the District which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, either (i) the fair market value, as of the date of the appraisal provided for below of such parcels, including with respect to such parcels the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City's policy for appraisals, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) the full cash value of any or all of such parcels, including with respect to such parcels the value of the improvements thereon, as set forth on the last equalized assessment roll of the County Assessor of the County of San Bernardino; or (iii) any combination of clauses (i) and (ii).

ARTICLE II

GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1 **Amount, Issuance, Purpose and Nature of Bonds**. Under and pursuant to the Act, the Bonds in the aggregate principal amount of $_____ (_____ Dollars) shall be issued for the purpose of financing the Project, funding the Reserve Account at the initial Reserve Requirement, and paying Costs of Issuance;

provided that the aggregate principal amount of the Bonds and any Parity Bonds authorized by the legislative body in accordance with Section 9.2 hereof shall not exceed the total indebtedness presently authorized or subsequently authorized by the qualified electors of Improvement Area No. 1 of the District in accordance with the Act. The Bonds and any Parity Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expenses Account of the Special Tax Fund).

Section 2.2 **Type and Nature of Bonds and Parity Bonds**. Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expenses Account), as more fully described herein. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions in contravention of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account) which are, under the terms of this Indenture and the Act, set aside for the payment of the Bonds and any Parity Bonds, and interest thereon, and neither the members of the legislative body of the District or the City Council of the City nor any persons executing the Bonds or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds by reason of their issuance.

Notwithstanding anything to the contrary contained in this Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or any Parity Bonds, or for the performance of any covenants contained herein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Section 2.3 **Equality of Bonds and Parity Bonds; Pledge of Net Taxes**. Pursuant to the Act and this Indenture, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account), without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from

the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account), which are hereby pledged and set aside for the payment of the Bonds and any Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expenses Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by this Indenture or any Supplemental Indenture. Notwithstanding any provision contained in this Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Improvement Fund, the Costs of Issuance Fund, or the Administrative Expenses Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

Section 2.4 **Description of Bonds; Interest Rates**. The Bonds and any Parity Bonds shall be issued in fully registered form in denominations of $5,000 or any integral multiple thereof. The Bonds and any Parity Bonds of each issue shall be numbered as desired by the Trustee.

The Series 2018A Bonds shall be designated "COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)." The Series 2018A Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on [March 1, 2019] and each Interest Payment Date thereafter:

Maturity Date (September 1)	Principal Amount	Interest Rate
	$	%

The Series 2018B Bonds shall be designated "COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN

BERNARDINO, STATE OF CALIFORNIA, SPECIAL TAX BONDS, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)." The Series 2018A Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on [March 1, 2019] and each Interest Payment Date thereafter:

Maturity Date (September 1)	Principal Amount	Interest Rate
	$	%

Interest shall be payable on each Bond and Parity Bond from the date established in accordance with Section 2.5 below on each Interest Payment Date thereafter until the principal sum of that Bond or Parity Bond has been paid; provided, however, that if at the maturity date of any Bond or Parity Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of this Indenture, such Bonds and Parity Bonds shall then cease to bear interest. Interest due on the Bonds and Parity Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Section 2.5 **Place and Form of Payment**. The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Trustee, or at the designated office of any successor Trustee. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond or Parity Bond, 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 or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on that Bond or Parity 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 or Parity Bond, interest on that Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed on the Interest Payment Date by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of $1,000,000 or more in principal amount of the Bonds or of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account designated by such Owner.

Section 2.6 **Form of Bonds and Parity Bonds**. The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the forms attached hereto as Exhibit A and Exhibit B, which form is hereby approved and adopted as the form of such Bonds and of the certificate of authentication. Each issue of Parity Bonds and the certificate of authentication therefor shall be in the form provided in the Supplemental Indenture for such issue of Parity Bonds.

Until definitive Bonds or Parity Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds or Parity Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds or Parity Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds or Parity Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of this Indenture as definitive Bonds or Parity Bonds. If the District issues temporary Bonds or Parity Bonds, it shall execute and furnish definitive Bonds or Parity Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond or Parity Bond may be surrendered to the Trustee at its office, without expense to the Owner, in exchange for a definitive Bond or Parity Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds or Parity Bonds so surrendered shall be cancelled by the Trustee and shall not be reissued.

Section 2.7 **Execution and Authentication**. The Bonds and Parity Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Clerk of the City, or any duly appointed deputy City Clerk, in their capacity as officers of the District, and the seal of the District (or a facsimile thereof) may be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the City Clerk of the City Council. In case any one or more of the officers who shall have signed or sealed any of the Bonds or Parity Bonds shall cease to be such officer before the Bonds or Parity Bonds so signed and sealed have been authenticated and delivered by the Trustee (including new Bonds or Parity Bonds delivered pursuant to the

provisions hereof with reference to the transfer and exchange of Bonds or Parity Bonds or to lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds or Parity Bonds shall nevertheless be valid and may be authenticated and delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds or Parity Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the forms set forth in Exhibit A and Exhibit B attached hereto shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee.

Section 2.8 **Bond Register**. The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in Section 2.9 below, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as herein provided.

The District and the Trustee may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Trustee shall not be affected by any notice to the contrary. The District and the Trustee may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Trustee of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Section 2.9 **Registration of Exchange or Transfer**. Subject to the limitations set forth in the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the office of the Trustee, accompanied by delivery of written instrument of transfer in a form acceptable to the Trustee and duly executed by the Bondowner or his or her duly authorized attorney.

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

Section 2.10 **Mutilated, Lost, Destroyed or Stolen Bonds**. If any Bond or Parity Bond shall become mutilated, the District shall execute, and the Trustee shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to Section 10.1 hereof. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the Trustee shall be given, the District shall execute and the Trustee shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits hereof with all other Bonds and Parity Bonds issued hereunder. The Trustee shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding hereunder, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds or Parity Bonds.

Section 2.11 **Validity of Bonds and Parity Bonds**. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and shall not be dependent upon the completion of the financing of the Project or upon the performance by any Person of his obligation with respect to the Project, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Section 2.12 **Book-Entry System.** The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each of the maturities of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered in the registration books kept by the Trustee in the name of the Nominee as nominee of the Depository. Except as provided in Section 2.14 hereof, all of the Outstanding Bonds shall be registered in the registration books kept by the Trustee in the name of the Nominee. At the election of the District, any Parity Bonds may also be issued as book-entry bonds registered in the name of the Nominee as provided herein, in which case the references in Sections 2.12 through 2.15 to "Bonds" shall be applicable to such Parity Bonds.

With respect to Bonds registered in the registration books kept by the Trustee in the name of the Nominee, the District and the Trustee shall have no responsibility or obligation to any such Participant or to any Person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery

to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event the Bonds are redeemed in part, or (iv) the payment to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any amount with respect to principal of, premium, if any, or interest due with respect to the Bonds. The District and the Trustee may treat and consider the Person in whose name each Bond is registered in the registration books kept by the Trustee as the holder and absolute owner of such Bond for the purpose of payment of the principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest due on the Bonds only to or upon the order of the respective Owner, as shown in the registration books kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the District's obligations with respect to payment of the principal, premium, if any, and interest due on the Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the registration books kept by the Trustee, shall receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by the Depository to the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such new nominee of the Depository.

Section 2.13 **Representation Letter.** In order to qualify the Bonds and any Parity Bonds which the District elects to register in the name of the Nominee for the Depository's book-entry system, an authorized representative of the District is hereby authorized to execute from time to time and deliver to such Depository the Representation Letter. The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 5.1 or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Trustee. The District agrees to take all action necessary to continuously comply with all representations made by it in the Representation Letter. In addition to the execution and delivery of the Representation Letter, the Authorized Representatives of the District are hereby authorized to take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

Section 2.14 **Transfers Outside Book-Entry System.** In the event (i) the Depository determines not to continue to act as securities depository for the Bonds, or (ii) the District determines that the Depository shall no longer so act, then the District will discontinue the book-entry system with the Depository. If the District fails to identify another qualified securities depository to replace the Depository then the Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but shall be registered in whatever name or names Persons transferring or exchanging Bonds shall designate, in accordance with the provisions of Section 2.9 hereof.

Section 2.15 **Payments to the Nominee.** Notwithstanding any other provisions of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest due with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

Section 2.16 **Initial Depository and Nominee.** The initial Depository under this Article shall be The Depository Trust Company, New York, New York. The initial Nominee shall be Cede & Co., as Nominee of The Depository Trust Company, New York, New York.

ARTICLE III

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

Section 3.1 Creation of Funds; Application of Proceeds.

(a) There is hereby created and established and shall be maintained by the Trustee the following funds and accounts:

(1) The Community Facilities District No. 2016-1 (Harvest at Upland) IA No. 1 Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account, and an Administrative Expenses Account).

(2) The Community Facilities District No. 2016-1 (Harvest at Upland) IA No. 1 Improvement Fund (the "Improvement Fund") (in which there shall be established and created a Series 2018A Account and a Taxable Series 2018B Account).

(3) The Community Facilities District No. 2016-1 (Harvest at Upland) IA No. 1 Costs of Issuance Fund (the "Costs of Issuance Fund").

(4) The Community Facilities District No. 2016-1 (Harvest at Upland) IA No. 1 Rebate Fund (the "Rebate Fund").

(5) The Community Facilities District No. 2016-1 (Harvest at Upland) IA No. 1 Surplus Fund (the "Surplus Fund").

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee, and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of this Article III and shall disburse investment earnings thereon in accordance with the provisions of Section 3.11 hereof.

In connection with the issuance of any Parity Bonds, the Trustee, at the direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

(b) A portion of the proceeds of the sale of the Series 2018A Bonds in the amount of $_____ (such amount being equal to the principal amount of the Series 2018A Bonds, plus a net original issue [premium/discount] of $_____, less an Underwriter's discount of $_____) shall be received by the Trustee on behalf of the District, deposited into the Bond Proceeds Fund, and transferred as follows:

(1) $_____ shall be deposited in the Series 2018A Account of the Improvement Fund;

(2) $_____ shall be deposited in the Costs of Issuance Fund to pay a pro rata share of the Costs of Issuance of the Series 2018 Bonds; and

(3) $_____ shall be deposited in the Reserve Account of the Special Tax Fund, which is equal to the initial Reserve Requirement for the 2018A Bonds.

The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

(c) A portion of the proceeds of the sale of the Series 2018B Bonds in the amount of $_____ (such amount being equal to the principal amount of the Series 2018B Bonds, plus a net original issue [premium/discount] of $_____, less an Underwriter's discount of $_____) shall be received by the Trustee on behalf of the District, deposited into the Bond Proceeds Fund, and transferred as follows:

(1) $_____ shall be deposited in the Series 2018B Account of the Improvement Fund;

(2) $_____ shall be deposited in the Costs of Issuance Fund to pay a pro rata share of the Costs of Issuance of the Series 2018 Bonds; and

(3) $_____ shall be deposited in the Reserve Account of the Special Tax Fund, which is equal to the initial Reserve Requirement for the 2018B Bonds.

The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

Section 3.2 **Deposits to and Disbursements from Special Tax Fund**.

(a) To the extent the District receives any Prepayments, the District shall deposit such Prepayments with the Trustee, together with a Certificate of an Authorized Representative designating such Special Taxes as Prepayments and specifying the respective amounts to be deposited in the various funds and accounts hereunder, and the Trustee shall make such deposits as specified in such certificate promptly after its receipt thereof. Except for any Prepayments to be deposited pursuant to the foregoing, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections 3.3 through 3.8, in the following order of priority, to:

(1) the Administrative Expenses 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;

(6) the Rebate Fund; and

(7) the Surplus Fund.

Notwithstanding the foregoing and any other provision of this Indenture to the contrary, in the event of a shortfall of amounts on deposit in the Special Tax Fund to make the transfers, pursuant to Sections 3.4 and 3.5 herein, to the Principal Account of the Special Tax Fund and to the Redemption Account of the Special Tax Fund necessary to pay in full both (x) the principal payment due on the Bonds and any Parity Bonds maturing on the applicable September 1 and (y) the Sinking Fund Payment due on any Outstanding Bonds and any Parity Bonds on such September 1, the Trustee shall transfer the available amount from the Special Tax Fund to the Principal Account and the Redemption Account on a pro rata basis (calculated with reference to the respective principal payment and Sinking Fund Payment coming due and payable on such September 1) at least five (5) Business Days prior to such September 1.

(b) At maturity of all of the Bonds and any Parity Bonds and, after all principal and interest then due on the Bonds and any Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Section 3.3 **Administrative Expenses Account of the Special Tax Fund**. From time to time, the District may provide the Trustee with a Certificate of an Authorized Representative of the District in substantially the form provided as Exhibit C hereto, requesting the payment of Administrative Expenses as set forth therein. Upon its receipt of any such certificate, the Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expenses Account of the Special Tax Fund amounts necessary to make timely payment of any such Administrative Expenses as set forth in the Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Priority Amount until such time as there has been deposited (a) to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and any Parity Bonds due in such Bond Year, (b) to the Redemption Account an amount, together with any amounts already on deposit therein, that is sufficient to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in Section 4.1(b) hereof and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds, and (c) to the Reserve Account an amount, together with any amounts already on deposit therein, that is sufficient to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses

Priority Amount may be transferred to the Administrative Expenses Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expenses Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative. The Trustee shall have no obligation to transfer any amount from the Special Tax Fund for deposit in the Administrative Expenses Account of the Special Tax Fund except upon its receipt of a Certificate of an Authorized Representative of the District pursuant to this section.

Section 3.4 **Interest Account and Principal Account of the Special Tax Fund**. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due and after making the transfer required by Section 3.3, if any, at least five (5) Business Days prior to each March 1 and September 1, the Trustee shall 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, any Parity 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 (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account five (5) Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity 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 and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five (5) Business Days prior to September 1 of each year, commencing [September 1, 2019], shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Section 3.5 **Redemption Account of the Special Tax Fund**.

(a) With respect to each September 1 on which a Sinking Fund Payment is due and after the deposits have been made to the Administrative Expenses Account, the Interest Account, and the Principal Account of the Special Tax Fund as required by Sections 3.3 and 3.4 hereof, the Trustee shall 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 (5) Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and any Parity 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 shall be made up by an

immediate transfer from the Reserve Account, if funded, pursuant to Section 3.6 below. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in Section 4.1(b) hereof, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedules in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to Sections 3.3 and 3.4 above and to the Redemption Account for Sinking Fund Payments then due pursuant to subparagraph (a) of this Section, and in accordance with the District's election to call Bonds for optional redemption as set forth in Section 4.1(a) hereof, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expenses Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to Section 4.1(c) hereof for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments.

(d) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account, other than Prepayments, may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to Section 4.1(a) or 4.1(c) hereof, as applicable, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Section 3.6 **Reserve Account of the Special Tax Fund**. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The Reserve Requirement may be satisfied by crediting to the Reserve Account moneys or one or more Reserve Financial Guaranties or any combination thereof, which in the aggregate make funds available in the Reserve Account in an amount equal to the Reserve Requirement. Upon the

deposit with the Trustee of any such Reserve Policy, the Trustee shall release moneys from the Reserve Account to the Interest Account of the Special Tax Fund, in an amount equal to the face amount of such Reserve Policy. If funded, the amounts in the Reserve Account shall be applied as follows:

(a) Except as otherwise provided in this Section 3.6, moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity 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 and for the purpose of making any required transfer to the Rebate Fund pursuant to Section 3.7 hereof upon written direction from the District. 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 and Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) On or after March 2 and September 2 of each year, after making the required transfers referred to in Sections 3.3, 3.4 and 3.5 above, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District 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 shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with a redemption of Bonds pursuant to Section 4.1(a) or (c), or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with Section 9.1 hereof, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement (taking into account Outstanding Bonds and Parity Bonds after such redemption or partial defeasance). The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to Section 9.1(b) or (c), as applicable, to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds in accordance herewith or, if applicable, with any

Supplemental Indenture for an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue.

(e) Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1, and such moneys shall be transferred and deposited into the Interest Account of the Special Tax Fund; provided, however, to the extent that, as of a date ninety (90) days prior to the next occurring Interest Payment Date, the amount on deposit in the Reserve Account is equal to or greater than the aggregate remaining principal payments to be paid on the Bonds and any Parity Bonds, any and all amounts in the Reserve Account may be applied to effect a redemption of all Outstanding Bonds pursuant to Section 4.1(a) and any Outstanding Parity Bonds in accordance with any Supplemental Indenture. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to Section 9.1(b) or (c), as applicable, to defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date.

Section 3.7 **Rebate Fund**.

(a) To the extent and at such time necessary to accommodate rebate amounts pursuant to the Tax Certificate, Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. As necessary, the Trustee shall establish a separate Account within the Rebate Fund with respect to each issue of Bonds or Parity Bonds. All amounts on deposit in the Rebate Fund with respect to the Bonds or an issue of Parity Bonds shall be governed by this Section 3.7 and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied. The District shall calculate and make, or cause to be calculated and made, the rebate amount in accordance with the Tax Certificate.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund (including the Accounts therein) with respect to the Bonds or an issue of Parity Bonds after redemption and payment of such issue and after making the payments required under the Tax Certificate, shall be withdrawn by the Trustee at the written direction of the District and utilized in any manner by the District for any lawful purpose.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or this Indenture to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance and final payment of the Bonds and any Parity Bonds with respect to which an Account has been created in the Rebate Fund.

(d) Amendment Without Consent of Owners. This Section 3.7 may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any issue of Parity Bonds issued on a Tax-exempt basis.

The Trustee shall not be responsible for calculating rebatable arbitrage or for the adequacy or correctness or any rebate report or rebate calculations. The Trustee shall be deemed conclusively to have complied with the provisions of this Indenture regarding calculation and payment of rebatable arbitrage if it follows the directions of the District, and it shall have no independent duty to review or such calculations or enforce the compliance by the District with such rebate requirements.

Section 3.8 **Surplus Fund**. After making the transfers required by Sections 3.3, 3.4, 3.5, 3.6 and 3.7 hereof, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to Section 5.2(b) hereof. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity 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, (iii) to the Administrative Expenses Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expenses Account of the Special Tax Fund are insufficient to pay Administrative Expenses, or (iv) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or any Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative, and the Trustee will segregate such amount into a separate subaccount of the Surplus Fund. The moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a Tax-exempt basis for federal income tax purposes.

Section 3.9 **Costs of Issuance Fund.** The moneys in the Costs of Issuance Fund shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District. Any balance therein shall be transferred by the Trustee to the Improvement Fund 180 days after the Delivery Date of the Bonds or Parity Bonds, as applicable, and the Trustee shall thereafter close the Costs of Issuance Fund.

Section 3.10 **Improvement Fund.**

(a) The moneys in the Improvement Fund shall be applied exclusively to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee from the such accounts and subaccounts of the City Facilities Fund as specified in a Requisition for Disbursement of Project Costs, substantially in the form of Exhibit D attached hereto, which must be submitted in connection with each requested disbursement.

(b) Requisitions for Project Costs identified on Exhibit B of the Acquisition Agreement as "Development Agreement Fee" and [specify DIFs only eligible for taxable funding] shall be submitted and approved by the District solely for disbursement from the Taxable Series 2018B Account of the Improvement Fund.

(c) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Improvement Fund is no longer needed to pay Project Costs, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Improvement Fund to the Principal Account or Redemption Account to the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a Tax-exempt basis for federal income tax purposes.

Section 3.11 **Investments**. Moneys held in any of the Funds, Accounts, and Subaccounts under this Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund, the Improvement Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account and Subaccount therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds, Accounts, and Subaccounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in Section 3.6. Moneys in the Funds, Accounts, and Subaccounts held under this Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund.

(b) Moneys in the Improvement Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Improvement Fund. Notwithstanding anything herein to the contrary, amounts in the Improvement Fund three (3) years after the

Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a Tax-exempt basis which are remaining on deposit in the Improvement Fund on the date which is three (3) years following the date of issuance of such issue of Parity Bonds shall be invested only in Authorized Investments the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a Tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

(c) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(d) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five (5) years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with Section 3.6 hereof; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(e) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to Section 3.7 hereof or in Authorized Investments of the type described in clause (7) of the definition thereof.

(f) In the absence of written investment directions from the District, the Trustee shall hold all monies uninvested.

The Trustee shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations hereunder, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything herein to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of this Indenture.

The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for such investment. The Trustee or its affiliate, as applicable, may sell at the best market price reasonably obtainable at the time by the Trustee or its affiliate, as applicable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of Section 7.4, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established hereunder, but shall account for each separately.

The Trustee shall furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the District. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost, and other trade confirmations may be obtained from the applicable broker.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1 **Redemption of Bonds**.

(a) Optional Redemption.

The Bonds maturing on or before September 1, 20__ are not subject to call and redemption prior to maturity. The Bonds maturing on or after September 1, 20__ shall be subject to call and redemption prior to maturity and may be redeemed, at the option of the District, from any source of funds on any date on or after September 1, 20__ in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, [at a redemption price equal to 100% of the principal amount to be redeemed, without premium,] together with accrued interest to the date of redemption.

In the event the District elects to redeem Bonds as provided above, the District shall give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds of each maturity to be redeemed. The notice to the Trustee shall be given at least forty-five (45) but no more than ninety (90) days prior to the redemption date, or by such later date as is acceptable to the Trustee, in its sole discretion.

(b) Mandatory Sinking Fund Redemption.

(i) The Series 2018A Bonds maturing on September 1, 20__ and September 1, 20__ and (collectively, the "Series 2018A Term Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 20__ and September 1, 20__, respectively, and on each September 1 thereafter prior to maturity, in

accordance with the respective schedules of Sinking Fund Payments set forth below. The Series 2018A Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Series 2018A Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

SERIES 2018A TERM BONDS MATURING SEPTEMBER 1, 20__

Redemption Date (September 1)	Principal Amount
	$
(maturity)	

SERIES 2018A TERM BONDS MATURING SEPTEMBER 1, 20__

Redemption Date (September 1)	Principal Amount
	$
(maturity)	

In the event of a partial optional redemption or extraordinary redemption of the Series 2018A Term Bonds, each of the remaining Sinking Fund Payments for such Series 2018A Term Bonds, as applicable, will be reduced, as nearly as practicable, on a *pro rata* basis, in integral multiples of $5,000.

(ii) The Series 2018B Bonds maturing on September 1, 20__ and September 1, 20__ and (collectively, the "Series 2018B Term Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 20__ and September 1, 20__, respectively, and on each September 1 thereafter prior to maturity, in accordance with the respective schedules of Sinking Fund Payments set forth below. The Series 2018B Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Series 2018B Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

SERIES 2018B TERM BONDS MATURING SEPTEMBER 1, 20__

Redemption Date (September 1)	Principal Amount
	$

(maturity)

SERIES 2018B TERM BONDS MATURING SEPTEMBER 1, 20__

Redemption Date (September 1)	Principal Amount
	$

(maturity)

In the event of a partial optional redemption or extraordinary redemption of the Series 2018B Term Bonds, each of the remaining Sinking Fund Payments for such Series 2018B Term Bonds, as applicable, will be reduced, as nearly as practicable, on a *pro rata* basis, in integral multiples of $5,000.

(iii) Purchase of Series 2018 Term Bonds in Lieu of Redemption. If during the Fiscal Year immediately preceding one of the redemption dates specified above the District purchases Series 2018A Term Bonds or Series 2018B Term Bonds pursuant to Section 4.1(d), at least forty-five (45) days prior to the redemption date, the District shall notify the Trustee as to the principal amount purchased and the amount of Series 2018A Term Bonds or Series 2018B Term Bonds so purchased, as applicable, shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the Series 2018A Term Bonds or Series 2018B Term Bonds, as applicable, so purchased. All Bonds purchased pursuant to this subsection shall be cancelled pursuant to Section 10.1 hereof.

(c) Extraordinary Redemption.

The Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities on any Interest Payment Date, and shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account pursuant to Section 3.2, plus amounts transferred from the Reserve Account pursuant to Section 3.6(c), at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

Redemption Dates	**Redemption Price**

On or before March 1, 20__	[103]%
September 1, 20__ and March 1, 20__	[102]
September 1, 20__ and March 1, 20__	[101]
September 1, 20__ and thereafter	[100]

The District shall give written notice to the Trustee of its intention to redeem Bonds pursuant to this subsection, the redemption date, and the principal amount of the Bonds of each maturity to be redeemed at least forty-five (45) but no more than ninety (90) days prior to the redemption date, or by such later date as is acceptable to the Trustee, in its sole discretion.

(d) Purchase In Lieu of Redemption.

As provided in Section 3.5(d) and Section 4.1(b)(iii), as applicable, in lieu or partially in lieu of any optional redemption, extraordinary redemption or mandatory sinking fund redemption as described above, moneys deposited in the Redemption Account, other than Prepayments, may be used to purchase Outstanding Bonds. Such purchases of Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

(e) The redemption provisions for Parity Bonds shall be set forth in a Supplemental Indenture.

Section 4.2 **Selection of Bonds and Parity Bonds for Redemption**. Whenever provision is made in this Indenture for the redemption of less than all of any series of Bonds or Parity Bonds Outstanding, the Trustee shall select the Bonds or Parity Bonds to be redeemed from all Outstanding Bonds or Parity Bonds of such series or such given portion thereof not previously called for redemption, on a pro rata basis among the maturities (unless the maturity or maturities are otherwise specified in this Indenture or in writing by the District) and by lot within a maturity in any manner which the Trustee in its discretion shall deem appropriate. For purposes of such selection, all Bonds or Parity Bonds of a denomination of more than $5,000 shall be deemed to be comprised of separate $5,000 portions, and such portions shall be treated as separate Bonds or Parity Bonds, as applicable, which may be separately redeemed. The procedure for the selection of Parity Bonds for redemption may be modified as set forth in the Supplemental Indenture for such Parity Bonds. The Trustee shall promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

Section 4.3 **Notice of Redemption**. When Bonds or Parity Bonds are due for redemption under Section 4.1 above or under another redemption provision set forth in a Supplemental Indenture relating to any Parity Bonds, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds or Parity Bonds. Such notice of redemption shall (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds or Parity Bonds selected for redemption, except that where all of the Bonds or all of an issue of Parity Bonds are subject to redemption, or all the Bonds or Parity 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 or Parity Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds or Parity Bonds are to be redeemed; (e) in the case of Bonds or Parity Bonds to be redeemed only in part, state the portion of such Bond or Parity Bond which is to be redeemed; (f) state the date of issue of the Bonds or Parity Bonds as originally issued; (g) state the rate of interest borne by each Bond or Parity Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds or Parity Bonds being redeemed as shall be specified by the Trustee. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond or Parity 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 thirty (30) days but no more than forty-five (45) days prior to the redemption date, the Trustee 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 Parity 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 Parity Bonds, or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

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

Each further notice of redemption shall be sent not later than the date that notice of redemption is mailed to the Bondowners pursuant to the first paragraph of this Section by registered or certified mail or overnight delivery service to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and Parity Bonds as determined by Trustee and to the Information Services in such electronic format and manner as specified by the Information Services.

The District shall have the right to rescind any optional redemption by written notice to the Trustee one (1) Business Day prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under this Indenture. The District and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

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

Section 4.4 **Partial Redemption of Bonds or Parity Bonds**. Upon surrender of any Bond or Parity Bond to be redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds or a new Parity Bond or Parity Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity or, in the case of surrender of a Parity Bond, a new Parity Bond or Parity Bonds subject to the foregoing limitations.

Section 4.5 **Effect of Notice and Availability of Redemption Money**. Notice of redemption having been duly given, as provided in Section 4.3 hereof, 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:

(a) the Bonds and Parity 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 this Indenture or in any Supplemental Indenture with respect to any Parity Bonds, anything in this Indenture or in the Bonds or the Parity Bonds to the contrary notwithstanding;

(b) upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds and Parity Bonds shall be paid to the Owners thereof;

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

(d) as of the date fixed for redemption no Owner of any of the Bonds, Parity Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of this Indenture or any Supplemental Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

ARTICLE V

COVENANTS AND WARRANTY

Section 5.1 **Warranty**. The District shall preserve and protect the security pledged hereunder to the Bonds and any Parity Bonds against all claims and demands of all persons.

Section 5.2 **Covenants**. So long as any of the Bonds or Parity Bonds issued hereunder are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and this Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond

issued hereunder, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with this Indenture to the extent that Net Taxes and other amounts pledged hereunder are available therefor, and that the payments into the Funds and Accounts created hereunder will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued hereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in this Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds issued in accordance with Section 9.2 hereof. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Levy of Special Tax. Beginning in Fiscal Year 2018-19 and so long as any Bonds or Parity Bonds issued under this Indenture are Outstanding, but subject to the Rate and Method, the legislative body of the District covenants to levy the Special Tax in an amount equal to the Special Tax Requirement (as defined in the Rate and Method) for Improvement Area No. 1, which includes, but is not limited to, amounts sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against any parcel with either (A) [at least four (4) consecutive installments] of delinquent Special Taxes or (B) delinquent Special Taxes in excess of [$10,000] on any one parcel, in each instance by the December 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the December 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided, however, that the District may elect to defer foreclosure proceedings on any parcel so long as the amount on deposit in the Reserve Account is at least equal to the Reserve Requirement, and such delinquencies will not cause moneys in the Reserve Account to be withdrawn on the next succeeding Interest Payment Date. In no event shall such foreclosure actions exceed the time periods specified in Section 53356.1 of the Act.

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

Notwithstanding the foregoing, the District may elect (but is not obligated) to advance the amount of any particular delinquency (excluding penalties and interest) and deposit such amount to the Special Tax Fund. Upon a deposit of such money in the Special Tax Fund, the District will not need to initiate a foreclosure action as provided above; provided, however, the District may reimburse itself for such advance when the Special Tax on such property is paid in the amount of such advance plus interest on such amount at a rate equal to the yield on the Outstanding Bonds. Interest and penalties paid in excess of the amount advanced by the District shall be deposited in the Special Tax Fund.

Notwithstanding the foregoing, if at any time, the County's Teeter Plan (adopted pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code) is in effect and is made applicable to the District and the Special Taxes being levied in connection with the Bonds, the District may, in its discretion, elect not to commence any judicial foreclosure proceeding pursuant to this Section 5.2(c) or defer the commencement of such proceedings until such time as the District deems appropriate.

(d) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(e) Federal Tax Covenants. Notwithstanding any other provision of this Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a Tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) The District shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of interest on the Bonds or any Parity Bonds under Section 103(a) of the Code or cause interest on the Bonds or any Parity Bonds to be an item of tax preference for purposes of the federal alternative minimum tax.

(2) In furtherance of the foregoing tax covenant, the District shall comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Bonds and any Parity Bonds.

(f) Against Reduction of Maximum Special Taxes. The District hereby finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities

districts. For this reason, the District hereby determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this Section 5.2(f) would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District.

(g) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in Section 5.2(f) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(h) Limitation on Right to Tender Bonds. The District hereby covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(i) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Agreement and with the terms of any certificate or agreement executed by the District with respect to any Parity Bonds, which assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

The Trustee hereby agrees to inform the District within three (3) Business Days after obtaining knowledge that any of the events listed in Section 5(a) of the Continuing Disclosure Agreement has occurred, or as soon as reasonably practicable thereafter, and in any event in sufficient time for the District to file a notice of such event within ten (10) business days after the occurrence of the event.

(j) Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in this Indenture.

ARTICLE VI

AMENDMENTS TO INDENTURE

Section 6.1 **Supplemental Indentures or Orders Not Requiring Bondowner Consent**. The District may from time to time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions herein which may be inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under this Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in this Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with this Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of this Indenture, including without limitation Section 9.2 hereof;

(d) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(e) to modify, alter or amend the Rate and Method in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is below the levels provided in Section 5.2(f) of this Indenture, and in any event not less than the sum of the estimated Administrative Expenses and 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; or

(f) to the extent necessary to obtain a municipal bond insurance policy or to obtain a rating on the Bonds, or in connection with satisfying all or a portion of the Reserve Requirement by crediting a Reserve Policy to the Reserve Account; provided that such amendments which shall not materially adversely affect the interests of the Owners of the then Outstanding Bonds; or

(g) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Bondowners.

Section 6.2 **Supplemental Indentures or Orders Requiring Bondowner Consent**. Exclusive of the Supplemental Indentures described in Section 6.1, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that nothing herein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal

amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by this Section. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of this section, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Section 6.3 **Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds**. After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared

and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

ARTICLE VII

TRUSTEE

Section 7.1 **Trustee**. U.S. Bank National Association, a national banking association, shall be the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District hereunder. The District may, at any time, appoint a successor Trustee satisfying the requirements of Section 7.2 below for the purpose of receiving all money which the District is required to deposit with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture.

The Trustee is hereby authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with Section 2.5 above, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee is hereby authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in this Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in this Indenture. The Trustee shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Trustee is hereby authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of Section 10.1 hereof.

The District shall from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Trustee, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities, including, without limitation, fees and expenses of its attorneys, not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties hereunder. The foregoing obligation of the District to indemnify the Trustee shall survive the removal or resignation of the Trustee or the discharge of the Bonds.

Section 7.2 **Removal of Trustee**. The District may at any time in its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a

written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank, national banking association, or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least $100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank, national banking association, or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank, national banking association, or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

Section 7.3 **Resignation of Trustee**. The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in Section 7.2 above by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of itself and all other Owners of the Bonds) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

Section 7.4 **Liability of Trustee**. The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds and any Parity Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of this Indenture, the Bonds or any Parity Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth herein, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Trustee. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

The Trustee shall be responsible for the performance of the duties of the Trustee expressly set forth in this Indenture, and no implied duties or obligations shall be read into this Indenture against the Trustee.

The Trustee shall have no responsibility for, and makes no representations with respect to, any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Before taking any action under Article VIII hereof or this Article the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur hereunder.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of at least twenty-five percent (25%) (or other percentage provided for herein) in aggregate principal amount of Outstanding Bonds relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

The Trustee may become the owner or pledgee of Bonds with the same rights it would have if it were not Trustee.

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it hereunder, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for such funds as it shall actually receive. No provision in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

The Trustee shall not be deemed to have knowledge of any default or Event of Default until an officer at the Trustee's corporate trust office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its corporate trust office.

Section 7.5 **Merger or Consolidation**. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

ARTICLE VIII

EVENTS OF DEFAULT; REMEDIES

Section 8.1 **Events of Default**. Any one or more of the following events shall constitute an "event of default" (each, an "Event of Default"):

(a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or

(c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in this Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Trustee or the Owners of twenty-five percent (25%), in aggregate principal amount of the Outstanding Bonds and Parity Bonds; provided, that if such default (other than a default arising from nonpayment of the Trustee's fees and expenses) be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

The Trustee agrees to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within sixty (60) days of the Trustee's knowledge of an Event of Default under (c) above.

Section 8.2 **Remedies of Owners**. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture, including:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law; provided, under no circumstance shall the Bonds, or the obligation of the District to pay installments of principal thereof and interest thereon, be accelerated.

Section 8.3 **Application of Revenues and Other Funds After Default.** Following the declaration by the Trustee of an Event of Default, all amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of this Article VIII, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

Third, to deposit such amounts in the Reserve Account to restore the balance therein to the Reserve Requirement.

After payment or deposit of such amounts, the Trustee may apply any remaining amounts received toward the payment of any rebate amounts pursuant to Section 3.7 or to the payment of the fees, costs and expenses of the District in connection with such Event of Default.

Section 8.4 **Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds and Parity Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Section 8.5 **Appointment of Receivers.** Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds and Parity Bonds under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment(s) shall confer.

Section 8.6 **Non-Waiver**. Nothing in this Article VIII or in any other provision of this Indenture, or in the Bonds or the Parity Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as herein provided, out of the Net Taxes and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds or Parity Bonds to exercise any right or power accruing upon any default shall

impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or the Owners by the Act or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

Section 8.7 **Limitation on Rights and Remedies of Owners.** No Owner of any Bond or Parity Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

Section 8.8 **Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

ARTICLE IX

DEFEASANCE AND PARITY BONDS

Section 9.1 **Defeasance**. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in this Indenture or any

Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under this Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to this Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of this Section if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under this Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in Section 5.2(e) or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten (10) days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee in the sole discretion of the Trustee. In connection with a defeasance under (c) above, there shall be provided to the District and the Trustee a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with this Section, as and when the same shall become due and payable. In connection with a defeasance under (b) or (c) above,

there also shall be provided to the District and the Trustee an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with this Indenture and any applicable Supplemental Indenture.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under this Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding Bonds and Parity Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Section 9.2 **Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness**. The District may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expenses Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture; provided, however, Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding, or for financing the Project Costs or other purposes of the District in a principal amount not to exceed $10 million. Parity Bonds issued are subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds: **[for discussion - do we close off lien and limit authority for Parity Bonds to refunding bonds if presently issuing maximum authorized amount of $10 million]**

(a) The District shall be in compliance with all covenants set forth in this Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including, if applicable, a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on a September 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) the denominations and method of numbering of such Parity Bonds;

(6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with this Indenture.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (a) the District has the right and power under the Act to adopt this Indenture and the Supplemental Indentures relating to such Parity Bonds, and this Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) this Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in this Indenture, subject to the application thereof to the purposes and on the conditions permitted by this Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of this

Indenture and all Supplemental Indentures thereto and entitled to the benefits of this Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and this Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a Tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of this Indenture;

(5) where the entire principal amount of the Parity Bonds is issued to refund the Bonds or other Parity Bonds, a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds;

(6) where the Parity Bonds are being issued other than to refund the Bonds or other Parity Bonds, a Certificate of the Special Tax Administrator certifying that (i) the maximum Special Taxes that may be levied in each Fiscal Year is not less than 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year plus Administrative Expenses; and (ii) the Value of IA1 Property is not less than three (3) times the sum of Direct Debt for IA1 Property plus Overlapping Debt allocable to all property in Improvement Area No. 1 of the District subject to the Special Tax. For purposes of the foregoing Certificate of Special Tax Administrator, all calculations shall consider the Parity Bonds proposed to be issued to be Outstanding. If all or any portion of the Parity Bonds are issued as Escrow Bonds, each time that amounts are to be released from the escrow account established under a Supplemental Indenture, as a condition of such release, the Trustee shall have received a Certificate of the Special Tax Administrator certifying that (x) following such release, the requirements of (i) and (ii) above will be satisfied, and (y) the amount of Special Taxes levied in such Fiscal Year and to be levied in the following Fiscal Year, together with amounts on deposit in the Interest Account, will be sufficient to pay the principal of and interest on all Outstanding Bonds and Parity Bonds (other than the remaining Escrow Bonds). For purposes of any Escrow Bonds release test, there will be allocated to the property in Improvement Area No. 1 of the District the largest principal amount of Bonds that results in a Value of IA1 Property at least three (3) times the sum of Direct Debt for IA1 Property plus Overlapping Debt allocable to all property in Improvement Area No. 1 of the District subject to the Special Tax; and

(7) such further documents, money and securities as are required by the provisions of this Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

ARTICLE X

MISCELLANEOUS

Section 10.1 **Cancellation of Bonds and Parity Bonds**. All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized herein and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds and Parity Bonds, as provided by law, and furnish to the District a certificate of such destruction.

Section 10.2 **Execution of Documents and Proof of Ownership**. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Nothing contained in this Indenture shall be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters herein stated which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond shall bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

Section 10.3 **Unclaimed Moneys**. Anything in this Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two (2) years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was

held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee, at the expense of the District, shall cause to be mailed by first class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Section 10.4 **Provisions Constitute Contract**. The provisions of this Indenture shall constitute a contract between the District and the Bondowners, and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds this Indenture shall be irrepealable, but shall be subject to modifications to the extent and in the manner provided in this Indenture, but to no greater extent and in no other manner.

Section 10.5 **Future Contracts**. Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge hereunder, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged hereunder.

Section 10.6 **Further Assurances**. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in this Indenture.

Section 10.7 **Severability**. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

Section 10.8 **Notices**. Any notices required to be given to the District with respect to the Bonds or this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, by overnight mail, as a .pdf attachment to electronic mail, or by facsimile or other form of telecommunication, confirmed by telephone at its number set forth below. Notice shall be effective either (i) upon transmission by facsimile or other form of telecommunication (provided that receipt is confirmed), (ii) 48 hours after deposit in the United States first class mail, postage prepaid, (iii) in the case of overnight mail, upon delivery to the addressed destination, or (iv) in the case of personal delivery to any person, upon actual receipt. The District or the Trustee may, by written notice to the other party, from time to time modify the address or number to which communications are to be given hereunder.

If to the District: City of Upland
460 N. Euclid Avenue
Upland, California 91786
Attention: City Manager
Facsimile: (909) 931-4123
Telephone: (909) 931-4106
Email: citymanager@ci.upland.ca.us

If to the Trustee: U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, California 90071
Attention: Global Corporate Trust Services
Facsimile: (213) 615-6199
Telephone: (213) 615-6024
Email: _____

The District and the Trustee may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, has caused this Bond Indenture to be signed by the Mayor of the City of Upland, as authorized by the City Council of the City of Upland acting as the legislative body of the District, and attested thereto by the City Clerk of the City of Upland, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trust created hereunder, has caused this Bond Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

By: _____
Mayor of the City of Upland, California

ATTEST:

_____
City Clerk of the City of Upland, California

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF SPECIAL TAX BOND, SERIES 2018A (IMPROVEMENT AREA NO. 1)

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the District or the Trustee for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

R-__ $_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN BERNARDINO

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BOND
SERIES 2018A (IMPROVEMENT AREA NO. 1)

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
____%	September 1, 20__	November __, 2018	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA (the "District"), which was formed by the City of Upland (the "City") and is situated in the County of San Bernardino, State of California, FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless (i) the 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 (as hereinafter defined) 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 in which event interest shall be payable from the Dated

Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this 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, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing [March 1, 2019], at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the Principal Office of the Trustee (as such term is defined in the Indenture (as defined below)), initially U.S. Bank National Association (the "Trustee"). Interest on this Bond shall be paid by check of the Trustee mailed on the Interest Payment Date by first class mail, postage prepaid, or in certain circumstances described in the Indenture by wire transfer to an account within the United States of America, to the Registered Owner hereof as of the close of business on the fifteenth day of the month preceding the Interest Payment Date (the "Record Date") at such Registered Owner's address as it appears on the registration books maintained by the Trustee.

This Bond is one of a duly authorized issue of "Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Series 2018A (Improvement Area No. 1)" (the "Bonds") issued in the aggregate principal amount of $_____ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311, et seq., of the California Government Code (the "Act") for the purpose of financing certain public facilities, funding a reserve account, and paying certain costs related to the issuance of the Bonds. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City acting in its capacity as the legislative body of the District (the "Legislative Body") on October [22], 2018 and a Bond Indenture dated as of November 1, 2018, by and between the District and the Trustee executed in connection therewith (the "Indenture"), and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is executed under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District (the "Special Taxes") and certain other amounts pledged to the repayment of the Bonds as set forth in the Indenture. Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts deposited to the Special Tax Fund (other than the Administrative Expenses Account therein) established under the Indenture, except to the extent that other provision for payment has been made by the Legislative Body, as may be permitted by law. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances described in the Indenture it will commence and diligently pursue to completion judicial foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds are limited obligations of the District and are payable from, and are secured by, a first pledge of and lien on the Net Taxes (as that term is defined in the Indenture) on a parity with the District's $_____ original aggregate principal amount Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1), issued concurrently with the Bonds.

The Bonds maturing on or before September 1, 20__ are not subject to call and redemption prior to maturity. The Bonds maturing on or after September 1, 20__ shall be subject to call and redemption prior to maturity and may be redeemed, at the option of the District, from any source of funds on any date on or after September 1, 20__ in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, [at a redemption price equal to 100% of the principal amount to be redeemed, without premium,] together with accrued interest to the date of redemption.

The Bonds maturing on September 1, 20__ and September 1, 20__ are subject to mandatory sinking fund redemption, in whole or in part by lot, on September 1 each year commencing September 1, 20__ and September 1, 20__, respectively, as provided in the Indenture.

The Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and shall be redeemed by the Trustee, from Prepayments of Special Taxes deposited to the Redemption Account, plus amounts transferred from the Reserve Account in connection with such transfers, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

Redemption Dates	**Redemption Price**
On or before March 1, 20__	[103]%
September 1, 20__ and March 1, 20__	[102]
September 1, 20__ and March 1, 20__	[101]
September 1, 20__ and thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the registered owners thereof not less than thirty (30) nor more than forty-five (45) days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the registration books. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date, provided that funds for the redemption are on deposit with the Trustee on the redemption date. Thereafter, the registered owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

The District shall have the right to rescind any optional redemption by written notice to the Trustee one (1) Business Day prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The District and the Trustee shall have no liability to the Owners or any other party related to or arising from

such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Trustee may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully registered form in the denomination of $5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Trustee shall not be required to register transfers or make exchanges of (i) any Bonds for a period of fifteen (15) days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Indenture.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OF UPLAND OR OF THE DISTRICT FOR WHICH THE CITY OF UPLAND OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CITY OF UPLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, has caused this Bond to be dated as of November __, 2018, to be signed on behalf of the District by the Mayor of the City by her facsimile signature and attested by the facsimile signature of the City Clerk of the City.

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

_____
Mayor of the City of Upland, California

ATTEST:

_____
City Clerk of
the City of Upland, California

==========

[FORM OF TRUSTEE'S CERTIFICATE
OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-mentioned Indenture which has been registered on the Bond registration books.

Dated: November __, 2018

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Signatory

==========

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sell(s), assign(s) and transfer(s) unto

_____

_____

_____

(Name, Address, and Tax Identification or Social Security Number of Assignee)

the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s)

_____ attorney, to transfer the same on the Registration Books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature must be guaranteed by a member of an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or other similar program.	Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

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EXHIBIT B

FORM OF SPECIAL TAX BOND, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the District or the Trustee for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

R-__ $_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN BERNARDINO

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BOND
TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
____%	September 1, 20__	November __, 2018	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA (the "District"), which was formed by the City of Upland (the "City") and is situated in the County of San Bernardino, State of California, FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless (i) the 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 (as hereinafter defined) 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 in which event interest shall be payable from the Dated Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this 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, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing [March 1, 2019], at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the Principal Office of the Trustee (as such term is defined in the Indenture (as defined below)), initially U.S. Bank National Association (the "Trustee"). Interest on this Bond shall be paid by check of the Trustee mailed on the Interest Payment Date by first class mail, postage prepaid, or in certain circumstances described in the Indenture by wire transfer to an account within the United States of America, to the Registered Owner hereof as of the close of business on the fifteenth day of the month preceding the Interest Payment Date (the "Record Date") at such Registered Owner's address as it appears on the registration books maintained by the Trustee.

This Bond is one of a duly authorized issue of "Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1)" (the "Bonds") issued in the aggregate principal amount of $_____ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311, et seq., of the California Government Code (the "Act") for the purpose of financing certain public facilities, funding a reserve account, and paying certain costs related to the issuance of the Bonds. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City acting in its capacity as the legislative body of the District (the "Legislative Body") on October [22], 2018 and a Bond Indenture dated as of November 1, 2018, by and between the District and the Trustee executed in connection therewith (the "Indenture"), and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is executed under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District (the "Special Taxes") and certain other amounts pledged to the repayment of the Bonds as set forth in the Indenture. Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts deposited to the Special Tax Fund (other than the Administrative Expenses Account therein) established under the Indenture, except to the extent that other provision for payment has been made by the Legislative Body, as may be permitted by law. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances described in the Indenture it will commence and diligently pursue to completion judicial foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds are limited obligations of the District and are payable from, and are secured by, a first pledge of and lien on the Net Taxes (as that term is defined in the Indenture) on a parity with the District's $_____ original aggregate principal amount Special Tax Bonds, Series 2018A (Improvement Area No. 1), issued concurrently with the Bonds.

The Bonds maturing on or before September 1, 20__ are not subject to call and redemption prior to maturity. The Bonds maturing on or after September 1, 20__ shall be subject to call and redemption prior to maturity and may be redeemed, at the option of the District, from any source of funds on any date on or after September 1, 20__ in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, [at a redemption price equal to 100% of the principal amount to be redeemed, without premium,] together with accrued interest to the date of redemption.

The Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and shall be redeemed by the Trustee, from Prepayments of Special Taxes deposited to the Redemption Account, plus amounts transferred from the Reserve Account in connection with such transfers, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

Redemption Dates	**Redemption Price**
On or before March 1, 20__	[103]%
September 1, 20__ and March 1, 20__	[102]
September 1, 20__ and March 1, 20__	[101]
September 1, 20__ and thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the registered owners thereof not less than thirty (30) nor more than forty-five (45) days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the registration books. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date, provided that funds for the redemption are on deposit with the Trustee on the redemption date. Thereafter, the registered owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

The District shall have the right to rescind any optional redemption by written notice to the Trustee one (1) Business Day prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The District and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Trustee may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully registered form in the denomination of $5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Trustee shall not be required to register transfers or make exchanges of (i) any Bonds for a period of fifteen (15) days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Indenture.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OF UPLAND OR OF THE DISTRICT FOR WHICH THE CITY OF UPLAND OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CITY OF UPLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, has caused this Bond to be dated as of November __, 2018, to be signed on behalf of the District by the Mayor of the City by her facsimile signature and attested by the facsimile signature of the City Clerk of the City.

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

_____
Mayor of the City of Upland, California

ATTEST:

_____
City Clerk of
the City of Upland, California

==========

[FORM OF TRUSTEE'S CERTIFICATE
OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-mentioned Indenture which has been registered on the Bond registration books.

Dated: November __, 2018

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Signatory

==========

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sell(s), assign(s) and transfer(s) unto

_____

_____

_____

(Name, Address, and Tax Identification or Social Security Number of Assignee)

the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s)

_____ attorney, to transfer the same on the Registration Books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature must be guaranteed by a member of an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or other similar program.	Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

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EXHIBIT C

ADMINISTRATIVE EXPENSE PAYMENT REQUEST FORM

U.S. Bank National Association
Global Corporate Trust Services
633 West Fifth Street, 24th Floor
Los Angeles, California 90071

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018 (IMPROVEMENT AREA NO. 1)
PAYMENT REQUEST NO. ____

The Trustee is hereby requested to pay from the Administrative Expenses Account of the Special Tax Fund established pursuant to the Bond Indenture, dated as of November 1, 2018, by and between Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "District"), with respect to its Improvement Area No. 1 and you, as Trustee, to the person, corporation, or other entity designated below as Payee, the sum set forth below such designation, in payment of the Administrative Expense(s) described below. The amount shown below is due and payable under a purchase order, contract, or other authorization with respect to the Administrative Expense described below and has not formed the basis of any prior request for payment.

Payee:

Address:

Amount: $

Description:

The Administrative Expense(s) described above are accepted by the District for its Improvement Area No. 1 and authorized to be paid to the Payee.

All payments shall be made by check or wire transfer in accordance with the payment instructions set forth herein, and the Trustee shall rely on such payment instructions with no duty to investigate or inquire as to the authenticity of the payment instructions or the authority under which they were given.

Executed by the Authorized Representative of Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California

Signature: _____
Name: _____
Title: _____

EXHIBIT D

FORM OF REQUISITION FOR DISBURSEMENT OF PROJECT COSTS

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA SPECIAL TAX BONDS

Requisition No. _____

Account: ____ SERIES 2018A (Tax-Exempt) ____ TAXABLE SERIES 2018B

U.S. Bank National Association, as Trustee, is hereby requested to pay from the Community Facilities District No. 2016-1 (Harvest at Upland) IA No. 1 Improvement Fund (the "Improvement Fund"), established by the Bond Indenture, dated as of November 1, 2018 (the "Indenture"), by and between the Trustee and Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "District"), the amount specified and to the payee named below for payment of the Project Costs set forth in Attachment No. 1 hereto:

Payee:

Address:

Purpose:

Amount: $

The amount is due and payable under purchase order, contract or other authorization and has not formed the basis of any prior request for payment. The conditions for the release of this amount from the Improvement Fund, including those conditions in Section 3.10(b) of the Indenture to the extent applicable, have been satisfied.

There has not been filed with nor served upon the District notice of any lien, right to lien or attachment upon, or stop notice or claim affecting the right to receive payment of the amount specified above which has not been released or will not be released simultaneously with the payment of such amount, other than materialmen's or mechanic's liens accruing by mere operation of law.

Dated: _____

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

By: _____
Authorized Representative

ATTACHMENT NO. 1

(IMPROVEMENT FUND)

ACCOUNT: ____ SERIES 2018A (Tax-Exempt) ____ TAXABLE SERIES 2018B

[Insert Description of Project Costs &
Attach Completed Acquisition Agreement Payment/Disbursement Request with supporting documentation, if payment is requested by Developer]

$_____
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)

and

$_____
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

BOND PURCHASE AGREEMENT

_____, 2018

Community Facilities District No. 2016-1 (Harvest at Upland) of the
City of Upland, County of San Bernardino, State of California
Upland, California

Ladies and Gentlemen:

Hilltop Securities Inc. (the "Underwriter"), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (the "Purchase Agreement") with Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "CFD") which, upon acceptance, will be binding upon the CFD and upon the Underwriter. This offer is made subject to acceptance of it by the CFD on the date hereof, and if not accepted will be subject to withdrawal by the Underwriter upon notice delivered to the CFD at any time prior to the acceptance hereof by the CFD.

The CFD acknowledges and agrees that: (i) the purchase and sale of the Bonds (as defined below) pursuant to this Purchase Agreement is an arm's-length commercial transaction between the CFD and the Underwriter; (ii) in connection with such transaction, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the CFD; (iii) the Underwriter has financial and other interests that differ from those of the CFD; (iii) the Underwriter has not assumed a fiduciary responsibility in favor of the CFD with respect to: (A) the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the CFD on other matters), or (B) any other obligation to the CFD except the obligations expressly set forth in this Purchase Agreement; and (iv) the CFD has consulted with its respective legal and municipal advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

1. Purchase, Sale and Delivery of the Bonds; Establishment of Issue Price.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter agrees to purchase from the CFD, and the CFD agrees to sell to the Underwriter, all (but not less than all) of the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax

Bonds, Series 2018A (Improvement Area No. 1) (the "2018A Bonds") and the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California, Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1) (the "2018B Bonds," and together with the 2018A Bonds, the "Bonds") in the aggregate principal amounts specified in Exhibit A hereto. The Bonds shall be dated the Closing Date (as defined herein), and bear interest from said date (payable semiannually on March 1 and September 1 in each year, commencing March 1, 2019) at the rates per annum and maturing on the dates and in the amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be the amount specified as such in Exhibit A hereto.

The Underwriter agrees to assist the CFD in establishing the issue price of the 2018A Bonds and shall execute and deliver to the CFD at Closing (as defined herein) an "issue price" or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit D, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the CFD and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the CFD under this section to establish the issue price of the Bonds may be taken on behalf of the CFD by the CFD's municipal advisor identified herein and any notice or report to be provided to the CFD may be provided to the CFD's municipal advisor.

Except as otherwise set forth in Exhibit A attached hereto, the CFD will treat the first price at which 10% of each maturity of the 2018A Bonds (the "10% test") is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the CFD the price or prices at which it has sold to the public each maturity of 2018A Bonds. If at that time the 10% test has not been satisfied as to any maturity of the 2018A Bonds, the Underwriter agrees to promptly report to the CFD the prices at which it sells the unsold 2018A Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the 2018A Bonds of that maturity or until all 2018A Bonds of that maturity have been sold to the public.

The Underwriter confirms that it has offered the 2018A Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. [Exhibit A also sets forth, as of the date of this Purchase Agreement, the maturities, if any, of the 2018A Bonds for which the 10% test has not been satisfied and for which the CFD and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the CFD to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the "hold-the-offering-price rule"). So long as the hold-the-offering-price rule remains applicable to any maturity of the 2018A Bonds, the Underwriter will neither offer nor sell unsold 2018A Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5th) business day after the sale date; or

(2) the date on which the Underwriter has sold at least 10% of that maturity of the 2018A Bonds to the public at a price that is no higher than the initial offering price to the public.]

The Underwriter shall promptly advise the CFD when it has sold 10% of that maturity of the 2018A Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

The Underwriter confirms that any selling group agreement and any retail distribution agreement relating to the initial sale of the 2018A Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (1) report the prices at which it sells to the public the unsold 2018A Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% test has been satisfied as to the 2018A Bonds of that maturity or all 2018A Bonds of that maturity have been sold to the public and (2) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriter. The CFD acknowledges that, in making the representation set forth in this subsection, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the 2018A Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, if applicable, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a retail distribution agreement was employed in connection with the initial sale of the 2018A Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, if applicable, as set forth in the retail distribution agreement and the related pricing wires. The CFD further acknowledges that the Underwriter shall not be liable for the failure of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the 2018A Bonds.

The Underwriter acknowledges that sales of any 2018A Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(1) "public" means any person other than an underwriter or a related party,

(2) "underwriter" means (A) any person that agrees pursuant to a written contract with the CFD (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2018A Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2018A Bonds to the public),

(3) a purchaser of any of the 2018A Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the

partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(4) "sale date" means the date of execution of this Purchase Agreement by all parties.

(b) The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable and subject to redemption as provided in, the Bond Indenture, dated as of November 1, 2018, (the "Indenture"), by and between the CFD and U.S. Bank National Association, as trustee (the "Trustee"), approved by Resolution adopted by the City Council of the City of Upland (the "City"), acting as the legislative body of the CFD (the "City Council"), on _____, 2018 (the "Resolution of Issuance"). The Bonds and interest thereon will be payable from a special tax (the "Special Tax") levied and collected on the taxable land within the CFD in accordance with Resolution No. 6340 adopted by the City Council on June 27, 2016 (the "Resolution of Formation"), less amounts not to exceed the Administrative Expenses Priority Amount (as defined in the Indenture) set aside to pay administrative expenses of the CFD (the "Net Taxes"). Proceeds of the sale of the Bonds will be used in accordance with the Indenture and the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Law"), to acquire certain public improvements described in the Resolution of Formation. The Resolution of Issuance, the Resolution of Formation and Ordinance No. 1908 (all as amended from time to time) are collectively referred to herein as the "CFD Resolutions."

(c) At or prior to the acceptance hereof by the CFD, the CFD shall cause to be delivered to the Underwriter a Rule 15c2-12 Certificate, dated as of the date of the Preliminary Official Statement (the "CFD Certificate"), in substantially the form attached hereto as Exhibit B, with only such changes therein as shall have been accepted by the Underwriter.

(d) Subsequent to its receipt of the CFD Certificate deeming the Preliminary Official Statement for the Bonds, dated _____, 2018, which Preliminary Official Statement, together with the cover page, inside cover page and all appendices thereto, is herein collectively referred to as the "Preliminary Official Statement," final for purposes of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the Underwriter has distributed copies of the Preliminary Official Statement, and the Preliminary Official Statement has been made available to investors electronically. The CFD hereby ratifies the use by the Underwriter of the Preliminary Official Statement and authorizes the Underwriter to use and distribute (i) the final Official Statement in the form of the Preliminary Official Statement as amended to conform to the terms of this Purchase Agreement, and with such changes and amendments as are mutually agreed to by the CFD and the Underwriter, including the cover page, inside cover page and all appendices thereto, and including all information previously permitted to have been omitted by Rule 15c2-12, and any supplements and amendments thereto as have been approved by the CFD as evidenced by the execution and delivery of such document by an officer of the CFD, herein referred to as the "Official Statement," (ii) the Indenture, (iii) the Continuing Disclosure Agreement of the CFD (the "CFD Disclosure Agreement"), (iv) this Purchase Agreement, (v) any other documents or contracts to which the CFD is a party, and (vi) all information contained therein, and all other documents, certificates and statements furnished by the CFD to the Underwriter in connection with the transactions contemplated by this Purchase Agreement, in connection with the offer and sale of the Bonds by the Underwriter. The Underwriter hereby agrees to deliver a copy of the Official Statement to the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Marketplace Access website of the MSRB on or before the Closing Date and otherwise to comply with all applicable statutes and regulations in connection

with the offering and sale of the Bonds, including, without limitation, MSRB Rule G-32 and Rule 15c2-12.

(e) At 8:00 A.M., Pacific Daylight Time, on _____, 2018, or at such earlier time or date as shall be agreed upon by the Underwriter and the CFD (such time and date being herein referred to as the "Closing Date"), the CFD will deliver (i) through the facilities of the Depository Trust Company, the Bonds in definitive form (all Bonds being in book-entry form registered in the name of Cede & Co. and having the CUSIP numbers assigned to them printed thereon), duly executed by the officers of the CFD, as provided in the Indenture, and (ii) to the Underwriter, at the offices of Bond Counsel, or at such other place as shall be mutually agreed upon by the CFD and the Underwriter, the other documents herein mentioned; and the Underwriter shall accept such delivery and pay the purchase price of the Bonds in immediately available funds (such delivery and payment being herein referred to as the "Closing"). Notwithstanding the foregoing, the Underwriter may, in its discretion, accept delivery of the Bonds in temporary form upon making arrangements with the CFD which are satisfactory to the Underwriter relating to the delivery of the Bonds in definitive form.

(f) Except as otherwise disclosed and agreed to by the CFD, the Underwriter agrees to make a bona fide public offering of the Bonds at their initial public offering price or prices set forth on the inside cover page of the Official Statement and in Exhibit A hereto; provided, however, the Underwriter reserves the right to change such initial public offering prices as the Underwriter deems necessary or desirable, in its sole discretion, in connection with the marketing of the Bonds, and to sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering prices for the Bonds set forth in the Official Statement. A "bona fide public offering" shall include an offering to institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold. The Underwriter shall provide to the CFD on the Closing Date a certificate stating that the Underwriter made a bona fide public offering of the Bonds at their initial public offering price or prices set forth on the inside cover page of the Official Statement and in Exhibit A.

2. Representations, Warranties and Agreements of the CFD. The CFD represents, warrants and covenants to and agrees with the Underwriter that:

(a) The CFD is duly organized and validly existing as a community facilities district under the laws of the State of California. The City has duly authorized the formation of the CFD pursuant to the Resolution of Formation and the Law. The City Council of the City, as the legislative body of the CFD, has duly adopted the CFD Resolutions, and has caused to be recorded in the real property records of the County of San Bernardino on July 21, 2016, a Notice of Special Tax Lien, as Document No. 2016-0292605 (the "Notice of Special Tax Lien") (such CFD Resolutions and Notice of Special Tax Lien being collectively referred to herein as the "Formation Documents"). Each of the Formation Documents remains in full force and effect as of the date hereof and has not been amended. The CFD is duly organized and validly existing as a community facilities district under the laws of the State of California. The CFD has, and at the Closing Date will have, as the case may be, full legal right, power and authority (i) to execute, deliver and perform its obligations under this Purchase Agreement and the CFD Disclosure Agreement, and to carry out all transactions contemplated by each of such agreements, (ii) to issue, sell and deliver the Bonds to the Underwriter pursuant to the Resolution of Issuance and the Indenture as provided herein, and (iii) to carry out, give effect to and consummate the transactions contemplated by the Formation Documents and by the Indenture, this Purchase Agreement, and the CFD Disclosure Agreement (collectively, the "CFD Documents") and the Official Statement;

(b) The CFD has complied, and will at the Closing Date be in compliance, in all material respects, with the Formation Documents and the CFD Documents, and any immaterial compliance by the CFD, if any, will not impair the ability of the CFD to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the CFD will continue to comply with the covenants of the CFD contained in the CFD Documents;

(c) The City Council of the City has duly and validly: (i) adopted the CFD Resolutions, (ii) called, held and conducted in accordance with all requirements of the Law an election within the CFD to approve the levy of the Special Tax within the CFD and the issuance of the Bonds and recorded the Notice of Special Tax Lien which established a continuing lien on the land within the CFD securing the Special Tax, (iii) authorized and approved the execution, delivery and due performance of the Bonds and the CFD Documents, (iv) authorized the preparation, delivery and distribution of the Preliminary Official Statement and the Official Statement, and (v) authorized and approved the performance by the CFD of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, each of the CFD Documents (including, without limitation, the collection of the Special Tax), the Bonds and the Official Statement and at the Closing Date, the Formation Documents will be in full force and effect and the CFD Documents and the Bonds will constitute the valid, legal and binding obligations of the CFD and (assuming due authorization, execution and delivery by other parties thereto, where necessary) will be enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and to the application of equitable principles if equitable remedies are sought;

(d) To the best of the CFD's knowledge, the CFD is not in breach of or default under any applicable law or administrative rule or regulation of the State of California (the "State") or the United States, or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, fiscal agent agreement, contract, agreement or other instrument to which the CFD is a party or is otherwise subject or bound, a consequence of which could be to materially and adversely affect the performance by the CFD of its obligations under the Bonds, the Formation Documents or the CFD Documents, and compliance with the provisions of each thereof will not conflict with or constitute a breach of or default, in any material respect, under any applicable law or administrative rule or regulation of the State or the United States, or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or a material breach of or default, in any material respect, under any loan agreement, note, resolution, trust agreement, contract, agreement or other instrument to which the CFD, as the case may be, is a party or is otherwise subject or bound;

(e) Except for compliance with the blue sky or other states securities law filings, as to which the CFD makes no representations, warranties, covenants, and agreements, all approvals, consents, authorizations, elections and orders of or filings or registrations with any State governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the CFD of its obligations hereunder, or under the Formation Documents or the CFD Documents, have been obtained and are in full force and effect;

(f) The Special Tax constituting the security for the Bonds has been duly and lawfully authorized and may be levied under the Law, the State Constitution and the applicable laws of the State, and such Special Tax, when levied, will constitute a valid and legally binding continuing lien on the properties on which it has been levied;

(g) The CFD shall not supplement or amend the Official Statement or cause the Official Statement to be supplemented or amended without the prior written consent of the Underwriter, which consent shall not be unreasonably withheld. Until the date which is twenty-five (25) days after the "end of the underwriting period" (as defined herein), if any event shall occur of which the CFD is aware, as a result of which it may be necessary to supplement the Official Statement in order to make the statements in the Official Statement, in light of the circumstances existing at such time, not misleading, the CFD shall forthwith notify the Underwriter of any such event of which it has knowledge and shall cooperate fully in furnishing any information available to it for any supplement to the Official Statement necessary, in the Underwriter's opinion, so that the statements therein as so supplemented will not be misleading in light of the circumstances existing at such time and the CFD shall promptly furnish to the Underwriter a reasonable number of copies of such supplement. As used herein, the term "end of the underwriting period" means the later of such time as (i) the CFD delivers the Bonds to the Underwriter, or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the "end of the underwriting period" shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the CFD at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "end of the underwriting period";

(h) The Indenture creates a valid pledge of the Net Taxes and the moneys in the Special Tax Fund (exclusive of the Administrative Expenses Account) and the Reserve Account therein established pursuant to the Indenture, including the investments thereof, subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Until such time as moneys have been set aside in an amount sufficient to pay all then outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon to maturity or to the date of redemption if redeemed prior to maturity, and premium, if any, the CFD will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture;

(i) Except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body is pending with proper service of process on the CFD having been accomplished or, to the best knowledge of the CFD, threatened (i) which would materially adversely affect the ability of the CFD to perform its obligations under the Bonds, the Formation Documents or the CFD Documents, or (ii) seeking to restrain or to enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of the Special Tax pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting the validity or enforceability of the Bonds, the Formation Documents, the CFD Documents, or any action contemplated by any of said documents, or (iii) in any way contesting the completeness or accuracy of the Preliminary Official Statement or the powers or authority of the CFD with respect to the Bonds, the Formation Documents, the CFD Documents, or any action of the CFD contemplated by any of said documents; nor is there any action pending with proper service of process on the CFD having been accomplished or, to the best knowledge of the CFD, threatened against the CFD which alleges that interest on the Bonds is not excludable from gross income for federal income tax purposes or is not exempt from California personal income taxation;

(j) The CFD will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order for the Underwriter to qualify the Bonds for offer and sale under the "Blue Sky" or other securities laws and

regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, the CFD shall not be required to register as a dealer or a broker of securities or to consent to service of process in connection with any blue sky filing;

(k) Any certificate signed by any official of the CFD authorized to do so shall be deemed a representation and warranty to the Underwriter as to the statements made therein;

(l) The CFD will apply the proceeds of the Bonds in accordance with the Indenture and as described in the Official Statement;

(m) The information contained in the Preliminary Official Statement was as of the date thereof, and the information contained in the Official Statement as of its date and on the Closing Date, shall be, true and correct in all material respects and such information does not and shall not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(n) The Preliminary Official Statement heretofore delivered to the Underwriter has been deemed final by the CFD as of its date, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The CFD hereby covenants and agrees that, within seven (7) business days from the date hereof, the CFD shall cause a final electronic and/or printed form of the Official Statement to be delivered to the Underwriter in a quantity mutually agreed upon by the Underwriter and the CFD so that the Underwriter may comply with paragraph (b)(4) of Rule 15c2-12 and Rules G-12, G-15, G-32 and G-36 of the Municipal Securities Rulemaking Board;

(o) Except as otherwise disclosed in the Preliminary Official Statement, the CFD is, and has always been, in material compliance with respect to all reporting obligations in the last five years that it has undertaken under Rule 15c2-12 for all indebtedness issued by the CFD;

(p) Except as otherwise disclosed in the Preliminary Official Statement, the Formation Documents have not been amended, terminated, rescinded or modified;

(q) The CFD shall not voluntarily undertake any course of action inconsistent with satisfaction of the requirements applicable to the CFD as set forth in this Purchase Agreement;

(r) The CFD shall cooperate with the Underwriter in the qualification of the Bonds for offering and sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter may designate;

(s) The CFD shall not knowingly take or omit to take any action that, under existing law, may adversely affect the exemption from state income taxation or the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

3. Representations and Warranties of the Underwriter. The Underwriter hereby agrees with, and makes the following representations and warranties to, the CFD, as of the date hereof and as of the Closing Date, which representations and warranties shall survive the Closing:

(a) The Underwriter is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization;

(b) This Purchase Agreement has been duly authorized, executed and delivered by the Underwriter and, assuming the due authorization, execution and delivery by the CFD, is the legal, valid and binding obligation of the Underwriter enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws affecting enforcement of creditors' rights or by the application of equitable principles if equitable remedies are sought; and

(c) The Underwriter represents that it is licensed by and registered with the Financial Industry Regulatory Authority as a broker-dealer and the MSRB as a municipal securities dealer.

4. Conditions to the Obligations of the Underwriter. The obligations of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the CFD contained herein, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the CFD made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the CFD of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) At the Closing Date, the Formation Documents and the CFD Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds and with the transactions contemplated thereby and by this Purchase Agreement, all such actions as, in the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel for the CFD, and Nixon Peabody LLP, counsel to the Underwriter, shall be necessary and appropriate;

(b) The information contained in the Official Statement will, as of the Closing Date and as of the date of any supplement or amendment thereto pursuant to Section 2(g) hereof, be true, correct and complete in all material respects and will not, as of the Closing Date or as of the date of any supplement or amendment thereto pursuant to Section 2(g) hereof, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(c) Between the date hereof and the Closing Date, the market price or marketability of the Bonds at their initial offering prices set forth in the Official Statement shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the CFD terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

(1) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department or the Internal Revenue Service of the United States of America, with the purpose or effect, directly or indirectly, of imposing federal

income taxation upon the interest that would be received by the holders of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof;

(2) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America, or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, or the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, or of the Bonds, including any or all underwriting arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws, rules or regulations as amended and then in effect;

(3) any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the CFD, its property, income, securities (or interest thereon), the validity or enforceability of the Special Tax or the ability of the CFD to construct or acquire the improvements as contemplated by the Formation Documents, the CFD Documents or the Official Statement;

(4) any event occurring, or information becoming known, which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or the Official Statement, or results in the Preliminary Official Statement or the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(5) the declaration of war or the escalation of, or engagement in, military hostilities by the United States or the occurrence of any other national or international emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States which, in the judgment of the Underwriter, makes it impracticable or inadvisable to proceed with the offering or the delivery of the Bonds on the terms and in the manner contemplated in the Preliminary Official Statement or the Official Statement;

(6) the declaration of a general banking moratorium by federal, State of New York or State of California authorities, or the general suspension of trading on any national securities exchange or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange or other national securities exchange, whether by virtue of determination by that exchange or by order of the Securities and Exchange Commission (the "SEC") or any other governmental authority having jurisdiction that, in the Underwriter's reasonable judgment, makes it impracticable for the Underwriter to market the Bonds or enforce contracts for the sale of the Bonds;

(7) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Bonds or obligations of the general character of the Bonds or securities generally, or the material

increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(8) the entry of an order by a court of competent jurisdiction which enjoins or restrains the City, the County of San Bernardino, California or any other governmental entity, agency, or instrumentality from issuing permits, licenses or entitlements within the CFD or which order, in the reasonable opinion of the Underwriter, otherwise materially and adversely affects proposed development of property within the CFD;

(9) a material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred;

(10) there shall have been any material adverse change in the affairs of the CFD that in the Underwriter's reasonable judgment will materially adversely affect the market for the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(11) there shall be established any new restriction on transactions in securities materially affecting the free market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, underwriters established by the New York Stock Exchange, the SEC, any other federal or State agency or the Congress of the United States, or by Executive Order;

(12) a stop order, release, regulation, or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made to the effect that the issuance, offering, or sale of the Bonds, including all the underlying obligations as contemplated hereby or by the Official Statement, or any document relating to the issuance, offering or sale of the Bonds is or would be in violation of any provision of the federal securities laws at the Closing Date, including the Securities Act, the Exchange Act, and the Trust Indenture Act of 1939, as amended.

(d) On the Closing Date, the Underwriter shall have received counterpart originals or certified copies of the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) The Formation Documents and the CFD Documents, together with a certificate dated as of the Closing Date of the City Clerk of the City to the effect that each Formation Document is a true, correct and complete copy of the one duly adopted by the City Council;

(2) The Official Statement;

(3) An unqualified approving opinion for the Bonds, dated the Closing Date and addressed to the CFD, of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel for the CFD, in the respective form attached to the Preliminary Official Statement at Appendix D, and an unqualified letter or letters of such counsel, dated the Closing Date and addressed to the Underwriter and the Trustee, to the effect that such approving opinion addressed to the CFD may be relied upon by the Underwriter and the Trustee to the same extent as if such opinion was addressed to it;

(4) A supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Bond Counsel for the CFD, to the effect that (i) the Purchase Agreement has been duly

executed and delivered by, and is a valid and binding agreement of, the CFD; (ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; (iii) the CFD has full legal power and authority to issue the Bonds, to enter into the CFD Documents, and to carry out the transactions contemplated under the CFD Documents; (iv) the CFD Documents are legal, valid, and binding obligations of the CFD, enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws relating to or limiting creditors' rights generally and by the principles of equity if equitable remedies are sought; (v) the Official Statement has been duly executed and delivered by the CFD by an authorized officer of the City; and (vi) the statements contained in the Official Statement and under the captions "INTRODUCTION," "THE BONDS (excluding information with respect to DTC and its Book-Entry Only System)," "SECURITY FOR THE BONDS" and "TAX MATTERS," and in APPENDIX E – "SUMMARY OF INDENTURE" and APPENDIX D – "FORM OF OPINION OF BOND COUNSEL," in each case with respect to the Indenture and the Bonds and excluding any material that may be treated as included under such captions by cross-reference or reference to other documents or sources, insofar as such statements expressly summarize certain provisions of the Indenture and the form and content of such counsel's approving opinion, are accurate in all material respects;

(5) An opinion, dated the Closing Date and addressed to the Underwriter, of Nixon Peabody LLP to the effect that, without having undertaken to check the accuracy, completeness or fairness of, or verifying the information contained in the Official Statement, and are therefore unable to make any representation in that regard, such firm has participated in conferences prior to the date of the Official Statement with the City's and the CFD's representatives, including Bond Counsel and the Counsel to the City, representatives of the Underwriter and KB Home California, LLC ("KB Home"), Counsel to KB Home and others, during which conferences the contents of the Official Statement and related matters were discussed and based upon the information made available to such firm in the course of its participation as Underwriter's counsel in such conferences and its review of the documents referred to above, its reliance on the documents, certificates, instructions, and records, and the opinions of counsel described above and its understanding of applicable law, such firm does not believe that the Preliminary Official Statement as of its date and as of the date of the pricing or the Official Statement as of its date or as of the date of closing contained or contains any untrue statement of a material fact, or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading (provided that no view shall be expressed as to any information concerning DTC or the book-entry system, any information contained under the Appendices ___ through ___ or with respect to any financial, economic, demographic, statistical or engineering data or forecasts, numbers, charts, tables, estimates, projections, appraisals or assessed valuations contained in the Official Statement, including any of the Appendices thereto);

(6) A certificate or certificates, dated the Closing Date and signed by an authorized officer of the CFD, ratifying the use and distribution by the Underwriter of the Preliminary Official Statement and the Official Statement in connection with the offering and sale of the Bonds; and certifying that (i) the representations and warranties of the CFD contained in Section 2 hereof are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best of his or her knowledge, no event has occurred since the date of the Official Statement affecting the matters contained therein which should be disclosed in the Official Statement for the purposes for which it is to be used in order to make the statements and information contained in the Official Statement not misleading in any material respect, and the Bonds, the

Formation Documents and the CFD Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement; (iii) the CFD has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied under the Formation Documents, the CFD Documents and the Official Statement at or prior to the Closing Date; and (iv) the representations and warranties of the CFD contained in the CFD Certificate are true and correct in all material respects on and as of the Closing Date, with the same effect as if made on the Closing Date, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the Official Statement;

(7) An opinion, dated the Closing Date and addressed to the Underwriter, of the City Attorney, to the effect that (i) the CFD is a community facilities district duly organized and validly existing pursuant to the Act; (ii) the Resolution of Issuance was duly adopted at a meeting of the City Council of the City, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout; (iii) to counsel's knowledge, the execution and delivery of the CFD Documents and compliance by the CFD with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the CFD a breach of or default under any agreement or other instrument applicable to or binding upon the CFD, or any existing law, regulation, court order, or consent decree to which the CFD is subject; and (iv) except as stated in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation before or by any court, public board, or body pending with respect to which the City or the CFD has been properly served with process or, to my knowledge, threatened against them: (a) which challenges the creation, organization, existence, or powers of the City or the CFD, or the titles of their respective officers or the City Council members to their respective offices; (b) seeking to enjoin or restrain the issuance, sale, and delivery of the Bonds, the lien, the levy, and the collection of the Special Tax, or the pledge thereof; (c) which questions any of the rights, powers, duties, or obligations of the CFD with respect to the Special Tax or the moneys and assets pledged or to be pledged to pay the principal of, premium, if any, or interest on the Bonds; (d) which questions any authority for the issuance of the Bonds, the validity or enforceability of the Bonds, or the CFD Documents; or (e) which questions the transactions contemplated by the CFD Documents or the Official Statement;

(8) A letter, dated the date of the Closing and addressed to the Underwriter and the CFD, of Richards, Watson & Gershon, A Professional Corporation, disclosure counsel (the "Disclosure Counsel"), to the effect that, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Preliminary Official Statement or the Official Statement, but on the basis of their participation in conferences with representatives of the CFD, the Special Tax Consultant and others, and their examination of certain documents, nothing has come to their attention which has led them to believe that the Preliminary Official Statement as of its date and as of the date of the pricing or the Official Statement as of its date or as of the date of closing contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no opinion or belief need be expressed as to any financial statements or other financial, statistical or engineering data or forecasts, numbers, charts, estimates, projections, assumptions, or expressions of opinion, any information about valuation, appraisals, absorption, archeological or environmental matters, or any information about The Depository Trust Company or the book-entry-only system);

(9) One or more certificates dated the Closing Date from Willdan Financial Services (the "Special Tax Consultant") addressed to the CFD and the Underwriter to the effect that

(i) the amount of the Special Taxes that could be levied in each Fiscal Year on all Developed Property (as defined in the Rate and Method of Apportionment of Special Tax) in the CFD that are not delinquent in the payment of any Special Taxes then due and owing is at least one hundred ten percent (110%) of the total Annual Debt Service for each such Fiscal Year on the proposed Bonds, plus reasonably anticipated Administrative Expenses, and (ii) all information supplied by them for use in the Preliminary Official Statement and the Official Statement is true and correct as of the date of the Preliminary Official Statement or the Official Statement and as of the Closing Date;

(10) One or more certificates dated the Closing Date from the Urban Futures, Inc., as municipal advisor, dated the Closing Date and in form and substance acceptable to the Underwriter and Disclosure Counsel, to the effect that the CFD, the City and community facilities districts formed by the City are in compliance with all of their prior continuing disclosure undertakings entered into pursuant to Rule 15c2-12 and have not failed to comply with any such undertakings during the preceding five years, except as disclosed in the Official Statement;

(11) A certificate of the CFD dated the Closing Date, in a form acceptable to Bond Counsel, that the 2018A Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended and an Information Return for Tax-Exempt Bond Issues (Internal Revenue Service Form 8038-G), in a form satisfactory to Bond Counsel for filing, executed by a duly authorized officer of the CFD, together with evidence that such Form 8038-G has been mailed;

(12) A certificate of the Trustee and an opinion of counsel to the Trustee dated the Closing Date and addressed to the CFD and the Underwriter to the effect that the Trustee has authorized the execution and delivery of the Indenture and that the Indenture is a valid and binding obligation of the Trustee enforceable in accordance with its terms;

(13) A Letter of Representations of KB Home in connection with the printing of the Preliminary Official Statement dated the date of the Preliminary Official Statement, substantially in the form attached as part of Exhibit C hereto or as such Letter of Representations may be modified with the approval of the Underwriter, Underwriter's Counsel, Disclosure Counsel, and Bond Counsel, and a Closing Certificate of KB Home dated the Closing Date, substantially in the form attached as part of Exhibit C hereto;

(14) An opinion letter from counsel to KB Home addressed to the Underwriter in form and substance acceptable to the Underwriter;

(15) A letter dated the Closing Date from Harris Realty Appraisal (the "Appraiser") addressed to the Underwriter and the CFD to the effect that it has prepared the appraisal report (the "Appraisal") with respect to the property located within Improvement Area No. 1 of the CFD, and that (a) the Appraisal, set forth in Appendix C to the Official Statement, may be included in the Preliminary Official Statement and the Official Statement, (b) the Appraisal in Appendix C and the information in the Official Statement referring to the Appraisal do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and (c) nothing has come to the attention of the Appraiser that would lead the Appraiser to believe that the value of the property in Improvement Area No. 1 of the CFD is less than the minimum value of such property reported in the Appraisal;

(16) Majority Project Owner Continuing Disclosure Agreement substantially in the form attached as Appendix H of the Official Statement; and

(17) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the statements and information contained in the Preliminary Official Statement and the Official Statement, of the CFD's representations and warranties contained herein and the due performance or satisfaction by the CFD at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the CFD and the CFD in connection with the transactions contemplated hereby and by the Official Statement.

If the CFD shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriter nor the CFD shall be under any further obligation hereunder, except that the respective obligations of the CFD and the Underwriter set forth in Section 5, Section 6 and Section 8 hereof shall continue in full force and effect.

5. Conditions of the CFD's Obligations. The CFD's obligations hereunder are subject to the Underwriter's performance of its obligations hereunder, and are also subject to the following conditions:

(a) As of the Closing Date, no litigation shall be pending with proper service of process on the CFD having been accomplished or, to the knowledge of the duly authorized officer of the CFD executing the certificate referred to in Section 3(c)(6) hereof, threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Formation Documents, the CFD Documents or the existence or powers of the CFD; and

(b) As of the Closing Date, the CFD shall receive the approving opinion of Bond Counsel referred to in Section 4(c)(3) and (4) hereof, dated as of the Closing Date.

6. Expenses.

(a) The Underwriter shall be under no obligation to pay, and the CFD shall pay or cause to be paid (solely from proceeds of the Bonds) all expenses incident to the performance of the CFD's obligations hereunder, including, but not limited to, the cost of printing, engraving and delivering the Bonds to the Underwriter, the cost of preparation, printing, distribution and delivery of the Indenture, the Preliminary Official Statement and the Official Statement, and all other agreements and documents contemplated hereby (and drafts of any thereof) in such reasonable quantities as requested by the Underwriter; and the fees and disbursements of the Trustee for the Bonds, Bond Counsel, Municipal Advisor, Special Tax Consultant, and any accountants, engineers or any other experts or consultants the CFD has retained in connection with the Bonds; and

(b) The CFD shall be under no obligation to pay, and the Underwriter shall pay, any fees of the California Debt and Investment Advisory Commission, the cost of preparation of any "blue sky" or legal investment memoranda and this Purchase Agreement; expenses to qualify the Bonds for sale under any "blue sky" or other state securities laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically

enumerated in paragraph (a) of this section), including underwriter's counsel, CUSIP® and MSRB fees, and any advertising expenses.

The CFD acknowledges that the Underwriter will pay from the underwriter's expense allocation of the underwriting discount certain fees, including the applicable per bond assessment charged by the California Debt and Investment Advisory Commission.

7. Notices. Any notice or other communication to be given to the CFD under this Purchase Agreement may be given by delivering the same in writing to the CFD at 460 North Euclid Avenue, Upland, California 91785-0460, Attention: _____; and any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Hilltop Securities Inc., 2533 South Coast Highway 101, Suite 250, Cardiff by the Sea, California 92007 Attention: Robin Thomas.

8. Parties in Interest. This Purchase Agreement is made solely for the benefit of the CFD and the Underwriter (including their successors or assigns), and no other person shall acquire or have any right hereunder or by virtue hereof.

9. Survival of Representations and Warranties. The representations and warranties of the CFD set forth in or made pursuant to this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Agreement and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the CFD and regardless of delivery of and payment for the Bonds.

10. Effective. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the CFD and shall be valid and enforceable as of the time of such acceptance.

11. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds for the CFD.

12. Governing Law. This Purchase Agreement shall be governed by the laws of the State of California.

13. Counterparts. This Purchase Agreement may be executed simultaneously in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

Very truly yours,

HILLTOP SECURITIES INC.

By: _____
Authorized Signatory

ACCEPTED:

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND) OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA

By: _____
Authorized Signatory

Time of Execution: _____

EXHIBIT A

MATURITY SCHEDULE

**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)**

Maturity Date (September 1)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*

_____
* Term Bond.

The purchase price of the 2018A Bonds shall be $_____, which is the principal amount thereof ($_____) plus/less original issue premium/discount of $_____ and less Underwriter's discount of $_____.

Maturity Date (September 1)	10% Test Satisfied	10% Test Not Satisfied	Subject to Hold-The-Offering-Price Rule

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

Maturity Date (September 1)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*

_____
* Term Bond.

The purchase price of the 2018B Bonds shall be $_____, which is the principal amount thereof ($_____) plus/less original issue premium/discount of $_____ and less Underwriter's discount of $_____.

EXHIBIT B

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)

And

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

RULE 15c2-12 CERTIFICATE

The undersigned hereby certifies and represents that he is the _____ of the City of Upland acting as the legislative body of the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "CFD"), and, as such, is duly authorized to execute and deliver this certificate and further hereby certifies that:

(1) this certificate is being delivered in connection with the sale and issuance of the above-captioned bonds (the "Bonds") in order to enable the underwriter of the Bonds to comply with Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, as amended (the "Rule");

(2) in connection with the sale and issuance of the Bonds, there has been prepared a Preliminary Official Statement dated _____, 2018 setting forth information concerning the Bonds and the CFD (the "Preliminary Official Statement"); and

(3) except for the Permitted Omissions, the Preliminary Official Statement is deemed final within the meaning of the Rule. As used herein, the term "Permitted Omissions" refers to the offering price(s), interest rates(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all as set forth in the Rule.

IN WITNESS WHEREOF, I have hereunto set my hand as of _____, 2018.

CITY OF UPLAND, acting as the legislative body of the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California

By: _____
Its: _____

EXHIBIT C

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)

And

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

LETTER OF REPRESENTATIONS OF
KB HOME CALIFORNIA, LLC

_____, 2018

City of Upland
460 North Euclid Avenue
Upland, California 91785-0460

Community Facilities District No. 2016-1 (Harvest at Upland)
of the City of Upland, County of San Bernardino, State of California
460 North Euclid Avenue
Upland, California 91785-0460

Hilltop Securities Inc.
2533 South Coast Hwy 101, Suite 250
Cardiff by the Sea, California 92007

Ladies and Gentlemen:

This Letter of Representations of KB Home California, LLC (the "**Letter of Representations**") is delivered pursuant to Section 4(d)(13) of the Bond Purchase Agreement (the "**Purchase Agreement**") to be entered into in connection with the issuance, sale, and delivery by Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "**CFD**") of its Special Tax Bonds, Series 2018A (Improvement Area No. 1) and its Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1) (collectively, the "**Bonds**"). Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Purchase Agreement.

The undersigned certifies that he is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of KB Home California, LLC, a Delaware limited liability company (the "**Property Owner**"), and the undersigned, on behalf of the Property Owner, further certifies as follows:

1. The Property Owner is duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite limited liability company right, power, and authority (i) to execute and deliver this Letter of Representations and the Majority Property Owner Continuing Disclosure Agreement substantially in the form attached as Appendix H to the Preliminary Official Statement ("**Continuing Disclosure Agreement**"), (ii) to complete the development (*i.e.*, construction of homes) on its property in the CFD as described in the Preliminary Official Statement, and (iii) to perform its obligations under the Continuing Disclosure Agreement.

2. As set forth in the Preliminary Official Statement, title to a certain portion of the property within Improvement Area No. 1 of the CFD is held in the name of the Property Owner (such portion of the property hereinafter referred to as the "**Property**"). The undersigned, on behalf of the Property Owner, makes the representations herein with respect to all such Property.

3. Except as set forth in the Preliminary Official Statement, no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, public board or body is pending against the Property Owner (with proper service of process to the Property Owner having been accomplished) or, to the Actual Knowledge of the Undersigned,[1] is pending against any current Affiliate[2] (with proper service of process to such Affiliate having been accomplished) or to the Actual Knowledge of the Undersigned is threatened in writing against the Property Owner or any such Affiliate (a) to restrain or enjoin the collection of the Special Tax or other sums pledged or to be pledged to pay the principal of and interest on the Bonds (e.g., the Reserve Fund established under the Indenture), (b) to restrain or enjoin the development of the Property as described in the Preliminary Official Statement, (c) in any way contesting or affecting the validity of the Special Tax, or (d) which is reasonably likely to materially and adversely affect the Property Owner's ability to complete the development and sale of the Property as described in the Preliminary Official Statement, to

[1]"**Actual Knowledge of the Undersigned**" means the knowledge that the individual signing on behalf of the Property Owner currently has as of the date of this Letter of Representations or has obtained through (i) interviews with such current officers and responsible employees of the Property Owner and its Affiliates as the undersigned has determined are reasonably likely, in the ordinary course of their respective duties, to have knowledge of the matters set forth in this Letter of Representations, and/or (ii) review of documents that were reasonably available to the undersigned and which the undersigned has reasonably deemed necessary for the undersigned to obtain knowledge of the matters set forth in this Letter of Representations. The undersigned has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of the Property Owner's current business and operations. The individual signing this Letter of Representations has not contacted any individuals who are no longer employed by or associated with the Property Owner or its Affiliates

[2]"**Affiliate**" means, with respect to the Property Owner, any other Person (i) who directly, or indirectly through one or more intermediaries, is currently controlling, controlled by or under common control with the Property Owner, and (ii) for whom information, including financial information or operating data, concerning such Person is material to potential investors in their evaluation of the CFD and investment decision regarding the 2018 Bonds (i.e., information relevant to (a) the Property Owner's development plans with respect to the Property and ability to pay its Special Tax on the Property then owned by the Property Owner (to the extent the responsibility of the Property Owner) prior to delinquency, or (b) such Person's assets or funds that would materially affect the Property Owner's ability to develop the Property as described in the Preliminary Official Statement or to pay its Special Tax on the Property then owned by the Property Owner (to the extent the responsibility of the Property Owner) prior to delinquency). "**Person**" means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof. For purposes hereof, the term "**control**" (including the terms "**controlling**," "**controlled** by" or "**under common control with**") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

pay the Special Tax due at any time with respect to the Property then owned by the Property Owner (to the extent the responsibility of the Property Owner) prior to delinquency, or the ability of the Property Owner to perform its obligations under the Continuing Disclosure Agreement.

4. The Property Owner agrees to execute at the closing of the Bonds the Continuing Disclosure Agreement substantially in the form attached as Appendix E-1 to the Preliminary Official Statement, with such additional changes as may be agreed upon by the Property Owner. Except as disclosed in the Preliminary Official Statement, to the Actual Knowledge of the Undersigned, the Property Owner is not aware of any material failures by it to comply in all material respects with previous continuing disclosure undertakings in a written certificate or agreement executed by it to provide periodic continuing disclosure reports or notices of material events respecting bond offerings in California within the past five years.

5. As of the date of the Preliminary Official Statement, the information contained therein solely with respect to the Property Owner, its Affiliates, the proposed development of the Property, ownership of the Property, the Property Owner's development plan, the Property Owner's financing plan, the Property Owner's lenders, if any, and contractual arrangements of the Property Owner or any Affiliates (including, if material to the Property Owner's development plan or the Property Owner's financing plan, other loans of such Affiliates) as set forth under the captions "INTRODUCTION," "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT" and "CONTINUING DISCLOSURE – The Landowner," is true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

6. Except as described in the Preliminary Official Statement, there are no material loans outstanding and unpaid and no material lines of credit of the Property Owner or its Affiliates, that are secured by an interest in the Property. To the Actual Knowledge of the Undersigned, neither the Property Owner nor any of its Affiliates is currently in material default on any loans, lines of credit or other obligation related to the development of the Property or any other project which default is reasonably likely to materially and adversely affect the Property Owner's ability to develop the Property as described in the Preliminary Official Statement, to pay the Special Tax due with respect to the Property then owned by the Property Owner (to the extent the responsibility of the Property Owner) prior to delinquency, or the ability of the Property Owner to perform its obligations under the Continuing Disclosure Agreement.

7. To the Actual Knowledge of the Undersigned, the Property Owner is not aware that any of the Property has a current liability with respect to the presence of a substance presently classified as hazardous under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 or applicable California law or is adversely affected by the presence of endangered or threatened species or habitat for endangered or threatened species.

8. The Property Owner covenants that, while the Bonds or any refunding obligations related thereto are outstanding, the Property Owner and its Affiliates which it controls will not bring any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body, that in any way seeks to challenge

or overturn the formation of the CFD, to challenge the adoption of the CFD Resolutions of the CFD, to invalidate the CFD or any of the Bonds or any refunding bonds related thereto, or to invalidate the special tax liens imposed under Section 3115.5 of the Streets and Highways Code based on recordation of the notices of special tax lien relating thereto. The foregoing covenant shall not prevent the Property Owner in any way from bringing any other action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body including, without limitation, (a) an action or suit contending that the Special Tax has not been levied in accordance with the methodologies contained in the Rate and Method of Apportionment of Special Taxes, pursuant to which the Special Tax is levied, (b) an action or suit with respect to the application or use of the Special Tax levied and collected or (c) an action or suit to enforce the obligations of the City and/or the CFD under the CFD Resolutions, the Indenture, or any other agreements among the Property Owner, the City and/or the CFD or to which the Property Owner is a party or beneficiary.

9. The Property Owner consents to the issuance of the Bonds. The Property Owner acknowledges and agrees that the proceeds of the Bonds will be used as described in the Preliminary Official Statement.

10. The Property Owner intends to comply with the provision of the Mello-Roos Community Facilities District Act of 1982, as amended relating to the Notice of Special Tax described in Government Code Section 53341.5 in connection with the sale of the Property, or portions thereof.

11. To the Actual Knowledge of the Undersigned, the Property Owner is able to pay its bills as they become due and no legal proceedings are pending against the Property Owner (with proper service of process having been accomplished) or, to the Actual Knowledge of the Undersigned, threatened in writing in which the Property Owner may be adjudicated as bankrupt or discharged from any and all of its debts or obligations, or granted an extension of time to pay its debts or obligations, or be allowed to reorganize or readjust its debts, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

12. To the Actual Knowledge of the Undersigned, Affiliates of the Property Owner are able to pay their bills as they become due and no legal proceedings are pending against any Affiliate of the Property Owner (with proper service of process having been accomplished) or to the Actual Knowledge of the Undersigned, threatened in writing in which the Affiliates of the Property Owner may be adjudicated as bankrupt or discharged from any or all of their debts or obligations, or granted an extension of time to pay their debt or obligations, or be allowed to reorganize or readjust their debts or obligations, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

13. The Property Owner has been developing or has been involved in the development of property over an extended period of time. It is likely that the Property Owner has been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments, or special taxes. However, to the Actual Knowledge of the Undersigned, during the last five years, neither the Property Owner nor any Affiliate (during their period of ownership) has been delinquent to any material extent in the payment of any *ad valorem* property tax, special assessment or special tax on property in California owned by the Property Owner or by any such Affiliate (during the period of their ownership) included within the boundaries of a community facilities district or an assessment district that (a) would have

caused a draw on a reserve fund relating to such assessment district or community facilities district financing or (b) resulted in a foreclosure action being filed in a court of law against the delinquent Property Owner or its Affiliate.

14. The Property Owner has not filed for the reassessment of the assessed value of portions of the Property, other than in connection with the sale of homes to individual homebuyers.

15. To the Actual Knowledge of the Undersigned, there are no claims, disputes, suits, actions or contingent liabilities by and among the Property Owner, its Affiliates or any contractors working on the development of the Property which is reasonably likely to materially and adversely affect the development of the Property as described in the Preliminary Official Statement, the payment of the Special Tax due at any time with respect to the Property then owned by the Property Owner (to the extent the responsibility of the Property Owner) prior to delinquency, or the ability of the Property Owner to perform its obligations under the Continuing Disclosure Agreement.

16. Based upon the current development plans, including, without limitation, the current budget and subject to economic conditions and risks generally inherent in the development of real property, including, but not limited to, the risks described in the Preliminary Official Statement under the section entitled "BONDOWNERS' RISKS," to the Actual Knowledge of the Undersigned, the Property Owner presently anticipates that it will have sufficient funds to complete the development of the Property as described in the Preliminary Official Statement and to pay the Special Tax levied against the Property then owned by the Property Owner (to the extent the responsibility of the Property Owner) prior to delinquency and does not anticipate that the CFD will be required to resort to a draw on the Reserve Fund for payment of principal of or interest on the Bonds due to the Property Owner's nonpayment of the Special Tax. However, neither the Property Owner nor any of its Affiliates are obligated to pay the Special Tax or to make any additional capital contribution or loan to the Property Owner at any time, and the Property Owner reserves the right to change its respective development plan and financing plan for the Property at any time without notice, and there is no recourse against the Property Owner for the failure to pay the Special Tax other than the filing of a foreclosure action.

17. Solely as to the limited information described in the sections of the Preliminary Official Statement indicated in Paragraph 5 herein, the Property Owner agrees to indemnify and hold harmless, to the extent permitted by law, the City, the CFD, the Underwriter and their officials and employees, and each Person, if any, who controls any of the foregoing within the meaning of Section 15 of the Securities Act of 1933, as amended, or of Section 20 of the Securities Exchange Act of 1934, as amended (each, an "**Indemnified Party**" and, collectively, the "**Indemnified Parties**"), against any and all losses, claims, damages or liabilities, joint or several, to which such Indemnified Party may become subject under any statute or at law or in equity and shall reimburse any such Indemnified Party for any reasonable legal or other expense incurred by it in connection with investigating any such claim against it and defending any such action, insofar as and solely to the extent such losses, claims, damages, liabilities or actions, or legal or other expenses, arise out of or are based upon any untrue statement or alleged untrue statement of a material fact or the omission or alleged omission of a material fact by the Property Owner in the above-referenced information in the Preliminary Official Statement, as of its date, necessary to make the statements made by the Property Owner

contained therein, in light of the circumstances under which they were made not misleading. This indemnity provision shall not be construed as a limitation on any other liability which the Property Owner may otherwise have to any Indemnified Party, *provided* that in no event shall the Property Owner be obligated for double indemnification, or for the negligence or willful misconduct of an Indemnified Party.

If any suit, action, proceeding (including any governmental or regulatory investigation), claim, or demand shall be brought or asserted against any Indemnified Party in respect of which indemnification may be sought pursuant to the above paragraph, such Indemnified Party shall promptly notify the Property Owner in writing; provided that the failure to notify the Property Owner shall not relieve it from any liability that it may have hereunder except to the extent that it has been materially prejudiced by such failure; and provided, further, that the failure to notify the Property Owner shall not relieve it from any liability that it may have to an Indemnified Party otherwise than under the above paragraph unless such liability was also conditioned upon such notice. If any such proceeding shall be brought or asserted against an Indemnified Party and it shall have notified the Property Owner thereof, the Property Owner shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party in such proceeding and shall pay the fees and expenses of such counsel related to such proceeding, as incurred. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Property Owner and the Indemnified Party shall have mutually agreed to the contrary; (ii) the Property Owner has failed within a reasonable time to retain counsel reasonably satisfactory to the Indemnified Party; (iii) the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the Property Owner such that a material conflict of interest exists for such counsel; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Property Owner and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual differing interest between them. It is understood and agreed that the Property Owner shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for any given Indemnified Party, and that all such fees and expenses, to the extent reasonable, shall be paid or reimbursed as they are incurred. Any such separate firm shall be designated in writing by the Indemnified Party or Indemnified Parties which it represents. The Property Owner shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Property Owner agrees to indemnify each Indemnified Party from and against any loss or liability by reason of such settlement or judgment. The Property Owner shall not, without the written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is a party and indemnification could have been sought hereunder by such Indemnified Party, unless such settlement (x) includes an unconditional release of such Indemnified Party, in form and substance reasonably satisfactory to such Indemnified Party, from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Party.

18. If between the date hereof and the Closing Date any event relating to or affecting the Property Owner, its Affiliates, the proposed development of the Property, ownership of the Property, the Property Owner's development plan, the Property Owner's

financing plan, the Property Owner's lenders, if any, and contractual arrangements of the Property Owner or any Affiliates (including, if material to the Property Owner's development plan or the Property Owner's financing plan, other loans of such Affiliates) shall occur of which the Property Owner has actual knowledge which would cause the information under the sections of the Preliminary Official Statement indicated in Paragraph 5 hereof, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Property Owner shall notify the City, the CFD and the Underwriter and if in the opinion of counsel to the City or the Underwriter such event requires the preparation and publication of a supplement or amendment to the Preliminary Official Statement, the Property Owner shall reasonably cooperate with the City and the CFD in the preparation of an amendment or supplement to the Preliminary Official Statement in form and substance satisfactory to counsel to the City, the CFD and to the Underwriter.

19. The Property Owner agrees to deliver the Closing Certificate of KB Home California, LLC (the "**Closing Certificate**") dated the date of issuance of the Bonds at the time of issuance of the Bonds in substantially the form attached as Exhibit A. If any event related to or affecting the Property Owner, its Affiliates, or the ownership, development or sale of the Property occurs, as a result of which it is necessary to modify the Closing Certificate, the Property Owner agrees to deliver a new Closing Certificate revised to reflect such event.

20. On behalf of the Property Owner, I have reviewed the contents of this Letter of Representations and have met with counsel to the Property Owner for the purpose of discussing the meaning of the contents of this Letter of Representations. The Property Owner acknowledges and understands that a variety of state and federal securities laws, including, but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the Property Owner and that under some circumstances, certification as to the matters set forth in this Letter of Representations, without additional disclosures or other action, may not fully discharge all duties and obligations of the Property Owner under such securities laws.

[Remainder of Page Intentionally Left Blank]

The undersigned has executed this Letter of Representations solely in his capacity as an authorized officer or representative of the Property Owner and he will have no personal liability arising from or relating to this Letter of Representations. Any liability arising from or relating to this Letter of Representations may only be asserted against the Property Owner.

KB HOME CALIFORNIA, LLC,
a Delaware limited liability company

By: _____,
a _____,
Its managing member

By:_____

Name: _____

Title: _____

EXHIBIT A

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)

And

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF UPLAND,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, TAXABLE SERIES 2018B (IMPROVEMENT AREA NO. 1)

CLOSING CERTIFICATE OF KB HOME CALIFORNIA, LLC

[Closing Date]

City of Upland
460 North Euclid Avenue
Upland, California 91785-0460

Community Facilities District No. 2016-1 (Harvest at Upland)
of the City of Upland, County of San Bernardino, State of California
460 North Euclid Avenue
Upland, California 91785-0460

Hilltop Securities Inc.
2533 South Coast Hwy 101, Suite 250
Cardiff by the Sea, California 92007

Ladies and Gentlemen:

Reference is made to above-captioned bonds (collectively, the "**Bonds**"), and to the Bond Purchase Agreement, dated _____, 2018 (the "**Purchase Agreement**"), entered into in connection therewith. This Closing Certificate of KB Home California, LLC (the "**Closing Certificate**") is delivered pursuant to Section 4(d)(13) of the Purchase Agreement. Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Letter of Representations of KB Home California, LLC (the "**Letter of Representations**"), dated _____, 2018, delivered by KB Home California, LLC, a Delaware limited liability company (the "**Property Owner**"), which is attached hereto as Exhibit A.

The undersigned certifies that he is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of the Property Owner, and the undersigned, on behalf of the Property Owner, further certifies as follows:

1. The Property Owner has received the final Official Statement dated _____, 2018 relating to the Bonds (the "**Official Statement**"). To the Actual Knowledge of the Undersigned, each

statement, representation and warranty made in the Letter of Representations is true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the final Official Statement.

2. The Property Owner has executed the Majority Property Owner Continuing Disclosure Agreement.

3. To the Actual Knowledge of the Undersigned, no event has occurred since the date of the Preliminary Official Statement affecting the statements and information described in the sections of the Official Statement referenced in Paragraph 5 of the Letter of Representations (and subject to the limitations and exclusions contained in Paragraph 5 of the Letter of Representations) relating to the Property Owner, its Affiliates, the proposed development of the Property, ownership of the Property, the Property Owner's development plan, the Property Owner's financing plan, the Property Owner's lenders, if any, and contractual arrangements of the Property Owner or any Affiliates (including, if material to the Property Owner's development plan or the Property Owner's financing plan, other loans of such Affiliates), which should be disclosed in the Official Statement for the purposes for which it is to be used in order to make such statements and information contained in the Official Statement not misleading in any material respect.

4. For the period through 25 days after the "**end of the underwriting period**" as defined in the Purchase Agreement to mean the date hereof, if any event relating to or affecting the Property Owner, its Affiliates, the proposed development of the Property, ownership of the Property, the Property Owner's development plan, the Property Owner's financing plan, the Property Owner's lenders, if any, and contractual arrangements of the Property Owner or any Affiliates (including, if material to the Property Owner's development plan or the Property Owner's financing plan, other loans of such Affiliates) shall occur as a result of which it is necessary, in the opinion of the Underwriter or counsel to the City or the CFD, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it was delivered to a purchaser, the Property Owner shall reasonably cooperate with the City and the Underwriter in the preparation and publication of a supplement or amendment to the information described in the sections of the Official Statement referenced in Paragraph 5 of the Letter of Representations, in form and substance satisfactory to the Underwriter and counsel to the City and the CFD which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.

[Remainder of Page Intentionally Left Blank]

The undersigned has executed this Closing Certificate solely in his capacity as an authorized officer or representative of the Property Owner and he will have no personal liability arising from or relating to this Closing Certificate. Any liability arising from or relating to this Closing Certificate may only be asserted against the Property Owner.

KB HOME CALIFORNIA, LLC,
a Delaware limited liability company

By: _____,
a _____,
Its managing member

By:_____

Name: _____

Title: _____

EXHIBIT D

FORM OF ISSUE PRICE CERTIFICATE

$_____
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (HARVEST AT UPLAND)
OF THE CITY OF UPLAND, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
SPECIAL TAX BONDS, SERIES 2018A (IMPROVEMENT AREA NO. 1)

The undersigned, on behalf of Hilltop Securities Inc. (the "Underwriter") hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. Sale of the Bonds. As of the date of this certificate, for each Maturity of the Bonds, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.

2. Initial Offering Price of the Hold-the-Offering-Price Maturities.

(a) Underwriter offered the Hold-the-Offering-Price Maturity to the Public for purchase at the respective initial offering price listed in Schedule A (the "Initial Offering Price") on or before the Sale Date.

(b) As set forth in the Bond Purchase Agreement, dated _____, 2018, by and between the Issuer and Underwriter, Underwriter has agreed in writing that, (i) for the Hold-the-Offering-Price Maturity, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the "hold-the-offering-price rule"), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) will offer or sell any Hold-the-Offering-Price Maturity at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

3. The aggregate of the sale prices of the Bonds is $_____ (the "Issue Price").

4. In our opinion, the Initial Offering Price for each maturity of the Bonds does not exceed the fair market value of such Bonds to the public as of the Sale Date.

5. Based upon our experience in marketing and maintaining a market for obligations having terms and credit arrangements similar to those underlying the Bonds, the Reserve Requirement contemplated under the Bond Indenture, dated as of November 1, 2018, by and between the Issuer and U.S. Bank National Association, pursuant to which the Bonds are being issued, was a vital and necessary factor in marketing the Bonds to the public and is both reasonably required and necessary to the maintenance of an orderly market for the Bonds.

6. The weighted average maturity of the Bonds is _____ years.

7. The Yield on the Bonds is _____%, being the discount rate which, when used in computing the present worth of all payments of principal and interest to be paid on the Bonds, computed on the basis of a 360-day year and semi-annual compounding produces an amount equal to the Issue Price of the Bonds [, computed with the following adjustment. The Bonds maturing (i) on September 1, 20__, and (ii) on September 1, 20__ are the only Bonds that are subject to optional redemption before maturity and have an Initial Offering Price that exceeds their stated redemption price at maturity by more than one-fourth of one percent multiplied by the product of their stated redemption price at maturity and the number of complete years to their first optional redemption date. Accordingly, in computing the Yield on the Bonds, such Bonds were treated as retired on their optional redemption date or at maturity to result in the lowest Yield on the Bonds. To the extent that we provided the Issuer and bond counsel with certain computations that show a bond yield, issue price, weighted average maturity and certain other information with respect to the Bonds, these computations are provided for informational purposes and are based on our understanding of directions that we have received from bond counsel regarding interpretation of the applicable law. We express no view regarding the legal sufficiency of any such computations or the correctness of any legal interpretation made by bond counsel].

8. [None of the Bonds subject to mandatory early redemption has a stated redemption price that exceeds the initial offering price of such bond by more than one-fourth of one percent multiplied by the product of its stated redemption price at maturity and the number of years to its weighted average maturity date.]

9. [None of the Bonds is subject to optional redemption within five years of the Issue Date of the Bonds, and none of the Bonds subject to optional redemption has an Initial Offering Price that exceeds its stated redemption price at maturity by more than one-fourth of one percent multiplied by the product of its stated redemption price at maturity and the number of complete years to its first optional redemption date.]

10. Defined Terms.

(a) Issuer means Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California.

(b) Maturity means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) Public means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) Sale Date means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is _____, 2018.

(e) Underwriter means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial

sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

Other capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Certificate Regarding Compliance with Certain Tax Matters (the "Tax Certificate") executed by the Issuer and the City of Upland (the "City") with respect to the Bonds.

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Underwriter's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer and the City with respect to certain of the representations set forth in the Tax Certificate relating to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Richards, Watson & Gershon, A Professional Corporation, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer and the City from time to time relating to the Bonds.

HILLTOP SECURITIES INC.

By:_____

Name:_____

Dated: _____, 2018

APPENDIX G
FORM OF CONTINUING DISCLOSURE AGREEMENT
(ISSUER)

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of November 1, 2018 is executed and delivered by the Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California (the "District") and Willdan Financial Services, as dissemination agent (the "Dissemination Agent") in connection with the issuance by the District of its $[principal amount] aggregate principal amount of Special Tax Bonds, Series 2018A (Improvement Area No. 1) (the "Tax-Exempt Bonds") and $[principal amount] aggregate principal amount of Special Tax Bonds, Taxable Series 2018B (Improvement Area No. 1) (the "Taxable Bonds" and together with the Tax-Exempt Bonds, the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of November 1, 2018 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"). The District and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean Willdan Financial Services, or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Trustee a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system located at http://www.emma.msrb.org, which is the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule, or such other successor repository site as prescribed by the MSRB.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Obligated Person" shall mean any person, including an issuer of municipal securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

"Official Statement" shall mean the final Official Statement, dated __, 2018, relating to the Bonds.

"Participating Underwriter" shall mean Hilltop Securities, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provisions of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing March 31, 2019 with the report for the 2017-18 fiscal year, provide to the MSRB, via EMMA, in an electronic format accompanied by identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City for the Fiscal Year may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than fifteen (15) business days prior to the applicable date specified in subsection (a) above for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the first sentence of this subsection (b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in such form as prescribed by, or acceptable to, the MSRB.

(d) The Dissemination Agent (if other than the District) shall, if and to the extent, the District has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements of the City prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Such financial statements shall be accompanied by a statement substantially as follows:

> THE CITY'S ANNUAL FINANCIAL STATEMENTS ARE PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15c2-12. EXCEPT FOR THE REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE

INDENTURE RELATING TO THE BONDS, NO FUNDS OR ASSETS OF THE CITY ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS. THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, the following information:

1) The principal amount of Bonds outstanding as of October 1 preceding the filing of the Annual Report.

2) The current balance in the Reserve Account of the Special Tax Fund held under the Indenture and the Reserve Requirement, as of the October 1 preceding the filing of the Annual Report.

(c) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, other financial information and operating data relating to the Improvement Area No. 1 of the District, contained in the Official Statement for the Bonds as follows:

1) For the more recent ended Fiscal Year preceding the filing of the Annual Report, an update to the development status of the parcels within Improvement Area No. 1, classified as "Developed Property" and "Undeveloped Property" within Improvement Area No. 1 of the District, in substantially the form set forth in table entitled "Appraised Values and Value to Lien Ratio" contained in the Official Statement under "THE DISTRICT -- Appraised Value to Lien Ratio.".

2) The Special Tax delinquency rate for all parcels within Improvement Area No. 1 of the District on which the Special Taxes are levied, as shown on the assessment roll of the San Bernardino County Assessor last equalized prior to October 1 preceding the filing of the Annual Report and other related information.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds, which notice shall be given in a timely manner, not in excess of ten (10) business days after the occurrence of such Listed Event:

1) Principal and interest payment delinquencies;

2) Non-payment related defaults, if material;

3) Unscheduled draws on debt service reserves reflecting financial difficulties;

4) Unscheduled draws on credit enhancements reflecting financial difficulties;

5) Substitution of credit or liquidity providers, or their failure to perform;

6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7) Modifications to rights of security holders, if material;

8) Bond calls, if material, and tender offers;

9) Defeasances;

10) Release, substitution, or sale of property securing repayment of the securities, if material;

11) Rating changes;

12) Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

13) The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of the events listed in Section 5(a) (1), (3), (4), (5), (6), (9), (11) or (12), inform the District of the occurrence of such event. As soon as reasonably practicable after obtaining knowledge of the occurrence of such event, the District shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

(c) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of any of the events listed in Section 5(a) (2), (7), (8), (10), (13) or (14), inform the District of the occurrence of such event and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d).

(d) Whenever the District obtains knowledge of the occurrence of any event specified in Section 5(a) (2), (7), (8), (10), (13) or (14), the District shall as soon as possible, in order to meet the ten (10) business day deadline to file notices required under the Rule and pursuant to the following sentence, determine if such event would be material under applicable Federal securities law. If the District determines that knowledge of the occurrence of such event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 7. Dissemination Agent.

(a) The District hereby appoints and engages Willdan Financial Services as the Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The District may replace the Dissemination Agent with or without cause. If at the time there is no designated Dissemination Agent appointed by the District, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties hereunder by giving 30-days written notice to the District.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees agreed to between the Dissemination Agent and the District from time to time and for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, holders or beneficial owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of bond counsel.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an Obligated Person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. For purposes of this paragraph, "impact" has the meaning as that word is used in the letter from the staff of the Securities and Exchange Commission to the National Association of Bond Lawyers dated June 23, 1995.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(b).

No amendment to this Agreement which modifies the duties or rights of the Dissemination Agent shall be made without the prior written consent of the Dissemination Agent.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. All of the immunities, indemnities, and exceptions from liability in Article VI of the Indenture insofar as they relate to the Trustee shall apply to the Dissemination Agent in this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss,

expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of bond counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach of this Agreement.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District: Community Facilities District No. 2016-1 (Harvest at Upland) of the City of Upland, County of San Bernardino, State of California
460 North Euclid Avenue
P.O. Box 460
Upland, California 91785-0460
Attention: Finance Officer
Email: lhelms@ci.upland.ca.us

To the Dissemination Agent: Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, California 92590
Attention: Chris Fisher, Vice President
Email: cfisher@willdan.com

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first written above.

COMMUNITY FACILITIES DISTRICT NO. 2016-1
(HARVEST AT UPLAND) OF THE CITY OF
UPLAND, COUNTY OF SAN BERNARDINO,
STATE OF CALIFORNIA

_____

Mayor of the City of Upland

WILLDAN FINANCIAL SERVICES
as Dissemination Agent

_____

Authorized Representative

STAFF REPORT

ITEM NO. 14.C.

DATE:	October 22, 2018
TO:	MAYOR AND CITY COUNCIL
FROM:	BILL R. MANIS, CITY MANAGER
PREPARED BY:	STEVEN H. DUKETT, DEVELOPMENT SERVICES CONSULTANT DOUG ANDERSON, FINANCIAL ADVISOR
SUBJECT:	AMENDMENT TO THE CITY'S LAND SECURED FINANCING POLICY FOR SPECIAL ASSESSMENT AND MELLO-ROOS COMMUNITY FACILITY DISTRICT FINANCING

RECOMMENDED ACTION

It is recommended that the City Council adopt a resolution amending the City's Land Secured Financing Policy for special assessment and Mello-Roos community facility district financing.

GOAL STATEMENT

The proposed action supports the City's goal of providing sound fiscal stewardship and providing decent housing, a suitable living environment, and expanded economic opportunities for residents.

BACKGROUND

On December 9, 2002, the City Council established a land secured financing policy for special assessment and Mello-Roos community facility district financing (the "Land Secured Financing Policy") in order to provide a procedure and evaluation process for managing the potential formation of future special assessment or community facilities districts and the sale of bonds. Certain amendments to the Land Secured Financing Policy were approved by the City Council on December 8, 2014.

ISSUES/ANALYSIS

A further amendment to the Land Secured Financing Policy is proposed to:

i) Add a Supplemental Disclosure Notice to Purchasers from Participating Developers (the "Supplemental Notice") to the Land Secured Financing Policy to be provided by

developers of properties utilizing special assessment or community facilities district financing within the City to purchasers of such properties; and

ii) Conform requirements relating to the timing of the recordation of a "Notice of Completion" prior to City acceptance of financed public improvements to changes in the Civil Code.

The Supplemental Notice will provide notice to prospective purchases of property within community facilities districts of the City that such properties are subject to annual special taxes that are in addition to regular annual property taxes. The Supplemental Notice will also inform such prospective purchasers that special taxes for facilities may be prepaid in full on a voluntary basis; however, special taxes for services are not subject to prepayment.

The Supplemental Notice will be provided to prospective purchasers in addition to a separate disclosure notice ("Notice of Special Tax") that is required to be provided by developers to describe the amount of the special taxes authorized to be levied on such properties.

FISCAL IMPACTS

There is no fiscal impact associated with this item.

ALTERNATIVES

Provide alternative direction to staff.

ATTACHMENTS:

1. Resolution (Which Includes the Amended and Restated Goals and Policies for Mello-Roos Community Facilities District Financings as its Exhibit "A").

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF UPLAND AMENDING THE CITY'S LAND SECURED FINANCING POLICY FOR SPECIAL ASSESSMENT AND MELLO-ROOS COMMUNITY FACILITY DISTRICT FINANCING

Intent of the Parties and Findings

(i) On September 13, 1988 and November 28, 1990, the City Council established policies with respect to special assessment or improvement act procedures (the "Special Assessment Procedures"); and

(ii) The Special Assessment Procedures expired on January 1, 1991 and January 1, 1994, respectively; and

(iii) Pursuant to § 53312.17 of the California Government Code, if a local agency wishes to initiate proceedings to establish a district under the California Mello-Roos Community Facilities Act of 1982 (the "Act"), said local agency must first consider and adopt local goals and policies concerning the use of the Act; and

(iv) Pursuant to § 53312.17 of the Act and by its Resolution No. 5389, adopted on December 9, 2002, the City Council established a land secured financing policy for special assessment and Mello-Roos community facility district financing (the "Land Secured Financing Policy") in order to provide a procedure and evaluation process for managing the potential formation of future special assessment or community facilities districts and the sale of bonds; and

(v) On December 8, 2014, by its adoption of Resolution No. 6252, the City Council adopted an amended and restated land secured financing policy for special assessment and Mello-Roos community facility district financing, making certain amendments to the Land Secured Financing Policy; and

(vi) At this time, the City Council desires to further amend the Land Secured Financing Policy to (a) add an additional disclosure requirement to the Land Secured Financing Policy to be provided by developers of properties utilizing special assessment or community facilities district financing within the City to purchasers of such properties, and (b) conform a requirement relating to the timing of the recordation of a "Notice of Completion" prior to City acceptance of financed public improvements to changes in the Civil Code; and

(vii) The proposed amendments to the Land Secured Financing Policy are set forth in the further amended and restated policy set forth as Exhibit "A" hereto;

NOW, THEREFORE, the City Council of the City of Upland hereby finds, determines and resolves as follows:

SECTION 1. The above recitals, and each of them, are true and correct.

SECTION 2. The amended and restated land secured financing policy for special assessment and "Mello-Roos" community facilities district financing, attached hereto as Exhibit "A", is approved.

SECTION 3. This Resolution shall take effect immediately upon adoption.

SECTION 4. The City Clerk shall certify to the passage and adoption of this resolution and enter it into the book of original resolutions.

PASSED, APPROVED and ADOPTED this 22nd day of October, 2018.

_____
Debbie Stone, Mayor

I, Jeannette Vagnozzi, City Clerk of the City of Upland, do hereby certify that the foregoing Resolution was adopted at a regular meeting of the City Council held on the 22nd day of October, 2018, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAINED:

ATTEST: _____
Jeannette Vagnozzi, City Clerk

EXHIBIT "A"

AMENDED AND RESTATED GOALS AND POLICIES FOR MELLO-ROOS COMMUNITY FACILITIES DISTRICT FINANCINGS

I. INTRODUCTION

Section 53312.7(a) of the California Government Code requires that pursuant to the Mello-Roos Community Facilities Act of 1982 (the "Act") the City of Upland (the "City") consider and adopt local goals and policies concerning the use of the Act prior to the initiation of proceedings to establish a new community facilities district ("CFD") under the Act. The following goals and policies are intended to meet the minimum requirements of the Act, and may be amended or supplemented by the City Council of the City (the "City Council") at any time.

The City encourages development of commercial, residential and industrial property which results in reciprocal value to the City (i.e. increased jobs, construction or development of major public improvements, property or sales tax revenues), and the City wishes to make available the financing methods available under the Act to finance public facilities required as a condition of development approval or otherwise.

The City will consider developer-initiated applications requesting the formation of a CFD pursuant to the Act and the issuance of bonds to finance the construction and/or acquisition of eligible public facilities. At the City's discretion, and depending upon existing circumstances, in addition to the issuance of bonds to fund eligible public facilities, eligible community services may also be financed on an on-going basis through the levy of special taxes.

The City has adopted this document to set forth its goals and policies for the use of the Act pursuant to Section 53312.7 of the Act. In each and every circumstance, the decision as to whether or not the City will make use of the Act is a decision that will be made solely by the City. Nothing contained herein shall be construed as obligating the City to make use of the Act in any circumstance or as granting to any person any right to have the City make use of the Act in any circumstance.

II. GOALS

Except as otherwise provided herein, only those public improvements that benefit the particular development, but which also provide a community-wide benefit at large, will be considered for financing. Such improvements include, but are not limited to, trunk water, sanitary and storm sewer and related facilities, bridges, major collector or "spine" streets, including related landscaping and lighting, parks, trails, and other recreational facilities, community centers, and fire stations. Unless specifically approved by the City Council, whether through its approval of a development agreement or otherwise, in-tract utilities, streets, landscaping, lighting and other improvements serving individual properties will not be financed for new development, nor will the acquisition of rights-of-way, lands and easements for public improvements for new development be financed.

The City shall make the determination as to whether a proposed district shall proceed under the provisions of the Act. The City may confer with consultants and the applicant to learn of any unique CFD requirements, such as facilities serving the regional area, and whether the district will be a construction, acquisition, or City services district, or some combination of the foregoing, prior to making any final determination.

III. ELIGIBLE PUBLIC FACILITIES AND SERVICES

Generally, the improvements eligible to be financed by a CFD must have a useful life of at least five (5) years and must be owned by the City or another public agency. In some cases, up to five percent (5%) of the proceeds of an issue may be used for privately-owned facilities owned and operated by a privately-owned public utility and the funding of facilities to be owned by a public utility shall be considered on a case-by-case basis. The development or redevelopment proposed within a CFD must be consistent with the City's General Plan and must have received any required land use approvals including but not limited to zoning or specific plan approvals prior to the issuance of bonds. The City Council may approve a CFD that includes some lands that does not require land approvals if the improvements are consistent with the City's General Plan and the City Council finds the improvements are required in the public interest. A CFD shall not vest any rights to future land use on any properties, including those that are responsible for paying special taxes.

Subject to Section II hereof, the list of eligible public facilities include, but are not limited to, the types of facilities specified in Government Code section 53313.5, as it currently exists or may hereafter be amended.

The funding of public facilities to be owned and operated by public agencies other than the City shall be considered on a case-by-case basis. If the proposed financing is consistent with a public facilities financing plan approved by the City, or the proposed facilities are otherwise consistent with approved land use plans for the property, the City may consider entering into a joint community facilities agreement or joint exercise of powers agreement in order to finance these facilities.

The City will consider on a case-by-case basis CFDs established for the provision of services eligible to be funded under the Act, including services to be provided by other public agencies. Eligible services are as specified in the Act, as it currently exists or may hereafter be amended.

IV. ACQUISITION PROVISIONS

Unless as otherwise agreed to between the City and the applicant/developer, the following provisions will apply concerning the acquisition of public facilities with CFD funds:

- The delivery to the City by the applicant/developer of all deeds, easements, or other documents necessary to complete the transfer of title to the improvements and the land or interests in land on which the improvements have been constructed.

- Issuance of a title insurance policy in favor of the City that ensures clear title to the land or interests in land to be conveyed to the City.

- An indemnification by the Applicant/Developer to the City from and against any and all claims, demands, suits, actions or proceedings of any kind or nature, including, but not by way of limitation, worker's compensation claims, resulting from, arising out of, or in any way related to the creation or maintenance of the CFD.

- The delivery to the City of a certified copy of the applicant/developer's "Notice of Completion" filed with the County of San Bernardino Recorder's Office sixty-five (65) days prior to acceptance of the improvements.

- The delivery to the City by the applicant/developer of lien waivers or releases from all contractors, subcontractors, and suppliers associated with construction of the improvements; or, in cases where this is not practical, other equivalent security such as a lien-free endorsement from a title company.

- Any other documentation required pursuant to the acquisition agreement between applicant/developer and the City.

V. PRIORITIES FOR CFD FINANCING UNDER THE ACT

Priority for CFD financing shall be given to public facilities which: (a) are necessary for economic development, or (b) are otherwise incident to an economic development project. If appropriate, the City shall prepare a public facilities financing plan as a part of the specific plan or other land use document that identifies the public facilities required to serve a project, and the type of financing to be utilized for each facility.

Generally, for applicant-initiated CFDs, only those improvements which directly benefit properties within a proposed development which will also provide a community-wide benefit at large are eligible for financing. The financing of in-tract utilities, street landscaping, lighting and other improvements serving individual properties and the acquisition of rights-of-way, lands and easements for public improvements will be considered on a case-by-case basis.

The eligibility of a facility for financing and the priority for the financing of facilities will be determined at the sole discretion of the City.

In general, none of the services authorized to be provided under the Act shall have priority over the others. Generally, for applicant-initiated CFDs, only those services which directly benefit properties within a proposed development are eligible for financing.

The eligibility of a service for financing and the priority for the financing of services will be determined at the sole discretion of the City.

VI. CREDIT QUALITY REQUIREMENTS FOR CFD BOND ISSUES

It is the policy of the City to comply with all provisions of the Act including, but not limited to, Section 53345.8, as such Section may be amended from time to time. It is the goal of the City to conform, as nearly as practicable, to the California Debt and Investment Advisory Commission's Appraisal Standards for Land-Secured Financings, as such standards may be amended from time to time, provided, however, that this City Council may additionally amend such standards from time to time as it deems necessary and reasonable, in its own discretion, to provide needed public improvements within the City, while still accomplishing the goals set forth herein.

Unless otherwise specifically approved by the City Council as provided in Section 53345.8(b) or (c) of the Act, the district property value-to-lien ratio shall be at least 3:1 after calculating the value of the public facilities to be financed, and considering any prior or pending special taxes or assessment liens. The City may require a higher value-to-lien ratio in its discretion, in consideration of current market and related conditions.

Property value may be based on either an appraisal or on assessed values as indicated on the County assessor's tax roll. The City shall select the appraiser, and the appraisal shall be based on standards promulgated by the State of California and otherwise determined applicable by City staff and consultants. The appraisal must be dated within three months of the date the bonds are issued.

Less than a three to one value to lien ratio (as described above), excessive tax delinquencies, a substantial amount of vacant land, or other factors may cause the City to disallow the sale of bonds or require credit enhancement prior to bond sale.

If the City requires letters of credit or other security, the credit enhancement shall be issued by an institution, in a form and upon terms and conditions satisfactory to the City. Any security required to be provided by the applicant may be discharged by the City upon the opinion of a qualified appraiser, retained by the City, that a value-to-lien ratio of three to one has been attained per land use category, including any overlapping special assessment or special tax liens.

As an alternative to providing other security, the applicant may request that a portion of the bond proceeds be placed in escrow with a corporate agent in an amount sufficient to assure a value-to-lien ratio of at least three to one on the outstanding proceeds. The use of an escrow bond structure shall be in the sole discretion of the City, if an escrow is necessary to assure a value-to-lien ratio of at least three to one per land use category, including any overlapping special assessment or special tax liens.

The City may, at its option, require a financial feasibility report prior to the formation of the CFD if fifty percent or more of the land within the CFD is substantially undeveloped. The report shall be prepared by or at the direction of the City. All costs for preparing the report shall be borne by the applicant/developer. An estimate of the report cost shall be made prior to initiating the study and the applicant/developer shall deposit the cost prior to starting the report.

For new development, prior to the issuance of bonds, the applicant/developer must submit a financial plan which demonstrates to the City's satisfaction the applicant/developer's ability to pay all special taxes through build out of the project.

VII. DISCLOSURE REQUIREMENTS FOR PROSPECTIVE PROPERTY PURCHASERS

a. Disclosure Requirements for Developers.

1. Developers who are selling lots or parcels that are within a CFD shall provide disclosure notice to prospective purchasers that comply with all of the requirements set forth in Section 53341.5 of the Government Code, as it now exists or may hereafter be amended. The disclosure notice must be provided to prospective purchasers of property at or prior to the time the contract or deposit receipt for the purchase of property is executed. Developers shall keep an executed copy of each disclosure document as evidence that disclosure has been provided to all purchasers of property within a CFD. The City retains the ability to require developers to provide or show copies of such disclosures to City staff upon request.

2. In addition, Developers who are selling lots or parcels that are within a CFD shall provide a supplemental disclosure notice to prospective purchasers in the form appended to this Policy as Appendix A. The disclosure notice must be provided to prospective purchasers of property at or prior to the time the contract or deposit receipt for the purchase of property is executed. Developers shall keep an executed copy of each disclosure document as evidence that disclosure has been provided to all purchasers of property within a CFD. The City retains the ability to require developers to provide or show copies of such disclosures to City staff upon request.

b. Disclosure Requirements for the Resale of Lots. Pursuant to Section 53340.2 of the Act, the City Finance Department shall provide a notice of special taxes to sellers of property (other than developers), which will enable them to comply with their notice requirements under Section 1102.6 of the Civil Code. The City shall provide this notice within five working days of receiving a written request for the notice. A reasonable fee may be charged for providing the notice, not to exceed any maximum fee specified in the Act.

VIII. EQUITY OF SPECIAL TAX FORMULAS AND MAXIMUM SPECIAL TAXES

Special tax formulas for CFDs shall provide for minimum special tax levels which satisfy the following: (a) 110 percent debt service coverage for all CFD bonded indebtedness (or such lower percentage determined by City's financial advisor and underwriter to be fiscally prudent), (b) the reasonable and necessary annual administrative expenses of the CFD, and (c) amounts equal to the differences between expected earnings on any escrow fund and the interest payments due on

bonds of the CFD. Additionally, the special tax formula may provide for the following: (a) any amounts required to establish or replenish any reserve fund established in association with the indebtedness of the CFD, (b) the accumulation of funds reasonably required for future debt service, (c) amounts equal to projected delinquencies of special tax payments, (d) the costs of remarketing, credit enhancement and liquidity facility fees, (e) the cost of services, (f) the cost of acquisition, construction, furnishing or equipping of facilities, (g) lease payments for existing or future facilities, (h) costs associated with the release of funds from an escrow account, and (i) any other costs or payments permitted by law. In structuring the special tax, projected annual interest earnings on bond reserve funds may not be included as revenue for purposes of the calculation.

The special tax formula shall be reasonable and equitable in allocating public facilities' and services' costs to parcels within the CFD. Exemptions from the special tax may be given to parcels, which include but are not limited to, parcels which are publicly owned, are held by a property owners' association, are used for a public purpose such as open space or wetlands, are affected by public utility easements making impractical their utilization for other than the purposes set forth in the easements, or have insufficient value to support bonded indebtedness.

The maximum annual special tax, together with ad valorem property taxes, special assessments and special taxes for an overlapping financing district, including such potential taxes and assessments relating to authorized but unissued debt of public entities other than the City and any other governmental taxes, fees, and charges secured by the property (collectively, the "Overlapping Debt Burden"), in relation to the expected assessed value of each parcel upon completion of the private improvements to the parcel is of great importance to the City in evaluating the proposed financing.

For residential parcels, the Overlapping Debt Burden shall not exceed two percent (2.0%) of the projected assessed value of each improved parcel within the district. As it pertains to commercial, industrial, or other parcels within the district, the City reserves the right to exceed the two percent (2.0%) limit if, in the City's sole discretion, it is fiscally prudent. The City, in its sole discretion, may allow an annual escalation factor on parcels within a district.

The rate and method of apportionment of the special tax shall include a provision for a backup tax to protect against any changes in development that would result in insufficient special tax revenues to meet the debt service requirements of the district. Such backup tax shall be structured in such a manner that it shall not violate any provisions of the Act regarding cross-collateralization limitations for residential properties.

The City shall retain a special tax consultant to prepare a report which: (a) recommends a special tax for the proposed CFD, and (b) evaluates the special tax proposed to determine its ability to adequately fund identified public facilities, City administrative costs, services (if applicable) and other related expenditures. Such analysis shall also address the resulting aggregate tax burden of all proposed

special taxes plus existing special taxes, ad valorem taxes and assessments on the properties within the CFD.

IX. APPRAISALS

Pursuant to the Act, property value may be based either on an appraisal or on full cash value as indicated on the County Assessor's tax roll. The definitions, standards and assumptions to be used for appraisals shall be determined by City on a case-by-case basis, with input from City consultants and CFD applicants, and by reference to relevant materials and information promulgated by the State of California, including the Appraisal Standards for Land-Secured Financings prepared by the California Debt and Investment Advisory Commission. In any event, the value-to-lien ratio shall be determined based upon an appraisal by an independent Member Appraisal Institute ("M.A.I.") appraiser of the proposed CFD. The appraisal shall be coordinated by and under the direction of the City. All costs associated with the preparation of the appraisal report shall be paid by the entity requesting the establishment of the CFD through the advance deposit mechanism.

X. ABSORPTION STUDY

An absorption study of any proposed development project may be required for land secured financing. The absorption study shall be used A) as basis for verification that sufficient revenues can be produced; and B) to determine if the public financing of the public facilities is appropriate given the timing of the development. Additionally, the projected absorption rates will be provided to the appraiser for use in an appraisal.

XI. TERMS AND CONDITIONS OF BONDS

The City shall establish all terms and conditions of the bonds. The City will control, manage and invest all CFD issued bond proceeds. Each bond issue shall be structured to adequately protect bond owners and to not negatively impact the bonding capacity or rating of the City. These security measures could include a combination of credit enhancement, foreclosure covenant, special reserve fund or deposits and/or a contractual commitment by the proponents and successors to pay the special taxes during the initial development stages of the development project. The City has the sole discretion to determine the types of credit enhancement, foreclosure covenant and reserve fund that may be required.

All statements and material related to the sale of bonds shall state that neither the faith, credit nor the taxing power of the City is pledged to security or repayment of the Bonds. The sole source of pledged revenues to repay CFD bonds are special taxes, bond proceeds and reserve funds held under the bond indenture, and the proceeds of foreclosure proceedings and additional security instruments provided at the time of bond issuance.

The City is under no obligation to issue tax-exempt debt. The ability to issue tax-exempt debt depends upon the particular facts and circumstances of each CFD. If the City, in its sole discretion determines to issue tax-exempt debt, the developer

must agree to cooperate in connection with any covenants or other requirements of state and/or federal tax law that may be necessary in order for the City to issue tax-exempt debt.

In the event there are surplus funds generated through the creation of the CFD and the sale of bonds, these surplus funds shall be used as follows, subject to the approval of bond counsel:

1. The Council may direct staff to use all or a portion of the surplus to offset the annual levy of special taxes to property owners in following years in a manner consistent with the Act. Under this policy, an amount of up to 5% of the total bond issue size not to exceed $1 million may be used to offset the annual levy without further Council action.

2. Any amount in excess of that used to offset the annual levy described in (1) above will be used to call bonds at an appropriate call date, as determined by staff and the City's financial advisor.

XII. CFD COST DEPOSITS AND REIMBURSEMENTS; APPLICATIONS

For applicant initiated CFDs the City shall not incur any non-reimbursable expenses for processing and administering CFDs. All City and consultant costs incurred in the evaluation of CFD applications and the establishment of CFDs will be paid by the entity requesting the establishment of the CFD by advance deposit which shall be in an amount not less than $15,000.00 for application processing and other preliminary costs. The City shall determine the actual amount of the initial advance deposit. If additional funds are needed to offset costs and expenses incurred by the City, the City shall make written demand upon the applicant for such funds. If the applicant fails to make any deposit of additional funds for the proceedings, the City may suspend all proceedings until receipt of such additional deposit. Expenses not chargeable to the CFD shall be directly borne by the applicant. An applicant shall not be entitled to reimbursement from bond proceeds for any of the following:

- Administrative or overhead expenses, financial consultant or legal fees incurred by an applicant for the formation of a special district (this limitation does not apply to amounts advanced by the applicant to the City).

- Land-use planning and subdivision costs and environmental review costs related to such land use planning and subdivision.

- Environmental impact studies unless off-site and directly related to the project.

- Construction loan interest.

- Costs, including but not limited to, land acquisition costs incurred prior to entering into a reimbursement or acquisition agreement or the adoption of a resolution of intention to form the district.

- Attorney's fees related to the land use entitlement or subdivision process unless off-site and directly related to the project.
- On-site right-of-way and easements.
- Other overhead expenses incurred by the applicant/developer.

In the event a CFD is not formed due to City disapproval or abandonment, or due to applicant abandonment, or the CFD is formed and bonds are not issued for any reason or the expenditure of the special tax for ongoing City services is not authorized, the City will refund to applicant/developer any remaining unexpended and unobligated portion of advance deposits posted with the City, subject to the City's prior and full reimbursement of all its direct and indirect costs. If the applicant/developer's advance deposit to the City is not sufficient to reimburse the City for all of its direct and indirect costs, the City will require payment of the balance due by the applicant/developer for the difference. The City shall not accrue or pay any interest on any portion of the deposit refunded to the applicant or the costs and expenses reimbursed to the applicant. Neither the City nor the CFD shall be required to reimburse the applicant or property owner from any funds other than the proceeds of bonds issued by the CFD. Unless otherwise agreed to by the City, the City shall be entitled to pay any refund to the applicant/developer listed on the application form, irrespective of any changes in the ownership or composition of the applicant/developer.

In the event a district is formed for City services only, the applicant/developer shall be obligated to pay all expenses incurred by the City for the formation of the district. If a "service" district is not formed for any reason, the applicant/developer shall be entitled to any unused portion of the advance deposit.

XIII. APPLICATION PROCESS

The application form for a proposed CFD may be obtained from the City Clerk of the City.

Completed applications shall be returned to the City Clerk and must be accompanied by a deposit in the amount determined by the City. A review committee, consisting of such City staff and consultants as determined by the City, will review the application for compliance with these goals and policies and will make a recommendation to the City Council as to whether or not to proceed with the proposed CFD.

The Council will either approve or deny the application. If approval is granted, the Council shall direct the City Manager or the Development Services Director to engage additional consultants, negotiate necessary contracts, and collect additional developer deposits, as necessary. The City Manager and City's financing team shall submit all necessary documents and reports needed for the Council to either terminate proceedings or take action to form the CFD, call the election and issue bonds.

XIV. CONTINUING DISCLOSURE

Landowners owning land within any CFD, and which are responsible for twenty percent (20%) or more in the aggregate of the special taxes, must agree to provide A) initial financial disclosure at the time of issuance of any bonds relating to such CFD; and B) annual financial disclosure as required under Rule 15c2-12 of the Securities Exchange Commission until the time at which the aggregate special tax obligation of such landowner is less than 20%. The City may require a higher or lower threshold than 20% of the aggregate special taxes, depending on the appropriateness due to the facts and circumstances of the financing.

XV. RESPONSIBLE DEPARTMENT

The City's Department of Finance, which is located at 460 N. Euclid Avenue, Upland, CA 91786 (the "Finance Department), is designated as the department of the City responsible for: (i) preparing the annual roll of special tax obligations with respect to any CFD; (ii) providing information to interested persons regarding the current and estimated future tax liability of owners or purchasers of real property subject to the special tax lien; and (iii) furnishing notices of special tax as required by applicable law.

Subject to the policies of the City, and as permitted by applicable law, the Finance Department may obtain the assistance of a qualified consultant to perform any of the duties set forth above, and to charge the cost of such consultant to the administrative costs of the CFD.

XVI. USE OF CONSULTANTS

The City shall select all consultants necessary for the formation of the CFD and the issuance of bonds, including the underwriter(s), bond counsel, financial advisor, appraiser, absorption consultant, and the special tax consultant. Prior consent of the applicant shall not be required in the determination by the City of the consulting and financing team.

An applicant/developer may retain its own consultants for its own benefit, but will work through those consultants hired by the City. If the developer/applicant retains its own consultants, all costs associated therewith shall be borne by the developer/applicant, without reimbursement from bond proceeds unless otherwise agreed to by the City

XVII. TRANSPARENCY AND NOTIFICATION

The City will take the following steps to ensure that prospective property purchasers are fully informed about their taxpaying obligations imposed under applicable laws:

1. Conduct all proceedings in the manner required by the Ralph M. Brown Act (Section 54950 and following of the California Government Code);

2. Cause a map of the boundaries of any proposed district to be recorded, pursuant to Section 3111 of the California Streets and Highways Code, in the Office of the San Bernardino County Recorder within 15 days following the adoption of a resolution of intention to form that District, pursuant to Section 53321 of the Act;

3. It will give notice, pursuant to applicable laws, prior to holding any public hearing on the establishment of a district;

4. It will record a notice of special tax lien, in the form specified by Section 3114.5 of the California Streets and Highways Code, within 15 days of the City Council's determination that the requisite number of voters are in favor of the levy of a special tax in connection with a district. Such notice will include, among other information:

   i. A description of the rate, method of apportionment, and manner of collection of the authorized special tax;

   ii. Information about the conditions under which the obligation to pay the special tax may be prepaid and permanently satisfied and the lien of the special tax canceled;

   iii. The name(s) of the owner(s) and the assessor's tax parcel number(s) of the real property included within the community facilities district and not exempt from the special tax; and

   iv. The name, address and telephone number of the Finance Department, so that the Finance Department may be contacted to obtain further information concerning the current and estimated future tax liability of owners or purchasers of real property subject to the special tax lien.

5. It will, through the Finance Department, furnish a notice of special tax, in the form required by law to any individual requesting the notice or any owner of property subject to a special tax levied by the City within five working days of a request for such notice. The City may charge a reasonable fee for this service, not to exceed $10.00.

XVIII. EXCEPTIONS TO THESE POLICIES

The City may, in its discretion and to the extent permitted by law, waive any of the policies set forth herein in particular cases.

XIX. MODIFICATION OF THESE POLICIES

The City Council reserves the right to modify or amend these Goals and Policies at any time and from time to time by resolution.

APPENDIX A

TO AMENDED AND RESTATED GOALS AND POLICIES FOR MELLO-ROOS COMMUNITY FACILITIES DISTRICT FINANCINGS

FORM OF SUPPLEMENTAL DISCLOSURE NOTICE TO PURCHASERS FROM PARTICIPATING DEVELOPERS

COMMUNITY FACILITIES DISTRICT NO. ____-__ (_____)
OF THE CITY OF UPLAND
COUNTY OF SAN BERNARDINO, CALIFORNIA

TO: The prospective purchaser of the real property known as:
Lot No._____ Tract No. _____.
Street Address: _____

SUBJECT: <u>PURCHASE PRICE/COST DISCLOSURE</u>

THIS IS A NOTIFICATION TO YOU PROVIDED PRIOR TO, OR AT THE TIME OF, ENTERING INTO A CONTRACT TO PURCHASE THIS PROPERTY. THE SELLER IS REQUIRED TO GIVE YOU THIS NOTICE, AND TO OBTAIN A COPY SIGNED BY YOU TO INDICATE THAT YOU HAVE RECEIVED AND READ A COPY OF THIS NOTICE.

A community facilities district ("CFD") has been established by the City under the Mello-Roos Community Facilities Act of 1982 (the "Act") at the request of the developer(s) who built the new home on this property that you are considering purchasing, as a method of financing the development impact fees and public infrastructure costs required due to the burdens that the home places on the corresponding public systems.

[An overlapping CFD has also been established by the City under the Act at the request of the developer(s) who built the home on this property, as a method of financing the costs of the additional public services required to be provided to the home that exceed the public services previously provided to the property underlying the home before the CFD was formed.]

The following notice(s) have been recorded pursuant to the Act in the Official Records of the San Bernardino County Recorder to provide notice of the CFD special taxes (the "Recorded Notice"):

- Notice of Special Tax Lien, recorded on _____, 20__, as Document No. _____; and
- Notice of Special Tax Lien, recorded on _____, 20__, as Document No. _____.

As disclosed in the Recorded Notice, this property is subject to special taxes, that are

in addition to the regular property taxes and any other charges, fees, special taxes, and benefit assessments on the parcel. Until no longer required to be levied pursuant to the terms of the Recorded Notice, the annual special taxes will be added to the real estate property tax bill distributed annually to owners of property within the CFD boundary. It is imposed on this property because it is a new development, and is not necessarily imposed generally upon property outside of this new development. If you fail to pay this tax when due each year, the property may be foreclosed upon and sold.

Concurrently herewith, the developer is also required pursuant to Section 53341.5 of the Act to provide to you with a separate disclosure notice entitled, "Notice of Special Tax" that describes the authorized amount of the special taxes authorized to be levied on this parcel (the "Notice of Special Tax").

The special taxes described above will increase your purchase costs for the home.

In addition to the sales price paid to the developer, the homeowner will be responsible to pay annual special taxes levied during each year that the owner owns the property, until the special taxes are no longer required to be levied pursuant to the terms of the Recorded Notice. If an owner sells the property to another person while the special taxes are still required to be levied pursuant to the terms of the Recorded Notice, the subsequent homeowner becomes responsible for paying annual special taxes levied during each year that the subsequent homeowner owns the property (as well as any prior year delinquent special taxes), until the special taxes are no longer required to be levied pursuant to the terms of the Recorded Notice. CFD special taxes for services are not subject to prepayment. CFD special taxes for facilities may be prepaid in full on a voluntary basis by any person by contacting the City's CFD Administrator, _____ at telephone number (___) _____.

Typically, the special taxes are collected through the property tax bill and are <u>in addition to</u> regular *ad valorem* property taxes. Therefore, the property tax bill for a home within the CFD will be higher than the property tax bill for a similarly-priced home that is not located with a CFD, an assessment district, or another type of public financing district. As noted above, if the special taxes are not paid when due, the property may be foreclosed upon and sold.

If you are financing the purchase of this property with a loan, and your lender requires property taxes, special taxes and assessments to be impounded, your monthly payment to your lender would include the following:

(A) monthly home loan amount
+ (B) 1/12 of the annual special taxes (see the Notice of Special Tax provided to you per § 53341.5 of the Act)
+ (C) 1/12 of the remaining items on the annual property tax bill.

The amount of the annual special taxes is also disclosed in the Recorded Notice or can be obtained by contacting the City's CFD Administrator at the telephone number set forth above.

Please acknowledge receipt of this information at or prior to the time of purchase by signing your name in the space provided below.

Acknowledged: _____ _____

Date Prospective Buyer

_____ _____

Date Prospective Buyer

Lot No. _____ Tract No. _____

Street Address: _____