MSRB
Municipal Securities Rulemaking Board

**Submission ID:EP726224**
**02/29/2016 19:38:23**

# CONTINUING DISCLOSURE (SUBMISSION STATUS: PUBLISHED)

# FINANCIAL/OPERATING FILING (CUSIP-9 BASED)

**Rule 15c2-12 Disclosure**

Annual Financial Information and Operating Data: 2015 Annual Report, for the year ended 06/30/2015

## Documents

**Financial Operating Filing**
CFD2015-1AR2015_FINAL.pdf posted 02/29/2016

## The following Issuers are associated with this Continuing Disclosure submission:

| CUSIP-6 | State | Issuer Name |
|---|---|---|
| 68423P | CA | ORANGE CNTY CALIF CMNTY FACS DIST SPL TAX |

## The following 22 securities have been published with this Continuing Disclosure submission:

| CUSIP-9 | Maturity Date |
|---|---|
| 68423PVF4 | 08/15/2016 |
| 68423PVG2 | 08/15/2017 |
| 68423PVH0 | 08/15/2018 |
| 68423PVJ6 | 08/15/2019 |
| 68423PVK3 | 08/15/2020 |
| 68423PVL1 | 08/15/2021 |
| 68423PVM9 | 08/15/2022 |
| 68423PVN7 | 08/15/2023 |

| | |
|---|---|
| 68423PVP2 | 08/15/2024 |
| 68423PVQ0 | 08/15/2025 |
| 68423PVR8 | 08/15/2026 |
| 68423PVS6 | 08/15/2027 |
| 68423PVT4 | 08/15/2028 |
| 68423PVU1 | 08/15/2029 |
| 68423PVV9 | 08/15/2030 |
| 68423PVW7 | 08/15/2031 |
| 68423PVX5 | 08/15/2032 |
| 68423PVY3 | 08/15/2033 |
| 68423PVZ0 | 08/15/2034 |
| 68423PWA4 | 08/15/2035 |
| 68423PWB2 | 08/15/2038 |
| 68423PWC0 | 08/15/2045 |

## Issuer’s Contact Information


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City, State Zip: Santa Ana, CA 92701
Phone Number: 714-834-3662
Email: Susana.Ortiz@ocgov.com


**Obligor’s Contact Information**

# COMMUNITY FACILITIES DISTRICT NO. 2015-1
# OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)
# SERIES A OF 2015 SPECIAL TAX BONDS
# ANNUAL REPORT
# FOR
# FISCAL YEAR ENDED JUNE 30, 2015

## Dated February 26, 2016

Series A of 2015 CUSIP Numbers

| | |
|---|---|
| 68423PVF4 | 68423PVG2 |
| 68423PVH0 | 68423PVJ6 |
| 68423PVK3 | 68423PVL1 |
| 68423PVM9 | 68423PVN7 |
| 68423PVP2 | 68423PVQ0 |
| 68423PVR8 | 68423PVS6 |
| 68423PVT4 | 68423PVU1 |
| 68423PVV9 | 68423PVW7 |
| 68423PVX5 | 68423PVY3 |
| 68423PVZ0 | 68423PWA4 |
| 68423PWB2 | 68423PWC0 |

**Prepared at the direction of and on behalf of:**

**County of Orange**
10 Civic Center Plaza, Third Floor
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**Prepared by:**

**David Taussig & Associates, Inc.**
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**Community Facilities District No. 2015-1**
**of the County of Orange**
**Special Tax Bonds**
**2015 Series A (Village of Esencia)**
**Annual Report**
**For Fiscal Year Ended June 30, 2015**

## Table of Contents

# INTRODUCTION

The Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (the "Issuer" or "District") hereby provides its annual report (the "Annual Report") for the fiscal year ended June 30, 2015 in connection with the following Bonds:

**Bond Issue:**

1. Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) Series A of 2015 Special Tax Bonds

**Annual Report:**

The Issuer's Annual Report required by the Continuing Disclosure Certificate (the "Disclosure Certificate") dated October 1, 2015 with respect to the Series A Bonds for the Fiscal Year ended June 30, 2015 is attached hereto.

**Other Matters:**

This Annual Report is provided solely for purposes of the Disclosure Certificate. The filing of this Annual Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the County, the Issuer or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Annual Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the Issuer's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the Issuer.

**While the financial statements of the County (which includes the District) for Fiscal Year ended June 30, 2015 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the District and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.**

## SECTION A

**a. <u>Audited Financial Statements for Fiscal Year Ended June 30, 2015.</u>**

The County of Orange's Audited Financial Statements for Fiscal Year 2014-2015 were filed with the Municipal Securities Rulemaking Board Electronic Municipal Market Access on February 9, 2016 (Submission ID: EP721374) are included herein as Exhibit A.

**While the financial statements of the County (which includes the District) for Fiscal Year ended June 30, 2015 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the District and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.**

**b. <u>The Official Statement for the Series A of 2015 Special Tax Bonds.</u>**

See Exhibit B attached.

## CERTAIN DISCLAIMERS

The information contained in this Annual Report expresses only the views of the applicable party. An explanation of the significance of any such information may be obtained from the applicable party; provided, however, that no information provided by any party is incorporated in this Annual Report. The County and the District undertake no responsibility to oppose any revision or withdrawal of such information contained in this Annual Report.

To the extent the County or the District provides information in this Annual Report, the County and the District are not obligated to present or update information in future Annual Reports. Investors are advised to refer to the Official Statement for the Bonds for information concerning the initial delivery of and security for the Bonds.

By providing the information in this Annual Report, the County and the District do not imply or represent (a) that all information provided in this Annual Report is material to investors' decisions regarding investment in the Bonds, (b) the completeness or accuracy of any financial, operational or other information not included herein or in the Official Statement, (c) that no changes, circumstances or events have occurred since the date of this Annual Report (other than as contained herein), or (d) that no other information exists which may have a bearing on the County's financial condition, the security for the Bonds or an investor's decision to buy, sell or hold the Bonds.

The information set forth in this Annual Report or incorporated in this Annual Report has been furnished by the County and the District and is believed to be accurate and reliable but is not guaranteed as to accuracy or completeness. Statements contained in or incorporated by this Annual Report which involves estimates, forecasts or other matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. Further, expressions of opinion contained in this Annual Report or incorporated in this Annual Report are subject to change without notice and the delivery of this Annual Report will not, under any circumstances, create any implication that there has been no change in the affairs of the County and the District.

No statement contained in this Annual Report should be construed as a prediction or representation about future financial performance of the County and the District. Historical results presented herein may not be indicative of future operating results.

The information set forth herein, including information provided by others or incorporated by reference, is believed by the County and the District to be reliable but has not been independently verified by the County and the District and is not guaranteed as to accuracy by the County and the District.

# EXHIBIT A

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

# County of Orange

## Comprehensive Annual Financial Report
## For The Year Ended June 30, 2015

Eric H. Woolery, CPA ~ Auditor-Controller

**ACKNOWLEDGEMENTS:**

Cover designed by Laura Hoffman, Graphic Artist

# County of Orange

State of California

# Comprehensive
# Annual Financial Report

For the Year Ended June 30, 2015

Eric H. Woolery, CPA
Auditor-Controller

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## FINANCIAL SECTION

FINANCIAL SECTION (Continued)

## FINANCIAL SECTION (Continued)



## STATISTICAL SECTION

COUNTY OF ORANGE
CALIFORNIA

**AUDITOR-CONTROLLER**
**COUNTY OF ORANGE**

HALL OF FINANCE AND RECORDS
12 CIVIC CENTER PLAZA, ROOM 200
POST OFFICE BOX 567
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**COUNTY EXECUTIVE OFFICE**
**COUNTY OF ORANGE**

ROBERT E. THOMAS HALL OF
ADMINISTRATION
333 W. SANTA ANA BLVD.
SANTA ANA, CALIFORNIA 92701

(714) 834-2345 FAX: (714) 834-3018

www.oc.ca.gov

December 24, 2015

The Citizens of Orange County:

The Comprehensive Annual Financial Report (CAFR) of the County of Orange, State of California (County), for the year ended June 30, 2015, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. The report contains financial statements that have been prepared in conformity with United States generally accepted accounting principles (GAAP) prescribed for governmental entities. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. A comprehensive framework of internal controls has been designed and established to provide reasonable assurance that the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of County funds. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements.

The CAFR has been audited by the independent certified public accounting firm of Macias Gini & O'Connell LLP (MGO). The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the County for the year ended June 30, 2015, are free of material misstatement. The independent certified public accounting firm has issued an unmodified ("clean") opinion on the County's basic financial statements as of and for the year ended June 30, 2015. The independent auditor's report is located at the front of the financial section of this report.

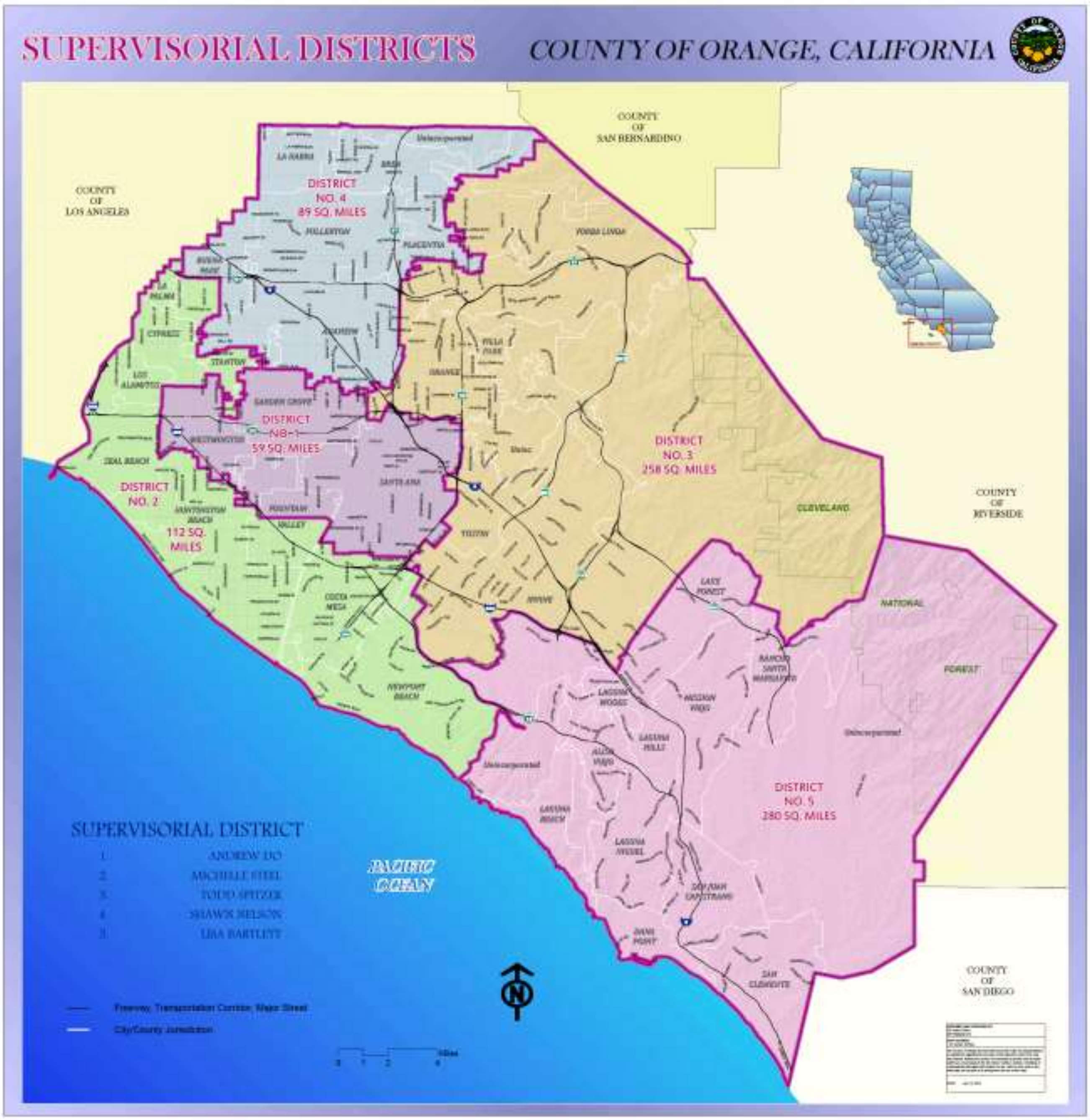
This letter of transmittal is designed to complement and should be read in conjunction with Management's Discussion and Analysis (MD&A) that immediately follows the independent auditor's report. MD&A provides a narrative introduction, overview, and an analysis of the basic financial statements.

## PROFILE OF THE GOVERNMENT

The County, incorporated in 1889 and located in the southern part of the State of California, is one of the major metropolitan areas in the state and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the state, and ranks sixth in the nation.

The County is a charter county as a result of the March 5, 2002, voter approval of Measure V, which provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law county, mid-term vacancies would otherwise be filled by gubernatorial appointment. In November 2008, voters approved Measure J, which added Article III, Section 301 to the Charter of Orange County requiring voter approval for increases in future retirement system benefits of any employee, legislative officer, or elected official of the County of Orange in the Orange County Employees Retirement System (OCERS) or any successor retirement system, with the exception of statutorily-established cost of living adjustments, salary increases, and annual leave or compensatory time cash-outs. In June 2012, voters approved Measure B, which requires that any Orange County Supervisors elected or appointed on or after June 5, 2012 can enroll only in the minimum pension option, i.e., the least lucrative pension plan, offered to Orange County employees. At present, the minimum pension plan is a 1.62%

at 65 pension plan. This measure amends the County Charter and applies to any current or previous Supervisor. In all other respects, the County is like a general law county. The County is governed by a five-member Board of Supervisors (the Board), who each serve four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each approximately equal in population. The district boundaries were revised effective September 6, 2011, incorporating the results of the 2010 census. A County Executive Officer (CEO) oversees seventeen county departments, and elected department heads oversee six county departments. The Supervisorial Districts map below shows the boundaries of Orange County and the areas governed by each member of the Board.



The County provides a full range of services countywide, for the unincorporated areas, and contracted through cities. These services are outlined in the following table:

| Countywide Services | |
|---|---|
| Affordable Housing (Housing Authority) | Veterans Services |
| Agricultural Commissioner | Indigent Medical Services |
| Airport | Jails & Juvenile Facilities |
| Child Protection & Social Services | Juvenile Justice Commission |
| Child Support Services | Landfills & Solid Waste Disposal |
| Clerk-Recorder | Law Enforcement |
| Coroner & Forensic Services | Probationary Supervision |
| District Attorney | Public Assistance |
| Elections & Voter Registration | Public Defender/ Alternate Defense |
| Environmental / Regulatory Health | Public & Mental Health |
| Flood Control & Transportation | Senior Services |
| OC Parks | Collection & Appeals |
| Disaster Preparedness | Weights & Measures |
| Grand Jury | Property Tax Collection |

| Unincorporated Area Services | |
|---|---|
| Animal Care & Control | Libraries |
| Flood Control | Parks |
| Land Use | Waste Disposal Collection |
| Law Enforcement | |

| Contract Services for Cities | |
|---|---|
| Animal Care & Control | Libraries |
| Law Enforcement | Public Works & Engineering |
| Utility Billing and Check Remittance Processing | |

In addition to these services, the County is also financially accountable for the reporting of component units. Blended and fiduciary component units, although legally separate entities, are, in substance, part of the County's operations; and therefore, data from these units are combined with data of the County. The County has two component units, the Children and Families Commission of Orange County (CFCOC) and CalOptima, which require discrete presentation in the government-wide financial statements. The County's fiduciary component unit, Orange County Development Successor Agency (OCDA), was established as a result of the dissolution of the former Orange County Development Agency. The following entities are presented as blended component units in the basic financial statements for the year ended June 30, 2015: the Orange County Flood Control District, Orange County Housing Authority, Orange County Public Financing Authority, South Orange County Public Financing Authority, Orange County Public Facilities Corporation, County Service Areas, Special Assessment Districts, Community Facility Districts, and In-Home Supportive Services Public Authority. Additional information on these entities can be found in Note 1, Summary of Significant Accounting Policies, in the Notes to the Basic Financial Statements.

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the General Fund and most of the Special Revenue, Debt Service, Capital Projects and Permanent funds are included in the annual appropriated budget. The level of budgetary control (that level which cannot be exceeded without action by the Board) is at the legal fund-budget control unit level, which represents a department or an agency. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. The Budgetary Comparison Statements for the General Fund and Major Special Revenue Funds are part of the Basic Financial Statements. The Budgetary Comparison Schedules for the nonmajor Governmental Funds and major Debt Service Fund with appropriated annual budgets are presented in the Supplemental Information section for governmental funds. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year-end; outstanding encumbrances are carried forward to the following year's budget. Additional information on the budgetary process can be found in Note 1, Summary of Significant Accounting Policies, in the Notes to the Basic Financial Statements.

(Dollar Amounts in Thousands)

The County of Orange eGovernment website portal at http://www.ocgov.com provides online services and extensive information about County government to Orange County residents, businesses, partners, and visitors. The County's website provides information and online services to the public 24/7. It includes information about the Board, County job listings, purchasing bid solicitations, assessment appeals, links to court information and local court rules, voter information, County permits and forms, public safety, health and human services programs and financial information. The site also provides several online services, including live and archived Board meeting videos, the ability to order birth, death and marriage certificates, search fictitious business names, find polling locations and election results, license pets, view , print, and pay current and prior year property tax bills, pay certain invoices, and subscribe to receive emergency alerts. The County continuously strives to improve a constituent's ability to conduct business online with the County.

## FACTORS AFFECTING ECONOMIC CONDITION

### Local Economy

Two indicators of the Orange County economy are: how well the local economy performs relative to surrounding counties, the state, and the nation (external indicators); and how well the local economy performs relative to its own historical trends (internal indicators). This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

In terms of the external indicators, Orange County's economy continues to out-perform local surrounding counties, the state and national economies (in annual percentage growth), and, in fact, ranks higher (in absolute growth rate dollars) than the economies of the majority of the world's countries. Internal indicators show a continued slow but steady recovery of the local economy.

Orange County's unemployment rate continues to be below that of all surrounding Southern California counties, the State of California and the National level (see Table 1).

According to Chapman University, Orange County's job growth is expected to increase by 3.1% in 2015 and result in approximately 47,000 new jobs relative to 2014. This compares to 2.9% for the State of California and 2.0% for the national level.

According to Chapman University, inflation, as measured by the Consumer Price Index (CPI) in 2015, is expected to be 1.0% for Orange County, slightly lower than for the State of California at 1.4% and slightly higher than the U.S. at 0.8% (see Table 2).

**Table 1: Unemployment Rate Comparison**

| Primary Government Entity | September 2015 Unemployment Rate |
|---|---|
| United States | 4.9% |
| California | 5.5% |
| Los Angeles County | 6.5% |
| Riverside County | 6.3% |
| San Bernardino County | 5.8% |
| San Diego County | 4.6% |
| **Orange County** | **4.0%** |

**Unemployment and Expected Job Growth Rates**

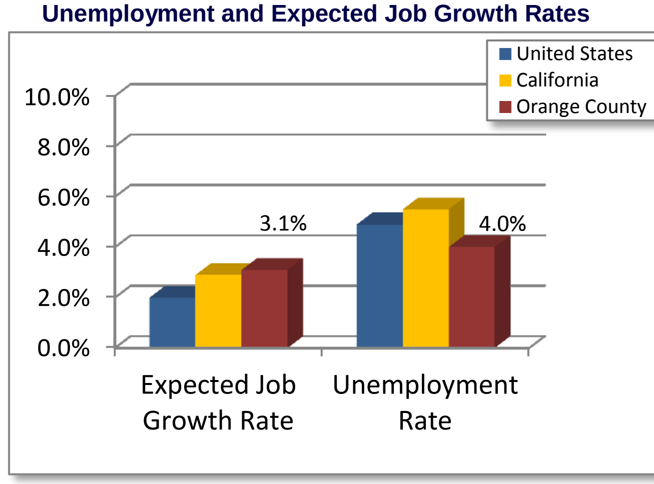



**Table 2: 2015 – Projected Increase of the CPI**

| United States | California | Orange County |
|---|---|---|
| 0.8% | 1.4% | 1.0% |

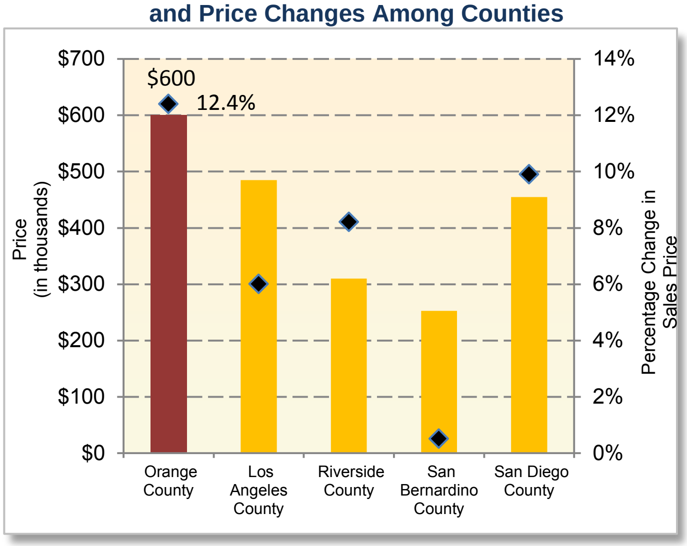
Sources: State of California, Employment Development Department
Economic & Business Review,
Chapman University, June 2015

According to the Department of Housing and Urban Development, Orange County's median family income is expected to be $85,900 (absolute dollars) in 2015, compared to $84,900 (absolute dollars) in 2014. Median family incomes in Orange County continue to exceed all surrounding Southern California counties, the State of California and the nation (see Table 3).

According to CoreLogic Information Systems, the median home sales price for new and existing homes in Orange County was $600,000 (absolute dollars) in April 2015, representing a 12.4% increase relative to 2014. The median sales price in Orange County continues to exceed all surrounding counties (see Table 4).

In terms of internal trends, current and projected indicators suggest that the Orange County economy will continue to gradually improve with 47,000 jobs added in 2015 and 41,000 in 2016.

**Comparison of Median Home Sales Price and Price Changes Among Counties**

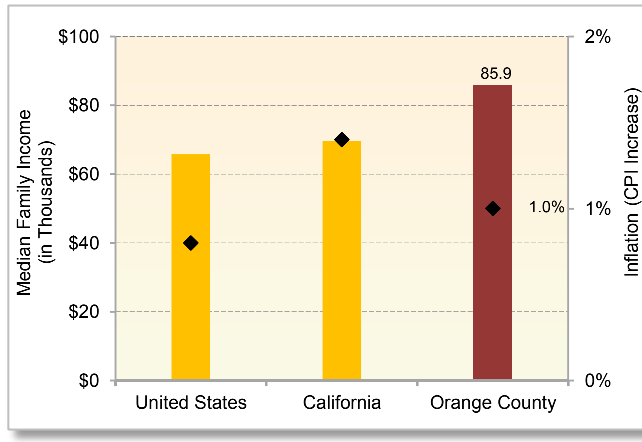



Sources: CoreLogic Information Systems, April 2015

**Table 3: Median Family Income Comparison**

| Primary Government Entity | Median Family Income (absolute dollars) |
|---|---|
| United States | $65,800 |
| California | $69,700 |
| **Orange County** | **$85,900** |
| San Diego County | $73,000 |
| Los Angeles County | $63,000 |
| Riverside County | $60,500 |

**Comparisons of Inflation and Median Family Income**




Sources: Economic & Business Review, Chapman University, June 2015
U.S. Department of Housing and Urban Development, 2015

**Table 4: Median Home Sales Price Comparison – Southern California Counties – April 2015**

| Primary Government Entity | Median Home Sales Price Change increase | Median Home Sales Price (absolute dollars) |
|---|---|---|
| **Orange County** | **12.4%** | **$600,000** |
| Los Angeles County | 6.0% | $485,000 |
| San Diego County | 9.9% | $455,000 |
| Riverside County | 8.2% | $310,000 |
| San Bernardino County | 0.5% | $252,500 |

Sources: State of California, Employment Development Department
Economic & Business Review, Chapman University, June 2015
Corelogic Information Systems, April 2015
Note: Unemployment rates are for the month of September

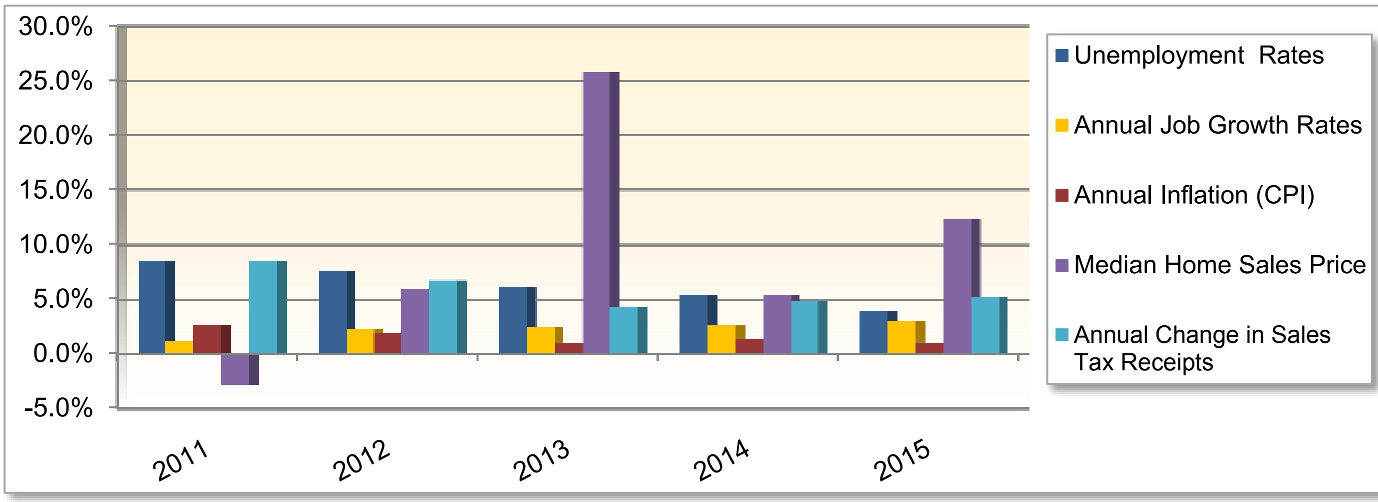
(Dollar Amounts in Thousands)

Table 5 shows various internal indicators reflecting steady growth of Orange County's economy. The unemployment rate decreased to 4.0% in September 2015 relative to 5.4% in September 2014. Job growth is expected to increase slightly at 3.1% in 2015 compared to 2.6% in 2014. Median home prices increased by 12.4% in April 2015, relative to 5.4% in April 2014. Forecasted sales tax receipts slightly increased to 5.2% in 2015.

**Table 5: Orange County Historical Data**

| Historical Indicators | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Unemployment Rates | 8.6% | 7.7% | 6.2% | 5.4% | 4.0% |
| Annual Job Growth | 1.2 % | 2.3 % | 2.5% | 2.6% | 3.1% |
| Annual CPI Inflation | 2.7 % | 2.0% | 1.1% | 1.4% | 1.0% |
| Median Home Sales Price increase | (2.8%) | 6.0% | 25.8% | 5.4% | 12.4% |
| Annual Change in Sales Tax Receipts | 8.5 % | 6.8% | 4.3% | 4.8% | 5.2% |

**Orange County Historical Data Comparison**
**(Shown as a year-to-year percentage increase/decrease)**




Sources: State of California, Employment Development Department
Economic & Business Review, Chapman University, June 2015
Corelogic Information Systems, April 2015

In summary, the economy in Orange County continues to show signs of steady growth.

## Long–Term Financial Planning

Strategic Plan: In March 1997, the Board initiated a financial planning process that is a key component of the County's commitment to fiscal responsibility, accountability and efficiency. The plan includes projections of County general purpose revenues, departmental projections of operating costs, revenues and capital needs for current programs and services and anticipated caseload changes. New programs, services and capital projects are identified and prioritized on a countywide basis with financial impacts identified over the plan period. The plan covers a five-year period and includes a ten-year analysis of operating costs in cases where new programs and facilities are recommended to ensure the ability to pay for long-term operational costs.

The 2015 Strategic Financial Plan (SFP) was presented to the Board on December 8, 2015. The 2015 SFP is the foundation in planning for continued financial stability and will be augmented by the monitoring and establishment of budgetary controls, via the quarterly budget reporting process and adoption of the Annual Budget. The five-year SFP projections indicate that General Purpose Revenue growth will be in the range of 4.3% for the first year of the plan with growth rates averaging 2.5% in years two through five. The moderate growth rate for revenue, coupled with the increasing cost of doing business, will require the County to carefully manage programs and services levels. The County continues to believe that sustained job growth and reduced unemployment are the key indicators for economic recovery.

In order to address identified budget issues and prepare for the continued uncertainty of the general and local economy, the following represent some of the actions taken or identified as options for early planning. Early action is critical to ensure baseline services are met and that the County continues to experience financial stability.

- The 2015 SFP reflects only a 1% increase in Fiscal Year (FY) 2016-17 Net County Cost limits, with the remaining excess funds distributed and/or set-aside to address the most critical strategic needs for the County
- Continuation of the policy to not backfill State budget reductions
- Elimination of vacant positions
- Internal financing program to support major capital and information technology projects
- Maintaining prudent levels of General Fund and Contingency Reserves

The County continues to move forward on several large projects identified below. In addition, the County is in various stages of planning for several other projects that will require long-term financial planning including upgrade of the 800 MHz Countywide Coordinated Communications System, replacement of Central Utility Facility infrastructure, the Civic Center Master Plan, and development of the County property at the former Marine Corps Air Station El Toro in Irvine (“100 acres”). Development of the 100 acres and other various County-owned properties will require up-front financial planning and investment in order to generate revenue in future years on a long-term basis.

Santa Ana River Mainstem Project: The Santa Ana River Mainstem Project (SARMP) was initiated in 1964, in partial response to a resolution of the United States House Committee on Public Works adopted May 8, 1964. A survey report was completed by the Orange County Flood Control District in 1975. The report was reviewed and submitted to Congress in September 1978. In September 1980, the United States Corps of Engineers completed the General Design Memorandum for the SARMP. Construction for the SARMP was authorized by the Water Resources Development Act of 1986. Construction for the SARMP was initiated in 1989, and completion is scheduled for December 2022.

The SARMP is designed to provide flood protection to the growing urban communities in Orange, Riverside and San Bernardino Counties. The proposed improvements to the system cover 75 miles, from the headwater of the Santa Ana River, east of the city of San Bernardino to the mouth of the river at the Pacific Ocean between the cities of Newport Beach and Huntington Beach. The project will increase levels of flood protection to more than 3.35 million people within the three county areas. The project includes seven independent features: Seven Oaks Dam, Mill Creek Levee, San Timoteo Creek, Oak Street Drain, Prado Dam, Santiago Creek and the Lower Santa Ana River. More information on the SARMP is available in Note 15, Construction and Other Significant Commitments. To learn more about the SARMP, visit the Orange County Flood Control Division's website at http://www.ocflood.com.

OC Dana Point Harbor Revitalization Plan: The OC Dana Point Harbor Capital Improvement Plan includes revitalization of Dana Point Harbor. The Revitalization Project is a multi-phased project with total costs estimated at $140 million pending final project design approvals, and anticipating a systematic long-term repair and/or replacement project for the waterside as opposed to a total redesign and rebuild of the marinas. The initial phases of improvements are expected to be funded with a combination of external financing and funds on hand that have been reserved for the Harbor Improvement Plan. OC Dana Point Harbor and County Executive Office staff are expected to finalize the financial strategy for the complete Revitalization Plan next fiscal year.

James A. Musick Facility Expansion: On March 8, 2012, the State approved $100,000 in funds for the County for expansion of the James A. Musick Facility (Assembly Bill 900 AB900). This project is currently in the design phase with construction estimated for completion in FY 2018-19. The County must front costs initially until the notice to proceed for construction is approved by the State. At that time, all past costs incurred can be invoiced for reimbursement by the State in full, and all future costs will be invoiced for reimbursement by the State on an ongoing basis until construction completion and occupancy. It is anticipated that costs will be reimbursed beginning in FY 2016-17. Funds from alternative liquidity sources will be utilized to fund the up-front costs and returned within the required three-year period as reimbursements are received from the State.

On March 13, 2014, the State conditionally approved $80,000 in funds for the County for further expansion of the James A. Musick Facility. This project is in the initial stages and will be completed after the AB900 project in FY 2019-20, and the financial requirements are consistent with those described above.

La Pata Avenue Gap Closure & Camino Del Rio Extension Project: The County has begun the construction of the La Pata Avenue Gap Closure Project (Project) that will widen La Pata Avenue and implement a gap closure between the cities of San Juan Capistrano and San Clemente. This is a cooperative project between the City of San Clemente, City of San Juan Capistrano, OC Waste & Recycling, and OC Public Works, with the County acting as the lead agency. The total Project cost is estimated at $127,000 and is funded from State 1B, Measure M1 and M2, gas tax, developer agreement, and community facility district revenues. A construction contract for $72,741 was awarded by the Board of Supervisors to Sukut Construction, Inc. on December 10, 2013 and a construction management contract for $7,706 was awarded to Hill International, Inc. on February 4, 2014. The groundbreaking ceremony was held on April 4, 2014. The Notice to Proceed for the initial phase was issued on April 22, 2014 and has a tentative completion date in fall of 2016. If the remaining two phases are executed within the first two years of the initial phase, all three phases are tentatively scheduled for completion in early spring of 2018.

## Relevant Financial Policies

To achieve the goal of providing outstanding and cost-effective regional public services, the County applies sound management practices and policies that enhance the quality of life of its citizens. Such financial management practices have been identified by the Government Finance Officers Association of the United States and Canada (GFOA) and recognized by Fitch Ratings as best practices that promotes financial soundness, efficiency in government and solvency in public finance.

## General Fund Reserves Policy

The County General Fund Reserves Policy provides guidance in the creation, maintenance and use of reserves. The policy covers formal and informal reserves, and includes provisions for reserves such as appropriations for contingencies, reserve-like appropriations, and reserve-like funds held by others such as the OCERS Investment Account. The policy also recognizes whether funds are legally required or discretionary, or have special restrictions. The reserves policy is maintained and updated, as needed, through the County's annual SFP process. The reserves policy, targets and balances are included in the annual SFP document.

The General Fund Reserves policy is designed to provide flexibility to the County as well as the following:

- Resources to address unanticipated or cyclical economic conditions
- Resources for emergencies and/or catastrophic events
- Mitigation of the volatility of revenues and expenditures in managing temporary cash flow shortages
- Capacity to cover unexpected large one-time expenses and opportunities
- Capacity to fund capital investments
- Capacity to minimize borrowing costs
- Capacity to provide some level of protection against statutory changes to County revenues and impacts from federal and state actions

The County has a variety of reserve funds available to both the General Fund and Non-General Funds including:

- Fund Balance Assigned for Contingencies
- Fund Balance Assigned for Operations
- Fund Balance Assigned for Construction and Maintenance
- Fund Balance Assigned for Capital Projects
- Fund Balance Assigned for Teeter Loss Reserve
- Fund Balance Assigned for Reserve Target
- Reserve-like Funds
- Reserve-like Appropriations
- Department Type Reserves

All of the above are reserves normally modified at the time of budget adoption (Government Code Section 29085) or at fiscal year-end. Changes to reserve amounts at other times require a 4/5 vote of the Board. A 4/5 vote is also required to make such reserves available for appropriation to expend the funds, if needed, during the FY (Government Code Section 29130).

**Reserve Targets and Descriptions**

Under GFOA recommended practice, the County establishes an overall reserve target, and allocates the calculated target among the classes of obligated fund balances as appropriate. The County may fund more or less to each reserve class, for a variety of reasons such as its current financial condition, the need to set aside for particular goals or directives, the need to bridge one-time gaps, etc. The goal is to ensure a prudent reserve balance that is maintained and replenished on a regular basis.

In implementing the GFOA's best practice, the County elected to establish a funding target based upon two months of General Fund operating revenues. Analysis of the historical average of two months of operating revenues as well as FY 2015-16 adopted budgeted revenues, yielded a funding target of approximately 17% of General Fund operating revenues.

**Contingencies**

The purpose and use of this reserve is to cover unanticipated and severe economic downturns, major emergencies, or catastrophes that cannot be covered with existing appropriations. In particular, continued drought conditions with the attendant risk of wildfires, highlights the potential for catastrophic events within the County. A significant event could create the need for a higher funding level of this reserve. The target amount for this reserve is 15% of ongoing annual General Purpose Revenues (excluding fund balance unassigned and one-time amounts and transfers).

The following table summarizes the County's financial management practices:

| Relevant Financial Policies | |
|---|---|
| **Multi-year SFP** | The County's SFP is based on a five-year financial forecast and includes a 10-year analysis of operating costs in cases where new programs and facilities are recommended to ensure the ability to pay for long-term operational costs. Performance measures and strategies are key elements of the SFP process. |
| **Five-Year Capital Improvement Plan** | The County's five-year Capital Improvement Plan (CIP) is a long-term list of significant projects funded by the General Fund in the Capital Projects budget. It also includes the five-year capital program for non-General Fund agencies. The CIP aids the County in its assessment of the best use of funds available in order to establish and prioritize its capital asset goals, while maintaining long-term financial stability. |
| **Quarterly Budget Report** | The County Executive Office issues quarterly budget reports that provide the Board, County departments, members of the public, and other interested parties with an overview of the current status of budgeted revenues and expenditures, total budgeted positions and various departmental issues requiring adjustments to the County's budget. |
| **Annual Budget Policies and Guidelines** | The Annual Budget reflects the County's disciplined approach to fiscal management and is consistent with the County's SFP process. Department budgets are consistent with the priorities and operations plans contained in the SFP. Departments use these planning processes, along with outcome indicators, to evaluate programs and redirect existing resources as needed for greater efficiency to reduce costs and minimize the need for additional resources. |
| **Fund Balance Reserve Policy** | The County General Fund currently contains formal and informal reserves, appropriations for contingencies, appropriated reserve-type funds, and reserves held by others. The purpose of these reserves is to protect community programs and services from temporary revenue shortfalls and provide for unpredicted, sudden and unavoidable one-time expenditures. |

| Relevant Financial Policies (Continued) | |
|---|---|
| **Contingency Planning Policy** | The County's General Fund maintains a reserve for contingencies, which was established through the SFP process. The target amount for this reserve is 15% of ongoing annual general purpose revenues (excludes fund balance unassigned and one-time amounts and transfers), or $102,040. This compares to the GFOA guidelines for funding contingencies at 15% or higher. The September 30, 2015 balance is $61,300, approximately $40,740 below the revised target.<br><br>In addition to the reserve for contingencies, the County budgets an annual appropriation for significant unanticipated emergencies, catastrophes, one-time expenditures, and opportunities of no less than $5,000 in the General Fund. |
| **Debt Disclosure Practices** | The County presents a set of disclosures in the County's adopted Budget document and the CAFR, as well as Continuing Disclosure Annual Reports on its website and the Electronic Municipal Market Access (EMMA) repository. |
| **Pay-as–you-go Capital Funding** | The County's long-term practice has been to use pay-as-you-go funding for capital projects whenever possible. The use of systematic long range financial planning assists in making fiscal decisions such as debt vs. pay-as-you-go capital project financing. The SFP forecasts sources of the County's revenue and operating expenses and incorporates a list of previously identified and prioritized projects that will benefit the citizens of the County. The financial planning for capital projects considers the County's limited funding sources, the capital and operating costs, useful life of projects, and good business practices. |
| **Credit and Debt Management Policy** | The County's long-term practice has been to rapidly repay debt when practicable. The County's Credit and Debt Management Policy states that one of its most important goals and objectives is to continue efficient debt reduction strategies through refunding or defeasance of debt to lower the financial burden on the General Fund. |
| **Public Financing Advisory Committee** | The Public Financing Advisory Committee (PFAC) is responsible for the review, approval, modification or denial of debt financing proposals. No debt financing proposal is considered by the Board unless recommended in writing by the PFAC. The PFAC membership consists of the following: five public voting members, each representing a district, and three Ex-Officio County government members (the County Executive Officer (non-voting), the elected Treasurer-Tax Collector, and the elected Auditor-Controller). |
| **Audit Oversight Committee** | The Audit Oversight Committee (AOC) is an advisory committee to the Board of Supervisors that provides oversight of the activities of the County Auditor-Controller's Internal Audit Division and the County's external audit coverage including financial reporting and federal and state audit activities, and that discusses the adequacy of the County's internal control structure. The AOC membership consists of the following: the Chairman and Vice-Chairman of the Board, the elected Auditor-Controller, the County Executive Officer, the elected Treasurer-Tax Collector, the Performance Audit Director, and four public members from the private sector appointed by the Board. The public members shall be appointed by the Board for a term of four years and may be reappointed or removed by the Board. |

| Relevant Financial Policies (Continued) | |
|---|---|
| **Treasury Oversight Committee** | The Treasury Oversight Committee (TOC) is responsible for reviewing and monitoring the annual Investment Policy Statement (IPS) prepared by the Treasurer. In addition, the TOC causes an annual audit of the Treasurer's compliance with the IPS. The TOC shall also investigate any and all irregularities in the Treasurer's operations, which become known to the TOC. The TOC will develop and document policy and procedures to investigate and report such irregularities.<br><br>Annually, the TOC reviews the Treasurer's IPS, including all proposed amendments or modifications to the policy. The Treasurer then submits the IPS to the Board for approval, including any additions or amendments thereto. The TOC membership consists of the following: The elected Auditor-Controller, the County Executive Officer, the elected County Superintendent of Schools, or their respective designees, and four members of the public. The public members shall be nominated by the Treasurer and confirmed by the Board. |
| **24/7 Fraud Hotline** | The Fraud Hotline is part of an ongoing fraud detection and prevention effort. The Fraud Hotline is intended for use by County employees, the general public, or vendors for reporting suspected waste, fraud, violations of County policy or misuse of County resources by vendors, contractors or County employees. |

**Major Initiatives**

Funding Equity: The County of Orange hovers at the bottom of funding for counties statewide, receiving the lowest percentage of property taxes in California to support services—about 6 cents on the dollar. The state average is 17 cents. The formula for returning local property taxes to the counties where they were collected was set in 1978 and has not been updated since. This systematically disadvantages the County's ability to provide services to its diverse population.

The County's predicament does not have easy fixes. Shifting funding formulas could affect other counties receiving more of their share of taxes, as well as other taxing entities such as cities, special districts, and schools, which have constitutional protections for state funding. The answer to assuring funding equity for Orange County, therefore, lies in increasing funding, programs and partnerships that specifically benefit County programs and services. When the state shifts or adds responsibilities at the county level, the County will seek enough funding for those programs to ensure their success. Orange County's robust legislative agenda seeks creative and substantive ways to assure our residents are provided with their fair share of the taxes they pay to support the programs and services they deserve.

State Prison Realignment: In 2011, California, with passage of Assembly Bill 109, ordered the realignment of certain state prisoners to serve their sentences in county jails instead of state prisons to comply with court-ordered overcrowding reductions. Orange County accounts for 8.1% of the state's population and 6.4% of the total prison population. In FY 2014-15, the County spent $63,400 and carried over $4,600 surplus to FY 2015-16.

Realignment has led to multiple challenges, including the need for more in-custody housing options and bed space, additional case-management resources, inmate screening and medical/psychiatric programs. Felony caseloads have increased substantially with a corresponding increase in the need for additional court hearings and appearances. On November 4, 2014 voters passed Proposition 47, "The Safe Neighborhood and Schools Act," which reduced the classification of most non-serious, non-violent property and drug crimes from felonies to misdemeanors. This change reduced the number of new felony cases and permitted re-sentencing for anyone currently serving a sentence for those offenses, ultimately reducing the AB 109 and general jail populations. This change resulted in lower felony caseloads and a temporary increase in workloads due to the large number of re-sentencing hearings.

Labor Agreements: Most County employees are represented by 16 bargaining units within 7 labor organizations. The principal organization is the Orange County Employees Association (OCEA), which represents eight units totaling about 12,059 employees. The next largest unions are the Association of Orange County Deputy Sheriffs, at about 2,020 members; and about 1,561 eligibility workers are represented by the American Federation of State and Municipal Employees. All but four contracts have been successfully negotiated and County employees continue to work under their contract terms with no interruption.

**AWARDS AND ACKNOWLEDGEMENTS**

GFOA Awards: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its CAFR for the year ended June 30, 2014. This represents the County's 20th consecutive award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County issued its 12th consecutive Popular Annual Financial Report (PAFR) titled the "OC Citizens' Report" for the year ended June 30, 2014. The County received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for this PAFR. The award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to be awarded, a government must publish a PAFR that reflects the program standards of creativity, presentation, understandability and reader appeal. The "OC Citizens' Report" is available for viewing at http://ac.ocgov.com/reports/pafr.

Acknowledgments: We would like to express our sincere appreciation to County staff and the staff of the certified public accounting firm of MGO. We hope this report will be of interest and use to those in county government, other governmental agencies, and the public interested in the financial activity of the County of Orange.

Respectfully submitted,

Eric H. Woolery

Eric H. Woolery, CPA
Auditor-Controller

M Aguirre

Michelle Aguirre
Chief Financial Officer

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**County of Orange**
**California**

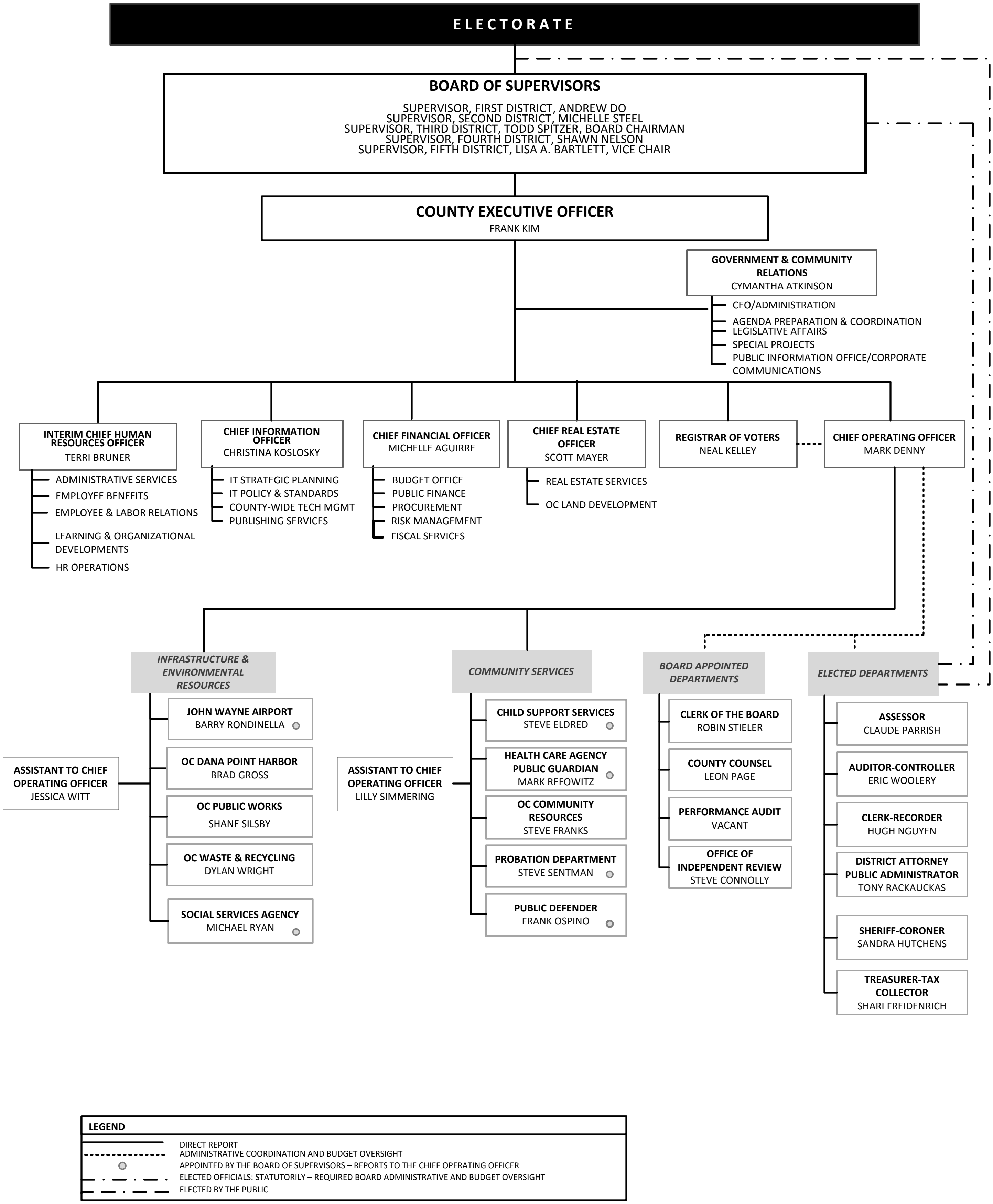
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**June 30, 2014**

Jeffrey R. Emer

Executive Director/CEO

## ORGANIZATIONAL CHART
**(As of December 3, 2015)**



COUNTY OF ORANGE CALIFORNIA

## Independent Auditor's Report

The Honorable Board of Supervisors
County of Orange, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Orange, California (County) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Children and Families Commission of Orange County (CFCOC) and the Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima), which collectively represent 100% percent of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for CFCOC and CalOptima, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Roads Fund, Flood Control District Fund, and Other Public Protection Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the basic financial statements, effective July 1, 2014, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The implementation of these statements resulted in a restatement of net position as of July 1, 2014 in the amount of $3,686,767,000, $80,522,000, and $116,315,000 for the governmental activities, the business-type activities, and the proprietary funds, respectively.

Our opinion is not modified with respect to this matter.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules related to the Orange County Extra-Help Defined Benefit Plan, schedules related to the Orange County Employees Retirement System, and schedule related to the Orange County Retiree Medical Plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and budgetary comparison schedules included in supplemental information in the financial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Newport Beach, California
December 17, 2015

COUNTY OF ORANGE
CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
## (UNAUDITED)

This section of the County's Comprehensive Annual Financial Report (CAFR) provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2015. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides a clear picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

- Total change in net position, which is the difference between total revenues including transfers in and expenses including transfers out, increased by $324,462, or 19% as compared to last year.
- Long-term debt decreased by $76,240 or 14% during the current fiscal year.
- The County's governmental funds reported combined ending fund balances of $2,186,691, an increase of $219,067, or 11% in comparison with the prior year.
- General Fund revenues and transfers ended the year 3% below budget.
- General Fund expenditures and other financing uses ended the year 7% below budget.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements presented in the County's CAFR are divided into three different sections:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

*Basic Financial Statements*

| **Government-wide Financial Statements** | **Fund Financial Statements** | | |
|---|---|---|---|
| | **Governmental Funds** | **Proprietary Funds** | **Fiduciary Funds** |
| Statement of Net Position | Balance Sheet | Statement of Net Position | Statement of Fiduciary Net Position |
| | Statement of Revenues, Expenditures, and Changes in Fund Balances | Statement of Revenues, Expenses, and Changes in Fund Net Position | |
| Statement of Activities | Budgetary Comparison Statement | Statement of Cash Flows | Statement of Changes in Fiduciary Net Position |
| Notes to the Basic Financial Statements | | | |

The following table summarizes the major features of the basic financial statements:

| | Government-wide Financial Statements | Fund Financial Statements | | |
|---|---|---|---|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| **Type of Financial Statement** | Statement of Net Position<br><br>Statement of Activities | Balance Sheet<br><br>Statement of Revenues, Expenditures, and Changes in Fund Balances | Statement of Net Position<br><br>Statement of Revenues, Expenses, and Changes in Fund Net Position<br><br>Statement of Cash Flows | Statement of Fiduciary Net Position<br><br>Statement of Changes in Fiduciary Net Position |
| **Scope** | Entire entity (except fiduciary funds) | Day-to-day operating activities for basic services | Day-to-day operating activities for business-type services | Resources on behalf of others |
| **Accounting basis and measurement focus** | Accrual accounting and economic resources measurement focus | Modified accrual accounting and current financial resources measurement focus | Accrual accounting and economic resources measurement focus | Accrual accounting and economic resources measurement focus (except for agency funds) |
| **Type of asset, deferred outflows of resources, liability, and deferred inflows of resources information** | All assets, deferred outflows of resources, liabilities, and deferred inflows of resources , both financial and capital, short-term and long-term | Current assets, liabilities, and deferred inflows of resources that come due during the year or soon thereafter | All assets, deferred outflows of resources, liabilities, and deferred outflows of resources both financial and capital, short-term and long-term | All assets, deferred outflows of resources, and deferred inflows of resources held in a trustee or agency capacity for others |
| **Type of inflow and outflow information** | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

**Government-wide Financial Statements**

The government-wide financial statements consist of the following two financial statements: the Statement of Net Position and the Statement of Activities. Both of these statements were prepared using an accounting method and a measurement focus similar to those used by private-sector companies, the accrual basis of accounting and the economic resources measurement focus. The ***Statement of Net Position*** provides information regarding all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The ***Statement of Activities***, on the other hand, provides information on how the government's net position changed during the most recent fiscal year regardless of the period when the related cash or cash equivalent is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The Statement of Net Position and the Statement of Activities distinguish functions of the County that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include (1) general government, (2) public protection, (3) public ways and facilities, (4) health and sanitation, (5) public assistance, (6) education, and (7) recreation and cultural services. The business-type activities of the County include airport, waste management, and compressed natural gas.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations, and therefore, data from these component units are combined with data of the primary government. Financial information for the Children and Families Commission of Orange County (CFCOC) and CalOptima, discretely presented component units, are reported separately from the financial information presented for the primary government itself. A separate stand-alone annual financial report can be obtained for the CFCOC by accessing Orange County's website at the following address: http://ac.ocgov.com/info/financial/. A separate stand-alone annual financial report can be obtained for CalOptima by accessing the website at http://wpso.dmhc.ca.gov/fe/search/#top, and select the Health Plan "Orange County Health Authority" and Statement Type "Annual Audit Reports."

**Fund Financial Statements**

- **Fund** - a separate accounting entity with a self-balancing set of accounts.
- Focus is on **major funds**.
- Provides information regarding the three major categories of all County funds: **governmental, proprietary, and fiduciary**.

The fund financial statements report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting entity with a self-balancing set of accounts. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental and proprietary fund financial statements is on major funds as determined by the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* and GASB Statement No. 65 *"Items previously Reported as Assets and Liabilities."* All of the County funds can be divided into three major categories of funds: governmental, proprietary, and fiduciary.

***Governmental Funds*** **-** Governmental funds include most of the County's basic services and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements are prepared using the modified accrual basis of accounting and current financial resources measurement focus.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are prepared for the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt, the County's proportionate share of the net pension liability and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

The County maintains several individual governmental funds organized according to their type (General Fund, Special Revenue, Debt Service, Capital Projects and Permanent Funds). Information is presented separately in the governmental funds' Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is always a major fund, and all other major funds. Information for nonmajor funds is presented in the aggregate in these statements. Individual fund data for each of the nonmajor governmental funds is presented elsewhere in this report. The County adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget.

***Proprietary Funds*** **-** The County maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Airport, Waste Management, and Compressed Natural Gas. **Internal Service Funds** are used to accumulate and allocate costs internally among the County's various functions such as insurance, transportation, publishing, and information technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management operations, which are both considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

***Fiduciary Funds*** - Fiduciary funds include the **Trust** and **Agency** funds and are used to account for assets held on behalf of outside parties, including other governments. Financial information for fiduciary funds is not reported in the government-wide financial statements because the resources of these funds are not available to support the County's programs. The combining statements for fiduciary funds are included elsewhere in this report.

**Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. To find a specific note, refer to the Table of Contents.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the County's financial position. At June 30, 2015, the County's combined net position (governmental and business-type activities) totaled $2,007,750, a decrease of 63% from unrestated FY 2013-14.

**COMPONENTS OF NET POSITION**

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The largest component of the County's net position, which totals $3,313,004, was **net investment in capital assets,** which represents the County's investment in capital assets, less any related outstanding debt used to acquire those assets and debt-related deferred outflows and inflows of resources. The County's capital assets are used to provide needed services to its citizens. Since the capital assets themselves cannot be used to liquidate the associated debt, the resources needed to repay the debt must be provided from other sources.

The County's **restricted** net position totals $1,324,014. Restricted net position represents resources that are subject to external restrictions on their use and are available to meet the County's ongoing obligations for programs with external restrictions. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation, including those passed by the County itself.

The final component of net position is **unrestricted net position**. Unrestricted net position is resources that the County may use to meet its ongoing obligations to citizens and creditors. As of June 30, 2015, governmental activities showed a deficit of $2,991,814 in unrestricted net position, compared to $331,408 at June 30, 2014. A key element contributing to the change is the implementation of GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions*" (GASB Statement No. 68) and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*" (GASB Statement No. 71) to present the County's proportionate share of net pension liability on the financial statements. Refer to Note 18 Retirement Plans for more details.

The following table presents condensed financial information derived from the government-wide Statement of Net Position:

**NET POSITION – Primary Government**
June 30, 2015 and 2014

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014* | 2015 | 2014* | 2015 | 2014* |
| **ASSETS** | | | | | | |
| Current and other assets | $ 3,216,086 | $ 3,156,094 | $ 827,258 | $ 784,278 | $ 4,043,344 | $ 3,940,372 |
| Capital assets | 2,783,675 | 2,756,054 | 835,176 | 823,019 | 3,618,851 | 3,579,073 |
| **Total Assets** | **5,999,761** | **5,912,148** | **1,662,434** | **1,607,297** | **7,662,195** | **7,519,445** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred Charge on Refunding | 6,225 | 9,622 | -- | -- | 6,225 | 9,622 |
| Deferred Outflows of Resources Related to Pension | 652,309 | -- | 14,275 | -- | 666,584 | -- |
| **Total Deferred Outflows of Resources** | **658,534** | **9,622** | **14,275** | **--** | **672,809** | **9,622** |
| **LIABILITIES** | | | | | | |
| Long-term liabilities | 4,724,559 | 973,983 | 462,586 | 408,736 | 5,187,145 | 1,382,719 |
| Other liabilities | 666,496 | 622,850 | 79,365 | 72,921 | 745,861 | 695,771 |
| **Total Liabilities** | **5,391,055** | **1,596,833** | **541,951** | **481,657** | **5,933,006** | **2,078,490** |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred Inflows of Resources Related to Pension | 385,819 | -- | 8,429 | -- | 394,248 | -- |
| **Total Deferred Inflows of Resources** | **385,819** | **--** | **8,429** | **--** | **394,248** | **--** |
| **NET POSITION** | | | | | | |
| Net Investment in Capital Assets | 2,670,577 | 2,646,812 | 642,427 | 624,621 | 3,313,004 | 3,271,433 |
| Restricted | 1,202,658 | 1,346,717 | 121,356 | 116,148 | 1,324,014 | 1,462,865 |
| Unrestricted | (2,991,814) | 331,408 | 362,546 | 384,871 | (2,629,268) | 716,279 |
| **Total Net Position** | **$ 881,421** | **$ 4,324,937** | **$ 1,126,329** | **$ 1,125,640** | **$ 2,007,750** | **$ 5,450,577** |

* The balances shown in FY 2014 have not been restated to include adjustments in Note 2, Change in Accounting Principle

As of June 30, 2015, the County's total assets and deferred outflows of resources increased by 11% or $805,937 during the current fiscal year. Deferred outflows of resources related to pension increased by $666,584 due to the changes in net pension liability measurements, such as the difference between expected and actual expense, changes of assumption, changes in proportion and difference between employer contributions and proportionate share of contributions, used in the actuarial study and the County's pension contribution after the measurement date as required by GASB Statement No. 68 and GASB Statement No. 71. Partially offsetting this increase was a decrease in deferred outflows for charges on refunding due to the amortization of the deferred loss on refunding for the 2005A Refunding Recovery Bonds and 2005 Lease Revenue Bonds. Refer to Note 2, Change in Accounting Principle and Note 18 Retirement Plans for further information regarding the implementation of GASB Statement No. 68 and GASB Statement No. 71.

Total liabilities and deferred inflows of resources for FY 2014-15 increased by 204% or $4,248,764. Long-term liabilities increased by 275% or $3,804,426, as a result of the County's proportionate share of the net pension liability. Deferred inflows of resources related to pension increased $394,248 due to the changes in the net pension liability measurements used in the actuarial study as required by GASB Statement No. 68.

(Dollar Amounts in Thousands)

The following table provides summarized data of the government-wide Statement of Activities:

**CHANGES IN NET POSITION – Primary Government**
For the Years Ended June 30, 2015 and 2014

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014* | 2015 | 2014* | 2015 | 2014* |
| **REVENUES** | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 563,013 | $ 535,382 | $ 281,368 | $ 261,857 | $ 844,381 | $ 797,239 |
| Operating Grants and Contributions | 1,996,861 | 2,033,550 | 255 | 900 | 1,997,116 | 2,034,450 |
| Capital Grants and Contributions | 33,241 | 54,478 | 9,215 | 5,277 | 42,456 | 59,755 |
| General Revenues: | | | | | | |
| Property Taxes | 505,189 | 444,104 | -- | -- | 505,189 | 444,104 |
| Property Taxes in Lieu of Motor Vehicle License Fees | 314,957 | 295,798 | -- | -- | 314,957 | 295,798 |
| Other Taxes | 71,613 | 73,178 | 109 | 101 | 71,722 | 73,279 |
| Grants and Contributions not Restricted to Specific Programs | 49,476 | 14,192 | -- | -- | 49,476 | 14,192 |
| State Allocation of Motor Vehicle License Fees | 764 | 895 | -- | -- | 764 | 895 |
| Other General Revenues | 76,585 | 72,871 | 4,639 | 6,241 | 81,224 | 79,112 |
| **Total Revenues** | **3,611,699** | **3,524,448** | **295,586** | **274,376** | **3,907,285** | **3,798,824** |
| **EXPENSES** | | | | | | |
| General Government | 191,793 | 131,026 | -- | -- | 191,793 | 131,026 |
| Public Protection | 1,326,028 | 1,261,984 | -- | -- | 1,326,028 | 1,261,984 |
| Public Ways and Facilities | 114,398 | 127,561 | -- | -- | 114,398 | 127,561 |
| Health and Sanitation | 537,580 | 626,063 | -- | -- | 537,580 | 626,063 |
| Public Assistance | 1,049,665 | 988,735 | -- | -- | 1,049,665 | 988,735 |
| Education | 43,314 | 41,240 | -- | -- | 43,314 | 41,240 |
| Recreation and Cultural Services | 102,069 | -- 96,820 | -- | -- | 102,069 | 96,820 |
| Interest on Long-Term Debt | 23,560 | 28,028 | -- | -- | 23,560 | 28,028 |
| Airport | -- | -- | 124,778 | 120,731 | 124,778 | 120,731 |
| Waste Management | -- | -- | 69,307 | 94,161 | 69,307 | 94,161 |
| Compressed Natural Gas | -- | -- | 331 | 379 | 331 | 379 |
| **Total Expenses** | **3,388,407** | **3,301,457** | **194,416** | **215,271** | **3,582,823** | **3,516,728** |
| Excess before Transfers | 223,292 | 222,991 | 101,170 | 59,105 | 324,462 | 282,096 |
| Transfers | 19,959 | 17,557 | (19,959) | (17,557) | -- | -- |
| **Change in Net Position** | **243,251** | **240,548** | **81,211** | **41,548** | **324,462** | **282,096** |
| Net Position - Beginning of the Year, as Restated | 638,170 | 4,084,389 | 1,045,118 | 1,084,092 | 1,683,288 | 5,168,481 |
| **Net Position - End of the Year** | **$ 881,421** | **$ 4,324,937** | **$ 1,126,329** | **$ 1,125,640** | **$ 2,007,750** | **$ 5,450,577** |

* The balances shown in FY 2014 have not been restated to include adjustments in Note 2, Change in Accounting Principle

As of June 30, 2015, the County's change in net position, excluding the restatement of net position, increased by $324,462 during the current fiscal year. Revenues for the year totaled $3,907,285, an increase of $108,461 from prior year's total revenues. Expenses totaled $3,582,823, an increase of $66,095 from the previous year's total expenses.

**Governmental Activities**

The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating grants and contributions comprised the largest revenue source for the County followed by charges for services. Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as State and Federal revenues for public assistance and for health care. Charges for services are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples of the types of services that fall under this category include engineering services provided to cities under contract, park and recreation fees, and law enforcement services provided to other governmental agencies under contract.

At the end of FY 2014-15, total revenues for governmental activities, including transfers from the business-type activities, were $3,631,658, an increase of $89,653 from the previous year. Expenses totaled $3,388,407, an increase of $86,950 from the prior year. During the current fiscal year, net position for governmental activities increased by $243,251 from the prior fiscal year after restatement of beginning net position as of July 1, 2014 for an ending balance of $881,421. Key elements of the increase are as follows:

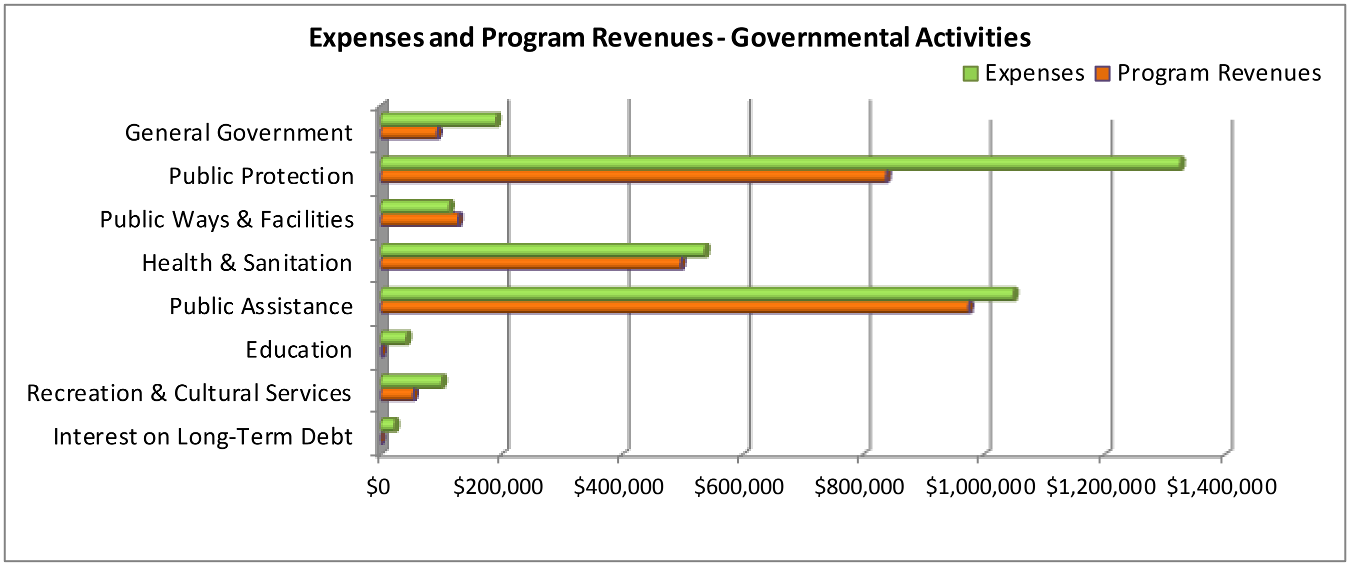
Revenues

- Property Taxes increased by $61,085, mainly due to a change in the secured assessed values and a change in the Teeter Plan Reserve methodology for calculating the reserve requirement for the Tax Loss Reserve Fund. This reserve methodology is legally allowable to be changed by the California Revenue and Taxation Code and was adopted by a Board resolution.
- Grants and Contributions not restricted to Specific Programs increased by $35,284, primarily due to an increase in monies received from the State for reimbursement of mandate related costs incurred prior to 2004 which were previously allowed for.
- Charges for Services increased by $27,631, due primarily to an increase in mental health services for educational related mental health and Medi-Cal programs under Proposition 63 Mental Health Services Act (MHSA). In addition, revenues increased from road and street services for the La Pata fee program. Partially offsetting the increase in Charges for Services was a decrease in revenues recognized for the Immigration Customs and Enforcement (ICE) program.
- Partially offsetting the general increase in revenues was a decrease of $36,689 in operating grants and contributions, primarily due to the Affordable Care Act, which decreased revenues from the Low Income Health Program. In addition, revenues decreased for the Highway Users Tax as a result of a lower allocation and a change in methodology for not accruing the July payment regulated by the State.

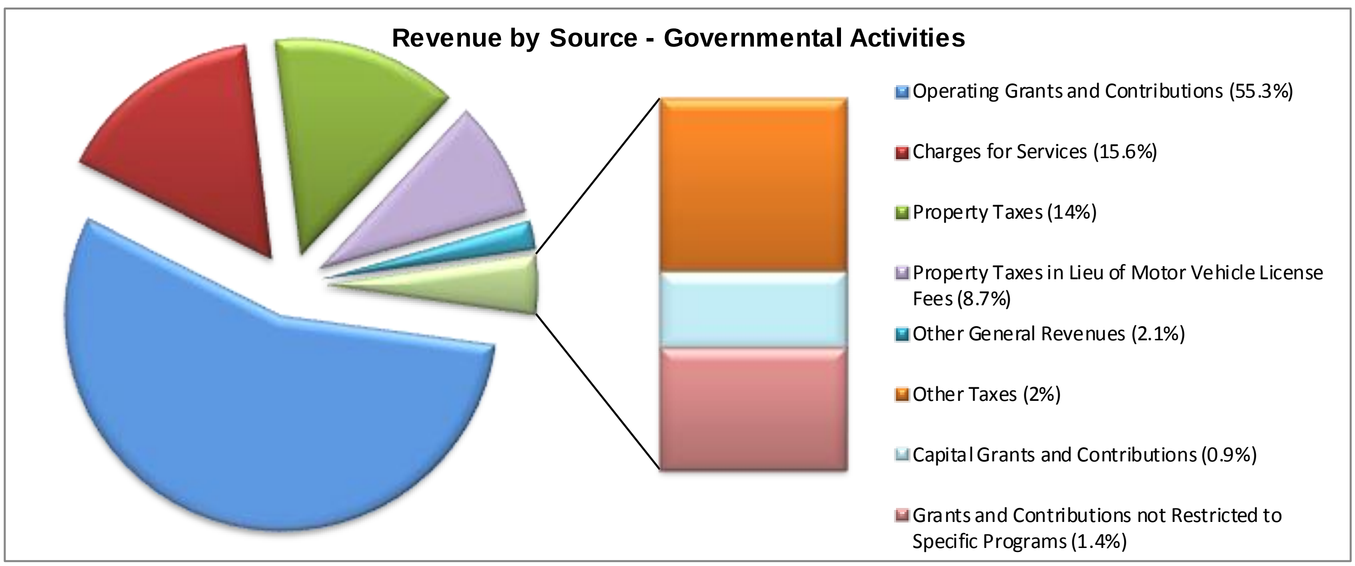
Expenses

- An increase in general government expenses of $60,767 was primarily due to the implementation of GASB Statement Nos. 68 and 71, which increased pension related expense items not previously accounted for. In addition, partly contributing to the increase was the intangible asset impairment loss of the Property Tax Management System.
- Expenses in public protection and public assistance increased by $64,044 and $60,930 respectively, primarily due to an increase salaries and benefits (S&EB) due to additional positions added to support new and ongoing demands in social services programs. In addition, there was an increase in pension related expense items as a result of the implementation of GASB Statement Nos. 68 and 71.
- Partially offsetting the increase in expenses was a decrease in health and sanitation by $88,483 due to a decrease in services as a result of the transition of Low Income Health Program (LIHP) to CalOptima as required in the Affordable Health Care Act, which resulted in a lower enrollment in the Medical Safety Net program.
- Public Ways and Facilities decreased by $13,163, which was primarily attributable to the decrease in professional services for various road projects that were completed. In addition, there was a reduction in salaries and benefits due to the reorganization of various positions to other departments.

The following chart presents a comparison of expenses by function and the associated program revenues for governmental activities:

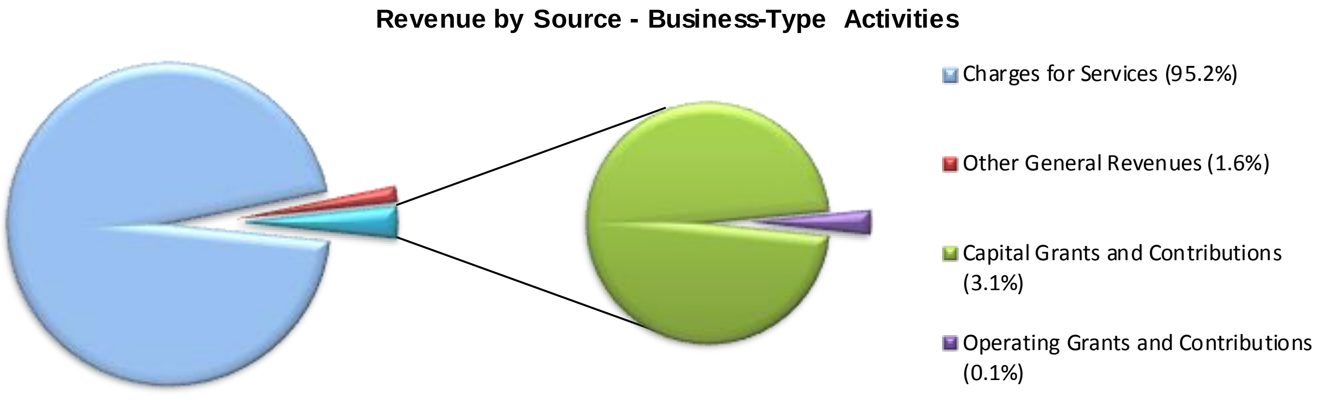



The chart below presents the percentage of total revenues by source for governmental activities:



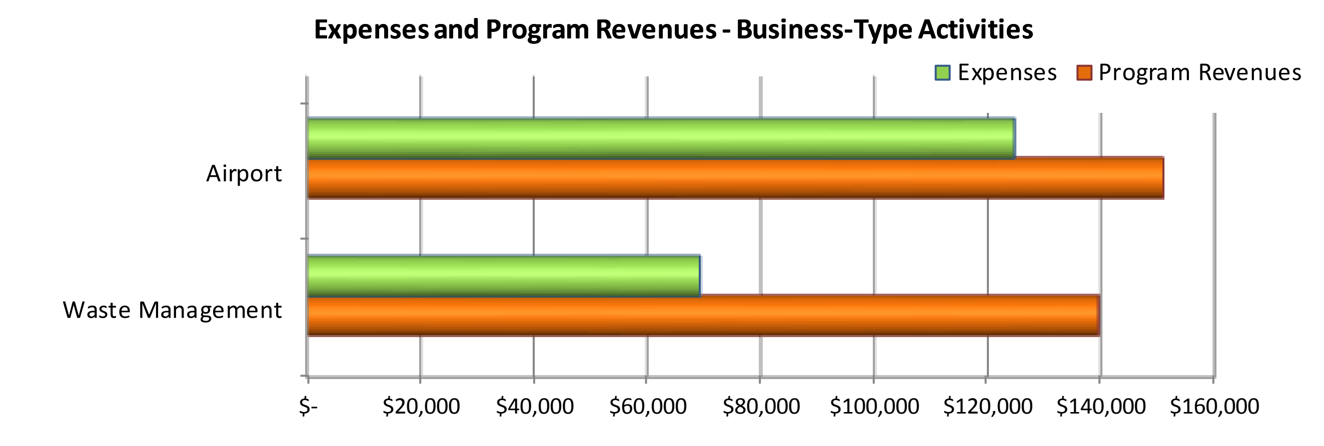
## Business-Type Activities

The County has three business-type activities: Airport, Waste Management, and Compressed Natural Gas. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported charges for services as their largest source of revenues.




At the end of FY 2014-15, the business-type activities' total revenues exceeded expenses and transfers resulting in an increase of $81,211 in net position compared to the prior year's increase of $41,548. Revenues totaled $295,586, an increase of $21,210 from the previous fiscal year, which is attributable to an increase in revenues received by the Airport for passenger parking, rental car and specialty concessions, operation of the international arrival facilities and cost reimbursements for federally funded construction projects. Also, the increase in revenue was in part due to an increase to Waste Management's revenues from importation and in-county disposal tonnage and fees. Expenses, including transfers to governmental activities, totaled $214,375, representing a decrease of $18,453 from the previous year. The decrease was primarily the result of decreases in closure and postclosure care costs, pollution remediation, and cost of services and supplies. The decrease was offset by increases in depreciation and amortization expenses and impairment loss related to the Common Use Passenger Processing System (CUPPS). Other factors concerning the finances of the County's two major enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

The following chart displays expenses and the associated program revenues by function for the business-type activities (major enterprise funds):



(Dollar Amounts in Thousands)

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

### Governmental Funds

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet, with the difference reported as fund balance. Fund balance, excluding nonspendable and restricted fund balances, may serve as a valuable measure of the government's available financial resources for spending at the end of a fiscal year. This amount is available for spending at the discretion of the County's Board of Supervisors (the Board) in order to achieve the established function of the respective funds.

At June 30, 2015, the County's governmental funds reported total fund balances of $2,186,691 which is an increase of $219,067 in comparison with prior year ending fund balances.

### Comparative Analysis of Changes in Fund Balances

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net change in fund balances for the governmental funds for the current and previous fiscal year:

**GOVERNMENTAL FUNDS**
**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCES**
For the Years Ended June 30, 2015 and 2014

| | Revenues and Other Financing Sources | | Expenditures and Other Financing Uses | | Net Change in Fund Balances | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| General Fund | $ 3,001,243 | $ 2,879,856 | $ 2,853,121 | $ 2,808,016 | $ 148,122 | $ 71,840 |
| Roads | 98,640 | 109,937 | 90,118 | 107,694 | 8,522 | 2,243 |
| Flood Control District | 163,096 | 169,260 | 121,287 | 154,993 | 41,809 | 14,267 |
| Other Public Protection | 66,846 | 49,261 | 66,747 | 48,203 | 99 | 1,058 |
| Teeter Plan Notes | 31,715 | 50,786 | 40,854 | 43,959 | (9,139) | 6,827 |
| Other Governmental | 652,592 | 600,011 | 622,938 | 615,209 | 29,654 | (15,198) |
| **Total** | **$ 4,014,132** | **$ 3,859,111** | **$ 3,795,065** | **$ 3,778,074** | **$ 219,067** | **$ 81,037** |

In addition to the effects of expenditure-driven grants, the following information provides explanations for the significant changes in fund balance:

General Fund
The General Fund is the chief operating fund of the County. At the end of FY 2014-15, revenues and other financing sources exceeded expenditures and other financing uses resulting in an increase in fund balances of $148,122 compared to last year's increase in fund balances of $71,840. Revenues and other financing sources increased by $121,387 and expenditures and other financing uses increased by $45,105. The following is a brief summary of the primary factors that contributed to the increase in the net change in fund balance for the General Fund in FY 2014-15:

*Revenues*

- Tax revenue increased by $30,237, which was primarily due to increases in secured property taxes and property taxes in-lieu of vehicle license fees (VLF) resulting from an increase in secured assessed values. Partially offsetting the increase in tax revenues was a decrease in supplemental and other property tax revenues.
- Fines, Forfeitures, and Penalties revenue increased by $49,024, primarily due to the adoption of Board Resolution 14-096 which changed the minimum reserve requirements for the Teeter Plan Loss Reserve.
- Transfers to the General Fund increased by $30,829 due to an increase in Social Services Agency (SSA) Wraparound claims for Children's Services, General Relief Assistance, and facilities development and maintenance costs. Wraparound is a State funded program that offers intensive services to children and youth at risk of placement in group homes. The County is authorized to use the State and County's share of foster

care placement dollars that would have otherwise been paid to a group home to provide wraparound services. The program is funded by the 2011 Public Safety Realignment (AB109) dedicated State sales tax and vehicle license fees.

- There were also increases in transfers from the Juvenile Justice Reform fund due to fund closure, Excess Public Safety Sales Tax for the District Attorney's budget requirement and the Sheriff Department's Field Based Reporting System. In addition, there were transfers from various funds including the Sheriff Narcotics programs and Supplemental Law Enforcement Services funds for overtime costs related to asset forfeiture seizures, equitable sharing of asset forfeiture revenue and expenses incurred at County Jails. These increases were partially offset by a decrease in transfers for OC Tobacco Settlement Revenue due to lower reimbursement claims in FY 2014-15.

*Expenditures*

- Expenditures for the general government increased by $36,265, which was primarily due to the County not utilizing funds available in the County Investment Account to meet its Annual Required Contribution compared to prior year, the first of five payments per the Vehicle License Fee Adjustment Amount (VLFAA) settlement agreement, and centralization of property tax systems to improve data sharing, processes, and efficiencies across departments. In addition, there were increased professional services expenditures for capital projects including the developer contract for the master planning of the MCAS El Toro 100-Acre parcel and increased S&EB expenses for the centralization of County Executive Office real estate functions.
- Expenditures for public protection increased by $43,917. Factors contributing to this increase in expenditures were the County's loss in the OC Attorney's Association lawsuit which increased the S&EB expenses for the District Attorney and Public Defender departments, the County's loss in the Gang Injunction lawsuit, and ongoing operational cost increases in the Sheriff's Department for S&EB and Services and Supplies (S&S). In addition, the Probation department had an increase in S&S for Enterprise IT billings and other professional services, offset by a decrease in temporary help services.
- Expenditures for health and sanitation decreased by $105,885, primarily due to a decrease in professional services and S&S related to the Low Income Health Program (LIHP) and Medical Services Initiative (MSI) claims and pharmacy contracts.
- Expenditures for public assistance increased by $55,907 primarily due to increases in operational costs for SSA in the areas of S&EB, S&S and Other Charges resulting from increases in staffing needs, contracts for services, information technology, facility improvements and other services required for the CalWORKs program, In-Home Supportive Services, Children and Family Services and Administrative Services.
- Expenditures for transfers increased by $13,562 due primarily to higher transfers to the Plan of Adjustment Available Cash Fund used to amortize bankruptcy related losses to County administered accounts and transfers for various capital projects including HVAC Systems, Central Utility Facility infrastructure upgrades, and purchase of a dispatch console platform for the Sheriff's 800 MHz Countywide Coordinated Communication System (800 MHz CCCS).

Roads

This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. At the end of FY 2014-15, fund balance increased by $8,522 compared to last year's increase in fund balance of $2,243. Revenues and other financing sources decreased by $11,297 primarily due to a decrease in intergovernmental revenues for the Highway Users Tax as a result of a lower allocation and a change in methodology for accruing the July payment from the State. Slightly offsetting this decrease was an increase in charges for services as a result of the revenue recognition for the La Pata Fee Program, reduced by lower amounts of revenues recorded for fee credit relinquishments that are done throughout the year once projects are completed for the South County Roadway Improvement Program (SCRIP). Expenditures decreased by $17,576 primarily due to a decrease in professional services by $12,330 related to the completion of asphalt overlay resurfacing of various streets on March 14, 2014 and completion of various road and bridge projects such as the Moulton Parkway Widening, Segment 3, Phase II completed in November 2014 and the Cerritos Avenue Reconstruction and Sewer Modification completed in July 2014.

Flood Control District

This fund accounts for the planning, construction, and operation of flood control and water conservation works, such as dams, basins, and trunk channels, and for the retardation, conservation, and controlled discharge of storm waters. At the end of FY 2014-15, there was an increase in fund balances of $41,809 compared to last year's increase in fund balances of $14,267. Revenues and other financing sources decreased by $6,164 due mainly to a decrease in intergovernmental revenues of $25,907 from the Department of Water Resources for the Santa Ana River Interceptor (SARI) Line project claims, partially offset by an increase in other revenues as a result of a litigation settlement for the Los Alamitos Pump Station. Refer to Note 11 for detailed information regarding the SARI project and financing agreement. Expenditures and other financing uses decreased by $33,706 primarily due to a decrease in capital outlay expenditures related to the completion of construction for the SARI main line in August 2014 and the East Garden Grove Wintersburg Channel Improvements in December 2014. Partially offsetting the decrease was an increase in expenditures for the purchase of real property as part of the Prado Dam Project.

Other Public Protection

This group of funds is used to account for safety and law enforcement activities. At the end of FY 2014-15, there was an increase in fund balances of $99 compared to last year's increase in fund balances of $1,058. Revenues and other financing sources increased by $17,585 which was attributable to an increase in fines, forfeitures and penalties of $9,189, primarily for penalty and settlement collections in the District Attorney's Consumer Protection funds, offset by a decrease in penalty assessment revenues for the Orange County Jail Fund. Charges for services increased $4,837 primarily due to cost sharing with various cities and governmental entities for the replacement of obsolete radio equipment to extend the life of the existing 800 MHz Countywide Coordinated Communication System and charges for the CAL-ID Automated Fingerprint Identification System. Expenditures and other financing uses increased by $18,544 primarily due to transfers out of $15,828 to reimburse the Sheriff's department for overtime on the Sheriff Narcotics Program, Gang Enforcement Team, South Patrol, and communications rebanding project and transfers out of the Juvenile Justice Reform fund to the Probation Department due to fund closure.

Teeter Plan Notes

This fund accounts for the financing of the County's purchase of delinquent taxes receivable pursuant to the Teeter Plan. At the end of FY 2014-15, fund balances decreased by $9,139 compared to last year's increase in fund balances of $6,827. Revenues and other financing sources decreased by $19,071 primarily due to a decrease of $8,098 in notes issued and a decrease of $10,889 in penalties and costs on delinquent taxes which are now recorded in the General Fund based on a Board resolution adopted in FY 2014-15. Expenditures decreased by $3,105 primarily due to a decrease in principal retirement for the partial redemption of the Teeter Plan Notes.

Other Governmental Funds

Other governmental funds encompass nonmajor funds, which include special revenue funds, debt service funds, capital projects funds, and a permanent fund. At the end of FY 2014-15, fund balances increased by $29,654 in comparison to prior year's decrease in fund balances of $15,198. Revenues and other financing sources increased by $52,581 primarily due to an increase in intergovernmental revenues for State allocations of the MHSA, an increase in transfers in for non-General Fund multi-year countywide capital projects, and higher secured taxes apportioned in FY 2014-15. Expenditures and other financing uses increased by $7,729, primarily due to transfers out to the General Fund to cover unanticipated SSA wraparound and general relief costs. The increase in expenditures was partially offset by a decrease in transfers for the Tobacco Settlement Fund due to a continued decline in cigarette sales and a decrease in miscellaneous expenses due to the closing of Community Facility District (CFD) construction funds.

The following chart shows the fund balances, and percentage change in fund balances for governmental funds for the current and previous fiscal year:

**COMPARATIVE FUND BALANCE**
**Governmental Funds**
June 30, 2015 and 2014

| | 2015 | 2014 | Increase/(Decrease) % |
|---|---|---|---|
| General Fund | $ 664,508 | $ 516,386 | 29 % |
| Roads | 61,802 | 53,280 | 16 % |
| Flood Control District | 418,945 | 377,136 | 11 % |
| Other Public Protection | 145,960 | 145,861 | -- |
| Teeter Plan Notes | 52,505 | 61,644 | (15)% |
| Other Governmental Funds | 842,971 | 813,317 | 4 % |
| **Total** | **$ 2,186,691** | **$ 1,967,624** | 11 % |

## Proprietary Funds

The proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management funds, which are considered to be major funds of the County, and Compressed Natural Gas fund. Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements.

### Comparative Analysis of Changes in Fund Net Position

The following table presents the enterprise funds' actual revenues, expenses, contributions, transfers, and changes in fund net position for the current and previous fiscal year:

**ENTERPRISE FUNDS**
**COMPARATIVE SCHEDULE OF REVENUES, EXPENSES, CONTRIBUTIONS, TRANSFERS AND CHANGES IN FUND NET POSITION**
For the Years Ended June 30, 2015 and 2014

| | Revenues, Contributions and Transfers | | Expenses and Transfers | | Change in Fund Net Position | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Airport | $ 152,732 | $ 143,766 | $ 125,072 | $ 121,514 | $ 27,660 | $ 22,252 |
| Waste Management | 142,250 | 130,025 | 89,117 | 111,380 | 53,133 | 18,645 |
| Compressed Natural Gas | 423 | 497 | 480 | 729 | (57) | (232) |
| **Total** | **$ 295,405** | **$ 274,288** | **$ 214,669** | **$ 233,623** | **$ 80,736** | **$ 40,665** |

Airport

This fund accounts for major construction and self-supporting aviation related activities rendered at John Wayne Airport, Orange County (JWA). At the end of FY 2014-15, there was an increase in fund net position of $27,660 compared to the prior year increase of $22,252. Revenues and contributions increased by $8,966 primarily due to an increase in revenue for passenger parking, revenue received for rental car and specialty concession lease agreements, revenue from operation of the international arrival facilities, and cost reimbursements for federally funded construction projects. Expenses increased by $3,558 primarily due to an increase in depreciation and amortization expense and impairment loss of a capital asset related to the Common Use Passenger Processing System (CUPPS) hardware and software, partially offset by a decrease in professional and specialized services.

Waste Management

This fund is used to account for the operation, expansion, closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage. At the end of FY 2014-15, there was an increase in fund net position of $53,133 compared to the prior year increase of $18,645. Revenues and transfers increased by $12,225, which was primarily due to an increase in sanitation and landfill disposal fees collected for waste, recycling, and importation, as well as importation tonnage and in-county disposal tonnage. Expenses and transfers decreased by $22,263 primarily due to a decrease in closure and postclosure care costs and pollution remediation expenses, as well as decreased transfers to the General Fund for net imported waste revenue in support of the County Bankruptcy Recovery Plan. Offsetting the decrease in expenses and transfers was an increase in professional and specialized service costs.

Compressed Natural Gas (CNG)
This fund was established in FY 2009-10 and accounts for the operation and maintenance of the CNG facility. Revenues consist primarily of compressed natural gas sales to both the County and the public.

For further comparative analysis of changes in Fund Net Position, please see the Business-Type Activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors involved in the variances between: 1) the Original Budget and the Final Amended Budget; and 2) the Final Amended Budget and the Actual Amounts for the General Fund. In addition to the effects of expenditure-driven grants, the following information provides explanations for significant variances. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

### Original Revenue Budget vs. Final Revenue Budget

The following provides a summary of the primary factors attributable to the increase or decrease in the General Fund final amended budget revenues compared to the original budget revenues:

Transfers In
- An increase of $11,046 due to an agreement with the OC Waste and Recycling (OCWR) Department to transfer net imported waste revenue in support of the County Bankruptcy Recovery Plan.
- An increase of $3,303 for the Probation Department primarily due to closing of the Juvenile Justice Reform fund and transfer of remaining balances to Probation.
- An increase of $4,792 in the Sheriff-Coroner Department primarily due to transfers from Proposition 69 – DNA Identification fund, Excess Public Safety Sales Tax fund, and Regional Narcotics Suppression Program to enhance DNA processing, upgrade the current reporting system to improve workflow efficiencies and reimburse overtime costs related to asset forfeitures.
- An increase of $7,100 in the General Relief budget control due to transfers from Facilities Development and Maintenance Fund to offset costs from increased caseloads in the General Relief budget control.

Intergovernmental Revenue
- An increase of $8,588 in the Sheriff-Coroner Department for AB 109 realignment revenue and Proposition 172 revenue to support department operations, as well as for various program revenue adjustments for grants and reimbursement agreements.
- An increase of $11,614 in the Social Services Agency (SSA) to align with the FY 2014-15 State and Federal allocations and grants for various programs including Medi-Cal, CalFresh, and CalWORKs.

Bond Issuance Proceeds
- An increase of $365,000 due to the anticipated proceeds from the County's issuance of the Taxable Pension Obligation Bonds, 2015 Series A. Refer to Note 10 for information regarding the Taxable Pension Obligation Bonds, 2015 Series A.

### Final Revenue Budget vs. Actual Revenue Amounts

The following information provides a summary of the primary factors that caused significant variances in the General Fund actual revenues compared to the final revenue budget:

Fines, Forfeitures, and Penalties
- A $47,393 positive variance primarily due to a one-time accrual of Teeter Penalty revenue resulting from the change in the Teeter Plan Reserve calculation methodology.

Transfers In

- A $121,399 negative variance primarily comprised of the following:
  - A $60,727 negative variance in Health Care Agency primarily due to a reduction in Mental Health Services Act (MHSA) transfers because of delays in projects and start-up of contracted services, as well as a delay in transfers from the OC Tobacco Settlement Revenue Fund.
  - A $12,681 negative variance in Social Services Agency primarily due to lower claims as a result of lower expenditures caused by the deferral of facility maintenance projects and other budgeted expenditures, as well as reduced spending in Wraparound direct services contracts and other Wraparound funded expenditures.
  - A $22,506 negative variance was due to no transfer of penalty revenue occurring in FY 2014-15. Instead, this revenue was directly recorded in Fines, Forfeitures, and Penalties in the General Fund.
  - A $6,344 negative variance in Capital Projects due to the deferral of the Orange County Homeless Shelter project and a delay in transferring corresponding project funding from the CEO Single Family Housing fund.

Bond Issuance Proceeds

- A $25,375 negative variance in Prepaid Pension Obligation due to several County departments that had sufficient funds to prepay their pension contribution costs to OCERS so they opted out of the financing.

**Original Expenditure Budget vs. Final Expenditure Budget**

The following provides a brief summary of the primary factors attributable to the increase in the General Fund final amended budget expenditures compared to the original budget expenditures:

Prepaid Pension Obligation

- An increase of $365,000 in appropriations for the retirement prepayments to OCERS for the County's FY 2014-15 employer contribution and related expenses.

Capital Projects

- An increase of $16,047 in appropriations primarily for the purchase of a leasehold interest in the Air Space Lease in the Transit Tower and adjacent parking structure, and the purchase of a dispatch console platform and upgrades to the workstation to accommodate the new equipment for the Sheriff's 800 MHz CCCS, and an increased budget for various capital projects, such as rebuilding air-handling units in the Central Men's Jail, replacing the structural wood sub-floor in the James A. Musick Jail Facility West Compound Barracks, replacing steam lines for the kitchen at the Theo Lacy Jail Facility, and replacing vehicle gates at the Central Men's Jail.

Sheriff-Coroner

- An increase of $18,622 in appropriations primarily to offset overtime and S&S costs associated with providing law enforcement services, traffic safety, forensic science and homeland security, as well as increased overtime and S&S costs associated with the 2011 Public Safety Realignment (AB109).

**Final Expenditure Budget vs. Actual Expenditure Amounts**

The following provides a summary of the primary factors that caused significant variances in the General Fund actual expenditures as compared to the final expenditures budget:

Prepaid Pension Obligation

- A $24,737 positive variance primarily due to a lesser financing of the County's FY 2014-15 prepayment to OCERS. Several County departments had sufficient funds available to prepay their pension contribution costs to OCERS so they opted out of the financing.

Probation

- A $18,771 positive variance primarily due to lower salaries and benefits caused by a high vacancy rate as retirements and separations outpaced recruitments. In addition, the department experienced lower than anticipated facility costs and continues its search for a suitable location for the South County Office.

(Dollar Amounts in Thousands)

Sheriff-Coroner
- A $10,170 positive variance primarily due to cost containment efforts by the department to delay filling vacant positions and the deferral of facility maintenance and equipment purchases.

Health Care Agency
- A $71,931 positive variance resulting from S&S savings, primarily due to the delayed startup of MHSA program. Additionally, lower salaries and benefits from delays in recruitments, savings from shifting the Royale Convalescent Hospital from a lease purchase to a lease agreement and lower than budgeted support and care costs for the California Children services programs were realized.

Aid To Families with Dependent Children – Foster Care
- A $6,319 positive variance due to reduced spending in direct service contracts for Wraparound and lower than anticipated supportive service for CalWin caseloads.

OC Community Resources
- A $19,428 positive variance primarily due to a minor reorganization in OC Community Resource's Central Projects Office, that lead to decreased contract spending and salaries and benefits.

Social Services Agency
- A $43,070 positive variance due to lower salaries and benefits as a result of higher than anticipated vacancies, decreased contract services spending, and delayed IT and facility projects.

**Capital Assets**

At June 30, 2015, the County's capital assets for both the governmental and business-type activities amounted to $3,618,851, net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, land improvements, equipment, software, infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), intangible in progress, land use rights, and construction in progress. The total increase in the County's investment in capital assets for the current year was 1%.

Capital assets for the governmental and business-type activities are presented below to illustrate changes:

**CAPITAL ASSETS**
**(Net of Depreciation)**
June 30, 2015 and 2014

| | Governmental Activities | | Business-Type Activities | | Total | | Increase (Decrease) |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | % Change |
| Land | $ 823,484 | $ 813,756 | $ 37,842 | $ 38,083 | $ 861,326 | $ 851,839 | 1 % |
| Structures and Improvements | 585,638 | 604,987 | 507,111 | 533,683 | 1,092,749 | 1,138,670 | (4)% |
| Land Improvements | 473 | -- | -- | -- | 473 | -- | -- |
| Equipment | 96,094 | 64,649 | 21,998 | 20,950 | 118,092 | 85,599 | 38 % |
| Software | 46,589 | 50,575 | 891 | 809 | 47,480 | 51,384 | (8)% |
| Infrastructure | 1,113,759 | 1,095,609 | 192,367 | 201,410 | 1,306,126 | 1,297,019 | 1 % |
| Intangible in Progress | 857 | 22,273 | 879 | -- | 1,736 | 22,273 | (92)% |
| Land Use Rights | 6,992 | 6,992 | -- | -- | 6,992 | 6,992 | -- |
| Construction in Progress | 109,789 | 97,213 | 74,088 | 28,084 | 183,877 | 125,297 | 47 % |
| **Total** | **$ 2,783,675** | **$ 2,756,054** | **$ 835,176** | **$ 823,019** | **$ 3,618,851** | **$ 3,579,073** | **1 %** |

The following lists the significant capital asset acquisitions in FY 2014-15:

General Fund
- $10,464 for the purchase of a leasehold interest in the Air Space Lease in the Transit Tower, occupied by the Health Care Agency

- $1,364 for construction costs associated with recentralization of the Human Resource Services Department
- $1,088 for the purchase of IT equipment for the Information Services Bureau at the Sheriff-Coroner

Roads
- $20,025 for the La Pata Avenue Gap Closure – Calle Saluda to South of Ortega Highway
- $3,039 for the Lincoln Avenue Bridge Widening at the Santa Ana River
- $1,157 for Crystal Canyon Road Drainage and Rehabilitation Project
- $1,047 for the Moulton Parkway Widening Segment 3 Phase II – North of El Toro Road to North of Santa Maria

Flood Control District
- $9,205 for the Newland Storm Channel Improvement Project
- $4,584 for the Trabuco Creek Channel Phase VII Project
- $2,220 for the acquisition of property located within the Prado Dam Project for flood control protection
- $2,080 for the Rossmoor Storm Channel Improvement Project
- $1,077 for the Los Alamitos Pump Station Project

Other Governmental Funds
- $6,294 for the purchase of law enforcement vehicles
- $4,853 for the replacement of dispatch console systems at the Sheriff's main dispatch center system at Loma Ridge
- $3,888 for major utility upgrades at the Irvine Ranch Historic Park
- $3,302 for the purchase of an Automated Biometric Identification System by the Sheriff-Coroner
- $2,674 for the expansion of the James A. Musick Facility Jail Expansion Design Phase I
- $2,084 for the purchase of a mainframe to service Sheriff-Coroner's Data Center operations
- $1,922 for expansion of the San Clemente Branch Library

Airport
- $11,958 for the construction of the Terminals A & B Baggage Handling System
- $2,136 for the Bristol Street Stabilization Project
- $1,634 for the improvements of the Terminals A & B

Waste Management and Recycling
- $20,962 for the construction of the East Flank Landslide Remediation Project
- $7,370 for the construction and utility improvement for the Olinda Alpha Phase I Partial Final Closure
- $3,936 for heavy equipment at the Central Regional Landfill
- $1,104 for heavy equipment at the South Regional Landfill

Additional information on the County's capital assets can be found in Note 5, Changes in Capital Assets.

Commitments for Capital Expenditures
At the end of FY 2014-15, significant commitments for capital expenditures included the following:

- $42,195 for the La Pata Avenue Gap Closure/Widening
- $6,406 for the Newland Storm Channel Confluence to Bolsa
- $6,282 for the Santa Ana River Interceptor Line Project
- $6,280 for the Olinda Alpha Landfill Phase I Partial Final Closure Construction and Utility Improvements
- $5,627 for the Greenville-Banning Channel Improvement Project
- $3,338 for the Los Alamitos Pump Station and Pump House
- $3,385 for the Cow Camp Road Project
- $2,991 for the purchase of law enforcement vehicles
- $2,973 for the Fletcher Channel and Retarding Basin-From Santa Ana River to Upstream
- $2,652 for the Airport Parking Structure C, Phase 2
- $2,583 for the Airport Main Street and Employee Lot Resurfacing

(Dollar Amounts in Thousands)

Additional information on the County's commitments for capital acquisitions can be found in Note 15, Construction and Other Significant Commitments.

### Long-Term Debt

At June 30, 2015, the County had total debt obligations outstanding of $467,513 excluding capital lease obligations, compensated absences and other liabilities. During the year, the County's outstanding bond obligations decreased by 14%, which is attributable to the retirement of $118,191 of bond obligations, which includes the full redemption of the Recovery Bonds and the retirement of $36,010 in Revenue Bonds. Partially offsetting the decrease was the addition of $31,541 of Teeter Plan Notes.

The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized assessment property tax roll. However, this does not affect the financing of any of the County's planned facilities or services. As of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation (COPs), and other forms of debt not covered by the general obligation bonded debt limitation.

The following table summarizes the County's outstanding bonds at June 30, 2015:

**LONG-TERM DEBT BOND OBLIGATIONS**
June 30, 2015 and 2014

| | Governmental Activities | | Business-Type Activities | | Total | | (Decrease) |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | % Change |
| Revenue Bonds | $ 96,645 | 125,660 | $ 204,274 | $ 211,269 | $ 300,919 | $ 336,929 | (11)% |
| Certificates of Participation | 1,744 | 2,262 | -- | -- | 1,744 | 2,262 | (23)% |
| Pension Obligation Bonds | 27,227 | 32,193 | -- | -- | 27,227 | 32,193 | (15)% |
| Recovery Bonds | -- | 17,556 | -- | -- | -- | 17,556 | (100)% |
| Teeter Plan Notes | 33,823 | 39,830 | -- | -- | 33,823 | 39,830 | (15)% |
| Add: Premium/(Discount) on Bonds Payable | 9,235 | 13,071 | (1,738) | (1,465) | 7,497 | 11,606 | (35)% |
| Add: Interest Accretion on CABs | 96,303 | 103,377 | -- | -- | 96,303 | 103,377 | (7)% |
| **Total** | **$ 264,977** | **$ 333,949** | **$ 202,536** | **$ 209,804** | **$ 467,513** | **$ 543,753** | **(14)%** |

The following summarizes the County's long-term debt issuance during FY 2014-15:

Teeter Plan Notes On July 15, 2014, the County issued an additional $31,541 in Teeter Plan Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan. Proceeds of this issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll.

On December 30, 2014 and June 25, 2015, the County used all of the accumulated base taxes to redeem $27,532 and $10,016, respectively, of the Teeter Plan Notes. As of June 30, 2015, the outstanding principal amount of the Teeter Plan Notes was $33,823.

Additional information on the County's long-term debt activity can be found in Note 11, Long-Term Obligations.

### Bond Ratings

The County maintained its issuer ratings of AA from Standard & Poor's Rating Services (S&P), Aa1 from Moody's Investors Service, and currently Fitch Ratings does not provide issuer ratings. In FY 2014-15, the following change occurred in the County's underlying debt:

On June 1, 2015, the 2005A Refunding Recovery Bonds were fully redeemed and will no longer be disclosed as part of the County's underlying debt.

The County has the following long-term underlying debt ratings:

**LONG-TERM DEBT RATINGS**
June 30, 2015

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| 2005 Lease Revenue Bonds | AA- | Aa3 | AA |
| 1991 Parking COPs | NR | Aa3 | NR |
| 2006 Lease Revenue Bonds | AA- | Aa3 | AA |
| 2012 Lease Revenue Bonds | AA- | Aa3 | NR |
| Teeter Plan Notes | NR | NR | NR |
| 1996A Pension Obligation Bonds | NR | Aa1 | AA |
| 1997A Pension Obligation Bonds | NR | Aa1 | AA |
| Airport 2009A Revenue Bonds | AA- | Aa3 | AA- |
| Airport 2009B Revenue Bonds | AA- | Aa3 | AA- |

## OTHER POTENTIALLY SIGNIFICANT MATTERS

The County's management has determined that the following are significant matters that have a potential impact on the County's financial position or changes in financial position:

### State Legislation and Budget

Orange County Vehicle License Fees (VLF)
On June 30, 2011, the Governor signed SB 89, which redirected Orange County's annual receipt of approximately $49,000 in VLF revenue (Revenue & Taxation Code Section 11001.5(a)(1) and 11005(a)).

All counties in California receive property taxes in lieu of VLF pursuant to Section 97.70 of the Revenue and Taxation Code as a result of the VLF for property tax swap of 2004. However, in 2004, Orange County's share of property tax in lieu of VLF, which is also known as its "vehicle license fee adjustment amount (VLFAA)," was reduced by approximately $54,000. This reduction was to offset the amount of VLF the County received until the passage of SB 89, and that had been pledged for the service of bankruptcy related indebtedness at the time that Section 97.70 was adopted in 2004.

The elimination of the County's VLF revenue required the Orange County Auditor-Controller to calculate Orange County's allocation of property taxes in lieu of VLF in a manner consistent with the other 57 counties in the State. Due to the growth in property valuation since 2005, when the VLF Swap was enacted, the calculated property tax in lieu of VLF was $73,500 for FY 2012-13. This amount was included in the County's budget for FY 2011-12 and 2012-13. In an attempt to deprive the County not only of the $54,000 in VLF revenue, but also the $73,500 of annual property tax revenue that was legally owed, the State Department of Finance initiated litigation to challenge the County's calculation of the VLFAA. Ultimately, the Court ruled in favor of the State.

The Court's ruling resulted in the loss of the $73,500 VLFAA revenue and a requirement for the County to repay $150,000 to the State ($147,000 retained in FYs 2011-12 and 2012-13, plus interest). On September 27, 2013, Assembly Bill (AB) 701 was signed by the Governor to resolve the dispute between the State and the County. AB 701 provides for an additional $53,000 in annual VLFAA beginning in FY 2013-14, including growth, in lieu of the $50,000 in property tax revenue previously provided by SB 8 X3, which was a flat amount with no growth. AB 701 provides stability for the County by securing the property tax revenues, including growth, and by allowing for repayment of the $150,000 over five years. The $150,000 due to the State was formally set aside in reserve in the FY 2013-14 First Quarter Budget Report. The first payment of $5,000 was paid to the State in FY 2014-15. The second payment of $15,000 will be paid to the State in FY 2015-16.

**Long-Term Financial Planning**

Property Tax Management System Upgrade
The County's property tax assessment, collection and allocation system processes property taxes and special assessments for the county, cities, school districts and special districts within the County. The current system was developed in the late 1980's in a now obsolete programming language. Maintenance of the system requires specialized knowledge that is hard to obtain. Under direction from the Board to rewrite the system and to respond to the Grand Jury's recommendation to replace the mainframe with an open system platform, the Auditor-Controller, Clerk of the Board, and Treasurer-Tax Collector embarked on a multi-year phased implementation of the new Property Tax Management System (PTMS).

In January 2006, a contract was awarded to Sierra Systems to conduct a needs assessment and to document the requirements of the new PTMS. This project also included documenting the business rules, identifying areas for improvement, and creating a blueprint for implementation. The needs assessment project was completed in July 2007.

On July 15, 2008, the Board approved a contract to develop and implement the new PTMS based on the required specifications documented during the needs assessment. In May 2010, a few modules went live initially. But out of twenty-seven (27) modules that were required, only two minor modules remain in partial operation. Additional software development was performed during FY 2011-12 and FY 2012-13; however, as of January 9, 2013, the contract expired and the project was placed on hold.

The PTMS upgrade incurred $18,112 in capitalized costs. This amount was reported as a loss in the Statement of Activities because the resulting product is incomplete and was rendered inoperable. Refer to Note 5, Changes in Capital Assets, for further information regarding the impairment.

In looking into the solution for Property Tax Management, the PTMS Steering Committee is exploring re-platforming the system. As opposed to complete development from new specifications, this would take the existing system and transform it to operate on an open system platform with similar functionality. A Request for Proposal will be issued for this project.

Funding Progress of the County's Retirement System (System)
The funded ratio of the System is a measure of the ability of the System to make obligated payments to current retirees and future retirees. The funded ratio (actuarial value of plan assets divided by actuarial accrued liability) dropped from 82.76% in 2002 to 70.85% in 2004. Since 2004, the funded ratio increased to 74.08% in 2007 before dropping to 62.52% as of December 31, 2012. As of December 31, 2014, the funded ratio was 69.76%. An increase in funding status is caused by multiple factors, including additional UAAL (Unfunded Actuarial Accrued Liability) payments by certain plan sponsors, lower than expected salary growth, lower than expected cost of living adjustment (COLA) increases, and changes in actuarial assumptions, which included a net increase in mortality rates.

On November 4, 2008, the voters in Orange County approved Measure J, which requires voter approval for any future pension benefit enhancements. The County carefully monitors the activities at OCERS and regularly provides input to OCERS management, as well as providing input at OCERS Board meetings as deemed appropriate.

Reduction in OCERS Assumed Investment Rate of Return
The assumed investment rate of return is the rate of investment yield that the Plan will earn over the long-term future.

On December 5, 2012, the OCERS Board voted to reduce the assumed investment rate of return from 7.75% to 7.25%. The reduction was phased in over a two-year period beginning July 2014 at 7.5% and further reducing to 7.25% effective July 2015. The assumed rate of return reduction had the impact of increasing contribution rates of members and plan sponsors.

Actuarial Funding Policy (Amortization)
On December 5, 2013, the OCERS Board voted to reduce the amortization period for future Unfunded Actuarial Accrued Liability (UAAL) from 30 years to 20 years. This will allow for future UAAL to be paid off in a shorter period of time and will ultimately reduce retirement rates and costs over time.

Actuarial Assumptions
The 2012 valuation was impacted by economic assumption changes including a decrease in inflation assumptions from 3.50% to 3.25% per annum and an increase in the current real “across the board” salary assumption increase from .25% to .50%. These two assumptions had a cancelling effect on one another.

**Requests for Information**

We hope that the preceding information provided a general overview of the County’s overall financial status. For questions or comments concerning information contained in this report, please contact the Auditor-Controller’s Office, County of Orange, 12 Civic Center Plaza, Santa Ana, CA 92702 or you can access our website at http://ac.ocgov.com.

COUNTY OF ORANGE

CALIFORNIA

| | Primary Government | | | Component Units | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Governmental CFCOC | Proprietary CalOptima |
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $ 2,022,702 | $ 549,320 | $ 2,572,022 | $ 51,814 | $ 26,297 |
| Restricted Cash and Cash Equivalents | 185,614 | 197,131 | 382,745 | -- | 300 |
| Investments | 120,287 | 29,182 | 149,469 | -- | 1,205,075 |
| Deposits In-Lieu of Cash | 35 | 44,142 | 44,177 | -- | -- |
| Internal Balances | 19,840 | (19,840) | -- | -- | -- |
| Due from Component Unit | 201 | -- | 201 | -- | -- |
| Due from Primary Government | -- | -- | -- | 4 | -- |
| Prepaid Costs | 290,834 | 4,146 | 294,980 | 156 | 20,411 |
| Inventory of Materials and Supplies | 2,104 | -- | 2,104 | -- | -- |
| Receivables, Net of Allowances | | | | | |
| Accounts | 6,984 | 15,735 | 22,719 | -- | 559,110 |
| Taxes | 31,969 | -- | 31,969 | 4,337 | -- |
| Interest/Dividends | 4,754 | 1,127 | 5,881 | 23 | -- |
| Deposits | 4,924 | 100 | 5,024 | 9,027 | -- |
| Advances | 40 | -- | 40 | -- | -- |
| Due from Other Governmental Agencies, Net | 452,487 | 6,215 | 458,702 | 4,061 | -- |
| Notes Receivable, Net | 28,255 | -- | 28,255 | -- | -- |
| Net Other Postemployment Benefits | 45,056 | -- | 45,056 | -- | -- |
| Capital Assets | | | | | |
| Not Depreciable/Amortizable | 941,122 | 112,809 | 1,053,931 | -- | 8,887 |
| Depreciable/Amortizable, Net | 1,842,553 | 722,367 | 2,564,920 | -- | 44,462 |
| Total Capital Assets | 2,783,675 | 835,176 | 3,618,851 | -- | 53,349 |
| Total Assets | 5,999,761 | 1,662,434 | 7,662,195 | 69,422 | 1,864,542 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Deferred Charge on Refunding | 6,225 | -- | 6,225 | -- | -- |
| Deferred Outflows of Resources Related to Pension | 652,309 | 14,275 | 666,584 | 522 | 4,951 |
| Total Deferred Outflows of Resources | 658,534 | 14,275 | 672,809 | 522 | 4,951 |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

| | Primary Government | | | Component Units | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Governmental CFCOC | Proprietary CalOptima |
| **LIABILITIES** | | | | | |
| Accounts Payable | $ 94,447 | $ 17,641 | $ 112,088 | $ 4,232 | $ 10,247 |
| Salaries and Employee Benefits Payable | 89,855 | 2,069 | 91,924 | 83 | 9,232 |
| Retainage Payable | 6,008 | 2,178 | 8,186 | 1,914 | -- |
| Interest Payable | 2,827 | 5,249 | 8,076 | -- | -- |
| Deposits from Others | 36,721 | 45,890 | 82,611 | -- | -- |
| Due to Primary Government | -- | -- | -- | 201 | -- |
| Due to Component Unit | 4 | -- | 4 | -- | -- |
| Due to Other Governmental Agencies | 31,321 | 3,177 | 34,498 | 4,204 | 17,705 |
| Unearned Revenue | 65,688 | 3,161 | 68,849 | -- | 207,946 |
| Short-Term Bonds Payable | 339,625 | -- | 339,625 | -- | -- |
| Long-Term Liabilities | | | | | |
| Net Pension Liability | 3,815,663 | 83,384 | 3,899,047 | 3,957 | 1,059 |
| Due Within One Year | | | | | |
| SARI Line Loans | 1,429 | -- | 1,429 | -- | -- |
| Estimated Liability - Litigation and Claims | 15,500 | -- | 15,500 | -- | -- |
| Interest Accretion on Capital Appreciation Bonds Payable | 31,089 | -- | 31,089 | -- | -- |
| Insurance Claims Payable | 51,836 | -- | 51,836 | -- | -- |
| Medical Claims Payable | -- | -- | -- | -- | 670,333 |
| Capitation and Withholds | -- | -- | -- | -- | 290,633 |
| Compensated Employee Absences Payable | 88,516 | 2,278 | 90,794 | 67 | -- |
| Arbitrage Rebate Payable | 837 | -- | 837 | -- | -- |
| Capital Lease Obligations Payable | 11,444 | -- | 11,444 | -- | -- |
| Notes Payable | 33,823 | -- | 33,823 | -- | -- |
| Bonds Payable | 41,593 | 7,409 | 49,002 | -- | -- |
| Net Other Postemployment Benefit Obligation | -- | -- | -- | | 26,802 |
| Pollution Remediation Obligation | -- | 514 | 514 | -- | -- |
| Landfill Site Closure/Postclosure Liability | -- | 1,319 | 1,319 | -- | -- |
| Due in More than One Year | | | | | |
| SARI Line Loans | 34,848 | -- | 34,848 | | |
| Estimated Liability - Litigation and Claims | 130,000 | -- | 130,000 | -- | -- |
| Interest Accretion on Capital Appreciation Bonds Payable | 65,214 | -- | 65,214 | -- | -- |
| Insurance Claims Payable | 155,741 | -- | 155,741 | -- | -- |
| Compensated Employee Absences Payable | 85,870 | 2,611 | 88,481 | 31 | -- |
| Arbitrage Rebate Payable | 19 | -- | 19 | -- | -- |
| Capital Lease Obligations Payable | 67,724 | -- | 67,724 | -- | -- |
| Bonds Payable | 93,258 | 195,127 | 288,385 | -- | -- |
| Pollution Remediation Obligation | -- | 12,218 | 12,218 | -- | -- |
| Capital Asset Obligation | 155 | -- | 155 | -- | -- |
| Landfill Site Closure/Postclosure Liability | -- | 157,726 | 157,726 | -- | -- |
| Total Liabilities | 5,391,055 | 541,951 | 5,933,006 | 14,689 | 1,233,957 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Deferred Inflows of Resources Related to Pension | 385,819 | 8,429 | 394,248 | 783 | 5,581 |
| Total Deferred Inflows of Resources | 385,819 | 8,429 | 394,248 | 783 | 5,581 |
| **NET POSITION** | | | | | |
| Net Investment in Capital Assets | 2,670,577 | 642,427 | 3,313,004 | -- | 53,349 |
| Restricted for: | | | | | |
| Expendable | | | | | |
| Pension Benefits | 112,544 | -- | 112,544 | -- | -- |
| Capital Projects | 6,154 | -- | 6,154 | -- | -- |
| Debt Service | 37,734 | 7,324 | 45,058 | -- | -- |
| Legally Segregated for Grants and Other Purposes | 1,045,897 | -- | 1,045,897 | -- | -- |
| Regional Park Endowment | 141 | | 141 | -- | -- |
| CalOptima | -- | -- | -- | -- | 86,145 |
| Passenger Facility Charges Approved Capital Projects | -- | 70,538 | 70,538 | -- | -- |
| Capital Projects - Replacements and Renewals | -- | 1,000 | 1,000 | -- | -- |
| Landfill Closure/Postclosure | -- | 33,337 | 33,337 | -- | -- |
| Landfill Corrective Action | -- | 8,174 | 8,174 | -- | -- |
| Wetland | -- | 879 | 879 | -- | -- |
| Prima Deshecha/La Pata Closure | -- | 104 | 104 | -- | -- |
| Nonexpendable | | | | | |
| Regional Park Endowment | 188 | -- | 188 | -- | -- |
| Unrestricted (deficit) | (2,991,814) | 362,546 | (2,629,268) | 54,472 | 490,461 |
| Total Net Position | $ 881,421 | $ 1,126,329 | $ 2,007,750 | $ 54,472 | $ 629,955 |

| Functions/Programs | Expenses: Direct Expenses | Expenses: Indirect Expenses Allocation | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|---|
| **Primary Government** | | | | | |
| Governmental Activities | | | | | |
| General Government | $ 243,565 | $ (51,772) | $ 36,924 | $ 57,585 | $ -- |
| Public Protection | 1,293,891 | 32,137 | 286,644 | 540,844 | 11,580 |
| Public Ways and Facilities | 115,626 | (1,228) | 53,834 | 63,606 | 11,443 |
| Health and Sanitation | 530,693 | 6,887 | 102,599 | 395,364 | -- |
| Public Assistance | 1,040,036 | 9,629 | 37,650 | 938,197 | -- |
| Education | 42,445 | 869 | 1,480 | 306 | 220 |
| Recreation and Cultural Services | 100,357 | 1,712 | 43,882 | 959 | 9,998 |
| Interest on Long-Term Debt | 23,560 | -- | -- | -- | -- |
| Total Governmental Activities | 3,390,173 | (1,766) | 563,013 | 1,996,861 | 33,241 |
| Business-Type Activities | | | | | |
| Airport | 123,890 | 888 | 141,563 | 189 | 9,215 |
| Waste Management | 68,435 | 872 | 139,493 | 66 | -- |
| Compressed Natural Gas | 325 | 6 | 312 | -- | -- |
| Total Business-Type Activities | 192,650 | 1,766 | 281,368 | 255 | 9,215 |
| Total Primary Government | $ 3,582,823 | $ -- | $ 844,381 | $ 1,997,116 | $ 42,456 |
| **Component Units** | | | | | |
| Children and Families Commission of Orange County | $ 36,298 | $ -- | $ -- | $ 30,138 | $ -- |
| CalOptima | 2,889,540 | -- | 3,112,079 | 3,255 | -- |
| Total Component Units | $ 2,925,838 | $ -- | $ 3,112,079 | $ 33,393 | $ -- |

General Revenues
Taxes
Property Taxes, Levied for General Fund
Property Taxes, Levied for Flood Control District
Property Taxes, Levied for OC Parks
Property Taxes, Levied for OC Public Libraries
Property Taxes in-Lieu of Motor Vehicle License Fees
Other Taxes
Grants and Contributions Not Restricted to Specific Programs
State Allocation of Motor Vehicle License Fees
Unrestricted Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning of Year, as Restated
Net Position - End of Year

(Dollar Amounts in Thousands)

| Net (Expense) Revenue and Change in Net Position | | | | | |
|---|---|---|---|---|---|
| Primary Government | | | Component Units | | |
| Governmental Activities | Business-Type Activities | Total | Governmental CFCOC | Proprietary CalOptima | Functions/Programs |
| | | | | | **Primary Government** |
| | | | | | Governmental Activities |
| $ (97,284) | $ -- | $ (97,284) | $ -- | $ -- | General Government |
| (486,960) | -- | (486,960) | -- | -- | Public Protection |
| 14,485 | -- | 14,485 | -- | -- | Public Ways and Facilities |
| (39,617) | -- | (39,617) | -- | -- | Health and Sanitation |
| (73,818) | -- | (73,818) | -- | -- | Public Assistance |
| (41,308) | -- | (41,308) | -- | -- | Education |
| (47,230) | -- | (47,230) | -- | -- | Recreation and Cultural Services |
| (23,560) | -- | (23,560) | -- | -- | Interest on Long-Term Debt |
| (795,292) | -- | (795,292) | -- | -- | Total Governmental Activities |
| | | | | | Business-Type Activities |
| -- | 26,189 | 26,189 | -- | -- | Airport |
| -- | 70,252 | 70,252 | -- | -- | Waste Management |
| -- | (19) | (19) | -- | -- | Compressed Natural Gas |
| -- | 96,422 | 96,422 | -- | -- | Total Business-Type Activities |
| (795,292) | 96,422 | (698,870) | -- | -- | Total Primary Government |
| | | | | | **Component Units** |
| | | | | | Children and Families |
| | | | (6,160) | -- | Commission or Orange County |
| | | | - | 225,794 | CalOptima |
| | | | (6,160) | 225,794 | Total Component Units |
| | | | | | General Revenues |
| | | | | | Taxes |
| 328,500 | -- | 328,500 | -- | -- | Property Taxes, Levied for General Fund |
| 77,090 | -- | 77,090 | -- | -- | Property Taxes, Levied for Flood Control District |
| 57,266 | -- | 57,266 | -- | -- | Property Taxes, Levied for OC Parks |
| 42,333 | -- | 42,333 | -- | -- | Property Taxes, Levied for OC Public Libraries |
| 314,957 | -- | 314,957 | -- | -- | Property Taxes in-Lieu of Motor Vehicle License Fees |
| 71,613 | 109 | 71,722 | -- | -- | Other Taxes |
| 49,476 | -- | 49,476 | -- | -- | Grants and Contributions Not Restricted to Specific Programs |
| 764 | -- | 764 | -- | -- | State Allocation of Motor Vehicle License Fees |
| 6,796 | 3,042 | 9,838 | 206 | -- | Unrestricted Investment Earnings |
| 69,789 | 1,597 | 71,386 | 151 | 5,233 | Miscellaneous |
| 19,959 | (19,959) | -- | -- | -- | Transfers |
| 1,038,543 | (15,211) | 1,023,332 | 357 | 5,233 | Total General Revenues and Transfers |
| 243,251 | 81,211 | 324,462 | (5,803) | 231,027 | Change in Net Position |
| 638,170 | 1,045,118 | 1,683,288 | 60,275 | 398,928 | Net Position - Beginning of Year, as Restated |
| $ 881,421 | $ 1,126,329 | $ 2,007,750 | $ 54,472 | $ 629,955 | Net Position - End of Year |

| | General Fund | Roads | Flood Control District |
|---|---|---|---|
| **ASSETS** | | | |
| Pooled Cash/Investments | $ 441,060 | $ 81,340 | $ 415,896 |
| Imprest Cash Funds | 1,862 | -- | -- |
| Restricted Cash and Investments with Trustee | 9 | -- | -- |
| Investments | 118,940 | -- | -- |
| Deposits In-Lieu of Cash | -- | -- | -- |
| Receivables | | | |
| Accounts | 10,420 | 471 | 473 |
| Taxes | 7,035 | -- | 1,364 |
| Interest/Dividends | 2,600 | 142 | 584 |
| Deposits | 460 | 22 | 2,329 |
| Advances | 33 | -- | -- |
| Allowance for Uncollectible Receivables | (6,237) | (21) | (107) |
| Due from Other Funds | 89,278 | 2,700 | 1,558 |
| Due from Component Unit | 201 | -- | -- |
| Due from Other Governmental Agencies, Net | 353,350 | 17,602 | 53,011 |
| Inventory of Materials and Supplies | 867 | -- | 453 |
| Prepaid Costs | 331,939 | 3,939 | 4,617 |
| Advances to Other Funds | 3,800 | -- | -- |
| Notes Receivable, Net | -- | -- | -- |
| Total Assets | $ 1,355,617 | $ 106,195 | $ 480,178 |
| **LIABILITIES** | | | |
| Accounts Payable | $ 49,300 | $ 3,583 | $ 2,771 |
| Retainage Payable | 1,395 | 631 | 2,136 |
| Salaries and Employee Benefits Payable | 83,350 | 1,052 | 1,251 |
| Interest Payable | 1,084 | -- | -- |
| Deposits from Others | 1,654 | 7,636 | 7,807 |
| Due to Other Funds | 31,311 | 3,729 | 13,429 |
| Due to Component Unit | 3 | -- | -- |
| Due to Other Governmental Agencies | 13,822 | 1,156 | 1,223 |
| Estimated Litigation and Claims | -- | 500 | -- |
| Unearned Revenue | 44,410 | 10,495 | 750 |
| Bonds Payable | 339,625 | -- | -- |
| Advances from Other Funds | 2,351 | -- | -- |
| Total Liabilities | 568,305 | 28,782 | 29,367 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Unavailable Revenue - Intergovernmental Revenues | 72,172 | 15,262 | 30,906 |
| Unavailable Revenue - Senate Bill 90 Mandated Claims, Net | 39,653 | -- | -- |
| Unavailable Revenue - Property Taxes | 9,078 | -- | 960 |
| Unavailable Revenue - Long-Term Notes Receivables | -- | -- | -- |
| Unavailable Revenue - Other | 1,901 | 349 | -- |
| Total Deferred Inflows of Resources | 122,804 | 15,611 | 31,866 |
| **FUND BALANCES** | | | |
| Nonspendable | 336,606 | 3,939 | 5,070 |
| Restricted | 31,486 | 57,863 | 413,875 |
| Assigned | 269,529 | -- | -- |
| Unassigned | 26,887 | -- | -- |
| Total Fund Balances | 664,508 | 61,802 | 418,945 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 1,355,617 | $ 106,195 | $ 480,178 |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

| | Other Public Protection | Teeter Plan Notes | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Pooled Cash/Investments | $ 181,305 | $ 30,718 | $ 656,422 | $ 1,806,741 |
| Imprest Cash Funds | -- | -- | 61 | 1,923 |
| Restricted Cash and Investments with Trustee | -- | 18 | 185,577 | 185,604 |
| Investments | -- | -- | 1,347 | 120,287 |
| Deposits In-Lieu of Cash | -- | -- | 35 | 35 |
| Receivables | | | | |
| Accounts | 48 | -- | 1,925 | 13,337 |
| Taxes | -- | 21,806 | 1,764 | 31,969 |
| Interest/Dividends | 273 | 50 | 805 | 4,454 |
| Deposits | -- | -- | 2,113 | 4,924 |
| Advances | 7 | -- | -- | 40 |
| Allowance for Uncollectible Receivables | -- | -- | (34) | (6,399) |
| Due from Other Funds | 3,612 | -- | 26,613 | 123,761 |
| Due from Component Unit | -- | -- | -- | 201 |
| Due from Other Governmental Agencies, Net | 2,831 | -- | 25,107 | 451,901 |
| Inventory of Materials and Supplies | 331 | -- | -- | 1,651 |
| Prepaid Costs | 1,241 | -- | 10,527 | 352,263 |
| Advances to Other Funds | -- | -- | -- | 3,800 |
| Notes Receivable, Net | -- | -- | 28,255 | 28,255 |
| Total Assets | $ 189,648 | $ 52,592 | $ 940,517 | $ 3,124,747 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 518 | $ 67 | $ 11,642 | $ 67,881 |
| Retainage Payable | 1 | -- | 1,842 | 6,005 |
| Salaries and Employee Benefits Payable | 328 | -- | 2,973 | 88,954 |
| Interest Payable | -- | 18 | -- | 1,102 |
| Deposits from Others | 15,152 | -- | 4,472 | 36,721 |
| Due to Other Funds | 20,045 | 2 | 49,938 | 118,454 |
| Due to Component Unit | -- | -- | 1 | 4 |
| Due to Other Governmental Agencies | 5,801 | -- | 9,314 | 31,316 |
| Estimated Litigation and Claims | -- | -- | -- | 500 |
| Unearned Revenue | 1,492 | -- | 8,541 | 65,688 |
| Bonds Payable | -- | -- | -- | 339,625 |
| Advances from Other Funds | -- | -- | 3,800 | 6,151 |
| Total Liabilities | 43,337 | 87 | 92,523 | 762,401 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unavailable Revenue - Intergovernmental Revenues | 224 | -- | 3,255 | 121,819 |
| Unavailable Revenue - Senate Bill 90 Mandated Claims, Net | -- | -- | -- | 39,653 |
| Unavailable Revenue - Property Taxes | -- | -- | 1,274 | 11,312 |
| Unavailable Revenue - Long-Term Notes Receivables | -- | -- | 473 | 473 |
| Unavailable Revenue - Other | 127 | -- | 21 | 2,398 |
| Total Deferred Inflows of Resources | 351 | -- | 5,023 | 175,655 |
| **FUND BALANCES** | | | | |
| Nonspendable | 1,572 | -- | 10,715 | 357,902 |
| Restricted | 144,388 | 52,505 | 748,491 | 1,448,608 |
| Assigned | -- | -- | 83,765 | 353,294 |
| Unassigned | -- | -- | -- | 26,887 |
| Total Fund Balances | 145,960 | 52,505 | 842,971 | 2,186,691 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 189,648 | $ 52,592 | $ 940,517 | $ 3,124,747 |

The governmental funds Balance Sheet includes a reconciliation between fund balances – total governmental funds and net position – governmental activities as reported in the government-wide Statement of Net Position. The difference in fund balances of ($1,305,270) is due to the long-term economic focus of the Statement of Net Position versus the short-term economic focus of the governmental funds. The components of the difference are described below.

| | | |
|---|---|---|
| Total Fund Balances - Governmental Funds | | $ 2,186,691 |
| Capital assets used in the operations of the County are not reported in the governmental funds financial statements because governmental funds focus on current financial resources. Such assets must be included in the Statement of Net Position for purposes of government-wide reporting. These capital assets consist of: | | |
| Land | 823,484 | |
| Structures and Improvements | 1,208,113 | |
| Equipment | 276,721 | |
| Software | 109,737 | |
| Infrastructure | 1,649,089 | |
| Land Use Rights | 6,992 | |
| Land Improvements | 485 | |
| Construction/Intangible in Progress | 109,822 | |
| Accumulated Depreciation/Amortization | (1,452,101) | 2,732,342 |
| Other assets used in governmental activities do not consume current financial resources, and therefore, are not reported in the governmental funds: | | |
| Prepaid pension Investment with OCERS | 112,544 | |
| Prepaid Bond Insurance | 326 | 112,870 |
| Internal service funds primarily serve governmental funds and consequently the assets and liabilities of internal service funds are incorporated as part of governmental activities for purposes of government-wide financial reporting. In addition, the cumulative internal balance resulting from current year's and last year's allocation of internal service funds to business-type activities are also reported in the Statement of Net Position. | | (7,115) |
| Deferred outflows of resources are similar to assets, but they do not meet the definition of an asset at June 30, 2015. When all the recognition criteria are met, the deferred outflows of resources will become an expense. The couterpart to deferred outflows of resources are deferred inflows of resources, which are not technically liabilities at June 30, 2015. When all recognition criterial are met, the deferred inflows of resources will become revenue or an increase to net position. The County reports the different types of deferred outflows and inflows of resources in the Statement of Net Position as follows: | | |
| Deferred Outflows of Resources: | | |
| Deferred charge on refunding | | 6,225 |
| Employer retirement contribution subsequent to measurement date and deferred recognition of changes to the net pension liability | | 469,936 |
| Reclassification of prepaid pension contribution from prepaid expense to deferred outflows of resources for the portion to be recognized in the next measurement period, refer to Note 18, Retirement Plans. | | |
| Prepaid | | (175,955) |
| Deferred outflows of resources | | 175,955 |

(Dollar Amounts in Thousands)

| | | |
|---|---|---|
| Deferred Inflows of Resources: | | |
| Deferred inflows of resources that have been earned but not available to finance expenditures in the current period | | 175,655 |
| Deferred inflows of resources related to pension | | (382,056) |
| Governmental funds report only those liabilities that are expected to be liquidated with current available financial resources. Thus, governmental funds typically do not report any liability for the unmatured portion of long-term debt or any liability that does not consume current available financial resources. However, all liabilities must be reported in the government-wide financial statements. The adjustment to reduce net position for the unmatured long-term liabilities on the Statement of Net Position consists of the following: | | |
| Bonds and COPs Payable, Net | (134,851) | |
| SARI Line Loans Payable | (36,277) | |
| Teeter Plan Notes Payable | (33,823) | |
| Compensated Employee Absences Payable | (172,282) | |
| Capital Lease Obligations Payable | (58,468) | |
| Capital Asset Obligation | (155) | |
| Arbitrage Rebate Payable | (856) | |
| Interest Payable on Bonds | (1,725) | |
| Interest Accreted on Capital Appreciation Bonds | (96,303) | |
| Estimated Liability - Litigation and Claims | (145,000) | |
| County's Net Pension Liability | (3,778,443) | (4,458,183) |
| Governmental Accounting Standards Board (GASB) Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"* requires an employer to record a net Other Postemployment Benefits (OPEB) obligation (asset) for the difference between the annual required contribution (ARC) and the amounts actually contributed to the OPEB Plan. | | 45,056 |
| Net Position of Governmental Activities | | $ 881,421 |

| | General Fund | Roads | Flood Control District |
|---|---|---|---|
| Revenues | | | |
| Taxes | $ 629,603 | $ -- | $ 85,530 |
| Licenses, Permits, and Franchises | 22,929 | 336 | 269 |
| Fines, Forfeitures and Penalties | 82,063 | 7 | 12 |
| Use of Money and Property | 5,272 | 289 | 2,740 |
| Intergovernmental | 1,602,817 | 68,161 | 43,808 |
| Charges for Services | 408,872 | 28,538 | 14,004 |
| Other | 15,601 | 1,309 | 14,185 |
| Total Revenues | 2,767,157 | 98,640 | 160,548 |
| Expenditures | | | |
| Current | | | |
| General Government | 177,280 | -- | -- |
| Public Protection | 1,126,878 | -- | 81,626 |
| Public Ways and Facilities | 32,192 | 62,900 | -- |
| Health and Sanitation | 514,371 | -- | -- |
| Public Assistance | 851,488 | -- | -- |
| Education | -- | -- | -- |
| Recreation and Cultural Services | -- | -- | -- |
| Capital Outlay | 18,901 | 26,985 | 24,938 |
| Debt Service | | | |
| Principal Retirement | 21,568 | -- | 11,133 |
| Interest | 8,172 | -- | -- |
| Total Expenditures | 2,750,850 | 89,885 | 117,697 |
| Excess (Deficit) of Revenues Over Expenditures | 16,307 | 8,755 | 42,851 |
| Other Financing Sources (Uses) | | | |
| Transfers In | 234,086 | -- | 2,548 |
| Transfers Out | (102,271) | (233) | (3,590) |
| Debt Issued | -- | -- | -- |
| Capital Leases | -- | -- | -- |
| Total Other Financing Sources (Uses) | 131,815 | (233) | (1,042) |
| Net Change in Fund Balances | 148,122 | 8,522 | 41,809 |
| Fund Balances - Beginning of Year | 516,386 | 53,280 | 377,136 |
| Fund Balances - End of Year | $ 664,508 | $ 61,802 | $ 418,945 |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

| Other Public Protection | Teeter Plan Notes | Other Governmental Funds | Total Governmental Funds | |
|---|---|---|---|---|
| | | | | Revenues |
| $ -- | $ -- | $ 107,378 | $ 822,511 | Taxes |
| 38 | -- | 1,011 | 24,583 | Licenses, Permits, and Franchises |
| 11,609 | -- | 14,424 | 108,115 | Fines, Forfeitures and Penalties |
| 4,298 | 173 | 60,928 | 73,700 | Use of Money and Property |
| 21,695 | -- | 327,873 | 2,064,354 | Intergovernmental |
| 13,146 | -- | 15,463 | 480,023 | Charges for Services |
| 8,998 | 1 | 31,113 | 71,207 | Other |
| 59,784 | 174 | 558,190 | 3,644,493 | Total Revenues |
| | | | | Expenditures |
| | | | | Current |
| -- | 2,954 | 32,571 | 212,805 | General Government |
| 22,355 | -- | 19 | 1,230,878 | Public Protection |
| -- | -- | 7,640 | 102,732 | Public Ways and Facilities |
| -- | -- | 1,189 | 515,560 | Health and Sanitation |
| -- | -- | 178,916 | 1,030,404 | Public Assistance |
| -- | -- | 41,949 | 41,949 | Education |
| -- | -- | 98,001 | 98,001 | Recreation and Cultural Services |
| 10,634 | -- | 21,405 | 102,863 | Capital Outlay |
| | | | | Debt Service |
| -- | 37,548 | 34,507 | 104,756 | Principal Retirement |
| -- | 352 | 22,989 | 31,513 | Interest |
| 32,989 | 40,854 | 439,186 | 3,471,461 | Total Expenditures |
| 26,795 | (40,680) | 119,004 | 173,032 | Excess (Deficit) of Revenues Over Expenditures |
| | | | | Other Financing Sources (Uses) |
| 7,062 | -- | 94,359 | 338,055 | Transfers In |
| (33,758) | -- | (183,752) | (323,604) | Transfers Out |
| -- | 31,541 | -- | 31,541 | Debt Issued |
| -- | -- | 43 | 43 | Capital Leases |
| (26,696) | 31,541 | (89,350) | 46,035 | Total Other Financing Sources (Uses) |
| 99 | (9,139) | 29,654 | 219,067 | Net Change in Fund Balances |
| 145,861 | 61,644 | 813,317 | 1,967,624 | Fund Balances - Beginning of Year |
| $ 145,960 | $ 52,505 | $ 842,971 | $ 2,186,691 | Fund Balances - End of Year |

The Net Change in Fund Balances for governmental funds of $219,067 in the Statement of Revenues, Expenditures, and Changes in Fund Balances differs from the Change in Net Position for governmental activities of $243,251 reported in the government-wide Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

| | | |
|---|---|---|
| Net Change in Fund Balances – Total Governmental Funds | | $ 219,067 |
| When capital assets used in governmental activities are purchased or constructed in the current fiscal year, the resources expended for those assets are reported as expenditures in the governmental funds. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation or amortization expense. In addition, donations, transfers, gains or losses from sales and other disposals/acquisitions of capital assets are not reported in governmental funds. These assets, and their associated depreciation/amortization expense, must be reported or removed in the government-wide financial statements. The details of the expenditures for capital outlay, capital contributions, depreciation /amortization and other disposals/acquisitions of capital assets are as follows: | | |
| Expenditures for Capital Outlay: | | |
| Land | 3,345 | |
| Structures and Improvements and Construction in Progress | 74,305 | |
| Equipment | 19,062 | |
| Software | 155 | |
| Net of Gains/Losses on Capital Assets Dispositions | (19,765) | |
| Depreciation/Amortization Expense | (89,619) | |
| Capital Contributions | 9,261 | (3,256) |
| The issuance of long-term debt (e.g. bonds) is recorded as an other financing source in the governmental funds because it provides current financial resources. Similarly, the repayment of principal on long–term debt or the payment of other long-term liabilities is reported as an expenditure in the governmental funds because current financial resources have been consumed. Bond proceeds, net of payments to escrow agents and principal payments, are reported as financing sources in governmental funds and thus contribute to the change in fund balance. These transactions do not have any effect on net position in the government-wide financial statements. The details of the principal and other long-term liability payments and other financing sources are as follows: | | |
| Teeter Plan Notes Proceeds | (31,541) | |
| Arbitrage Rebate Addition | (201) | |
| Principal and Other Long-Term Liability Payments: | | |
| Bonds Payable | 52,055 | |
| Teeter Plan Notes Payable | 37,548 | |
| SARI Line Loans Payable | 11,133 | |
| Capital Lease Obligations | 3,978 | 72,972 |

(Dollar Amounts in Thousands)

| | | |
|---|---|---|
| Revenues related to prior years that are available in the current fiscal year are reported as revenue in the governmental funds. In contrast, revenues that are earned, but unavailable in the current year are deferred in the governmental funds. For government-wide reporting, revenue is recognized when earned, regardless of availability. The following amounts reflect the net effect of the timing differences for revenue recognition: | | |
| Government Mandated and Voluntary Nonexchange | (39,609) | |
| Property Tax Revenues | 381 | (39,228) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid. The following amounts represent the net effect of these differences in the treatment of long-term liabilities: | | |
| Accrued Interest Expense on Bonds Payable | 606 | |
| Amortization of Deferred Charges | 17,756 | |
| Compensated Employee Absences Expense | 606 | |
| OCERS Investment Income | 2,559 | |
| Estimated Litigation and Claims Expense | 5,000 | |
| Interest Accretion on Capital Appreciation Bonds | (10,410) | 16,117 |
| Internal service funds (ISF) are used by management to charge the costs of certain activities, such as insurance, transportation, and telephone services to individual governmental funds. The loss of internal service funds is eliminated in the Statement of Activities as an adjustment to the various functions to arrive at a break-even basis. Also, general or non-program revenues and expenses of the internal service funds are recorded in governmental activities. | | |
| Allocation of ISF's Operating Income to Governmental Activities, net of Business-Type Activities | 9,268 | |
| Consolidation of Nonoperating Revenues, Expenses and Transfers to Governmental Activities | 12,921 | 22,189 |
| For FY 2014-15, the Other Postemployment Benefits (OPEB) cost was $44,854, and the County contributed $41,181, which was deposited in the Retiree Medical Trust. The County contributed less than the required OPEB cost. Cumulatively, the County still has a net OPEB Asset. | | (3,673) |
| GASB Statement No. 68 requires an employer to record pension expense and employer contribution that affects the County's proportionate share of the net pension liability. | | (40,937) |
| Change in Net Position of Governmental Activities | | $ 243,251 |

**BUDGETARY COMPARISON STATEMENT**
**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Revenues and Other Financing Sources** | | | | |
| Taxes | $ 612,198 | $ 612,515 | $ 632,701 | $ 20,186 |
| Licenses, Permits, and Franchises | 19,934 | 21,174 | 21,147 | (27) |
| Fines, Forfeitures and Penalties | 34,795 | 35,631 | 83,024 | 47,393 |
| Use of Money and Property | 4,731 | 4,731 | 5,627 | 896 |
| Intergovernmental | 1,561,770 | 1,587,479 | 1,587,521 | 42 |
| Charges for Services | 432,797 | 438,726 | 421,269 | (17,457) |
| Other | 22,696 | 22,908 | 22,499 | (409) |
| Transfers In | 319,571 | 349,345 | 227,946 | (121,399) |
| Bond Issuance Proceeds | -- | 365,000 | 339,625 | (25,375) |
| Total Revenues and Other Financing Sources | 3,008,492 | 3,437,509 | 3,341,359 | (96,150) |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Assessor | 36,106 | 36,706 | 36,636 | 70 |
| Auditor-Controller | 14,766 | 14,840 | 14,301 | 539 |
| Board of Supervisors - 1st District | 955 | 955 | 833 | 122 |
| Board of Supervisors - 2nd District | 955 | 955 | 784 | 171 |
| Board of Supervisors - 3rd District | 955 | 955 | 981 | (26) |
| Board of Supervisors - 4th District | 955 | 955 | 967 | (12) |
| Board of Supervisors - 5th District | 955 | 955 | 933 | 22 |
| Capital Acquisition Financing | 5,857 | 5,857 | 5,840 | 17 |
| Capital Projects | 24,134 | 40,180 | 35,560 | 4,620 |
| CAPS Program | 11,425 | 11,425 | 11,861 | (436) |
| Clerk of the Board | 3,588 | 3,588 | 3,272 | 316 |
| County Counsel | 9,155 | 14,056 | 14,015 | 41 |
| County Executive Office | 18,899 | 19,068 | 16,682 | 2,386 |
| Data Systems Development Project | 9,099 | 9,099 | 3,951 | 5,148 |
| Employee Benefits | 1,574 | 1,574 | 1,186 | 388 |
| Human Resources | 5,637 | 5,574 | 4,956 | 618 |
| Internal Audit | 2,680 | 2,680 | 2,559 | 121 |
| IBM Mainframe | 3,171 | 3,171 | 3,171 | -- |
| IT Support Services | -- | 5 | 5 | -- |
| Miscellaneous | 18,066 | 13,066 | 9,104 | 3,962 |
| Office of Independent Review | 437 | 437 | 390 | 47 |
| Prepaid Pension Obligation | -- | 365,000 | 340,263 | 24,737 |
| Property Tax System Centralized O & M Support | 3,326 | 3,326 | 3,017 | 309 |
| Registrar of Voters | 14,018 | 16,642 | 15,062 | 1,580 |
| The Office of the Performance Audit | 772 | 772 | 729 | 43 |
| Treasurer-Tax Collector | 12,087 | 12,167 | 12,364 | (197) |
| Utilities | 23,358 | 24,012 | 22,960 | 1,052 |
| 2005 Lease Revenue Refunding Bonds | 34,486 | 45,853 | 45,853 | -- |
| 2005 Refunding Recovery Bonds | 18,433 | 18,433 | 18,433 | -- |
| Public Protection: | | | | |
| Alternate Defense | 5,587 | 5,587 | 4,355 | 1,232 |
| Building & Safety | 9,282 | 9,956 | 9,638 | 318 |
| Child Support Services | 58,100 | 58,100 | 55,448 | 2,652 |
| Clerk-Recorder | 14,172 | 14,237 | 13,778 | 459 |
| Detention Release | 1,618 | 1,618 | 1,322 | 296 |
| District Attorney | 125,348 | 133,723 | 133,484 | 239 |
| Emergency Management Division | 2,966 | 3,008 | 2,752 | 256 |
| Grand Jury | 510 | 510 | 476 | 34 |
| Juvenile Justice Commission | 171 | 171 | 165 | 6 |
| Probation | 176,892 | 180,195 | 161,424 | 18,771 |
| District Attorney-Public Administrator | 2,063 | 2,672 | 1,888 | 784 |
| HCA Public Guardian | 5,739 | 6,256 | 5,572 | 684 |
| Public Defender | 73,357 | 73,357 | 70,727 | 2,630 |
| Sheriff-Coroner | 546,711 | 565,333 | 555,163 | 10,170 |
| Sheriff-Coroner Communications | 10,282 | 11,242 | 10,332 | 910 |
| Sheriff Court Operations | 53,386 | 53,386 | 51,252 | 2,134 |
| Trial Courts | 63,965 | 64,219 | 64,122 | 97 |
| Public Ways and Facilities: | | | | |
| OC Public Works | 48,017 | 47,308 | 44,450 | 2,858 |
| Health and Sanitation: | | | | |
| Health Care Agency | 606,886 | 597,980 | 526,049 | 71,931 |
| OC Watersheds | 16,008 | 16,414 | 11,730 | 4,684 |
| Public Assistance: | | | | |
| Aid to Families with Dependent Children - Foster Care | 121,480 | 121,480 | 115,161 | 6,319 |
| Aid to Refugees | 675 | 675 | 496 | 179 |
| California Works Opportunities and Responsibility to Kids | 135,005 | 135,005 | 134,720 | 285 |
| OC Community Resources | 72,421 | 73,038 | 53,610 | 19,428 |
| General Relief | 6,944 | 14,044 | 12,605 | 1,439 |
| In-Home Supportive Services - IHSS | 44,738 | 46,038 | 45,638 | 400 |
| Social Services Agency | 538,680 | 551,264 | 508,194 | 43,070 |
| Total Expenditures and Other Financing Uses | 3,016,852 | 3,459,122 | 3,221,219 | 237,903 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (8,360) | (21,613) | 120,140 | $ 141,753 |
| Fund Balances - Beginning of Year | 518,656 | 518,656 | 518,656 | |
| Fund Balances - End of Year | $ 510,296 | $ 497,043 | $ 638,796 | |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

**BUDGETARY COMPARISON STATEMENT**
**MAJOR GOVERNMENTAL FUNDS - ROADS**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Revenues and Other Financing Sources** | | | | |
| Licenses, Permits, and Franchises | $ 405 | $ 405 | $ 333 | $ (72) |
| Fines, Forfeitures and Penalties | 8 | 8 | 7 | (1) |
| Use of Money and Property | 257 | 257 | 272 | 15 |
| Intergovernmental | 93,632 | 93,632 | 79,075 | (14,557) |
| Charges for Services | 54,570 | 61,199 | 28,628 | (32,571) |
| Other | 724 | 724 | 1,309 | 585 |
| Transfers In | 5,000 | 5,000 | -- | (5,000) |
| Total Revenues and Other Financing Sources | 154,596 | 161,225 | 109,624 | (51,601) |
| **Expenditures and Other Financing Uses** | | | | |
| Public Ways and Facilities: | | | | |
| OC Road | 130,055 | 134,055 | 92,286 | 41,769 |
| Foothill Circulation Phasing Plan | 1,064 | 927 | 499 | 428 |
| South County Roadway Improve Prog (SCRIP) | 15,300 | 32,040 | -- | 32,040 |
| Total Expenditures and Other Financing Uses | 146,419 | 167,022 | 92,785 | 74,237 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 8,177 | (5,797) | 16,839 | $ 22,636 |
| Fund Balances - Beginning of Year | 60,104 | 60,104 | 60,104 | |
| Fund Balances - End of Year | $ 68,281 | $ 54,307 | $ 76,943 | |

**BUDGETARY COMPARISON STATEMENT**
**MAJOR GOVERNMENTAL FUNDS - FLOOD CONTROL DISTRICT**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Revenues and Other Financing Sources** | | | | |
| Taxes | $ 80,053 | $ 80,053 | $ 85,837 | $ 5,784 |
| Licenses, Permits, and Franchises | 448 | 448 | 269 | (179) |
| Fines, Forfeitures and Penalties | 11 | 11 | 12 | 1 |
| Use of Money and Property | 2,340 | 2,340 | 2,667 | 327 |
| Intergovernmental | 23,276 | 23,276 | 40,311 | 17,035 |
| Charges for Services | 14,801 | 14,879 | 14,291 | (588) |
| Other | 2,312 | 2,312 | 14,185 | 11,873 |
| Transfers In | 1,205 | 2,548 | 2,548 | -- |
| Total Revenues and Other Financing Sources | 124,446 | 125,867 | 160,120 | 34,253 |
| **Expenditures and Other Financing Uses** | | | | |
| Public Protection: | | | | |
| OC Flood | 134,100 | 138,090 | 97,655 | 40,435 |
| OC Santa Ana River | 70 | 70 | -- | 70 |
| OC Flood - Capital | 45,689 | 45,689 | 23,657 | 22,032 |
| Total Expenditures and Other Financing Uses | 179,859 | 183,849 | 121,312 | 62,537 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (55,413) | (57,982) | 38,808 | $ 96,790 |
| Fund Balances - Beginning of Year | 376,132 | 376,132 | 376,132 | |
| Fund Balances - End of Year | $ 320,719 | $ 318,150 | $ 414,940 | |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

**BUDGETARY COMPARISON STATEMENT**
**MAJOR GOVERNMENTAL FUNDS - OTHER PUBLIC PROTECTION**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Revenues and Other Financing Sources** | | | | |
| Licenses, Permits, and Franchises | $ -- | $ -- | $ 38 | $ 38 |
| Fines, Forfeitures and Penalties | 2,817 | 2,817 | 5,108 | 2,291 |
| Use of Money and Property | 3,059 | 4,360 | 4,142 | (218) |
| Intergovernmental | 22,053 | 22,719 | 22,232 | (487) |
| Charges for Services | 9,587 | 9,688 | 13,146 | 3,458 |
| Other | 10,253 | 10,297 | 8,988 | (1,309) |
| Transfers In | 3,457 | 9,825 | 9,296 | (529) |
| Total Revenues and Other Financing Sources | 51,226 | 59,706 | 62,950 | 3,244 |
| **Expenditures and Other Financing Uses** | | | | |
| Public Protection: | | | | |
| Orange County Methamphetamine Lab Investigation Team | 1,029 | 1,029 | 256 | 773 |
| County Automated Fingerprint Identification | 1,368 | 1,443 | 1,161 | 282 |
| Building and Safety - Operating Reserve | 1,099 | 1,099 | 187 | 912 |
| Narcotic Forfeiture and Seizure | 415 | 415 | 341 | 74 |
| Sheriff-Regional Narcotics Suppression Program | 12,094 | 11,022 | 2,651 | 8,371 |
| Motor Vehicle Theft Task Force | 3,041 | 3,075 | 2,847 | 228 |
| Regional Narcotic Suppression Program-Dept of Treasury | -- | 224 | 136 | 88 |
| Regional Narcotic Suppression Program-Other | -- | 1,353 | 1,266 | 87 |
| Clerk Recorder Special Revenue | 16,432 | 16,432 | 6,482 | 9,950 |
| Clerk Recorder Operating Reserve | 2,048 | 1,852 | 1 | 1,851 |
| Real Estate Prosecution | 1,534 | 1,534 | 1,521 | 13 |
| Proposition 64 - Consumer Protection | 3,460 | 3,460 | 3,219 | 241 |
| Proposition 69 - DNA Identification | 684 | 1,439 | 468 | 971 |
| Juvenile Justice Reform | 3 | 3,296 | 3,296 | -- |
| Traffic Violator | 1,012 | 1,160 | 203 | 957 |
| Sheriff Narcotics Program-Dept of Treasury | -- | 15 | -- | 15 |
| Sheriff Narcotics Program-Dept of Justice | 9,984 | 12,198 | 3,615 | 8,583 |
| Sheriff Narcotics Program-Other | -- | 266 | 223 | 43 |
| Orange County Jail | 1,591 | 2,582 | 952 | 1,630 |
| Sheriff Narcotics Program-CALMMET-DOJ | -- | 574 | -- | 574 |
| Sheriff Narcotics Program-CALMMET-Treasury | -- | 709 | 166 | 543 |
| Sheriff's State Criminal Alien Assistance Program | 3,206 | 3,209 | 2,103 | 1,106 |
| California Automated Fingerprint Identification Operational Costs | 1,022 | 1,022 | 795 | 227 |
| California Automated Fingerprint Identification Systems Costs | 23,809 | 27,510 | 3,952 | 23,558 |
| Sheriff's Supplemental Law Enforcement Services | 1,973 | 3,068 | 902 | 2,166 |
| District Attorney's Supplemental Law Enforcement Services | 931 | 1,050 | 1,050 | -- |
| Excess Public Safety Sales Tax | 6,242 | 9,790 | 6,509 | 3,281 |
| Equitable Sharing Forfeiture Program | -- | 2 | 2 | -- |
| Sheriff-Coroner Replacement and Maintenance | 14,121 | 14,757 | 2,844 | 11,913 |
| Ward Welfare | 175 | 175 | 152 | 23 |
| Court Facilities | 1,315 | 1,352 | -- | 1,352 |
| Sheriff's Substations Fee Program | 3,318 | 3,318 | 2 | 3,316 |
| Jail Commissary | 9,454 | 10,311 | 7,453 | 2,858 |
| Inmate Welfare | 9,331 | 11,107 | 4,346 | 6,761 |
| Child Support Program Development | 2,491 | 2,491 | 339 | 2,152 |
| 800 MHz County-Wide Coordinated Communications System | 4,159 | 10,167 | 8,719 | 1,448 |
| Delta Special Revenue | 28 | 28 | 7 | 21 |
| Total Expenditures and Other Financing Uses | 137,369 | 164,534 | 68,166 | 96,368 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (86,143) | (104,828) | (5,216) | $ 99,612 |
| Fund Balances - Beginning of Year | 137,073 | 137,073 | 137,073 | |
| Fund Balances - End of Year | $ 50,930 | $ 32,245 | $ 131,857 | |

| | Business-Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Airport | Waste Management | Compressed Natural Gas (Nonmajor) | Total | Governmental Activities - Internal Service Funds |
| **ASSETS** | | | | | |
| Current Assets | | | | | |
| Pooled Cash/Investments | $ 125,672 | $ 394,033 | $ 476 | $ 520,181 | $ 213,905 |
| Cash Equivalents/Specific Investments | 20,755 | -- | -- | 20,755 | -- |
| Cash/Cash Equivalents | 8,335 | -- | -- | 8,335 | -- |
| Imprest Cash Funds | 14 | 35 | -- | 49 | 133 |
| Restricted Cash and Investments with Trustee | 12,573 | -- | -- | 12,573 | 10 |
| Restricted Pooled Cash/Investments | 70,707 | 544 | -- | 71,251 | -- |
| Deposits In-Lieu of Cash | 27,526 | 16,616 | -- | 44,142 | -- |
| Receivables | | | | | |
| Accounts | 4,011 | 9,525 | -- | 13,536 | 137 |
| Passenger Facility Charges | 1,906 | -- | -- | 1,906 | -- |
| Interest/Dividends | 433 | 692 | 2 | 1,127 | 300 |
| Deposits | -- | 100 | -- | 100 | -- |
| Pollution Remediation Obligation Recoveries | 299 | -- | -- | 299 | -- |
| Allowance for Uncollectible Receivables | (5) | (1) | -- | (6) | (91) |
| Due from Other Funds | 11 | 1,061 | 2 | 1,074 | 2,657 |
| Due from Other Governmental Agencies | 3,673 | 2,542 | -- | 6,215 | 586 |
| Inventory of Materials and Supplies | -- | -- | -- | -- | 453 |
| Prepaid Costs | 1,923 | 2,223 | -- | 4,146 | 1,657 |
| Total Current Assets | 277,833 | 427,370 | 480 | 705,683 | 219,747 |
| Noncurrent Assets | | | | | |
| Restricted Cash and Investments with Trustee | 13,821 | -- | -- | 13,821 | -- |
| Restricted Pooled Cash/Investments | -- | 9,285 | -- | 9,285 | -- |
| Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs | -- | 90,201 | -- | 90,201 | -- |
| Specific Investments | 29,182 | -- | -- | 29,182 | -- |
| Advances to Other Funds | -- | 2,351 | -- | 2,351 | -- |
| Capital Assets: | | | | | |
| Land | 15,678 | 22,164 | -- | 37,842 | -- |
| Construction in Progress | 24,220 | 49,868 | -- | 74,088 | 824 |
| Intangible Assets in Progress | 812 | 67 | -- | 879 | -- |
| Structures and Improvements | 741,638 | 24,409 | -- | 766,047 | 11,788 |
| Accumulated Depreciation | (248,388) | (10,548) | -- | (258,936) | (5,807) |
| Equipment | 12,205 | 66,308 | -- | 78,513 | 115,167 |
| Accumulated Depreciation | (9,270) | (47,245) | -- | (56,515) | (70,639) |
| Infrastructure | 223,492 | 312,899 | -- | 536,391 | -- |
| Accumulated Depreciation | (173,358) | (170,666) | -- | (344,024) | -- |
| Intangible Assets - Amortizable | 418 | 592 | -- | 1,010 | -- |
| Accumulated Amortization | (56) | (63) | -- | (119) | -- |
| Total Capital Assets | 587,391 | 247,785 | -- | 835,176 | 51,333 |
| Total Noncurrent Assets | 630,394 | 349,622 | -- | 980,016 | 51,333 |
| Total Assets | 908,227 | 776,992 | 480 | 1,685,699 | 271,080 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Deferred Outflows of Resources Related to Pension | 6,301 | 7,974 | -- | 14,275 | 6,417 |
| Total Deferred Outflows of Resources | 6,301 | 7,974 | -- | 14,275 | 6,417 |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

| | Business-Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Airport | Waste Management | Compressed Natural Gas (Nonmajor) | Total | Governmental Activities - Internal Service Funds |
| **LIABILITIES** | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | $ 7,534 | $ 10,107 | $ -- | $ 17,641 | $ 26,566 |
| Retainage Payable | 282 | 1,896 | -- | 2,178 | 3 |
| Salaries and Employee Benefits Payable | 896 | 1,173 | -- | 2,069 | 901 |
| Unearned Revenue | 3,068 | 93 | -- | 3,161 | -- |
| Due to Other Funds | 2,648 | 5,554 | 16 | 8,218 | 820 |
| Due to Other Governmental Agencies | 195 | 2,982 | -- | 3,177 | 5 |
| Insurance Claims Payable | -- | -- | -- | -- | 51,836 |
| Compensated Employee Absences Payable | 1,041 | 1,237 | -- | 2,278 | 971 |
| Pollution Remediation Obligation | 55 | 459 | -- | 514 | -- |
| Landfill Site Closure/Postclosure Liability | -- | 1,319 | -- | 1,319 | -- |
| Bonds Payable | 7,409 | -- | -- | 7,409 | -- |
| Capital Lease Obligations Payable | -- | -- | -- | -- | 6,900 |
| Interest Payable | 5,249 | -- | -- | 5,249 | -- |
| Deposits from Others | 28,600 | 17,290 | -- | 45,890 | -- |
| Total Current Liabilities | 56,977 | 42,110 | 16 | 99,103 | 88,002 |
| Noncurrent Liabilities | | | | | |
| Insurance Claims Payable | -- | -- | -- | -- | 155,741 |
| Compensated Employee Absences Payable | 1,112 | 1,499 | -- | 2,611 | 1,133 |
| Pollution Remediation Obligation | 939 | 11,279 | -- | 12,218 | -- |
| Landfill Site Closure/Postclosure Liability | -- | 157,726 | -- | 157,726 | -- |
| Bonds Payable | 195,127 | -- | -- | 195,127 | -- |
| Capital Lease Obligations Payable | -- | -- | -- | -- | 13,800 |
| Net Pension Liability | 37,012 | 46,372 | -- | 83,384 | 37,220 |
| Total Noncurrent Liabilities | 234,190 | 216,876 | -- | 451,066 | 207,894 |
| Total Liabilities | 291,167 | 258,986 | 16 | 550,169 | 295,896 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Deferred Inflows of Resources Related to Pension | 3,743 | 4,686 | -- | 8,429 | 3,763 |
| Total Deferred Inflows of Resources | 3,743 | 4,686 | -- | 8,429 | 3,763 |
| **NET POSITION** | | | | | |
| Net Investment in Capital Assets | 394,642 | 247,785 | -- | 642,427 | 51,333 |
| Restricted for: | | | | | |
| Debt Service | 7,324 | -- | -- | 7,324 | -- |
| Passenger Facility Charges Approved Capital Projects | 70,538 | -- | -- | 70,538 | -- |
| Capital Projects - Replacements and Renewals | 1,000 | -- | -- | 1,000 | -- |
| Landfill Closure/Postclosure | -- | 33,337 | -- | 33,337 | -- |
| Landfill Corrective Action | -- | 8,174 | -- | 8,174 | -- |
| Wetland | -- | 879 | -- | 879 | -- |
| Prima Deshecha/La Pata Closure | -- | 104 | -- | 104 | -- |
| Unrestricted | 146,114 | 231,015 | 464 | 377,593 | (73,495) |
| Total Net Position | $ 619,618 | $ 521,294 | $ 464 | $ 1,141,376 | $ (22,162) |
| Adjustment to Reflect the Consolidation of Internal Service Funds' Activities Related to Enterprise Funds | | | | 475 | |
| Cumulative Effect of Prior Years' Internal Service Funds Allocation | | | | (15,522) | |
| Net Position of Business-type Activities | | | | $ 1,126,329 | |

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**PROPRIETARY FUNDS**
**(Dollar Amounts in Thousands)**

| | Business-Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Airport | Waste Management | Compressed Natural Gas (Nonmajor) | Total | Governmental Activities - Internal Service Funds |
| Operating Revenues | | | | | |
| Use of Property | $ 105,586 | $ 3,737 | $ -- | $ 109,323 | $ 1,970 |
| Licenses, Permits, and Franchises | -- | 64 | -- | 64 | -- |
| Charges for Services | 16,862 | 135,675 | 312 | 152,849 | 88,104 |
| Insurance Premiums | -- | -- | -- | -- | 297,564 |
| Total Operating Revenues | 122,448 | 139,476 | 312 | 262,236 | 387,638 |
| Operating Expenses | | | | | |
| Salaries and Employee Benefits | 19,142 | 25,111 | -- | 44,253 | 18,665 |
| Services and Supplies | 25,766 | 21,063 | 262 | 47,091 | 31,171 |
| Professional Services | 37,581 | 16,014 | 68 | 53,663 | 45,471 |
| Operating Leases | 258 | 849 | 1 | 1,108 | 2,472 |
| Insurance Claims and Premiums | -- | -- | -- | -- | 275,732 |
| Pollution Remediation Expense | -- | (609) | -- | (609) | -- |
| Other Charges | -- | -- | -- | -- | 196 |
| Taxes and Other Fees | -- | 11,855 | -- | 11,855 | 10 |
| Landfill Site Closure/Postclosure Costs | -- | (19,746) | -- | (19,746) | -- |
| Depreciation/Amortization | 28,561 | 14,770 | -- | 43,331 | 4,178 |
| Total Operating Expenses | 111,308 | 69,307 | 331 | 180,946 | 377,895 |
| Operating Income | 11,140 | 70,169 | (19) | 81,290 | 9,743 |
| Nonoperating Revenues (Expenses) | | | | | |
| Fines, Forfeitures and Penalties | 164 | 17 | -- | 181 | -- |
| Intergovernmental Revenues | 189 | 66 | -- | 255 | 1,115 |
| Interest Revenue | 913 | 2,127 | 2 | 3,042 | 778 |
| Interest Expense | (9,697) | -- | -- | (9,697) | -- |
| Gain (Loss) on Disposition of Capital Assets | (4,067) | 6 | -- | (4,061) | 212 |
| Passenger Facility Charges Revenue | 18,951 | -- | -- | 18,951 | -- |
| Other Taxes | -- | -- | 109 | 109 | -- |
| Other Revenue, Net | 852 | 558 | -- | 1,410 | 5,196 |
| Total Nonoperating Revenues | 7,305 | 2,774 | 111 | 10,190 | 7,301 |
| Income Before Contributions and Transfers | 18,445 | 72,943 | 92 | 91,480 | 17,044 |
| Capital Grant Contributions | 9,215 | -- | -- | 9,215 | -- |
| Capital Contributions | -- | -- | -- | -- | 112 |
| Transfers In | -- | -- | -- | -- | 5,758 |
| Transfers Out | -- | (19,810) | (149) | (19,959) | (250) |
| Change in Net Position | 27,660 | 53,133 | (57) | 80,736 | 22,664 |
| Net Position - Beginning of Year, as Previously Reported | 627,698 | 512,943 | 521 | | (9,033) |
| Adjustment Due to Change in Accounting Principle | (35,740) | (44,782) | -- | | (35,793) |
| Net Position - Beginning of Year, as Restated | 591,958 | 468,161 | 521 | | (44,826) |
| Net Position - End of Year | $ 619,618 | $ 521,294 | $ 464 | | $ (22,162) |
| Adjustment to Reflect the Consolidation of Internal Service Funds' Activities Related to Enterprise Funds | | | | 475 | |
| Increase in Net Position of Business-Type Activities | | | | $ 81,211 | |

The notes to the basic financial statements are an integral part of this statement.

| | Business-Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Airport | Waste Management | Compressed Natural Gas (Nonmajor) | Total | Governmental Activities - Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from Customers | $ 121,933 | $ 138,514 | $ 312 | $ 260,759 | $ 90,719 |
| Cash Received for Premiums within the County's Entity | -- | -- | -- | -- | 297,564 |
| Payments to Suppliers for Goods and Services | (64,442) | (35,213) | (331) | (99,986) | (330,423) |
| Payments to Employees for Services | (18,705) | (24,854) | -- | (43,559) | (19,620) |
| Payments for Interfund Services | -- | 4,763 | (15) | 4,748 | (2,178) |
| Receipts for Interfund Services Used | (64) | -- | -- | (64) | 231 |
| Landfill Site Closure/Postclosure Care Costs | -- | (1,319) | -- | (1,319) | -- |
| Taxes and Other Fees | -- | (11,855) | -- | (11,855) | (10) |
| Other Operating Receipts (Payments) - Net | 1,106 | (190) | -- | 916 | 2,520 |
| Net Cash Provided (Used) by Operating Activities | 39,828 | 69,846 | (34) | 109,640 | 38,803 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfers In | -- | -- | -- | -- | 5,758 |
| Transfers Out | -- | (19,810) | (149) | (19,959) | (250) |
| Intergovernmental Revenues | 494 | 66 | -- | 560 | 1,115 |
| Other Taxes | -- | -- | 109 | | |
| Advances to Other Funds | -- | 783 | -- | 783 | -- |
| Net Cash Provided (Used) by Noncapital Financing Activities | 494 | (18,961) | (40) | (18,616) | 6,623 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition of Capital Assets | (19,109) | (34,247) | -- | (53,356) | (14,188) |
| Principal Paid on Bonds | (6,995) | -- | -- | (6,995) | -- |
| Interest Paid on Long-Term Debt | (10,603) | -- | -- | (10,603) | -- |
| Capital Grant Contributions | 9,675 | -- | -- | 9,675 | -- |
| Passenger Facility Charges Received | 18,982 | -- | -- | 18,982 | -- |
| Proceeds from Sale of Capital Assets | 12 | 6 | -- | 18 | -- |
| Net Cash Used by Capital and Related Financing Activities | (8,038) | (34,241) | -- | (42,279) | (14,188) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest on Investments | 731 | 1,846 | 3 | 2,580 | 633 |
| Purchase of Investments | (7,380) | -- | -- | (7,380) | -- |
| Net Cash Provided (Used) by Investing Activities | (6,649) | 1,846 | 3 | (4,800) | 633 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 25,635 | 18,490 | (71) | 44,054 | 31,871 |
| Cash and Cash Equivalents - Beginning of Year | 212,421 | 475,608 | 547 | 688,576 | 182,177 |
| Cash and Cash Equivalents - End of Year | $ 238,056 | $ 494,098 | $ 476 | $ 732,630 | $ 214,048 |

(Dollar Amounts in Thousands)

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|---|
| | Airport | Waste Management | Compressed Natural Gas (Nonmajor) | Total | |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | | |
| Operating Income | $ 11,140 | $ 70,169 | $ (19) | $ 81,290 | $ 9,743 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | | |
| Depreciation/Amortization | 28,561 | 14,770 | -- | 43,331 | 4,178 |
| Fines, Forfeitures and Penalties | 164 | 17 | -- | 181 | -- |
| Other Revenue | 902 | 558 | -- | 1,460 | 5,196 |
| (Increases) Decreases In: | | | | | |
| Deposits In-Lieu of Cash | (211) | 17 | -- | (194) | -- |
| Accounts Receivable (Net of Allowances) | 687 | (474) | 2 | 215 | 125 |
| Due from Other Funds | (10) | 2,969 | -- | 2,959 | (14) |
| Due from Other Governmental Agencies | (4) | (457) | -- | (461) | 512 |
| Inventory of Materials and Supplies | -- | -- | -- | -- | 36 |
| Prepaid Costs | 1,457 | 2,102 | -- | 3,559 | 1,559 |
| Deferred Outflows and Inflows of Resources from Pension Contributions | (3,490) | (4,453) | -- | (7,943) | (3,590) |
| Increases (Decreases) In: | | | | | |
| Accounts Payable | (479) | 630 | -- | 151 | 16,068 |
| Retainage Payable | (230) | 1,279 | -- | 1,049 | 3 |
| Salaries and Employee Benefits Payable | 244 | 345 | -- | 589 | 262 |
| Unearned Revenue | (930) | 13 | -- | (917) | -- |
| Due to Other Funds | (54) | 1,794 | (17) | 1,723 | (1,933) |
| Due to Other Governmental Agencies | (235) | (44) | -- | (279) | (193) |
| Insurance Claims Payable | -- | -- | -- | -- | 4,478 |
| Compensated Employee Absences Payable | (106) | (88) | -- | (194) | 7 |
| Pollution Remediation Obligation | (64) | (942) | -- | (1,006) | -- |
| Deposits from Others | 282 | (48) | -- | 234 | -- |
| Net Pension Liability from Portion Related to Pension Contributions and Expenses | 2,204 | 2,755 | -- | 4,959 | 2,366 |
| Landfill Site Closure/ Postclosure Liability | -- | (21,066) | -- | (21,066) | -- |
| Total Adjustments | 28,688 | (323) | (15) | 28,350 | 29,060 |
| Net Cash Provided by Operating Activities | $ 39,828 | $ 69,846 | $ (34) | $ 109,640 | $ 38,803 |
| Reconciliation of Cash and Cash Equivalents to Statement of Net Position Accounts | | | | | |
| Pooled Cash/Investments | $ 125,672 | $ 394,033 | $ 476 | $ 520,181 | $ 213,905 |
| Cash Equivalents/Specific Investments | 20,755 | -- | -- | 20,755 | -- |
| Cash/Cash Equivalents | 8,335 | -- | -- | 8,335 | -- |
| Imprest Cash Funds | 14 | 35 | -- | 49 | 133 |
| Restricted Cash and Investments with Trustee | 12,573 (1) | -- | -- | 12,573 | 10 |
| Restricted Pooled Cash/Investments | 70,707 | 9,829 | -- | 80,536 | -- |
| Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs | -- | 90,201 | -- | 90,201 | -- |
| Total Cash and Cash Equivalents | $ 238,056 | $ 494,098 | $ 476 | $ 732,630 | $ 214,048 |

Schedule of Noncash Investing, Capital, and Financing Activities:
- The Information & Technology Internal Service Fund received $112 of capital contribution from the General Fund.
- The Internal Service Funds gained $212 on disposition of capital assets.
- Airport had a $4,067 loss on disposition of capital assets.
- Waste Management gained $6 on disposition of capital assets.
- The Internal Service Funds' acquisition of capital assets with accounts payable is $16,148.
- Airport's acquisition of capital assets with accounts payable is $4,035.
- Waste Management's acquisition of capital assets with accounts payable is $4,104.

(1) Does not include $13,821 from Airport's nonliquid Restricted Cash and Investments with Trustee.

## STATEMENT OF FIDUCIARY NET POSITION
## FIDUCIARY FUNDS

| | Private-Purpose Trust Funds | Investment Trust Funds | Pension and Other Post-Employment Benefit Trust Funds | Agency Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Pooled Cash/Investments | $ 57,364 | $ 4,098,725 | $ 9,297 | $ 338,086 |
| Cash/Cash Equivalents | -- | -- | -- | 326 |
| Restricted Cash and Investments | | | | |
| Restricted Investments with Trustee | | | | |
| Money Market Mutual Funds | 4,630 | -- | 84,194 | 31,075 |
| Mutual Bond Funds | -- | -- | 2,017 | -- |
| Stable Value Fund | -- | -- | 7,597 | -- |
| Restricted Cash with Orange County Employees Retirement System (OCERS) | -- | -- | 206,118 | -- |
| Total Restricted Cash and Investments | 4,630 | -- | 299,926 | 31,075 |
| Investments | -- | -- | -- | 1,082 |
| Deposits In-Lieu of Cash | -- | -- | -- | 19,247 |
| Receivables | | | | |
| Accounts | -- | -- | -- | 3 |
| Taxes | -- | -- | -- | 317,620 |
| Interest/Dividends | 143 | 7,143 | 28 | 7,328 |
| Allowance for Uncollectible Receivables | -- | -- | -- | (154,807) |
| Due from Other Governmental Agencies | 2 | -- | 2,788 | 5,565 |
| Land and Improvements Held for Resale | 619 | -- | -- | -- |
| Notes Receivable | -- | -- | -- | 30,376 |
| Total Assets | 62,758 | 4,105,868 | 312,039 | 595,901 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred Charge on Refunding | 305 | -- | -- | -- |
| Total Deferred Outflows of Resources | 305 | -- | -- | -- |
| **LIABILITIES** | | | | |
| Salaries and Employee Benefits Payable | -- | -- | 8 | -- |
| Bonds Payable | 33,628 | -- | -- | -- |
| Interest Payable | 429 | -- | -- | 6,015 |
| Deposits from Others | -- | -- | -- | 30,386 |
| Monies Held for Others | -- | -- | -- | 155,775 |
| Due to Other Governmental Agencies | 644 | 293 | -- | 50,808 |
| Unapportioned Taxes | -- | -- | -- | 352,917 |
| Total Liabilities | 34,701 | 293 | 8 | 595,901 |
| **NET POSITION** | | | | |
| Restricted for Pension Benefits and Other Purposes | 28,362 | 4,105,575 | 312,031 | -- |
| Total Net Position | $ 28,362 | $ 4,105,575 | $ 312,031 | $ -- |

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**FIDUCIARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2015**

| | Private-Purpose Trust Funds | Investment Trust Funds | Pension and Other Post-Employment Benefit Trust Funds |
|---|---|---|---|
| Additions: | | | |
| Contributions to Pension and Other Postemployment Benefit Trust Funds: | | | |
| Employer | $ -- | $ -- | $ 51,126 |
| Employee | -- | -- | 3,816 |
| Contributions to Pooled Investments | -- | 7,668,230 | -- |
| Contributions to Private-Purpose Trust | 83,033 | -- | -- |
| Intergovernmental Revenues | 17,568 | -- | -- |
| Other Revenues | 786 | 71 | -- |
| Interest and Investment Income | 112 | 17,947 | 6,728 |
| Less: Investment Expense | (7) | (2,926) | (244) |
| Total Additions | 101,492 | 7,683,322 | 61,426 |
| Deductions: | | | |
| Benefits Paid to Participants | -- | -- | 33,628 |
| Distributions from Pooled Investments | -- | 7,059,092 | -- |
| Distributions from Private-Purpose Trust | 78,892 | -- | -- |
| Professional Services/Administrative Expense | 274 | -- | 37 |
| Bond Issuance Costs | 183 | -- | -- |
| Tax Pass-Throughs | 4,000 | -- | -- |
| Interest Expense | 1,539 | -- | -- |
| Total Deductions | 84,888 | 7,059,092 | 33,665 |
| Change in Net Position: | | | |
| Private-Purpose Trust | 16,604 | -- | -- |
| External Investment Pool | -- | 624,230 | -- |
| Employees' Pension and Other Post-Employment Benefits | -- | -- | 27,761 |
| Net Position, Beginning of Year | 11,758 | 3,481,345 | 284,270 |
| Net Position, End of Year | $ 28,362 | $ 4,105,575 | $ 312,031 |

COUNTY OF ORANGE
CALIFORNIA

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the County of Orange:

### A. Reporting Entity

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors (the Board), which, as the governing body, is responsible for the legislative and executive control of the County. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles (GAAP) in the United States of America, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the Board is typically their governing body. Therefore, data from these component units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity*," Statement No. 39, *"Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14,"* and Statement No. 61, "*The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34"* to determine whether the component units should be reported as blended or discretely presented component units. The criteria included whether the County appoints the voting majority, there is a financial benefit/burden relationship, the County is able to impose its will, the component unit is fiscally dependent on the County, the component unit's governing body is substantially the same as the County, and management of the County have operational responsibility for the activities of the component unit. These criteria were used to determine the following:

#### Blended Component Units

Orange County Flood Control District  The governing body of the District is the County's governing body. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and appoints the management. The District is reported in governmental fund types.

Orange County Housing Authority  The governing body of the Authority is the County's governing body. Among its duties, it approves the Authority's budget and policies that govern the administration of housing assistance programs and appoints the management. The Authority is reported in governmental fund types.

Orange County Public Financing Authority  The Authority is a joint powers authority of the County and the Orange County Development Agency (OCDA), formed to provide financial assistance to the County by financing the acquisition, construction and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types. With the passage of ABX1 26 dissolving redevelopment agencies statewide effective February 1, 2012, the Authority will not issue any new debt.

South Orange County Public Financing Authority  The Authority is a joint powers authority of the County and Community Facilities District 88-2 of the County of Orange (Lomas Laguna), formed to provide for the financing of public capital improvements. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### A. Reporting Entity (Continued)

#### Blended Component Units (Continued)

Orange County Public Facilities Corporation The Corporation has its own five member governing body appointed by the County's governing body and provides services entirely to the primary government, the County, through the purchase, construction or leasing of land and/or facilities, which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts (special districts) is the County's governing body. Among its duties, it approves the special districts' budgets, and approves parcel fees, special assessments and special taxes. The special districts are reported in governmental fund types.

In-Home Supportive Services (IHSS) Public Authority The governing body of the Authority is the County's governing body. The Public Authority was established by the Board to act as the employer of record for the individual providers for the IHSS program. The duties of the Public Authority include collective bargaining for the individual providers, establishing a registry of providers, investigating the background of providers and providing training to both IHSS providers and consumers. The Authority is reported in governmental fund types.

#### Fiduciary Component Unit

Orange County Development Agency (OCDA) Redevelopment Successor Agency On January 24, 2012, the County elected to become the Successor Agency to the former OCDA in accordance with ABX1 26 (Dissolution Act). An Oversight Board was appointed to oversee the dissolution process. A Private-Purpose Trust Fund, administered by the County of Orange, was established to account for the assets and liabilities of the former OCDA. For additional information related to the activities of the Successor Agency and its on-going Enforceable Obligations, please refer to its separate financial statements. Copies of the Successor Agency's financial statements can be obtained from the OC Community Resources Department or by accessing Orange County's website at the following address: http://ac.ocgov.com/info/financial/

#### Discretely Presented Component Units

Children and Families Commission of Orange County The Commission is administered by a governing board of nine members, who are appointed by the Board. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County, funded by additional State taxes on tobacco products approved by California voters via Proposition 10 in November 1998. The Commission is presented as a discretely presented component unit of the County because, although the County Board has no control over the revenues, budgets, staff, or funding decisions made by the Commission, the appointed Commission members serve at the will of the Board members who appoint them. A separate stand-alone annual financial report can be obtained by writing to the Children and Families Commission of Orange County, 1505 E. 17th Street, Suite 230, Santa Ana, CA 92705, or by accessing Orange County's website at the following address: http://ac.ocgov.com/info/financial/

Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima) The Board established CalOptima in 1993. The governing board of CalOptima is comprised of eleven members and includes two County board members and one County board member alternate; all other members are appointed by the Board. This is a County organized health system whose purpose is to administer health insurance programs for low-income families, children, seniors, and persons with disabilities throughout the County. These programs

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (Cal Optima) (Continued)

include Medi-Cal, OneCare (HMO SNP), and Program of All-Inclusive Care for the Elderly (PACE). CalOptima is presented as a discretely presented component unit of the County because, although the County Board has no control over the revenues, budgets, staff, or funding decisions made by CalOptima, the appointed CalOptima members serve at the will of the Board members who appoint them. CalOptima will continue until such time as the Board takes action to terminate CalOptima. A separate stand-alone annual financial report can be obtained by writing to CalOptima, 505 City Parkway West, Orange, CA 92868. Alternately, you can access the website http://wpso.dmhc.ca.gov/fe/search/#top, and select the Health Plan "Orange County Health Authority" and statement type "Annual Audit Reports."

B. Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide and fund financial statements. The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements report long-term liabilities and capital assets. Depreciation/amortization expense and accumulated depreciation/amortization are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the current financial resources measurement focus. Fund financial statements are shown separately for specific major governmental funds, and in total for all other governmental funds. Fund financial statements for proprietary funds are reported under the accrual basis of accounting and the economic resources measurement focus. Major enterprise funds are shown separately, with internal service funds shown in total. Financial data for the internal service funds is included with the governmental funds for presentation in the government-wide financial statements. Fiduciary funds are displayed by category in the fund financial statements, but are not reported in the government-wide financial statements, because the assets of these funds are not available to the County.

Government-Wide Financial Statements

GASB Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB Statement No. 34), as amended by GASB Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* (GASB Statement No. 63), mandates the presentation of two basic government-wide financial statements:

- *Statement of Net Position*
- *Statement of Activities*

The scope of the government-wide financial statements is to report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are normally supported by taxes, intergovernmental revenues, other nonexchange revenues, and business-type activities, which are financed by fees charged to external parties for goods or services, are reported in separate columns with a combined total column presented for the primary government. Likewise, the primary government is reported separately from the legally separate

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. Government-Wide and Fund Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

component units, Children and Families Commission of Orange County and CalOptima, for which the primary government is financially accountable. The government-wide Statement of Net Position displays the financial position of the primary government, in this case, the County and its discretely presented component units. The Statement of Net Position reports the County's financial and capital resources, including infrastructure, as well as the County's long-term obligations. The difference between the County's assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources is its net position. Net position represents the resources that the County has available for use in providing services after its debt is settled.

These resources may not be readily available or spendable and consequently are classified into the following categories of net position in the government-wide financial statements:

- Net Investment in Capital Assets This amount is derived by subtracting the outstanding debts incurred by the County, including debt-related deferred outflows and inflows of resources, to buy or construct capital assets shown in the Statement of Net Position, net of depreciation.
- Restricted Net Position This category represents restrictions imposed on the use of the County's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. All of the County's net position restrictions are externally imposed by outside parties, constitutional provisions or enabling legislation. Examples of restricted net position include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2015, the County's governmental activities reported restricted net position of $1,202,658 restricted for pension benefits related to the Orange County Retirement System (OCERS) Investment Account, capital projects, legally segregated funds restricted for grants and other purpose, and regional park endowment. Restricted Net Position for business-type activities amounted to $121,356 and is restricted for the use of Airport and Waste Management activities, including debt service, passenger facility charges (PFC), replacements and renewals, landfill closure/postclosure, and landfill corrective action. At June 30, 2015, the County reported $70,538 of net position restricted by enabling legislation related to the Airport's PFC.
- Unrestricted Net Position These assets are resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a restricted fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net position. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues and the extent to which the function or segment is supported by general government revenues, such as property taxes, local unrestricted sales taxes, and investment earnings. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the programs where the revenue is earned. Program revenues include:

- *Charges and fees to customers or applicants for goods, services, or privileges provided, including fines, forfeitures, and penalties related to the program*
- *Operating grants and contributions*
- *Capital grants and contributions, including special assessments*

Taxes and other items such as unrestricted investment earnings not properly included among program revenues are reported instead as general revenues.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Government-Wide and Fund Financial Statements (Continued)

#### Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into a single column and all nonmajor proprietary funds aggregated into a single column. GASB Statement No. 34, as amended by GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities,” sets forth minimum criteria (specified minimum percentages of the assets plus deferred outflows, liabilities plus deferred inflows, revenues or expenditures/expenses of a fund category and of the governmental and enterprise funds combined) for the determination of major funds. In addition to funds that meet the minimum criteria, any other governmental or enterprise fund that the government believes is of particular importance to financial statement users may be reported as a major fund.

The County reports the following major governmental funds:

General Fund This fund accounts for resources traditionally associated with government and all other resources, which are not required legally, or by sound financial management, to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are primarily expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, capital outlay, and debt service.

Roads This fund accounts for proceeds restricted for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County’s share of state highway users’ taxes, federal funds, and charges for engineering services provided.

Flood Control District This fund accounts for the planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins, and other flood control infrastructure. Intergovernmental revenues, along with property taxes restricted for flood control activities, provide most of this fund’s revenues.

Other Public Protection This fund accounts for revenues restricted for safety and law enforcement activities such as the child support program, automated fingerprint identification systems, and investigation team. Revenues consist primarily of federal grants, state grants, fines, forfeitures, penalties, and charges for services.

Teeter Plan Notes This debt service fund accounts for the financing of the County’s purchase of delinquent taxes receivable pursuant to the Teeter Plan. The Teeter Plan is an alternate secured property tax distribution plan, whereby, the County distributes 100% of the local secured levy to the taxing agencies participating in the Teeter Plan and in exchange receives the right to keep the delinquent taxes, penalties, and interest.

The County reports the following proprietary enterprise funds:

Airport This major fund accounts for major construction and for self-supporting aviation-related activities rendered at John Wayne Airport, Orange County. The airport’s staff coordinates and administers general business activities related to the Airport, including concessions, commercial and general aviation operations, leased property, auto parking, and aircraft tie-down facilities.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Waste Management This major fund accounts for the operation, expansion, and closing of existing landfills. Monies are collected through landfill disposal fees, which users pay based primarily on tonnage.

Compressed Natural Gas (CNG) This nonmajor fund accounts for the operation and maintenance of the CNG facility. Revenues consist primarily of CNG sales to both the County and the public.

Additionally, the County reports the following fund types:

Internal Service Funds The County reports nine Internal Service Funds. These proprietary funds are used to account for the financing of services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis. The services provided by these funds are Insurance, Transportation, Publishing, and Information and Technology. Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the County's governmental activities, financial statements of Internal Service Funds are consolidated into the governmental activities column when presented at the government-wide level.

Fiduciary Fund Types The County has a total of 351 individual trust and agency funds for FY 2014-15. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust or pension trust fund is used. An investment trust fund is used for the portion of the County investment pool representing external pool participants. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

The County reports the following trust and agency funds:

Private-Purpose Trust These funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples of private-purpose trusts include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment. Beginning in FY 2011-12, the County accounts for the former redevelopment agency as a fiduciary component unit for the OCDA Redevelopment Successor Agency.

Investment Trust

Orange County Investment Pool
These funds are used to account for assets, consisting primarily of cash and investments, of separate legal entities, other than school and community college districts, which participate in the County Treasurer's external investment pool.

Orange County Educational Investment Pool
These funds are used to account for assets, consisting primarily of cash and investments, of school and community college districts that participate in the County Treasurer's external Educational Investment Pool.

Pension and Other Employee Benefits Trust The County reports six Pension and Other Postemployment Benefit Trust funds. These trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit and defined contribution pension and postemployment benefit plans.

Agency Funds These funds are generally used to account for assets that the County holds on behalf of others as their agent in a purely custodial capacity, such as the receipt, temporary investments, and

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Agency Funds (Continued)

remittance of fiduciary resources to individuals, private organizations, or other governments. Accordingly, assets reported in the agency funds are offset by a liability for resources held on behalf of others.

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, deferred inflows of resources, and all liabilities associated with the operation of these funds are included on the Statement of Net Position. Receivables are reported net of allowances for uncollectible receivables in the Statement of Net Position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide Statement of Activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed. Additionally, only the interfund transfers between governmental and business-type activities are reported in the Statement of Activities.

Governmental Fund Financial Statements

Governmental funds are used to report all governmental activities that are not primarily self-funded by fees or charges to external users or other funds and are not fiduciary activities. These activities include the County's basic services to its citizenry and to other agencies, including general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural services. There are five types of governmental funds:

- *General Fund*
- *Special Revenue Funds*
- *Capital Projects Funds*
- *Debt Service Funds*
- *Permanent Fund*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after the end of the current fiscal period.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus and Basis of Accounting (Continued)

#### Governmental Fund Financial Statements (Continued)

Revenues that are accrued include real and personal property taxes, sales taxes, property taxes in-lieu of motor vehicle license fees, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectability is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are expected to be received later than 60 days following the end of the fiscal year, then a receivable is recorded, along with deferred inflows of resources. Once the grant reimbursement is received, revenue and cash are recorded, and the receivable and deferred inflows of resources are eliminated. Receipts that have not met all of the earning requirements are reported as unearned revenue. As of June 30, 2015, the County reported $175,655 of deferred inflows of resources, and $65,688 of unearned revenue, in the governmental funds' Balance Sheet.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt and capital leases are recorded in the year they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures at fiscal year-end if they are due and payable. The related long-term obligation is recorded in the government-wide financial statements. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances.

Because the fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented to explain the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

#### Proprietary Fund Financial Statements

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

The County has three enterprise funds: Airport, Waste Management, and CNG. The principal operating revenues of the Airport, Waste Management, and CNG enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tie-down fees, (2) disposal fees charged to users of the waste disposal sites, and (3) natural gas sales, respectively.

Internal service funds are used to report activities that provide goods or services to other funds of the County. The internal service funds receive revenues through cost-reimbursements of the goods and services provided to other County departments and agencies. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus and Basis of Accounting (Continued)

#### Fiduciary Fund Financial Statements

Fiduciary funds are used to account for assets held in a trustee or agency capacity and cannot be used to support the County's own programs. Trust funds are accounted for using the economic resources measurement focus and accrual basis of accounting. Agency funds report only assets and liabilities and therefore, do not have a measurement focus; however, agency funds use the accrual basis of accounting to recognize receivables and payables.

### D. Budget Adoption and Revision

No later than October 2nd of each year, after conducting public hearings concerning the recommended budget, the Board adopts a budget in accordance with Government Code Sections 29000-29144 and 30200. The County publishes the results of this initial budgeting process in a separate report, the "Adopted Budget," which specifies all accounts established within each fund/department/budget control (a collection of account numbers necessary to fund a certain division or set of goal-related activities).

Throughout the year, the original budget is adjusted to reflect increases or decreases in revenues and changes in fund balance, offset by an equal amount of adjustments to appropriations. Department heads are authorized to approve appropriation transfers within a fund/department/budget control. However, appropriation transfers between funds/departments/budget controls require approval of the Board. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund/department/budget control level.

Annual budgets are adopted on a basis consistent with GAAP except for the general fund and major special revenue funds as detailed in the Budgetary Comparison Statement reconciliation between the budgetary basis and GAAP basis. Budgeted governmental funds consist of the general fund, major funds, and other nonmajor governmental funds. Budgetary comparison statements are prepared only for the general fund and major special revenue funds (listed below) for which the County legally adopts annual budgets, and are presented as part of the basic financial statements. The County did not legally adopt annual budgets for the OC Public Facilities Corporation Bonds, Master Lease Fund, the South OC Public Financing Authority Fund, and the Orange County Public Financing Authority Fund. The budgetary comparison statements provide three separate types of information: (1) the original budget, which is the first complete appropriated budget; (2) the final amended budget, which includes all legally authorized changes regardless of when they occurred; and (3) the actual revenues and expenditures during the year for budget-to-actual comparisons.

The major special revenue fund Budgetary Comparison Statements reported by the County in the Basic Financial Statements are:

- *Roads*
- *Flood Control District*
- *Other Public Protection*

The intent of preparing the Budgetary Comparison Statement reconciliation is to provide the reader with a more complete understanding and appreciation for the difference between budgetary revenues and other financing sources and expenditures/encumbrances and other financing uses presented in the Budgetary Comparison Statements and the revenues, expenditures, and other financing sources (uses) reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, which is prepared in accordance with GAAP. The major areas of difference are as follows:

- Under the budgetary basis, investment income is recognized on an amortized cost basis. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools,"* all investment income, including changes in fair value (gains/losses) of investments, are recognized as investment income.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

- Under the budgetary basis, redirected investment income is recognized as investment income in the recipient fund. In accordance with GASB Statement No. 31, investment income assigned to another fund due to management decision is recognized in the fund that reports the investment and reported as a transfer to the recipient fund in the GAAP financial statements.
- Under the budgetary basis, revenues are recorded when earned. For GAAP basis, in accordance with GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions"* and GASB Statement No. 65, it states that all nonexchange transactions, such as government-mandated nonexchange transactions and voluntary nonexchange transactions, can be accrued only if they are measurable and "available." "Available" has been defined by GASB Statement No. 33 as "collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period." The County has established the availability period as 60 days after the end of the fiscal year or August 30. In order to ensure all transactions for the current fiscal year meet this criterion, the County analyzes revenue receipts through August 30 and records adjustments to deferred inflows of resources for transactions that are not collected.
- GASB Statement No. 34 states, "Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs." For the GAAP financial statements, an adjustment to record public purpose trust monies as revenue in the benefitting funds is recorded for funds which continue to be accounted for as fiduciary funds on a budgetary basis but no longer meet the definition of a fiduciary fund.
- Under the budgetary basis, intrafund transfers are recognized as other financing sources (uses). For the GAAP financial statements, intrafund transfers are eliminated to minimize the "grossing-up" of interfund transfers.
- The County reclassified to the General Fund all the activities of certain special revenue funds, which no longer meet the definition of a special revenue fund in accordance with GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"* (GASB Statement No. 54).
- For budgetary purposes, the loan from Waste Management to the General Fund was recognized as other financing sources (uses). In accordance with GASB Statement No. 34, an adjustment to record the interfund loan as an interfund receivable in the lender fund and interfund payable in the borrower fund was recorded for the GAAP financial statements.
- Under the budgetary basis, interfund reimbursements or repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are recorded as revenues in the payer fund. In accordance with GASB Statement No. 34, an adjustment to eliminate interfund reimbursements is recorded for the GAAP financial statements.
- In accordance with GAAP, the County has established guidelines for recording accruals. In order to reasonably ensure that accruals for current fiscal year transactions are materially accurate, the County performs an analysis to identify expenditure accruals for the GAAP financial statements.
- Bond Issuance Proceeds related to short-term debt that was reported on the Budgetary Comparison Statement as revenues and other financing sources are reported as a fund level liability for GAAP financial statements.
- Per GAAP, a rental rebate should be recorded as a reduction to rental expense.
- The prepaid pension costs were reported in the Budgetary Comparison Statement for the General Fund as an expenditure. For the GAAP financial statements, the prepaid pension costs were recorded as a Prepaid Cost on the General Fund Balance Sheet.
- Revenues and expenditures recorded as reimbursements for retirement costs and administration fees.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Budget Adoption and Revision (Continued)

The following schedule shows the Budgetary Comparison Statement reconciliation between the budgetary basis and GAAP basis for the General Fund and major special revenue funds:

| **Revenues and Other Financing Sources** | General Fund | Roads | Flood Control District | Other Public Protection |
|---|---|---|---|---|
| Total Revenues and Other Financing Sources from the Budgetary Comparison Statements | $ 3,341,359 | $ 109,624 | $ 160,120 | $ 62,950 |
| Differences-budget to GAAP: | | | | |
| Change in unrealized gain/(loss) on investment | (67) | 17 | 72 | 37 |
| GASB 31 adjustment to report redirected investment income as transfers | -- | -- | -- | 70 |
| GASB 33 adjustment of revenue accruals for 60 day recognition period | (11,805) | (10,904) | 3,107 | (537) |
| GASB 34 adjustment to record Public Purpose Trust Fund's monies as revenue in benefitting fund | 1,954 | -- | 84 | -- |
| Adjustment to eliminate intrafund transfers | -- | -- | -- | (2,245) |
| Reclassification of direct billing reimbursements paid by fund for the benefit of other funds | (12,112) | (97) | (287) | -- |
| Certain budgeted special revenue funds do not meet the criteria for separate reporting and are reported within the General Fund in the GAAP financial statements | 22,590 | -- | -- | -- |
| Revenues and Other Financing sources for non-budgeted funds are excluded in the Budgetary Comparison Statements | -- | -- | -- | 6,571 |
| Short-Term Bond Issuance Proceeds that were reported on the Budgetary Comparison Statement as an other financing source are reported as a fund level liability for GAAP financial statements | (339,625) | -- | -- | -- |
| Rent Rebate for HCA | (298) | -- | -- | -- |
| Reimbursement of Retirement Cost & Admin Fee | (753) | -- | -- | -- |
| Total Revenues and Other Financing Sources as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances | $ 3,001,243 | $ 98,640 | $ 163,096 | $ 66,846 |

| **Expenditures and Other Financing Uses** | General Fund | Roads | Flood Control District | Other Public Protection |
|---|---|---|---|---|
| Actual expenditures and Other Financing Uses from the Budgetary Comparison Statements | $ 3,221,219 | $ 92,785 | $ 121,312 | $ 68,166 |
| Differences-budget to GAAP: | | | | |
| GASB 31 adjustment to report redirected investment income as transfers | -- | (3,070) | -- | 70 |
| Adjustment of expenditure accruals for timing differences | (15,789) | 500 | 262 | (105) |
| Adjustment to eliminate intrafund transfers | -- | -- | -- | (2,245) |
| Reclassification of direct billing reimbursements paid by fund for the benefit of other funds | (12,111) | (97) | (287) | -- |
| The prepaid pension costs were reported in the Budgetary Comparison Statement for the General Fund as an expenditure. For GAAP financial statements, the prepaid pension costs were recorded as a Prepaid Cost on the General Fund Balance Sheet | (339,117) | -- | -- | -- |
| Expenditures and Other Financing Uses for non-budgeted funds are excluded in the Budgetary Comparison Statements | -- | -- | -- | 861 |
| Certain budgeted special revenue funds do not meet the criteria for separate reporting and are reported within the General Fund in the GAAP Financial Statements | (3) | -- | -- | -- |
| Rent Rebate for HCA | (298) | -- | -- | -- |
| Reclassification of loan repayment from General Fund to OC Waste Magagement | (780) | -- | -- | -- |
| Total Expenditures and Other Financing Uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances | $ 2,853,121 | $ 90,118 | $ 121,287 | $ 66,747 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Fund Balance

The County applies GASB Statement No. 54 for financial statement purposes. The intent of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The balance sheet reports the following five different classifications of fund balance:

Nonspendable Fund Balance  Amounts that are not in a spendable form, such as long-term receivables, inventory or prepaid costs, or that are required to be maintained intact, such as the corpus of an endowment fund. The County's Regional Park Endowment Permanent Fund reports the original donation as nonspendable in accordance with donor requirements.

Restricted Fund Balance  Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance  Amounts constrained to specific purposes by a formal action of the highest level of decision making authority. The constraint remains binding unless the government takes the same highest-level action to remove or change the constraint. The Board is the County's highest level of decision-making authority. The highest level of formal action to commit resources is an ordinance.

Assigned Fund Balance  Amounts a government intends to use for a specific purpose that are neither restricted nor committed; intent can be expressed by the governing body (Board) or by an official or body to which the governing body delegates authority (County Executive Officer (CEO), County Department Heads, and County Purchasing Agent). The County's budget development guidelines provide the policy that is used by all County departments to determine the designation of assigned fund balance. Assigned fund balance includes the aggregation of resources for capital projects, which are expected to develop in future periods and fund balance reserved for outstanding contractual obligations for which goods and services have not yet been received, approved by the Board for appropriation in FY 2014-15, through the County's budget process.

Unassigned Fund Balance  Residual amounts within the General Fund in excess of what can be properly classified in one of the four other fund balance classifications. Within all other governmental funds, unassigned fund balance is comprised of the negative residual in excess of what can be properly classified as nonspendable, restricted or committed.

In the hierarchy for spending, when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the County's policy is to spend restricted fund balance before unrestricted fund balance. When committed, assigned and unassigned fund balance is available for the same specific purpose, the County's policy is to expend fund balance according to the following priority: committed, assigned, and then unassigned.

Following are detailed descriptions within each fund balance classification reported in the balance sheet:

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Fund Balance (Continued)

| | General Fund | Roads | Flood Control District | Other Public Protection | Teeter Plan Notes | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Nonspendable:** | | | | | | | |
| Inventory | $ 867 | $ - | $ 453 | $ 331 | $ - | $ - | $ 1,651 |
| Prepaid costs | 331,939 | 3,939 | 4,617 | 1,241 | - | 10,527 | 352,263 |
| Endow ment | - | - | - | - | - | 188 | 188 |
| Long-Term Advances to Other Funds | 3,800 | - | - | - | - | - | 3,800 |
| Total Nonspendable Fund Balance | 336,606 | 3,939 | 5,070 | 1,572 | - | 10,715 | 357,902 |
| **Restricted for:** | | | | | | | |
| Court Operations | 10,068 | - | - | - | - | - | 10,068 |
| Tobacco and CHIP Programs | 124 | - | - | - | - | - | 124 |
| Public Safety Realignment | 21,294 | - | - | - | - | - | 21,294 |
| Civic Center Parking/Maintenance | - | - | - | - | - | 359 | 359 |
| Roads | - | 57,863 | - | - | - | - | 57,863 |
| Public Libraries | - | - | - | - | - | 23,676 | 23,676 |
| Flood Control District | - | - | 413,875 | - | - | - | 413,875 |
| OC Parks | - | - | - | - | - | 68,629 | 68,629 |
| Service Areas, Lighting, Maintenance and Assessment Districts | - | - | - | - | - | 5,102 | 5,102 |
| Other Environmental Management | - | - | - | - | - | 1,391 | 1,391 |
| Public Safety | - | - | - | 144,388 | - | - | 144,388 |
| Teeter Note | - | - | - | - | 52,505 | - | 52,505 |
| OC Dana Point Harbor Projects | - | - | - | - | - | 61,916 | 61,916 |
| Community and Welfare Services | - | - | - | - | - | 50,361 | 50,361 |
| Low and Moderate Income Housing Program | - | - | - | - | - | 32,142 | 32,142 |
| Health Care Programs | - | - | - | - | - | 260,050 | 260,050 |
| Bankruptcy Litigation | - | - | - | - | - | 6,036 | 6,036 |
| Bankruptcy Recovery | - | - | - | - | - | 20,877 | 20,877 |
| Tobacco Settlement Programs | - | - | - | - | - | 12,079 | 12,079 |
| Housing Programs | - | - | - | - | - | 15,775 | 15,775 |
| Technological and Capital Acquisitions/Improvements | - | - | - | - | - | 933 | 933 |
| Endow ment | - | - | - | - | - | 141 | 141 |
| OC Public Facilities Corporation Bonds, Master Lease | - | - | - | - | - | 3,287 | 3,287 |
| Pension Obligation Bonds | - | - | - | - | - | 135,548 | 135,548 |
| South OC Public Financing Authority | - | - | - | - | - | 3,744 | 3,744 |
| Orange County Public Financing Authority | - | - | - | - | - | 40,775 | 40,775 |
| Capital Projects: | | | | | | | |
| Criminal Justice Facilities Improvement | - | - | - | - | - | 5,670 | 5,670 |
| Total Restricted Fund Balance | $ 31,486 | $ 57,863 | $ 413,875 | $ 144,388 | $ 52,505 | $ 748,491 | $ 1,448,608 |
| **Assigned to:** | | | | | | | |
| General Services | 166,674 | - | - | - | - | - | 166,674 |
| Imprest Cash | 1,862 | - | - | - | - | - | 1,862 |
| Public Safety | 22,962 | - | - | - | - | - | 22,962 |
| Public Works | 1,794 | - | - | - | - | - | 1,794 |
| Health Care Programs | 2,120 | - | - | - | - | 13,588 | 15,708 |
| Watershed Programs | 654 | - | - | - | - | - | 654 |
| Social Services Programs | 4,251 | - | - | - | - | - | 4,251 |
| Community Resources Programs | 794 | - | - | - | - | - | 794 |
| Tax Loss Reserve | 46,653 | - | - | - | - | - | 46,653 |
| Debt Service | 5,368 | - | - | - | - | - | 5,368 |
| Capital Projects: | | | | | | | |
| Countyw ide Projects | - | - | - | - | - | 13,365 | 13,365 |
| Property Tax Softw are Development | 731 | - | - | - | - | - | 731 |
| Computer Upgrade | 4,060 | - | - | - | - | - | 4,060 |
| Criminal Justice Facilities | 4,445 | - | - | - | - | - | 4,445 |
| Central Utilities Facility | 842 | - | - | - | - | - | 842 |
| Animal Care Facility | 4,423 | - | - | - | - | - | 4,423 |
| Other Projects | 1,896 | - | - | - | - | - | 1,896 |
| Parking Facilities | - | - | - | - | - | 520 | 520 |
| OC Parks | - | - | - | - | - | 11,939 | 11,939 |
| Air Quality Improvement | - | - | - | - | - | 2,038 | 2,038 |
| Community and Welfare Services | - | - | - | - | - | 42,315 | 42,315 |
| Total Assigned Fund Balance | $ 269,529 | $ - | $ - | $ - | $ - | $ 83,765 | $ 353,294 |
| **Unassigned** | 26,887 | - | - | - | - | - | 26,887 |
| Total Unassigned Fund Balance | $ 26,887 | $ - | $ - | $ - | $ - | $ - | $ 26,887 |
| **Total Fund Balances** | $ 664,508 | $ 61,802 | $ 418,945 | $ 145,960 | $ 52,505 | $ 842,971 | $ 2,186,691 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Fund Balance (Continued)

Annually, the Board adopts a five-year Strategic Financial Plan (SFP). The County of Orange 2015 Strategic Financial Plan includes a policy for Fund Balance Unassigned (FBU) that eliminates FBU as a funding source for the next year's budget as a significant step toward reducing structural reliance on one-time funds. Positive variances in estimated FBU are to be added to Strategic Reserves, consistent with the Board policy.

The County prepays its pension contribution and reports the prepaid amount as Nonspendable Fund Balance rather than Unassigned Fund Balance as required by GASB Statement No. 54. For FY 2014-15, the proceeds of $339,625 was for short-term Taxable Pension Obligation Bonds to prepay a portion of its FY 2015-16 pension contribution at a discount. Of this amount, $331,591 is the prepaid costs for General Fund and is Nonspendable. Refer to Note 10, Short-Term Obligations and Note 18, Retirement Plans for additional information.

### F. Deposits and Investments

The County maintains two cash and investment pools: the Orange County Investment Pool (OCIP) and the Orange County Educational Investment Pool (OCEIP), the latter of which is utilized exclusively by the County's public school and community college districts. These pools are maintained for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. In addition, the County maintains certain other non-pooled specific investments.

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with outside services to provide pricing for the fair value of investments in the portfolio, which are based on quoted market prices.

Other than proceeds held by the County in the OCIP, proceeds from County-issued bonds are held by trustees and are invested in instruments authorized by the respective trust agreements including medium-term notes, money market mutual funds, investment agreements, repurchase agreements, and U.S. Government securities. Short-term debt investments are reported at amortized cost, while long-term investments, such as U.S. Government securities are stated at fair value. The trustee uses an independent service to value those securities, which are based on quoted market prices and stated at fair value.

The Pools value participants' shares using an amortized cost basis. Specifically, the Pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the Pools' investments. The total difference between the fair values of the investments in the Pools and the values distributed to pool participants using the amortized cost method described above is reported in the equity section of the condensed statement of net position of the County Pool (see Note 4, Deposits and Investments) as undistributed and unrealized gains.

The investments in the Retiree Medical Defined Benefit Trust are managed by the Orange County Employees Retirement System (OCERS) and are reported at fair value. Refer to Note 18, Retirement Plans, to obtain OCERS stand-alone annual financial statements.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost, which is determined on a moving weighted average basis. Applicable fund balances are nonspendable for amounts equal to the inventories on hand at the end of the fiscal year, as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures/expenses when issued to user departments/agencies.

H. Prepaid Costs

The County pays for certain types of services in advance, such as pension costs and rents, and recognizes these costs in the period during which services are provided. Prepaid costs in the governmental funds Balance Sheet include $352,263 for governmental funds, which primarily consist of $351,915 to prepay a portion of the County's FY 2015-16 pension contribution at a discount.

Prepaid costs in the government-wide financial statements include the prepaid costs reported in the fund financial statements, reduced for 50% of the prepaid asset related to the pension contribution after the measurement date in accordance with GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*," (refer to Note 2 Change in Accounting Principle, Note 18 Retirement Plans, Note 19 Postemployment Health Care Benefits and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68"* for further information).

I. Land and Improvements Held for Resale

These assets, held by the OCDA Redevelopment Successor Agency, are valued at the lower of cost or estimated net realizable value.

J. Capital Assets

Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, structures and improvements, equipment, intangible, and infrastructure. Infrastructure assets are grouped by networks consisting of flood channels, roads, bridges, trails, traffic signals, and harbors.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

| Asset Type | Capitalization Threshold |
|---|---|
| Land | $ 0 |
| Land Improvements | $150 |
| Structures and Improvements | $150 |
| Equipment | $ 5 |
| Intangible | $150 |
| Infrastructure | $150 |

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the related assets. No depreciation or amortization is provided on construction in progress or intangible assets in progress, respectively, until the project is completed and the asset is placed into service. Estimated useful lives of structures and improvements, equipment, intangible, and infrastructure are as follows:

(Dollar Amounts in Thousands)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### J. Capital Assets (Continued)

| | |
|---|---|
| Structures and Improvements | 10 to 60 years |
| Land Improvements | 20 years |
| Equipment | 2 to 20 years |
| Intangibles: | |
| Computer Software | 3 to 15 years |
| Land Use Rights | 3 years |
| Infrastructure: | |
| Flood Channels | 20 to 100 years |
| Roads | 10 to 20 years |
| Bridges | 50 to 75 years |
| Trails | 20 years |
| Traffic Signals | 15 to 20 years |
| Harbors | 20 to 50 years |
| Airport – Runways, Taxis, and Aprons | 15 to 60 years |
| Waste Management – Cell Development, Drainage Channels, facility Improvements, habitat, Landfill Gas/Environmental, Closure/Other Earthwork | 3 to 71 years |

Maintenance and repair costs are expensed in the period incurred. Expenditures that materially increase the capacity or efficiency or extend the useful life of an asset are capitalized and depreciated. Upon the sale or retirement of the capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the Statement of Activities and Proprietary Funds' Statement of Revenues, Expenses and Changes in Fund Net Position.

For business-type activities, interest is capitalized on construction in progress. Capitalized interest is the total interest expense of the borrowing net of related interest earnings on the reinvested unexpended tax-exempt debt proceeds and amortization of premium or discount. For governmental activities, interest is not capitalized as a cost of the capital asset in accordance with GAAP.

### K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position sometimes reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County only has two items that qualify for reporting in this category. They are the deferred charge on refunding and deferred outflow amounts related to pension reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferrals of resources related to pension results from the net difference between projected and actual investment earnings on pension plan investments, changes of assumptions and changes in proportion and differences between employer contributions and the proportionate share of contributions calculated by actuarial study. The deferred outflows of resources related to pensions also include employer contributions made after the measurement date and the County's prepaid retirement contribution.

In addition to liabilities, the statement of net position sometimes reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for reporting in this category. The County has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, intergovernmental revenues, SB90, and other sources as appropriate. These amounts are deferred and recognized as an inflow of resources in the period that

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### K. Deferred Outflows/Inflows of Resources (Continued)

amounts become available. The SB90 deferred inflows of resources amount of $39,653 is net of an allowance for the estimated uncollectible of $2,417.

The most significant deferred outflows and inflows of resources reported in the government-wide Statement of Net Position are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. These deferred outflows and inflows of resources impact pension changes and include the net difference between projected and actual investment earnings on pension plan investments, the difference between expected and actual experience, changes of assumptions, and change in proportion and differences between employer contributions and the County's proportionate share of contributions calculated by actuarial study.

The table below details out all deferred outflows/inflows of resources related to pension. Please refer to Note 18, Retirement Plans, for further information.

| | Governmental Activities | Airport | Waste Management | Total |
|---|---|---|---|---|
| **Deferred Outflows of Resources related to Pension per Actuarial Studies** | | | | |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | $ 171,911 | $ 1,667 | $ 2,086 | $ 175,664 |
| Changes of Assumptions | 113,952 | 1,105 | 1,384 | 116,441 |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 3,981 | 39 | 48 | 4,068 |
| **Deferred Outflows of Resources Related to Pension - Employer Contributions After Measurement Date** | 184,848 | 1,745 | 2,233 | 188,826 |
| **Deferred Outflows of Resources Related to FY 2015-16 Prepaid Employer Contribution** | 177,617 | 1,745 | 2,223 | 181,585 |
| **Total Deferred Outflows of Resources Related to Pension** | **$ 652,309** | **$ 6,301** | **$ 7,974** | **$ 666,584** |
| **Deferred Inflows of Resources related to Pension per Actuarial Studies** | | | | |
| Difference Between Expected and Actual Experience | $ 201,054 | $ 1,950 | $ 2,442 | $ 205,446 |
| Changes of Assumptions | 184,750 | 1,793 | 2,244 | 188,787 |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 15 | - | - | 15 |
| **Total Deferred Inflows of Resources Related to Pension** | **$ 385,819** | **$ 3,743** | **$ 4,686** | **$ 394,248** |

### L. Self-Insurance

The County is self-insured for general and automobile liability claims, workers' compensation claims, and for claims arising under the County self-insured PPO Health Plans, short-term disability plans, dental plan, Reserve Deputy Sheriff accidental death and dismemberment plan, and unemployment benefits program. Liabilities are accrued based upon case reserves, development of known claims, incurred but not reported claims and allocated and unallocated loss adjustment expenses. For additional information, refer to Note 16, Self-Insurance.

### M. Property Taxes

The provisions of the California Constitution and Revenue and Taxation code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are computed by applying approved property tax rates to the assessed value of properties as determined by the County Assessor in the case of locally assessed property, and as determined by the State Board of Equalization in the case of state-assessed properties. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction take place.

The Treasurer-Tax Collector collects property taxes on behalf of all property tax-receiving agencies in Orange County. Property tax-receiving agencies include the school districts, cities, community redevelopment successor agencies, independently governed special districts (not governed by the Board), special districts governed by the Board, and the County General Fund.

Property taxes receivables are recorded as of the date levied in property tax unapportioned funds, which are

(Dollar Amounts in Thousands)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### M. Property Taxes (Continued)

classified as agency funds. When collected, the property taxes are deposited into the County Treasury in the property tax unapportioned funds, where they are held in the unapportioned taxes liability accounts pending periodic apportionment to the taxing agencies. The property tax unapportioned funds are included in the agency funds category of the County's fund financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

Property tax collections are apportioned (disbursed) to the tax-receiving agencies periodically from the tax unapportioned funds based on various factors including statutory requirements, materiality of collections received, tax delinquency dates, the type of property tax roll unapportioned fund (secured, unsecured, supplemental, delinquent secured, delinquent unsecured, delinquent supplemental, homeowners' property tax subvention, or state-assessed properties), and cash flow needs of the tax-receiving agencies.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2015 is allocated to and recorded in the corresponding funds for reporting purposes.

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end are recorded as deferred inflows of resources in the fund-level financial statements, and recognized as revenue in the government-wide financial statements. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County maintains records of disputed property taxes, such as those properties for which the values have been appealed to the local Assessment Appeals Boards. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or the tax bills are corrected. As of June 30, 2015, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.30% of the combined beginning secured and unsecured property tax roll charge.

The following are significant dates on the property tax calendar:

| | California Revenue & Taxation Code Section |
|---|---|
| Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change. | 75.41 |
| Property tax lien date is January 1. | 2192 |
| Unsecured taxes on the roll as of July 31 are delinquent August 30. | 2922 |
| Assessor delivers roll to Auditor-Controller July 1. | 616, 617 |
| Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September). | 2601 |
| Secured tax payment due dates are: | |
| 1st Installment - November 1, and | 2605 |
| 2nd Installment - February 1. | 2606 |
| Secured tax delinquent dates (last day to pay without a penalty) are: | |
| 1st Installment - December 10, and | 2617 |
| 2nd Installment - April 10. | 2618 |
| Declaration of default for unpaid taxes occurs July 1. | 3436 |
| Power to sell is effective five years after tax default. | 3691 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### N. Compensated Employee Absences

Compensated employee absences (vacation, compensatory time off, performance incentive plan time off, annual leave, and sick leave) are accrued as an expense and liability in the proprietary funds when incurred. In the governmental funds, only those amounts that are due and payable at year-end are accrued. Compensated employee absences that exceed this amount represent a reconciling item between the fund and government-wide presentations.

### O. Pensions

The County recognizes a net pension liability to reflect the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the County's retirement plans. The actuarial valuation based on December 31, 2014 measurement date for the County reporting as of June 30, 2015.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Orange County Employees Retirement System (OCERS) and the Extra-Help Defined Benefit plan and additions to/deductions to OCERS and the Extra-Help Defined Benefit Plan fiduciary net position have been determined on the same basis as they are reported by OCERS and the Extra-Help Defined Benefit Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At June 30, 2015, the County's net pension liability from OCERS was measured as of December 31, 2014, and the total pension liability (TPL) used to calculate the net pension liability was determined by rolling forward the December 31, 2013 valuation to December 31, 2014; the County's net pension liability from Extra-Help Defined Benefit was measured as of June 30, 2015, the plan's TPL was calculated using the data and assets as of June 30, 2013, rolled forward to June 30, 2015 using actual benefit payments for the fiscal years 2014-15.

### P. Statement of Cash Flows

A Statement of Cash Flows is presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the County's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

### Q. Indirect Costs

County indirect costs are allocated to benefiting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2014-15 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Code of Federal Regulation, Title 2, Part 200. The County has elected to allocate indirect costs to departments within the General Fund that are not charged through CWCAP in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

### R. Effects of New Pronouncements

The following lists recent GASB pronouncements implemented or are effective in FY 2014-15:

In June 2012, GASB issued Statement No. 68, "*Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*," which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, "*Accounting for Pensions by*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### R. Effects of New Pronouncements (Continued)

*State and Local Governmental Employers*," as well as the requirements of Statement No. 50, "*Pension Disclosures*," as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which requires the County to implement this statement in FY 2014-15. The statement was implemented with a material impact to the County. Refer to Note 2, Change in Accounting Principle and Note 18, Retirement Plans, for additional information.

In January 2013, GASB issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*." This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013, which requires the County to implement this statement in FY 2014-15. The statement was implemented without an impact to the County.

In November 2013, GASB issued Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*." This statement requires that at transition to the new accounting standards in accordance with GASB Statement No. 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which requires the County to implement this statement in FY 2014-15. The statement was implemented with an impact to the County.

The following summarizes recent GASB Pronouncements and their future effective dates. The County is in the process of evaluating the impact of these statements on its financial statements:

In February 2015, GASB issued Statement No. 72, *"Fair Value Measurement and Application."* This statement addresses accounting and financial reporting standards related to fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For some assets and liabilities, observable market information might not be available. The objective of fair value measure is to determine the price that would take place between market participants at the measurement date under current market conditions. Valuation techniques used to determine fair value are one or more of three approaches to measure fair value: the market approach, cost approach, and income approach. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015, which requires the County to implement this statement in FY 2015-16.

In June 2015, GASB issued Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68."* This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing useful information, supporting assessments of accountability and interperiod equity and creating additional transparency. This statement establishes requirements for defined benefit

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

R. Effects of New Pronouncements (Continued)

pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67 *"Financial Reporting for Pension Plans"* and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions of this statement will be analyzed on an annual basis. For FY 2014-15 it is determined to have no impact to the County.

In June 2015, GASB issued Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* The "GAAP hierarchy" identifies the sources of guidance that state and local governments follow when preparing financial statements in conformity with GAAP and lists the order of priority for pronouncements to which a government should look for guidance. The objective of this statement is to simplify the structure of the hierarchy of GAAP to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance with less variation. The provisions of this statement are effective for financial reporting for periods beginning after June 15, 2015, and should be applied retroactively, which requires the County to implement this statement in FY 2015-16.

In June 2015, GASB issued Statement No. 74 *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."* The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces Statements No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,"* as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Pl*ans." It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,"* as amended, Statement 43, and Statement No. 50 *"Pension Disclosures."* The provisions of this statement are effective for financial statement for periods beginning after June 15, 2016, which requires the County to implement this statement in FY 2016-17. The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria.

In August 2015, GASB issued Statement No. 77, *"Tax Abatement Disclosures."* This statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015, which requires the County to implement this statement in FY 2016-17.

In June 2015, GASB Issued Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*" The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### R. Effects of New Pronouncements (Continued)

governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,"* as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,"* for OPEB. Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,"* establishes new accounting and financial reporting requirements for OPEB plans. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this statement are effective for financial statement for periods beginning after June 15, 2017, which requires the County to implement this statement in FY 2017-18.

### S. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

### T. Consolidation of Governmental Funds' Balance Sheet and Proprietary Funds' Statement of Net Position Line Items in Statement of Net Position

Several asset line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Position are combined into one line item in the Government-Wide Statement of Net Position for presentation purposes. In order to avoid any confusion, the following table lists the line items shown in the Governmental and Proprietary Fund financial statements that are condensed together in the Government-Wide Statement of Net Position.

| ***Government-Wide Statement of Net Position Line Item*** | ***Corresponding Governmental and Proprietary Fund Balance Sheet or Statement of Net Position Line Item*** |
|---|---|
| Cash and Cash Equivalents | Pooled Cash/Investments; Cash Equivalents/Specific Investments; Imprest Cash Funds; and Cash/Cash Equivalents |
| Restricted Cash and Cash Equivalents | Restricted Cash and Investments with Trustee; Restricted Pooled Cash/Investments; and Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs |
| Capital Assets – Not Depreciable/Amortizable | Land, Construction in Progress, and Intangible Assets in Progress |
| Capital Assets – Depreciable/Amortizable (Net) | Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; Intangible Assets and Accumulated Amortization; and Infrastructure and Accumulated Depreciation |

## 2. CHANGE IN ACCOUNTING PRINCIPLE

The County implemented GASB Statement No. 68 in the current financial statements. Prior period adjustments of $3,686,767 and $80,522 were made to decrease the governmental activities' beginning net position and business-type activities' beginning net position. The restatement of beginning net position of the governmental activities and business-type activities are restated as follows:

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| Net Position at June 30, 2014 | $ | 4,324,937 | $ | 1,125,640 |
| Net Pension Liability Adjustment | | (3,686,767) | | (80,522) |
| Net Position at June 30, 2014 as Restated | $ | 638,170 | $ | 1,045,118 |

Prior period adjustments of $35,740, $44,782, and $35,793 were made to the beginning net position of Enterprise Funds and Internal Service Funds. The restatements of beginning net position of governmental fund activities are restated as follows:

| | Airport | | Waste Management | | Governmental Activities- Internal Service Funds | |
|---|---|---|---|---|---|---|
| Net Position at June 30, 2014 | $ | 627,698 | $ | 512,943 | $ | (9,033) |
| Net Pension Liability Adjustment | | (35,740) | | (44,782) | | (35,793) |
| Net Position at June 30, 2014 as Restated | $ | 591,958 | $ | 468,161 | $ | (44,826) |

Refer to Note 1, Summary of Significant Accounting Policies, for additional information on GASB Statement No. 68.

## 3. DEFICIT FUND EQUITY

The Workers' Compensation Internal Service Fund (ISF) and the Property and Casualty Risk ISF reported deficit net position balances of $91,229 and $5,906, respectively. The deficits result from the amount calculated in the annual actuarial study which includes case reserves, development of known claims, incurred but not reported claims, allocated and unallocated loss adjustment expenses, and a discount for anticipated investment income. The deficit for the Workers' Compensation ISF increased by $11,270 from the previous fiscal year due to an increase in case reserves as well as the implementation of GASB Statement No. 68. The deficit for the Property and Casualty Risk ISF decreased by $4,810 from the previous fiscal year due to higher insurance premiums. Charges to County departments have not provided sufficient cash flows to entirely fund the deficits in these ISFs. The County will continue to review charges to departments and manage the funding status of the Workers' Compensation Program and the Property and Casualty Risk Program.

Effective with OCDA's dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the Successor Agency. The OCDA Redevelopment Successor Agency private-purpose trust fund reported a deficit net position balance of $12,819. Enforceable obligations will be paid by future property tax increments apportioned to the Successor Agency.

## 4. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for authorizing all County bank accounts and pursuant to California Government Code (CGC) Sections 27000.1 – 27000.5, 27130 – 27137 and 53600 – 53686, is responsible for conducting County investment activities of the County's investment pooled funds in addition to various individual investment accounts outside of the pooled funds. These public funds are called the Orange County Investment Fund (OCIF). Within the OCIF, the Treasurer maintains an Orange County Investment Pool (OCIP) and an Orange County Educational Investment Pool (OCEIP), which are "external investment pools" wherein monies of the County and other legally separate external entities, which are not part of the County Reporting Entity, are commingled (pooled) and invested on the participants' behalf. In addition, the Treasurer maintains the John Wayne Airport Investment Pool (JWA Pool) and other separately managed investments. The County's Investment Pools are not registered with the Securities and Exchange Commission (SEC) as an investment company.

(Dollar Amounts in Thousands)

## 4. DEPOSITS AND INVESTMENTS (Continued)

The Treasurer further invests pooled funds from the OCIP and OCEIP into three funds, the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF) and the Extended Fund. On August 11, 2015, Standard & Poor's (S&P) reaffirmed an AAA Principal Stability Fund Rating (AAAm) for the OCMMF and the OCEMMF. The two money market funds are required to maintain a Net Asset Value (NAV) of between $0.995 and $1.005 to maintain a AAAm rating. Neither the Money Market Funds nor the Extended Fund have any legally binding guarantees of share values.

The maximum maturity of investments for the two Money Market Funds is 13 months with a maximum weighted average maturity (WAM) of 60 days. The maximum maturity of the Extended Fund is five years per CGC. The Investment Policy Statement (IPS) provides that the Extended Fund shall have duration not to exceed a leading 1-3 Year index +25%.

Pursuant to CGC Sections 27130-27137, the Board has established a Treasury Oversight Committee (TOC) that monitors and reviews the IPS annually and also ensures that the Treasurer has an audit annually, which includes limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the County Superintendent of Schools, or their respective designees, and four public members.

The investment practices and policies of the Treasurer are based on compliance with state law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested, with secondary emphasis on providing adequate liquidity to Pool Participants. The last goal is to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and is reported as a transfer to the recipient fund.

Deposits and investments before timing differences totaled $7,590,936 as of June 30, 2015 consisting of: $3,525,974 for the OCIP, $3,895,973 for the OCEIP and $168,989 for Specific Investments.

Total County deposits and investments at fair value as of June 30, 2015, are reported as follows:

| | | |
|---|---|---|
| Deposits: | | |
| Imprest Cash | $ | 2,115 |
| Deposits for OCIP | | 6,424 |
| Deposits for OCEIP | | 114,951 |
| Deposits with Trustees | | 17,068 |
| All other Deposits and timing differences | | (142,618) |
| Total Deposits and Timing Differences | | (2,060) |
| Investments: | | |
| With Treasurer | | 7,469,561 |
| With Trustees | | 322,942 |
| With External Orange County Employees Retirement System (OCERS) | | 206,118 |
| Total Investments | | 7,998,621 |
| Total Deposits and Investments | $ | 7,996,561 |

Total County deposits and investments are reported in the following funds:

| | | |
|---|---|---|
| Governmental Funds | $ | 2,114,555 |
| Proprietary Funds | | 989,681 |
| Fiduciary Funds | | 4,840,511 |
| Component Unit - CFCOC | | 51,814 |
| Total Deposits and Investments | $ | 7,996,561 |

## 4. DEPOSITS AND INVESTMENTS (Continued)

### A. Deposits

CGC 53652 et. seq. and the IPS prescribe the amount of collateral that is required to secure the deposit of public funds. The pledge to secure deposits is administered by the California Commissioner of Business Oversight. Collateral is required for demand deposits at 110% of all deposits not covered by federal depository insurance (FDIC) if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150% is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them.

Written custodial agreements are required to provide, among other things, that the collateral securities are held separate from the assets of the custodial institution.

FDIC is available for interest-bearing funds deposited at any one financial institution up to a maximum of $250.

Custodial Credit Risk – Deposits
The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. The County's deposits are not exposed to custodial credit risk, since all of its deposits are covered by FDIC or collateralized with securities held by the County or its agent in the County's name, in accordance with CGC Section 53562.

### B. Investments

The CGC Sections 53601 & 53635, Board ordinances and resolutions, the County's IPS, the bond indenture documents, trust agreements, and other contractual agreements govern the investments that may be purchased and may include certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality and timing to minimize the risk of loss. The IPS adds further restrictions to permitted investments from the CGC. As of June 30, 2015, the Treasurer was in full compliance with the more restrictive IPS for the OCIP and OCEIP. However, on June 30, 2015, the JWA Pool purchased a $3,000 Federal Farm Credit floating rate security with a final maturity of 496 days, which exceeds the IPS limit of 397 days. The security was sold on July 2, 2015, at no gain or loss to bring the JWA Pool back into compliance and the system compliance rules were updated.

The following table provides a summary listing of the authorized investments and selected restrictions as of June 30, 2015.

| Type of Investment | CGC % of Funds Permitted | Orange County IPS (%) | CGC Maximum Final Maturity | Orange County IPS Maximum Final Maturity (Long-Term-Extended Fund) | Orange County IPS Maximum Final Maturity (Short-Term – Money Market Fund) |
|---|---|---|---|---|---|
| U.S. Treasury Securities | 100% | 100% | 5 Years | 5 Years | 397 Days |
| U.S. Government Agency Securities | 100% | 100% Total, no more than 33% in one issuer | 5 Years | 5 Years | 397 Days |
| Municipal Debt | 100% | 30% Total, no more than 5% in one issuer except 10%- County of Orange | 5 Years | 5 Years | 397 Days |

(Dollar Amounts in Thousands)

## 4. DEPOSITS AND INVESTMENTS (Continued)

### B. Investments (Continued)

| Type of Investment | CGC % of Funds Permitted | Orange County IPS (%) | CGC Maximum Final Maturity | Orange County IPS Maximum Final Maturity (Long-Term-Extended Fund) | Orange County IPS Maximum Final Maturity (Short-Term – Money Market Fund) |
|---|---|---|---|---|---|
| Medium-Term Notes | 30% | 30% Total, no more than 5% in one issuer | 5 Years | 5 Years | 397 Days |
| Bankers Acceptances | 40%, 30% of a single issuer | 40% Total, no more than 5% in one issuer | 180 Days | 180 Days | 180 Days |
| Commercial Paper | 40%, 10% of a single issuer | 40% Total, no more than 5% in one issuer | 270 Days | 270 Days | 270 Days |
| Negotiable Certificates of Deposits | 30% | 30% Total, no more than 5% in one issuer | 5 Years | 5 Years | 397 Days |
| Repurchase Agreements | 100% | 20% Total, no more than 10% in one issuer | 1 Year | 1 Year | 1 Year |
| Money Market Mutual Funds | 20% | 20% Total | N/A | N/A | N/A |
| Investment Pools | 100% | 20% Total, no more than 10% in one pool | N/A | N/A | N/A |
| Supranationals | 30% | 30% Total, no more than 5% in one issuer | 5 Years | 5 Years | 397 Days |

The current IPS expressly prohibits leverage, reverse repurchase agreements as defined by CGC, structured notes, structured investment vehicles, and derivatives. All investments must be United States dollar denominated. No investment may be purchased from an issuer that has been placed on credit watch-negative by any of the Nationally Recognized Statistical Rating Organizations (NRSROs), or whose credit rating by any of the NRSROs is less than the minimum rating required by the IPS for that class of security unless the issuer has a short-term rating of “A-1+” or “F1+” or a long-term rating of at least a “AA” or “Aa2” by S&P, Fitch or Moody’s; and the Treasurer has approved the purchase in writing prior to purchase.

Investments by the Treasurer are stated at fair value. Investments in the OCIF are marked to market on a daily basis. If the NAV of the OCMMF or OCEMMF is less than $0.995 or greater than $1.005, portfolio holdings may be sold as necessary to maintain the ratio between $0.995 and $1.005.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school and community college districts are required by legal provisions to deposit their funds with the Treasurer. The OCEIP consists entirely of public school and community college districts’ funds and therefore includes 100% involuntary participants. At June 30, 2015, the OCIP includes approximately 9.76% of involuntary participant deposits including funds for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

## 4. DEPOSITS AND INVESTMENTS (Continued)

### B. Investments (Continued)

Investment Disclosures

The following table presents a summary of the County's investments and the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2015. (NR means Not Rated).

| With Treasurer: | Fair Value | Principal | Interest Rate Range (%) | Maturity Range | Weighted Average Maturity (Years) | Rating (1) | % of Portfolio |
|---|---|---|---|---|---|---|---|
| OCIP (2) | | | | | | | |
| U.S. Government Agencies | | | | | | | |
| FNMA Discount Notes | $ 20,525 | $ 20,525 | 0.06 - 0.08% | 7/01/15 - 7/08/15 | 0.008 | A-1 | 0.58% |
| FNMA Bonds | 515,131 | 511,999 | 0.07 - 1.24% | 7/02/15 - 12/20/17 | 1.367 | AA | 14.64% |
| FFCB Discount Notes | 25,719 | 25,725 | 0.26% | 9/28/15 - 10/19/15 | 0.280 | A-1 | 0.73% |
| FFCB Bonds | 205,834 | 205,711 | 0.14 - 1.09% | 7/02/15 - 6/25/18 | 0.602 | AA | 5.85% |
| FHLB Discount Notes | 199,983 | 199,987 | 0.03 - 0.12% | 7/01/15 - 8/19/15 | 0.071 | A-1 | 5.68% |
| FHLB Bonds | 448,494 | 447,368 | 0.12 - 1.64% | 7/10/15 - 12/20/18 | 1.207 | AA | 12.74% |
| FHLMC Discount Notes | 126,398 | 126,407 | 0.04 - 0.17% | 7/06/15 - 11/03/15 | 0.123 | A-1 | 3.59% |
| FHLMC Bonds | 518,553 | 516,967 | 0.09 - 1.08% | 7/17/15 - 6/22/18 | 1.481 | AA | 14.73% |
| Negotiable Certificates of Deposit | 55,007 | 55,000 | 0.12 - 0.34% | 7/31/15 - 12/01/15 | 0.092 | A-1 | 1.56% |
| Medium-Term Corporate Notes | | | | | | | |
| Corporate Notes | 43,895 | 41,998 | 0.90 - 1.08% | 1/31/17 - 8/15/18 | 2.490 | A | 1.25% |
| Corporate Notes | 202,844 | 199,623 | 0.35 - 1.49% | 7/08/15 - 12/15/18 | 1.678 | AA | 5.76% |
| Corporate Notes | 61,082 | 59,683 | 0.49 - 1.27% | 5/15/16 - 12/05/18 | 1.704 | AAA | 1.74% |
| Municipal Debt | 12,495 | 12,477 | 0.80% | 06/30/16 | 1.003 | AA | 0.36% |
| U.S. Treasuries | 917,948 | 914,767 | 0.24 - 0.98% | 9/15/15 - 4/15/18 | 1.098 | AA | 26.08% |
| Money Market Mutual Funds | 165,642 | 165,642 | 0.01 - 0.04% | 07/01/15 | 0.078 | AAA | 4.71% |
| | **$ 3,519,550** | **$ 3,503,879** | | | **1.073** (4) | | **100.00%** |

| With Treasurer: | Fair Value | Principal | Interest Rate Range (%) | Maturity Range | Weighted Average Maturity (Years) | Rating (1) | % of Portfolio |
|---|---|---|---|---|---|---|---|
| OCEIP (2) | | | | | | | |
| U.S. Government Agencies | | | | | | | |
| FNMA Discount Notes | $ 109,994 | $ 110,002 | 0.06 - 0.12% | 7/02/15 - 10/07/15 | 0.110 | A-1 | 2.91% |
| FNMA Bonds | 527,828 | 524,492 | 0.10 - 1.24% | 7/02/15 - 12/20/17 | 1.380 | AA | 13.96% |
| FFCB Discount Bonds | 10,000 | 10,000 | 0.04% | 08/04/15 | 0.096 | A-1 | 0.26% |
| FFCB Bonds | 193,143 | 192,964 | 0.04 - 1.09% | 7/30/15 - 6/25/18 | 0.709 | AA | 5.11% |
| FHLB Discount Notes | 194,494 | 194,502 | 0.03 - 0.15% | 7/10/15 - 10/21/15 | 0.100 | A-1 | 5.14% |
| FHLB Bonds | 501,667 | 500,547 | 0.07 - 1.64% | 7/23/15 - 12/20/18 | 1.097 | AA | 13.27% |
| FHLMC Discount Notes | 222,473 | 222,480 | 0.06 - 0.19% | 7/10/15 - 10/15/15 | 0.082 | A-1 | 5.88% |
| FHLMC Bonds | 483,637 | 482,097 | 0.14 - 1.08% | 9/04/15 - 6/22/18 | 1.588 | AA | 12.79% |
| Negotiable Certificates of Deposit | 58,007 | 58,000 | 0.24 - 0.34% | 7/16/15 - 12/01/15 | 0.076 | A-1 | 1.54% |
| Medium-Term Corporate Notes | | | | | | | |
| Corporate Notes | 44,058 | 42,154 | 0.90 - 1.08% | 1/31/17 - 8/15/18 | 2.490 | A | 1.16% |
| Corporate Notes | 221,543 | 218,214 | 0.23 - 1.49% | 7/08/15 - 12/15/18 | 1.782 | AA | 5.86% |
| Corporate Notes | 61,310 | 59,905 | 0.48 - 1.27% | 5/15/16 - 12/05/18 | 1.704 | AAA | 1.63% |
| Municipal Debt | 12,542 | 12,523 | 0.80% | 06/30/16 | 1.003 | AA | 0.33% |
| U.S. Treasuries | 921,376 | 918,183 | 0.24 - 0.98% | 9/15/15 - 4/15/18 | 1.098 | AA | 24.37% |
| Money Market Mutual Funds | 218,950 | 218,950 | 0.01 - 0.04% | 07/01/15 | 0.079 | AAA | 5.79% |
| | **$ 3,781,022** | **$ 3,765,013** | | | **1.016** (4) | | **100.00%** |

(Dollar Amounts in Thousands)

## 4. DEPOSITS AND INVESTMENTS (Continued)

### B. Investments (Continued)

| With Treasurer: | Fair Value | Principal | Interest Rate Range (%) | Maturity Range | Weighted Average Maturity (Years) | Rating (1) | % of Portfolio |
|---|---|---|---|---|---|---|---|
| Specific Investments (2) | | | | | | | |
| U.S. Government Agencies | | | | | | | |
| FNMA Discount Notes | $ 500 | $ 500 | 0.15% | 09/30/15 | 0.252 | A-1 | 0.30% |
| FNMA Bonds | 12,406 | 12,361 | 0.09 - 0.27% | 7/28/15 - 12/21/15 | 0.229 | AA | 7.34% |
| FFCB Bonds | 7,721 | 7,705 | 0.14 - 0.28% | 7/02/15 - 4/18/16 | 0.124 | AA | 4.57% |
| FHLB Bonds | 13,866 | 13,860 | 0.07 - 0.25% | 7/23/15 - 1/04/16 | 0.078 | AA | 8.21% |
| FHLMC Discount Notes | 2,514 | 2,515 | 0.09 - 0.13% | 9/30/15 - 10/09/15 | 0.262 | A-1 | 1.49% |
| FHLMC Bonds | 5,274 | 5,270 | 0.09 - 0.25% | 7/17/15 -10/16/15 | 0.115 | AA | 3.12% |
| GNMA Bonds | 94 | 90 | 6.25% | 09/20/29 | 14.236 | AA | 0.05% |
| Negotiable Certificates of Deposit | 2,000 | 2,000 | 0.24 - 0.28% | 8/13/15 - 12/01/15 | 0.019 | A-1 | 1.18% |
| Medium-Term Corporate Notes | | | | | | | |
| Corporate Notes | 4,432 | 4,390 | 0.22 - 0.41% | 7/01/15 - 6/01/16 | 0.397 | AA | 2.62% |
| Municipal Debt | 73,901 | 73,825 | 0.05 - 0.12% | 7/01/15 - 8/15/15 | 0.041 | AA | 43.73% |
| Repurchase Agreements | 1,082 | 1,082 | 6.20% | 08/15/19 | 4.129 | AA | 0.64% |
| Money Market Mutual Funds | 45,199 | 45,199 | 0.01 - 0.04% | 07/01/15 | 0.006 | AAA | 26.75% |
| | **$ 168,989** | **$ 168,797** | | | **0.101** (4) | | **100.00%** |

| With Trustees: | Fair Value | Principal | Interest Rate Range (%) | Maturity Range | Weighted Average Maturity (Years) | Rating (1) | % of Portfolio |
|---|---|---|---|---|---|---|---|
| Restricted Investments with Trustees (2) | | | | | | | |
| U.S. Government Agencies | | | | | | | |
| FNMA Zero Coupon Bonds | $ 135,394 | $ 63,482 | 0.00% | 09/01/16 - 09/01/21 | 4.189 | AA | 41.93% |
| U.S. Treasuries | 16,563 | 16,420 | 0.90-9.00% | 12/31/15 - 11/15/18 | 1.184 | AA | 5.13% |
| U.S. Treasury Strips | 350 | 54 | 0.00% | 11/15/18 | 3.381 | NR | 0.11% |
| Guaranteed Investment Contracts | 14,667 | 14,667 | 5.01% | 1/17/2017 | 1.550 | NR | 4.54% |
| Money Market Mutual Funds | | | | | | | |
| Money Market Mutual Funds | 62,160 | 62,160 | Variable | 07/01/15 | 0.001 | AAA | 19.25% |
| Money Market Mutual Funds | 84,194 | 84,194 | Variable | 07/01/15 | 0.002 | NR | 26.07% |
| Total Bond Mutual Fund | 2,017 | 2,016 | 0.5%-3.34% | 07/01/15 | 0.003 | NR | 0.62% |
| Stable Value Fund | 7,597 | 7,597 | Variable | 07/01/15 | 0.003 | NR | 2.35% |
| | **$ 322,942** | **$ 250,590** | | | **1.80** (4) | | **100.00%** |
| With External Orange County Retirement System (OCERS): | | | | | | | |
| Restricted Investments (3) | **$ 206,118** | | | | | | |

(1) The County obtains credit ratings from S&P, Moody's, and Fitch. The ratings indicative of the greatest degree of risk have been disclosed.
(2) Legend:
FFCB-Federal Farm Credit Bank
FNMA-Federal National Mortgage Association
FHLB-Federal Home Loan Bank
FHLMC- Federal Home Loan Mortgage Corporation
GNMA- Government National Mortgage Association
(3) The Retiree Medical Trust reports $206,118 of restricted investments with OCERS. Refer to Note 19 on obtaining OCERS Financial Statements. For more information regarding investments with OCERS, refer to their most recently issued financial statements available at http://www.ocers.org/finance/finance.htm.
(4) Portfolio weighted average maturity.

Investment in County of Orange Taxable Pension Obligation Bonds 2015, Series A

On January 13, 2015, the OCIP and the OCEIP purchased a portion of the County issued Taxable Pension Obligation Bonds 2015, Series A (2015 POBs) in the principal amount of $25,000. The 2015 POBs were issued with a fixed coupon rate and matures in June 2016. The obligation of the County to pay principal and interest on the 2015 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2015, the outstanding principal amount of the 2015 POBs is $25,000. The bonds are rated AA- by S&P.
The County's investment in the 2015 POBs is disclosed herein as Municipal Debt. For additional information, refer to Note 10, Short-Term Obligations and Note 18, Retirement Plans.

## 4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Interest Rate Risk - Investments

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, investments of longer maturities are more sensitive to changes in market interest rates. Declines in the fair value of investments are managed by limiting the length of the maturity of the securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment policy. Actual weighted average days to maturity by investment type for the funds invested in the Pools are presented in the preceding table.

The OCIP funds of $3,519,550 and the OCEIP funds of $3,781,022 portfolio at June 30, 2015, have over 37.44% and 39.99%, respectively of the investments maturing in six months or less, 60.99% and 58.54% respectively, maturing between six months and three years and 1.57% and 1.47% respectively, maturing from three to five years.

As of June 30, 2015, variable-rate notes comprised 4.17% and 4.74% of the OCIP and OCEIP, respectively. The notes are tied to the Federal funds rate, 90-day Treasury Bill rate, one-month and three-month London Interbank Offered Rate (LIBOR) with daily, monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to a market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity (WAM), the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

The annual average daily investment balance of the OCIP and the OCEIP was $3,457,911 and $3,684,448, respectively with an annual yield of 0.42% and 0.41% respectively for the pools, for the year ended June 30, 2015.

Interest Rate Risk-Weighted Average Maturity (Money Market Funds)

At June 30, 2015, the OCMMF and OCEMMF amounted to $916,191 and $1,167,943, respectively. In accordance with the Board formally approved IPS, the Treasurer manages the Pool's exposure to declines in fair value for deposits and investments by limiting the WAM to 60 days in the Money Market Funds. At June 30, 2015, the WAM of the OCMMF was 54 days and the OCEMMF was 58 days. At the same date, the NAV of the Money Market Funds for both pools was $1.00 (in absolute dollar amounts).

Interest Rate Risk-Duration (Extended Fund)

At June 30, 2015, the Extended Fund (which includes funds from both OCIP and OCEIP) balance was $5,216,438. Of this amount, the OCIP owned 49.9% and the OCEIP owned 50.1%. In accordance with the IPS, the Treasurer manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index (2.34). The portfolio duration for the Extended Fund as of June 30, 2015 was 1.38 years. This was computed using the Macaulay duration method, which calculates the maturity date of callable bonds using their final maturity date.

As of June 30, 2015, the Extended Fund had the following duration by investment type:

| Investment Type | | Fair Value (Amounts in Thousands) | Portfolio % | Macaulay Duration (In Years) |
|---|---|---|---|---|
| Medium-Term Corporate Notes | $ | 509,616 | 9.77% | 1.94 |
| Municipal Debt | | 25,037 | 0.48% | 1.00 |
| U.S. Treasuries | | 1,839,324 | 35.26% | 1.09 |
| U.S. Government Agencies | | 2,842,461 | 54.49% | 1.47 |
| Total Fair Value | $ | 5,216,438 | | |
| Portfolio Duration | | | | 1.38 |

**4. DEPOSITS AND INVESTMENTS (Continued)**

B. Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The IPS does not permit investments in uninsured and unregistered securities not held by the County. The Treasurer utilizes third party delivery versus payment (DVP) which mitigates any custodial credit risk. Securities purchased by the Treasurer are held by third party custodians in their trust department to mitigate custodial credit risk. At year-end, in accordance with the IPS, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk, and the Treasurer did not have any securities lending during the year (or at year-end).

Credit Risk - Investments

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following NRSROs: S&P, Moody's, or Fitch. For an issuer of short-term debt, the rating must be no less than "A-1" or "SP-1" (S&P), "P-1" or "MIG 1/VMIG 1" (Moody's), or "F1" (Fitch), while an issuer of long-term debt shall be rated no less than an "A" in the Money Market Funds and "AA" in the Extended Fund. Municipal debt issued by the County is exempt from the above credit rating requirements. As of June 30, 2015, the County's investments were in compliance with the IPS limits.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2015, all investments were in compliance with state law and the IPS single issuer limits. See the table on pages 84 and 85 for concentrations of holdings in U.S. government agencies.

Foreign Currency Risk

The IPS requires all securities to be U.S. dollar denominated. The county investments pools are not exposed to foreign currency risk.

## 4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements

In lieu of separately issued financial statements for the entire pools and the external portion of the pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2015:

### Entire Pool

**Statement of Net Position**

| | County Investment Pool | Educational Investment Pool | Total |
|---|---|---|---|
| Net Position Held for Pool Participants | $ 3,630,316 | $ 3,828,819 | $ 7,459,135 |
| Equity of Internal Pool Participants | $ 3,358,952 | $ -- | $ 3,358,952 |
| Equity of External Pool Participants | 276,756 | 3,834,291 | 4,111,047 |
| Undistributed and Unrealized (Loss) | (5,392) | (5,472) | (10,864) |
| Total Net Position | $ 3,630,316 | $ 3,828,819 | $ 7,459,135 |

**Statement of Changes in Net Position**

| | County Investment Pool | Educational Investment Pool | Total |
|---|---|---|---|
| Net Position at July 1, 2014 | $ 3,255,895 | $ 3,210,600 | $ 6,466,495 |
| Net Changes in Investments by Pool Participants | 374,421 | 618,219 | 992,640 |
| Net Position at June 30, 2015 | $ 3,630,316 | $ 3,828,819 | $ 7,459,135 |

### External Pool Portion

**Combining Statement of Fiduciary Net Position**

| | County Investment Pool | Educational Investment Pool | Total |
|---|---|---|---|
| Assets | | | |
| Pooled Cash/Investments | $ 276,091 | $ 3,822,634 | $ 4,098,725 |
| Receivables | | | |
| Interest/Dividends | 741 | 6,402 | 7,143 |
| Total Assets | 276,832 | 3,829,036 | 4,105,868 |
| Liabilities | | | |
| Due to Other Governmental Agencies | 76 | 217 | 293 |
| Total Liabilities | 76 | 217 | 293 |
| Net Position | | | |
| Restricted for Pool Participants | 276,756 | 3,828,819 | 4,105,575 |
| Total Net Position | $ 276,756 | $ 3,828,819 | $ 4,105,575 |

(Dollar Amounts in Thousands)

## 4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements (Continued)

**Combining Statement of Changes in Fiduciary Net Position**

| | County Investment Pool | Educational Investment Pool | Total |
|---|---|---|---|
| Additions: | | | |
| Contributions to Pooled Investments | $ 442,062 | $ 7,226,168 | $ 7,668,230 |
| Other Revenues | 3 | 68 | 71 |
| Interest and Investment Income | 908 | 17,039 | 17,947 |
| Less: Investment Expense | (140) | (2,786) | (2,926) |
| Total Additions | 442,833 | 7,240,489 | 7,683,322 |
| Deductions: | | | |
| Distributions from Pooled Investments | 436,822 | 6,622,270 | 7,059,092 |
| Total Deductions | 436,822 | 6,622,270 | 7,059,092 |
| Change in Net Position Held in Trust For External Investment Pool | 6,011 | 618,219 | 624,230 |
| Net Position, Beginning of Year | 270,745 | 3,210,600 | 3,481,345 |
| Net Position, End of Year | $ 276,756 | $ 3,828,819 | $ 4,105,575 |

C. Restricted Deposits and Investments with Trustees

All monies for restricted investments held by trustees are invested in “permitted investments” as defined in the various trust agreements. Restricted deposits with trustees are insured by FDIC up to $250 and the excess amounts are collateralized.

D. CalOptima’s Cash and Investments

Cash and investments as of June 30, 2015, consist of the following:

| | 2015 |
|---|---|
| Current Assets: | |
| Cash and Cash Equivalents | $ 25,431 |
| Investments | 745,792 |
| Board-Designated Assets and Restricted Cash: | |
| Cash and Cash Equivalents | 866 |
| Investments | 459,283 |
| Restricted Deposit | 300 |
| Total | $ 1,231,672 |

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure CalOptima may not be able to recover its deposits or collateral securities that are in the possession of an outside party. The CGC requires that a financial institution secure deposits made by public agencies by pledging securities in an undivided

**4. DEPOSITS AND INVESTMENTS (Continued)**

D. CalOptima's Cash and Investments (Continued)

Custodial Credit Risk – Deposits (Continued)

collateral pool held by a depository regulated under the state law. At June 30, 2015, no deposits were exposed to custodial credit risk, as CalOptima has pledged collateral to cover the amounts.

Investments
CalOptima invests in obligations of the U.S. Treasury, other U.S. government agencies and instrumentalities, state obligations, corporate securities, money market funds, and mortgage or asset-backed securities.

Interest Rate Risk
In accordance with its annual investment policy (investment policy), CalOptima manages its exposure to decline in fair value from increasing interest rates by matching maturity dates to the extent possible with CalOptima's expected cash flow draws. Its investment policy limits maturities to five years, while also staggering maturities. CalOptima maintains a low-duration strategy, targeting a portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile because they are less sensitive to interest rate changes.

As of June 30, 2015, CalOptima's investments, including cash equivalents, had the following modified duration:

| | | Investment Maturities (In Years) | |
|---|---|---|---|
| | Fair Value | Less Than 1 | 1-5 |
| U.S. Agencies | $ 50,937 | $ - | $ 50,937 |
| Asset-Backed Securities | 111,542 | 21,834 | 89,708 |
| Corporate Bonds | 339,824 | 82,113 | 257,711 |
| Government | 30,932 | 1,400 | 29,532 |
| Money Market Mutual Funds | 216,154 | 216,154 | -- |
| Mortgage-Backed Securities | 63,675 | 257 | 63,418 |
| Municipal Bonds | 63,109 | 27,467 | 35,642 |
| Tax Exempt | 28,068 | 23,062 | 5,006 |
| U.S. Treasury Notes | 305,693 | 50,052 | 255,641 |
| Cash | 19,194 | 2,165 | - |
| Total | $ 1,229,128 | $ 424,504 | $ 787,595 |
| Accrued Interest Receivable | 2,544 | | |
| | $ 1,231,672 | | |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations
When interest rates fall, debt is refinanced and paid off early. The reduced stream of future interest payments diminishes the fair value of the investment. The mortgage-backed and asset-backed securities in the CalOptima portfolio are of high credit quality, with relatively short average lives that represent limited prepayment and interest rate exposure risk. CalOptima's investments include the following investments that are highly sensitive to interest rate and prepayment fluctuations to a greater degree than already indicated in the information provided above:

| | Fair Value, June 30, 2015 |
|---|---|
| Asset-Back Securities | $ 111,542 |
| Mortgage-Backed Securities | 63,675 |
| | $ 175,217 |

(Dollar Amounts in Thousands)

## 4. DEPOSITS AND INVESTMENTS (Continued)

D. CalOptima's Cash and Investments (Continued)

Credit Risk

CalOptima's investment policy conforms to the CGC as well as to customary standards of prudent investment management. Credit risk is mitigated by investing in only permitted investments. The investment policy sets minimum acceptable credit ratings for investments from the three nationally recognized rating services: Standard & Poor's Rating Services (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's) or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A."

As of June 30, 2015, the following are the credit ratings of investments and cash equivalents:

| Investment Type | Fair Value | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year-End AAA | Aa & Aa+ | Aa- | A+ | A/A-1 | A- |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Treasury Notes | $ 383,009 | N/A | $ 383,009 | $ - | $ - | $ - | $ - | $ - | $ - |
| U.S. Agency Notes | 135,085 | N/A | - | 135,085 | | | | | |
| Corporate Bonds | 341,140 | A- | - | 2,433 | 40,441 | 64,230 | 83,076 | 114,651 | 36,309 |
| Asset-Backed Securities | 111,574 | AAA | - | 111,574 | - | - | - | - | - |
| Mortgage-Backed Securities | 91,634 | A | - | 18,484 | 33,260 | 25,544 | 8,371 | 5,975 | - |
| Municipal Bonds | 63,729 | AAA | - | 63,729 | - | - | - | - | - |
| Certificates of Deposit | 76,528 | A1/P1 | - | 76,528 | - | - | - | - | - |
| Commercial Paper | 9,779 | A1/P1 | - | 9,779 | - | - | - | - | - |
| Money Market Mutual Funds | 19,194 | AAA | - | 19,194 | - | - | - | - | - |
| Total | $ 1,231,672 | | $ 383,009 | $ 436,806 | $ 73,701 | $ 89,774 | $ 91,447 | $ 120,626 | $ 36,309 |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of CalOptima's investment in a single issuer. CalOptima's investment policy limits to no more than 5 percent of the total fair value of investments in the securities of any one issuer, except for obligations of the U.S. government, U.S. government agencies or government-sponsored enterprises; and no more than 10 percent may be invested in one money market mutual fund unless approved by the governing board. The investment policy also places a limit of 35 percent of the amount of investment holdings with any one government-sponsored issuer and 5 percent of all other issuers. At June 30, 2015, all holdings complied with the foregoing limitations. The following holdings exceeded 5 percent of the portfolio at June 30, 2015:

| Investment Type | Issuer | Percentage of Portfolio 2015 |
|---|---|---|
| U.S. Treasury Notes | United States Treasury | 25.22 |

## 5. CHANGES IN CAPITAL ASSETS

Increases and decreases in the County's capital assets for governmental and business-type activities during the fiscal year were as follows:

| | Primary Government | | | | |
|---|---|---|---|---|---|
| | Balance July 1, 2014 | Increases | Decreases | Adjustments | Balance June 30, 2015 |
| Capital Assets Not Depreciated/Amortized: | | | | | |
| Land | $ 813,756 | $ 12,585 | $ (2,857) | $ -- | $ 823,484 |
| Land Use Rights (Permanent) | 6,992 | -- | -- | -- | 6,992 |
| Construction in Progress | 97,213 | 72,030 | (59,454) | -- | 109,789 |
| Intangible in Progress | 22,273 | 2,847 | (24,263) | -- | 857 |
| Total Capital Assets Not Being Depreciated/Amortized: | 940,234 | 87,462 | (86,574) | -- | 941,122 |
| Capital Assets, Depreciable/Amortizable: | | | | | |
| Structures and Improvements | 1,214,243 | 17,797 | (12,139) | -- | 1,219,901 |
| Land Improvements | -- | 485 | -- | -- | 485 |
| Equipment | 357,610 | 48,874 | (14,804) | 208 | 391,888 |
| Software | 97,879 | 11,858 | -- | -- | 109,737 |
| Infrastructure: | | | | | |
| Flood Channels | 1,187,693 | 27,581 | -- | -- | 1,215,274 |
| Roads | 222,850 | 7,954 | (643) | -- | 230,161 |
| Bridges | 94,585 | 12,137 | -- | -- | 106,722 |
| Trails | 43,838 | 235 | -- | -- | 44,073 |
| Traffic Signals | 11,621 | -- | -- | -- | 11,621 |
| Harbors and Beaches | 41,238 | -- | -- | -- | 41,238 |
| Capital Assets, Depreciable/Amortizable | 3,271,557 | 126,921 | (27,586) | 208 | 3,371,100 |
| Less Accumulated Depreciation/Amortization For: | | | | | |
| Structures and Improvements | (609,256) | (30,958) | 5,951 | -- | (634,263) |
| Land Improvements | -- | (12) | -- | -- | (12) |
| Equipment | (292,961) | (17,451) | 14,618 | -- | (295,794) |
| Software | (47,304) | (15,844) | -- | -- | (63,148) |
| Infrastructure: | | | | | |
| Flood Channels | (286,652) | (15,813) | -- | -- | (302,465) |
| Roads | (114,956) | (9,019) | 418 | -- | (123,557) |
| Bridges | (34,727) | (2,173) | -- | -- | (36,900) |
| Trails | (31,236) | (1,374) | -- | -- | (32,610) |
| Traffic Signals | (10,528) | (146) | -- | -- | (10,674) |
| Harbors and Beaches | (28,117) | (1,007) | -- | -- | (29,124) |
| Total Accumulated Depreciation/Amortization | (1,455,737) | (93,797) | 20,987 | -- | (1,528,547) |
| Capital Assets, Depreciable/Amortizable (Net) | 1,815,820 | 33,124 | (6,599) | 208 | 1,842,553 |
| | $ 2,756,054 | $ 120,586 | $ (93,173) | $ 208 | $ 2,783,675 |

(Dollar Amounts in Thousands)

## 5. CHANGES IN CAPITAL ASSETS (Continued)

| | Primary Government | | | | |
|---|---|---|---|---|---|
| | Balance July 1, 2014 | Increases | Decreases | Adjustments | Balance June 30, 2015 |
| Business-Type Activities: | | | | | |
| Capital Assets Not Depreciated/Amortized: | | | | | |
| Land | $ 38,083 | $ -- | $ (241) | $ -- | $ 37,842 |
| Construction in Progress | 28,084 | 52,652 | (6,648) | -- | 74,088 |
| Intangible in Progress | -- | 879 | -- | -- | 879 |
| Total Capital Assets Not Being Depreciated/Amortized: | 66,167 | 53,531 | (6,889) | -- | 112,809 |
| Capital Assets, Depreciable/Amortizable: | | | | | |
| Structures and Improvements | 769,607 | 1,400 | (4,876) | (84) | 766,047 |
| Equipment | 82,196 | 6,397 | (10,164) | 84 | 78,513 |
| Software | 856 | 154 | -- | -- | 1,010 |
| Infrastructure | 531,062 | 5,329 | -- | -- | 536,391 |
| Capital Assets, Depreciable/Amortizable | 1,383,721 | 13,280 | (15,040) | -- | 1,381,961 |
| Less Accumulated Depreciation/Amortization For: | | | | | |
| Structures and Improvements | (235,924) | (23,812) | 800 | -- | (258,936) |
| Equipment | (61,246) | (5,075) | 9,806 | -- | (56,515) |
| Software | (47) | (72) | -- | -- | (119) |
| Infrastructure | (329,652) | (14,372) | -- | -- | (344,024) |
| Total Accumulated Depreciation/Amortization | (626,869) | (43,331) | 10,606 | -- | (659,594) |
| Capital Assets, Depreciable/Amortizable (Net) | 756,852 | (30,051) | (4,434) | -- | 722,367 |
| Business-Type Activities Total Capital Assets, Net | $ 823,019 | $ 23,480 | $ (11,323) | $ -- | $ 835,176 |

Depreciation/amortization expense was allocated among functions of the primary government as follows:

| | |
|---|---|
| Government Activities: | |
| General Government | $ 16,630 |
| Public Protection | 40,594 |
| Public Ways and Facilities | 14,151 |
| Health and Sanitation | 4,241 |
| Public Assistance | 4,971 |
| Education | 1,370 |
| Recreation and Cultural Services | 7,662 |
| Internal Service Funds' Depreciation Expense Allocated to Various Functions | 4,178 |
| Total Governmental Activities Depreciation/Amortization Expense | 93,797 |
| Business-Type Activities: | |
| Airport | 28,561 |
| Waste Management | 14,770 |
| Total Business-Type Activities Depreciation/Amortization Expense | 43,331 |
| Total Depreciation/Amortization Expense | $ 137,128 |

## 5. CHANGES IN CAPITAL ASSETS (Continued)

Capital Asset Impairments

The general government activity reported an impairment loss on the Statement of Activities related to the Property Tax Management System (PTMS) upgrade, which was halted after the vendor's contract expired and the development ceased. The PTMS upgrade incurred $18,112 in capitalized costs. This amount was reported as a loss since the resulting product was incomplete and was rendered inoperable. No insurance recoveries were received for the PTMS impairment loss.

The Airport business-type activity reported an impairment loss of $4,077 on the Statement of Activities. The loss is related to the existing Common Use Passenger Processing System (CUPPS) hardware and software that are obsolete due to the new global credit card industry standards for authenticating chip and pin credit card transactions. No insurance recoveries were received for the CUPPS impairment loss.

## 6. RECEIVABLES

GASB Statement No. 38, *"Certain Financial Statement Note Disclosures,"* requires identification of receivable balances not expected to be collected within one year. The details of the receivables reported in the government-wide Statement of Net Position that are not expected to be collected within the next fiscal year are identified below:

Accounts Receivable

Accounts Receivable had a balance of $22,719 as of June 30, 2015. Of this amount, $2,097 is not expected to be collected within the next fiscal year. This primarily consists of $1,737 for animal care delinquent invoices.

Deposits Receivable

Deposits Receivable had a balance of $5,024 as of June 30, 2015. Of this amount, $4,976 is not expected to be collected within the next fiscal year. This primarily consists of $2,883 in operating accounts for Dana Point Harbor operators and Green River Golf Course.

Notes Receivable

Notes Receivable had a balance of $28,255 as of June 30, 2015. Of this amount, $27,608 is not expected to be received within the next fiscal year. This primarily consists of $25,157 for loans to build affordable, low to moderate income, and senior housing and $2,030 is for housing loans for Mental Health Services Act (MHSA) programs. The remaining $421 is for loans provided to first time home buyers.

Due from Other Governmental Agencies

Due from Other Governmental Agencies had a balance of $458,702 as of June 30, 2015. Of this amount, $47,533 is not expected to be received within the next fiscal year, which primarily consists of $39,653 owed by the State of California to the County for various Senate Bill (SB90) mandated cost reimbursements for programs and services the State requires the County to provide. In addition, $1,113 is owed by the City of Rancho Santa Margarita for amounts due under their Revenue Neutrality Agreement; it is anticipated that the amount will be collected within 3 years. $3,615 is for expected reimbursement for the Santa Ana River Subvention Revenue claims to be submitted to the State Department of Water Resources.

## 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables may result from services rendered by one fund to another fund, or from interfund loans. "Due from" and "due to" balances are generally used to reflect short-term interfund receivables and payables whereas "advance from" and "advance to" balances are long-term.

(Dollar Amounts in Thousands)

## 7. INTERFUND RECEIVABLES AND PAYABLES (Continued)

The composition of interfund balances as of June 30, 2015 is as follows:

Due from/to other funds:

| Payable Funds | Receivable Funds: General Fund | Roads | Flood Control District | Other Public Protection | Other Governmental Funds | Airport | Waste Management | Compressed Natural Gas | Internal Service Funds | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| General Fund | $ - | $ 595 | $ 181 | $ 3,610 | $ 24,805 | $ 11 | $ 24 | $ 2 | $ 2,083 | $ 31,311 |
| Roads | 2,383 | - | 1,324 | - | 2 | - | 16 | - | 4 | 3,729 |
| Flood Control District | 11,307 | 1,094 | - | - | 2 | - | 1,021 | - | 5 | 13,429 |
| Other Public Protection | 18,434 | - | - | - | 1,603 | - | - | - | 8 | 20,045 |
| Teeter Plan Notes | 2 | - | - | - | - | - | - | - | - | 2 |
| Other Governmental Funds | 49,572 | 72 | 51 | 1 | 188 | - | - | - | 54 | 49,938 |
| Airport | 2,139 | 27 | - | 1 | - | - | - | - | 481 | 2,648 |
| Waste Management | 4,630 | 900 | 2 | - | 1 | - | - | - | 21 | 5,554 |
| Compressed Natural Gas | 16 | - | - | - | - | - | - | - | - | 16 |
| Internal Service Funds | 795 | 12 | - | - | 12 | - | - | - | 1 | 820 |
| Total | $ 89,278 | $ 2,700 | $ 1,558 | $ 3,612 | $ 26,613 | $ 11 | $ 1,061 | $ 2 | $ 2,657 | $ 127,492 |

Interfund transactions between the Primary Government and Component Unit:

| Receivable Entity | Payable Entity | Amount |
|---|---|---|
| Primary Government – General Fund | Component Unit – Children and Families Commision of Orange County | $ 201 |
| Component Unit – Children and Families Commision of Orange County | Primary Government – General Fund | 3 |
| Component Unit – Children and Families Commision of Orange County | Primary Government – Other Governmental Funds | 1 |

The majority of the interfund balances resulted from the time lag between the time that (1) goods and services were provided, (2) transactions were recorded in the accounting system, and (3) payments between the funds were made.

Advances from/to other funds:

| Receivable Entity | Payable Entity | Amount |
|---|---|---|
| General Fund | Other Governmental Fund | $ 3,800 |
| Waste Management | General Fund | 2,351 |

The interfund loans represent an advance to the Courthouse Construction Fund from the General Fund to backfill the deficit as a result of a state audit of court revenues for the period FY 2003-04 through FY 2011-12, and an advance made to the General Fund from Waste Management for various information technology capital projects.

## 8. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from landfill gas lease agreements, cell tower operators and a material recovery facility. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2015, approximates $56,776, net of accumulated depreciation.

The County leases real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2015 are as follows:

| Fiscal Year Ending June 30 | Governmental Activities | Business-type Activities |
|---|---|---|
| 2016 | $ 13,450 | $ 39,633 |
| 2017 | 12,827 | 26,604 |
| 2018 | 12,607 | 26,019 |
| 2019 | 11,806 | 16,681 |
| 2020 | 11,401 | 10,552 |
| | 62,091 | 119,489 |
| 2021-2025 | 48,678 | 25,107 |
| 2026-2030 | 43,417 | 15,135 |
| 2031-2035 | 46,372 | 3,092 |
| 2036-2040 | 41,347 | -- |
| 2041-2045 | 629 | -- |
| 2046-2050 | 306 | -- |
| | 180,749 | 43,334 |
| Total future minimum rentals | $ 242,840 | $ 162,823 |

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $28,172 (Enterprise Funds), $23,570 (Other Governmental Funds), $637 (Internal Service Funds) and $354 (Flood Control District) for the year ended June 30, 2015.

(Dollar Amounts in Thousands)

## 9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015 were as follows:

| | Transfer In Funds | | | | | |
|---|---|---|---|---|---|---|
| Transfer Out Funds | General Fund | Flood Control District | Other Public Protection | Other Governmental Funds | Internal Service Funds | Total |
| General Fund | $ - | $ - | $ 7,062 | $ 90,102 | $ 5,107 | $ 102,271 |
| Roads | - | - | - | - | 233 | 233 |
| Flood Control District | 3,079 | - | - | 164 | 347 | 3,590 |
| Other Public Protection | 32,000 | - | - | 1,690 | 68 | 33,758 |
| Other Governmental Funds | 179,165 | 2,184 | - | 2,403 | - | 183,752 |
| Waste Management | 19,810 | - | - | - | - | 19,810 |
| Compressed Natural Gas | - | 149 | - | - | - | 149 |
| Internal Service Funds | 32 | 215 | - | - | 3 | 250 |
| Total | $ 234,086 | $ 2,548 | $ 7,062 | $ 94,359 | $ 5,758 | $ 343,813 |

Interfund transfers reflect a flow of assets between funds and blended component units of the primary government without an equivalent flow of assets in return. Routine transfers were made in the current fiscal year to (1) relay cash/resources from contributing County funds to various debt service funds for the retirement of long-term obligations, (2) transfer Measure H Tobacco Settlement revenues and Public Safety Sales Tax (PSST) excess revenue in compliance with the specific statutory requirements, (3) provide resources for services provided within the County's Wraparound Program, (4) make available cash distributions based on the Bankruptcy Recovery Plan, (5) contribute resources to comply with Proposition 63 Mental Health Services Act and (6) transfer excess unrestricted revenues to finance various County programs based on budgetary authorizations by the Board. The details of the significant transfers are outlined below:

Routine Transfers

From the General Fund

- $35,022 was transferred to the Other Governmental Funds in connection with debt service payments for various County debt issues.
- $20,859 was transferred to Other Governmental Funds to distribute available cash to the remaining claimants of the bankruptcy loss as part of the Bankruptcy Recovery Plan.
- $13,751 was transferred to Other Governmental Funds to finance the County's 60 percent share of the Social Services Agency Wraparound Program.
- $2,089 was transferred to Other Public Protection for the annual transfer of PSST excess revenue to meet future public protection needs.
- $1,439 was transferred to Other Governmental Funds to pay for operating costs and debt service obligations associated with parking facilities.
- $1,003 was transferred to Internal Service Funds for medical reimbursements.

From Flood Control District

- $3,079 was transferred to the General Fund for the Watershed Management Program.

From Other Public Protection

- $11,592 was transferred to the General Fund for the reimbursement of the District Attorney's programs.
- $8,848 was transferred to the General Fund to support the Sheriff Department's operations.
- $3,350 was transferred to the General Fund for the Sheriff-Coroner's Backbone Cost Sharing Program.

## 9. INTERFUND TRANSFERS (Continued)

Routine Transfers (Continued)

From Other Governmental Funds

- $137,284 was transferred to the General Fund for the reimbursement of various County programs as follows:
  - $103,951 for Proposition 63, Mental Health Services Act expenditures
  - $21,359 for the Social Services Agency Wraparound Program
  - $8,832 for emergency medical services
  - $2,076 for the Center for Disease Control pandemic flu H1N1 costs
  - $1,066 for the Alcohol & Drug Assessment and Automated Vital Health Statistics program
- $28,588 of tobacco settlement monies was transferred to the General Fund to finance Health Care Agency's various health care programs and Sheriff Department's operational costs.
- $4,984 was transferred to the General Fund for reimbursement of Juvenile Justice Center debt service payments.
- $2,405 was transferred to Other Governmental Funds for reimbursement of debt service obligations associated with parking facilities.

From Enterprise Funds

- $19,810 was transferred from Waste Management to the General Fund primarily to pay bankruptcy related obligations in accordance with the County's comprehensive recovery plan.

In addition, the County had non-recurring transfers in the current fiscal year, which consisted of the following:

Non-Recurring Transfers

From the General Fund

- $13,363 was transferred to Other Governmental Funds for the estimated Orange County Transportation Authority land acquisition and equipment upgrades to HCA's parking structure.
- $3,200 was transferred to Other Public Protection for the purchase of new equipment for the 800 MHz County-wide Coordination Communication system.
- $3,000 was transferred to Other Governmental Funds primarily for the maintenance and repair of various Criminal Justice Facilities.
- $2,632 was transferred to Internal Service Funds primarily for the purchase of Sheriff vehicles.
- $1,700 was transferred to Other Governmental Funds to meet the debt service payment for the 2012 Juvenile Justice Bonds.
- $1,308 was transferred to Other Public Protection for Clerk-Recorded fee revenues restricted to Clerk-Recorder operations.

From Other Governmental Funds

- $5,674 was transferred to the General Fund for additional costs identified in the General Relief Fund.
- $2,183 was transferred to the Flood Control District Funds for the reimbursement of expenditures on the Haster Retarding Basin Pump Station and Recreational Field.

From Other Public Protection

- $4,656 was transferred to the General Fund for reimbursement of various Clerk-Recorder eligible operating expenditures.
- $3,297 was transferred to the General Fund for residual balances due to the closure of the Juvenile Justice Program Fund.
- $1,599 was transferred to Other Governmental Funds for reimbursement expenditures for various Sheriff-Coroner's construction and facility development.

(Dollar Amounts in Thousands)

## 10. SHORT-TERM OBLIGATIONS

Taxable Pension Obligation Bonds, 2014 Series A

On January 14, 2014, the County issued Taxable Pension Obligation Bonds, 2014 Series A (the "2014 POBs") in the principal amount of $325,405. The 2014 POBs, combined with $21,474 in County funds, were issued in order to prepay a portion of the County's FY 2014-15 pension contribution at a discount. The County issued the 2014 POBs in five fixed rate maturities with the final maturity on June 30, 2015. The County sold the 2014 POBs with interest rates between .65% and .83% depending on maturity in a direct purchase by the Orange County Treasurer on behalf of the Orange County Investment Fund. The County repaid in full the outstanding balance of the bonds on June 30, 2015.

Taxable Pension Obligation Bonds, 2015 Series A

On January 13, 2015, the County issued Taxable Pension Obligation Bonds, 2015 Series A (the "2015 POBs") in the principal amount of $339,625. The 2015 POBs were issued in order to prepay the County's FY 2015-16 pension contribution at a discount. The 2015 POBs were issued as standard bonds, with five fixed rate tranches, and a final maturity date of June 30, 2016. The obligation of the County to pay principal and interest on the 2015 POBs is imposed by law and is absolute and unconditional. As of June 30, 2015, the outstanding principal amount of the 2015 POBs reported in the General Fund was $339,625. Refer to Note 4, Deposits and Investments and Note 18, Retirement Plans for additional information.

| Description | Balance July 1, 2014 | Issuances & Discount/ Premium Amortization | Retirements | Balance June 30, 2015 | Amounts Due within One Year |
|---|---|---|---|---|---|
| **County of Orange Taxable Pension Obligation Bonds, 2014 Series A** | | | | | |
| Date Issued: January 14, 2014 | | | | | |
| Interest Rate: 0.65% to 0.83% | | | | | |
| Original Amount: $325,405 | | | | | |
| Maturing in installments through June 30, 2015 | 325,405 | -- | (325,405) | -- | -- |
| **County of Orange Taxable Pension Obligation Bonds, 2015 Series A** | | | | | |
| Date Issued: January 13, 2015 | | | | | |
| Interest Rate: 0.43% to 0.80% | | | | | |
| Original Amount: $339,625 | | | | | |
| Maturing in installments through June 30, 2016 | -- | 339,625 | -- | 339,625 | 339,625 |
| **Total** | $ 325,405 | $ 339,625 | $ (325,405) | $ 339,625 | $ 339,625 |

## 11. LONG-TERM OBLIGATIONS

### General Bonded Debt

General Obligation Bonded Debt

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25% of the last equalized assessment property tax roll. At June 30, 2015, the County had no net general obligation bonded debt. The County's legal debt limit for the year was $5,953,791. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, Section 1 requires the approval of 2/3 of the voters voting on the proposition.

### Bankruptcy Obligations

Refunding Recovery Bonds 2005, Series A

On August 18, 2005, the County issued its $146,005 Refunding Recovery Bonds 2005 Series A (2005 Recovery Bonds) at a premium of $9,318. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the Recovery Refunding Bonds 1995 Series A (1995 Recovery Bonds), were used to refund and defease the outstanding 1995 Recovery Bonds and pay costs of issuance for the 2005 Recovery Bonds. As of June 30, 2015, the bonds outstanding were fully redeemed.

Lease Revenue Refunding Bonds, Series 2005

On August 16, 2005, the Orange County Public Financing Authority (OCPFA) issued its $419,755 Lease Revenue Refunding Bonds Series 2005 (Series 2005 Bonds) at a premium of $19,973. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the 1996 Recovery Certificates of Participation (Recovery COPs), were used to defease certain non-callable Recovery COPs, the remainder was used to fund a debt service reserve fund for the Series 2005 Bonds, and pay costs of issuance of the Series 2005 Bonds. As of June 30, 2015, the outstanding principal amount, including the premium of the Series 2005 Bonds, and interest were $70,388 and $3,995, respectively.

The Series 2005 Bonds are limited obligations of the OCPFA payable through July 2017 and are payable solely from base rental payments to be made by the County pursuant to a lease, dated as of August 1, 2005, between the OCPFA and the County, and other amounts held by the trustee in the funds and accounts established under the indenture (other than the rebate fund), except as otherwise provided in the indenture.

### Revenue Bonds Payable and Certificates of Participation

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, Certificates of Participation (COPs) representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the $33,579 Refunding COPs (Civic Center Parking Facilities Project), which are payable through December 2018. At June 30, 2015, the outstanding principal amount, interest accretion, and unaccreted interest of the Refunding COPs were $1,744, $7,036, and $1,629 respectively.

The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation.

## 11. LONG-TERM OBLIGATIONS (Continued)

### Revenue Bonds Payable and Certificates of Participation (Continued)

Lease Revenue Refunding Bonds, Series 2012 (Juvenile Justice Center Facility)

On April 25, 2012, the South Orange County Public Financing Authority (SOCPFA) issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2012 Bonds, in the principal amount of $34,380, payable through June 2019, with a premium of $2,927. The Lease Revenue Refunding Bonds were issued to redeem the outstanding OCPFA Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, fund a Reserve Fund, and pay costs relating to the issuance of the bonds. As of June 30, 2015, the outstanding principal amount, including the premium of the Series 2012 Bonds, and interest were $22,946 and $2,358, respectively.

The bonds are special obligations of the SOCPFA payable solely from and secured by the base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2012, between the SOCPFA and the County, and other amounts held by the trustee in the funds and accounts established under the indenture (other than the rebate fund), except as otherwise provided in the indenture.

Lease Revenue Bonds, Series 2006

On October 19, 2006, the OCPFA issued its $32,700 Lease Revenue Bonds, Series 2006 (Series 2006 Bonds) at a premium of $2,140. The Lease Revenue Bonds, payable through June 2018, were issued to finance the construction of a cogeneration conversion project at the County's central utility facility, fund a debt service reserve fund for the bonds, and pay costs relating to the issuance of the bonds. As of June 30, 2015, the outstanding principal amount, including the premium of the Series 2006 Bonds, and interest were $12,546 and $1,163, respectively.

The bonds are limited obligations of the OCPFA payable solely from and secured solely by revenues of the Authority, consisting primarily of certain rental payments to be made by the County pursuant to, and as defined in, the lease.

Taxable Refunding Pension Obligation Bonds, Series 1996A and 1997A

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of $209,840 and Series 1994B in the aggregate principal amount of $110,200 (Series 1994 Pension Bonds). The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds, Series 1996A and Series 1997A.

On May 11, 2000, a cash tender offer of certain outstanding Pension Obligation Bonds was completed. The County purchased and canceled $288,290 (maturity value) of Pension Obligation Bonds for a cost of $179,016. On June 22, 2000, the debt service on the outstanding Pension Obligation Bonds was provided for through the deposit with the trustee of $175,492 principal amount of "AAA" rated debt securities issued by Fannie Mae, along with $9,151 in debt service funds already being held by the trustee. In accordance with irrevocable instructions, these securities, together with other cash amounts and investments held by the trustee, will be used solely to retire the remaining Pension Obligation Bonds as they mature. Because this was an economic defeasance and not a legal defeasance, this debt will be reported in the County's financial statements until it is fully redeemed. As of June 30, 2015, the outstanding principal amounts for the Series 1996A and 1997A Pension Bonds were $11,015 and $16,212, respectively, and the interest accretion balances were $39,010 and $50,257, respectively. The unaccreted interest amounts for the Series 1996A and 1997A Pension Bonds were $4,089 and $19,132, respectively.

## 11. LONG-TERM OBLIGATIONS (Continued)

### Revenue Bonds Payable and Certificates of Participation (Continued)

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of $233,115, with an original issue net premium of $288. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consists of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C, and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. For the year ended June 30, 2015, the total interest expense incurred and the amount included as part of the cost of capital assets under construction were $10,225 and $528 respectively. As of June 30, 2015, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $61,209 and $141,327, respectively. The interest expense of the 2009A and 2009B Bonds for the year ended June 30, 2015 were $3,148 and $7,350, respectively, including accrued interest of $1,574 and $3,675, respectively.

The 2009A and 2009B Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, (3) other miscellaneous revenue, and (4) available PFC revenue. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the year ended June 30, 2015, the total principal and interest paid and total net revenues were $17,598 and $52,934, respectively. The total net revenues include $11,194 available PFC revenue for the year ended June 30, 2015.

Advance Refunding

In prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased, and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2015, $11,415 of legally defeased debt remains outstanding.

### Fiscal Year 2014-15 Debt Obligation Activity

During FY 2014-15, the following events concerning County debt obligations took place:

Teeter Plan Notes

On February 1, 2013, the County issued its three-year tax exempt Teeter Plan Notes with Wells Fargo Municipal Capital Strategies, LLC and Wells Fargo Bank, National Association. The Teeter Plan Notes were authorized for a total amount of $150,000, and certain delinquent taxes (excluding penalties and interest) were pledged revenues for the Teeter Plan Notes. The rate for the Teeter Plan Notes will be based on the weekly Securities Industry and Financial Markets Association (SIFMA) index + 0.58%. All of the Teeter Plan Notes will be issued within three years of February 1, 2013, with a maturity date of January 29, 2016. The total amount of the notes issued was $57,935, which reflects the issuance of the Teeter Plan Notes and the establishment of a Cost of Issuance Fund in the amount of $188.

On June 27, 2013, the County used all of the accumulated base taxes to redeem $14,449 of the Teeter Plan Notes. On July 16, 2013, the County issued an additional $39,639 in Teeter Plan Series B Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan. On December 30, 2013

## 11. LONG-TERM OBLIGATIONS (Continued)

### Fiscal Year 2014-15 Debt Obligation Activity (Continued)

Teeter Plan Notes (Continued)

and June 26, 2014, the County used all of the accumulated base taxes to redeem $31,268 and $12,027, respectively, of the Teeter Plan Notes.

On July 15, 2014, the County issued an additional $31,541 in Teeter Plan Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan, leaving an outstanding balance of $71,371. Proceeds of this issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll.

On December 30, 2014 and June 25, 2015, the County used all of the accumulated base taxes to redeem $27,532 and $10,016, respectively, of the Teeter Plan Notes. As of June 30, 2015, the outstanding principal amount of the Teeter Plan Notes was $33,823. For additional information regarding the Teeter Plan Notes, refer to Note 21, Subsequent Events.

## 11. LONG-TERM OBLIGATIONS (Continued)

### Schedule of Long-Term Debt Obligations, Fiscal Year 2014-15

The table below summarizes the revenue bonds and certificates outstanding and related activity for the year ended June 30, 2015.

| Description | Balance July 1, 2014 | Issuances and Discount/ Premium Amortization | Accreted Interest | Retirements | Balance June 30, 2015 | Amounts Due within One Year |
|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | |
| **County of Orange** | | | | | | |
| **Refunding Recovery Bonds - Series 2005A:** | | | | | | |
| Date Issued: August 18, 2005 to Refund and Defease the Outstanding Refunding Recovery Bonds - Series 1995A | | | | | | |
| Interest Rate: 3.00% to 5.00% | | | | | | |
| Original Amount: $146,005 | | | | | | |
| Maturing in installments through June 1, 2015. | $ 19,172 | $ (1,616) | $ -- | $ (17,556) | $ -- | $ -- |
| **Orange County Public Financing Authority** | | | | | | |
| **Lease Revenue Refunding Bonds, Series 2005:** | | | | | | |
| Date Issued: August 16, 2005 to Refund and Defease the 1996 Recovery Certificates of Participation - Series 1996A. | | | | | | |
| Interest Rate: 3.00% to 5.75% | | | | | | |
| Original Amount: $419,755 | | | | | | |
| FY 2014-15 Principal and Interest: $24,490 | | | | | | |
| FY 2014-15 Total Pledged Revenues: $29,928 | | | | | | |
| Maturing in installments through July 1, 2017. | 92,826 | (1,658) | -- | (20,780) | 70,388 | 23,682 |
| **Orange County Public Facilities Corporation,** | | | | | | |
| **Refunding Certificates of Participation:** | | | | | | |
| **(Civic Center Parking Facilities Project)** | | | | | | |
| Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) to Refund the 1987 COPs Bond Issue | | | | | | |
| Interest Rate: CIB - 4.40% to 6.75% | | | | | | |
| Interest Rate: CAB - 6.85% to 7.05% | | | | | | |
| Original Amount: CIB - $24,495 | | | | | | |
| Original Amount: CAB - $9,084 | | | | | | |
| FY 2014-15 Principal and Interest: $2,607 | | | | | | |
| FY 2014-15 Total Pledged Revenues: $2,475 | | | | | | |
| Maturing in Installments Through December 1, 2018 | 2,262 | -- | -- | (518) | 1,744 | 482 |
| Interest Accretion on CAB | 8,364 | -- | 762 | (2,090) | 7,036 | 2,121 |
| **South Orange County Public Financing Authority** | | | | | | |
| **Juvenile Justice Center Facility Lease Revenue** | | | | | | |
| **Refunding Bonds - Series 2012** | | | | | | |
| Date issued: April 25, 2012 to refund the 2002 Juvenile Justice Center Bonds issue | | | | | | |
| Interest Rate: 1.00% to 5.00% | | | | | | |
| Original Amount: $34,380 | | | | | | |
| FY 2014-15 Principal and Interest: $5,829 | | | | | | |
| FY 2014-15 Total Pledged Revenues: $5,830 | | | | | | |
| Maturing in installments through June 1, 2019. | 27,975 | (249) | -- | (4,780) | 22,946 | 5,370 |

(Dollar Amounts in Thousands)

## 11. LONG-TERM OBLIGATIONS (Continued)

### Schedule of Long-Term Debt Obligations, Fiscal Year 2014-15 (Continued)

| Description | Balance July 1, 2014 | Issuances and Discount/ Premium Amortization | Accreted Interest | Retirements | Balance June 30, 2015 | Amounts Due within One Year |
|---|---|---|---|---|---|---|
| **Orange County Public Financing Authority Lease Revenue Bonds, Series 2006** | | | | | | |
| Date issued: October 19, 2006 | | | | | | |
| Interest Rate: 4.00% to 5.00% | | | | | | |
| Original Amount: $32,700 | | | | | | |
| FY 2014-15 Principal and Interest: $4,200 | | | | | | |
| FY 2014-15 Total Pledged Revenues: $29,928 | | | | | | |
| Maturing in installments through June 1, 2018 | $ 16,314 | $ (313) | $ -- | $ (3,455) | $ 12,546 | $ 3,972 |
| **County of Orange Taxable Refunding Pension Obligation Bonds - Series 1996 A:** | | | | | | |
| Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB) | | | | | | |
| Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB) | | | | | | |
| To Refund the Taxable POBs Series 1994 B | | | | | | |
| Interest Rate: CIB - 7.47% to 7.72% | | | | | | |
| Interest Rate: CAB - 8.09% to 8.26% | | | | | | |
| Original Amount: CIB - $81,680 | | | | | | |
| Original Amount: CAB - $40,000 | | | | | | |
| Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB). | 13,393 | -- | -- | (2,378) | 11,015 | 5,944 |
| Interest Accretion on CAB | 42,675 | -- | 4,294 | (7,959) | 39,010 | 22,115 |
| **County of Orange Taxable Refunding Pension Obligation Bonds - Series 1997 A:** | | | | | | |
| Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB) | | | | | | |
| Date Issued: January 14, 1997 - Capital Appreciation Bonds (CAB) | | | | | | |
| To Refund the Taxable POBs Series 1994 A | | | | | | |
| Interest Rate: CIB - 5.71% to 7.36% | | | | | | |
| Interest Rate: CAB - 7.33% to 7.96% | | | | | | |
| Original Amount: CIB - $71,605 | | | | | | |
| Original Amount: CAB - $65,318 | | | | | | |
| Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB). | 18,800 | -- | -- | (2,588) | 16,212 | 2,143 |
| Interest Accretion on CAB | 52,338 | -- | 5,354 | (7,435) | 50,257 | 6,853 |
| **County of Orange Teeter Plan Notes** | | | | | | |
| Date of Original Issuance: February 1, 2013 | | | | | | |
| Interest Rate: SIFMA Index + 0.58% | | | | | | |
| Original Amount: $57,935 | 39,830 | 31,541 | -- | (37,548) | 33,823 | 33,823 |
| Maturing on January 29, 2016 | | | | | | |
| **Subtotal - Governmental Activities** | $ 333,949 | $ 27,705 | $ 10,410 | $ (107,087) | $ 264,977 | $ 106,505 |

## 11. LONG-TERM OBLIGATIONS (Continued)

### Schedule of Long-Term Debt Obligations, Fiscal Year 2014-15 (Continued)

| Description | Balance July 1, 2014 | Issuances and Discount/ Premium Amortization | Accreted Interest | Retirements | Balance June 30, 2015 | Amounts Due within One Year |
|---|---|---|---|---|---|---|
| **Business-Type Activities** | | | | | | |
| **Airport Revenue Bonds - Series 2009A and 2009B:**<br>Date Issued: July 9, 2009<br>Interest Rate: 3.00% to 5.75%<br>Original Amount: $233,115<br>FY 2014-15 Principal and Interest: $17,598<br>FY 2014-15 Total Pledged Revenues: $52,934<br>Maturing in Installments Through July 1, 2039. | 209,804 | (273) | -- | (6,995) | 202,536 | 7,409 |
| **Subtotal - Business-Type Activities** | 209,804 | (273) | -- | (6,995) | 202,536 | 7,409 |
| **Total** | $ 543,753 | $ 27,432 | $ 10,410 | $ (114,082) | $ 467,513 | $ 113,914 |

(Dollar Amounts in Thousands)

## 11. LONG-TERM OBLIGATIONS (Continued)

### Schedule of Long-Term Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by fund type on an annual basis.

| | Governmental Activities | | Business-Type Activities | | |
|---|---|---|---|---|---|
| Fiscal Year(s) Ending June 30 | Principal | Interest | Principal | Interest | Total |
| 2016 | $ 72,732 | $ 35,358 | $ 7,205 | $ 10,339 | $ 125,634 |
| 2017 | 54,721 | 35,652 | 7,530 | 9,999 | 107,902 |
| 2018 | 18,347 | 15,003 | 7,880 | 9,622 | 50,852 |
| 2019 | 8,193 | 14,688 | 8,275 | 9,239 | 40,395 |
| 2020 | 2,478 | 12,022 | 8,655 | 8,836 | 31,991 |
| 2021-2025 | 2,968 | 16,075 | 50,340 | 36,851 | 106,234 |
| 2026-2030 | -- | -- | 64,725 | 21,829 | 86,554 |
| 2031-2035 | -- | -- | 21,684 | 10,297 | 31,981 |
| 2036-2040 | -- | -- | 27,980 | 3,822 | 31,802 |
| Total | 159,439 | 128,798 | 204,274 | 120,834 | 613,345 |
| Add: Premium/(Discount) | 9,235 | -- | (1,738) | -- | 7,497 |
| Add: Interest Accretion on CAB | 96,303 | -- | -- | -- | 96,303 |
| **Total** | $ 264,977 | $ 128,798 | $ 202,536 | $ 120,834 | $ 717,145 |

### Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2015, were as follows:

| | Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 | Due within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds, COPs and Notes Payable: | | | | | |
| Revenue Bonds | $ 125,660 | $ -- | $ (29,015) | $ 96,645 | $ 30,340 |
| Certificates of Participation | 2,262 | -- | (518) | 1,744 | 482 |
| Pension Obligation Bonds | 32,193 | -- | (4,966) | 27,227 | 8,087 |
| Recovery Bonds | 17,556 | -- | (17,556) | -- | -- |
| Teeter Plan Notes | 39,830 | 31,541 | (37,548) | 33,823 | 33,823 |
| Add: Premium/(Discount) on Bonds Payable | 13,071 | -- | (3,836) | 9,235 | 2,684 |
| Total Bonds, COPs, and Notes Payable | 230,572 | 31,541 | (93,439) | 168,674 | 75,416 |
| Interest Accretion on CAB | 103,377 | 10,410 | (17,484) | 96,303 | 31,089 |
| Other Long-Term Liabilities: | | | | | |
| Compensated Employee Absences Payable | 174,985 | 138,589 | (139,188) | 174,386 | 88,516 |
| Arbitrage Rebate Payable | 655 | 201 | -- | 856 | 837 |
| Capital Lease Obligations Payable | 62,446 | 27,643 | (10,921) | 79,168 | 11,444 |
| Insurance Claims Payable | 203,099 | 115,291 | (110,813) | 207,577 | 51,836 |
| SARI Line Loans | 47,410 | -- | (11,133) | 36,277 | 1,429 |
| Estimated Liability - Litigation and Claims | 151,129 | 500 | (6,129) | 145,500 | 15,500 |
| Capital Asset Obligation | 310 | -- | (155) | 155 | -- |
| Total Other Long-Term Liabilities | 640,034 | 282,224 | (278,339) | 643,919 | 169,562 |
| **Total Long-Term Liabilities For Governmental Activities** | $ 973,983 | $ 324,175 | $ (389,262) | $ 908,896 | $ 276,067 |

## 11. LONG-TERM OBLIGATIONS (Continued)

### Changes in Long-Term Liabilities (Continued)

| | Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 | Due within One Year |
|---|---|---|---|---|---|
| **Business-Type Activities:** | | | | | |
| Bonds Payable: | | | | | |
| Revenue Bonds | $ 211,269 | $ -- | $ (6,995) | $ 204,274 | $ 7,205 |
| Add: Premium/(Discount) on Bonds Payable | (1,465) | -- | (273) | (1,738) | 204 |
| Total Revenue Bonds Payable, Net | 209,804 | -- | (7,268) | 202,536 | 7,409 |
| Other Long-Term Liabilities: | | | | | |
| Compensated Employee Absences Payable | 5,083 | 3,876 | (4,070) | 4,889 | 2,278 |
| Landfill Site Closure/Postclosure Liabilities * | 180,111 | (19,747) | (1,319) | 159,045 | 1,319 |
| Pollution Remediation Obligation ** | 13,738 | (609) | (397) | 12,732 | 514 |
| Total Other Long-Term Liabilities | 198,932 | (16,480) | (5,786) | 176,666 | 4,111 |
| **Total Long-Term Liabilities For Business-Type Activities** | $ 408,736 | $ (16,480) | $ (13,054) | $ 379,202 | $ 11,520 |

* Refer to Note 14 for additional information regarding the decrease in Landfill Site Closure/Post Closure Liabilities.
** Refer to Note 17 for additional information regarding the decrease in Pollution Remediation Obligation.

### Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2015 is $174,386. Employees are entitled to be paid annual leave, compensated time, and in some cases vacation and sick time depending on job classification, length of service, and other factors. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

### OC Flood Control District, Santa Ana Regional Interceptor (SARI) Line Loans

On June 12, 2007, the Board approved a financing agreement between the Orange County Flood Control District (OCFCD) and Orange County Sanitation District (OCSD) for an amount equivalent to 60% ($60,000) of an estimated total project cost of $100,000. Concurrently, the Board also approved a financing agreement between the OCFCD and the Santa Ana Watershed Project Authority (SAWPA) for an amount equivalent to 10% ($10,000) of the total project cost. The loan proceeds will be used for the relocation of the SARI Line between Prado Dam and Weir Canyon Road for the following public benefits: protection of the sewer line from erosion, increased Prado Dam water releases, protection of the water supply, and uninterrupted use of the sewer line by residents. Subsequently, the agreements were amended to reflect the actual total project cost based on the awarded construction contracts. The SARI Line Project cost is not expected to exceed $85,560 plus 15% contingencies in the amount of $12,834 for a total of $98,394. The OCFCD would contribute the remaining 30% ($29,518) that would be expended to complete the SARI Line Project. As part of the terms of the agreement, the OCFCD agrees to pay SAWPA and OCSD as State subvention funding for the SARI Line Project is received by OCFCD. Repayment installments will be made within 30 days of OCFCD's receipt of State subvention funding in an amount equivalent to 10% of the funds received being paid to SAWPA and 60% of the funds received being paid to OCSD. The OCFCD is required to repay the entire loan to OCSD and SAWPA no later than July 1, 2022, regardless of whether OCFCD receives any State subvention funds for the SARI Line Project. For funds loaned by OCSD, interest shall accrue on the unpaid balance from July 1, 2018, at an annual interest rate of 2% until the unpaid balance is repaid. As for funds loaned by SAWPA, interest shall accrue on any such unpaid balance from July 1, 2018, at the State of California Local Agency Investment Fund interest rate in effect on July 1, 2018. To date, OCFCD received a $51,336 (60%) loan from OCSD and $8,556 (10%) from SAWPA based on the total project cost excluding contingencies. In May 2011, the Board awarded the construction contract for the SARI Yorba Linda Spur in the amount of $7,210, and the Board awarded the construction contract for the SARI Mainline in the amount of $42,000 in August 2011. In February 2013,

## 11. LONG-TERM OBLIGATIONS (Continued)

### OC Flood Control District, Santa Ana Regional Interceptor (SARI) Line Loans (Continued)

construction of the SARI Yorba Linda Spur was completed and the total amount paid to the contractor was $7,067. Construction of the SARI Mainline was substantially completed in August 2014 and work items that are currently being performed include warranty repairs and plant establishment and maintenance. As of June 30, 2015, the total outstanding loan principal was $36,277.

### Special Assessment District Bonds

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular County tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County, the State, or any political subdivision thereof is pledged to the payment of the bonds. Assessment District Bonds represent limited obligations of the County payable solely from special assessments paid by property owners within each district. Accordingly, such obligations are not included in the accompanying basic financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facilities District. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County 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. Accordingly, such obligations are not included in the accompanying basic financial statements.

The County is acting as an agent of the assessment and community facilities districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because of the County's limited obligation in connection with special assessment district and community facilities district debt; related transactions are reflected in Agency Departmental Funds. Major capital outlay expenditures relating to these bonds are accounted for in the "Service Areas, Lighting Maintenance and Assessment Districts" Special Revenue Fund. Special assessment district and community facilities district bonds outstanding as of June 30, 2015, amounted to $369,020

## 12. CONDUIT DEBT OBLIGATIONS AND SUCCESSOR AGENCY DEBT

Single and Multi-Family Housing Bonds

From 1980 through 2015, the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

The bonds do not constitute a liability of the County. Neither the County, the State of California, nor any political subdivisions thereof is obligated in any manner for the repayment of the bonds. In no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

## 12. CONDUIT DEBT OBLIGATIONS AND SUCCESSOR AGENCY DEBT (Continued)

Single and Multi-Family Housing Bonds (Continued)

As of June 30, 2015, there were 23 series of bonds outstanding with an aggregate principal amount payable of $251,562.

Orange County Development Agency (OCDA) Successor Agency Bond Debt

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of ABX1 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under ABX1 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations (as defined in the law). The OCDA Successor Agency assumed the dissolved RDA's enforceable obligations, which include bond debt obligations. The FY 2014-15 Neighborhood Development and Preservation Project (NDAPP) and Santa Ana Heights Project (SAHP) Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation Payment Schedule (ROPS) and were approved by the Successor Agency Oversight Board, the State Department of Finance, and were paid to bondholders according to the debt service schedule.

Effective with OCDA's dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the successor agency. As of June 30, 2015, the outstanding principal amount, including the premium of the OCDA Successor Agency bonds and interest were $33,628 and $5,925, respectively.

The bonds do not constitute a liability of the County. Neither the County, the State of California, nor any political subdivisions thereof is obligated in any manner for the repayment of the bonds. In no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are reported as liabilities in the private-purpose trust fund.

## 13. LEASES

Operating Leases

The County is committed under various operating leases, primarily for office buildings, office equipment, and other equipment. The following is a schedule of future minimum payments required under operating leases entered into by the County that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015:

| Fiscal Year Ending June 30 | Equipment | Real Property | Total |
|---|---|---|---|
| 2016 | $ 909 | $ 26,984 | $ 27,893 |
| 2017 | 320 | 19,158 | 19,478 |
| 2018 | 152 | 15,461 | 15,613 |
| 2019 | -- | 13,156 | 13,156 |
| 2020 | -- | 12,668 | 12,668 |
| 2021 - 2025 | -- | 45,950 | 45,950 |
| 2026 - 2030 | -- | 6,696 | 6,696 |
| Total | $ 1,381 | $ 140,073 | $ 141,454 |

Total expenditures for equipment rentals and building and improvements incurred for FY 2014-15 was $44,480.

(Dollar Amounts in Thousands)

## 13. LEASES (Continued)

### Capital Leases

This year, the County entered into various lease agreements as lessee for financing the acquisition of equipment valued at $27,643. The equipment has a five-year estimated useful life. This year, $997 was included in depreciation expense. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The following is an analysis of property leased under capital leases:

| | | |
|---|---|---|
| Land | $ | 14,831 |
| Equipment | | 27,643 |
| Less: Accumulated Depreciation | | (997) |
| Structures and Improvements | | 64,180 |
| Less: Accumulated Depreciation | | (29,982) |
| Total | $ | 75,675 |

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2015:

| Fiscal Year Ending June 30 | | |
|---|---|---|
| 2016 | $ | 15,677 |
| 2017 | | 15,902 |
| 2018 | | 16,076 |
| 2019 | | 9,351 |
| 2020 | | 9,510 |
| 2021-2025 | | 34,646 |
| 2026-2030 | | 980 |
| Total Minimum Lease Payments | | 102,142 |
| Less: Amount Representing Interest | | (22,974) |
| Present Value of Net Minimum Lease Payments | $ | 79,168 |

## 14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require OCWR to place final covers on its landfill sites when the landfills stop accepting waste and perform certain postclosure maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, OCWR will report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

OCWR owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine – Active)
- Olinda Alpha (Brea – Active)
- Prima Deshecha (San Juan Capistrano – Active)
- Santiago Canyon (Orange – Ceased accepting waste in 1996, final closure certification in 2005)
- Coyote Canyon (Newport Beach – Ceased accepting waste in 1990, final closure certification in 1995)

## 14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS (Continued)

The total landfill closure and postclosure care liability at June 30, 2015 was $159,045. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (30.41% for FRB, 76.61% for Olinda Alpha and 19.87% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. OCWR will recognize the remaining estimated cost of closure and postclosure care of $177,745 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2014 dollars (using the 2014 inflation factor of 1.015). OCWR has enough landfill capacity to operate the system for a minimum of twenty-five years. However, OCWR intends to operate the landfills well beyond this period as a result of approved and planned expansions.

In compliance with Title 27- Environmental Protection of California Code of Regulations, OCWR makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the GASB Statement No. 18, *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs,"* formula. Also in compliance with regulations, OCWR has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure costs. The agreements state that OCWR pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OCWR ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OCWR has proactively pre-funded this cost based on the State mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on State provided inflation factors. The State mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements, these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2015, a total of $90,201 has been set aside for estimated closure and postclosure costs and is included in the accompanying Proprietary Funds Statement of Net Position as Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs. This amount, which is less than FY 2013-14, decreased because of a revision/reduction in the Cost Estimate number used to calculate the closure/ postclosure cost.

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities, acceptable and prohibited waste types, and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Refer to Note 17, Pollution Remediation, for additional discussion regarding pollution remediation liabilities.

## 15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

### Encumbrances

The County has established a procedure for encumbering appropriations for purchase orders, contracts, and other commitments authorizing delivery of merchandise or rendering of services. An encumbrance system reduces the possibility of commitments being made in excess of budgeted appropriations due to the lag time between issuance of purchase orders, contracts, and other obligations, and the actual provision of services or goods and subsequent receipt of invoices and billings from the vendors and contractors. Depending on the source(s) of funding, encumbrances are reported as part of restricted or assigned fund balance on the governmental funds balance sheet. In accordance with GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," the County's total significant encumbrances for governmental funds in the aggregate are reported as follows, at June 30, 2015:

(Dollar Amounts in Thousands)

## 15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

### Encumbrances (Continued)

| | | |
|---|---|---|
| General Fund | $ | 42,657 |
| Roads | | 22,824 |
| Flood Control District | | 38,521 |
| Other Public Protection | | 2,331 |
| Teeter Plan Notes | | 27 |
| Other Governmental Funds | | 23,438 |
| Total Encumbrances for Governmental Funds | $ | 129,798 |

### Construction Commitments

At June 30, 2015, the County's total commitments for major contracts entered into for equipment, land, and structures and improvements were as follows, listed by fund within governmental or business-type activities:

| Project Title | | Significant Commitments |
|---|---|---|
| Governmental Activities: | | |
| Roads | | |
| Cow Camp Road Segment I Phase 1A and 1B, Antonio Parkway to "I" Street | $ | 3,385 |
| La Pata Avenue Gap Closure/Widening | | 42,195 |
| Gilbert Street Improvements Phase II, Katella Avenue | | 2,181 |
| | | 47,762 |
| Flood Control District | | |
| Newland Storm Channel Confluence to Bolsa | | 6,406 |
| Santa Ana River Interceptor Line Project | | 6,282 |
| Greenville-Banning Channel Improvement Project | | 5,627 |
| Los Alamitos Pump Station and Pump House | | 3,338 |
| Fletcher Channel and Retarding Basin - From Santa Ana River to Upstream | | 2,973 |
| Edinger Storm Channel Improvement | | 2,016 |
| | | 26,642 |
| Other Governmental Funds | | |
| Purchase of Law Enforcement Vehicles | | 2,991 |
| Los Pinos Closure Costs | | 2,443 |
| | | 5,434 |
| Business-Type Activities: | | |
| Airport | | |
| Parking Structure C, Phase 2 | | 2,652 |
| Main Street and Employee Lot Resurfacing | | 2,583 |
| Terminals A & B Improvements | | 1,329 |
| Campus Drive/Bristol Street Right Turn Lane | | 1,178 |
| Other | | 1,146 |
| | | 8,888 |
| Waste Management | | |
| Olinda Alpha Landfill Phase I Partial Final Closure Construction and Utility Improvements | | 6,280 |
| Frank R. Bowerman East Flank Excavation and Drainage Improvement and Design | | 2,401 |
| | | 8,681 |
| Total Commitments | $ | 97,407 |

## 15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

### Construction Commitments (Continued)

In addition, the County is involved in the Santa Ana River Mainstem Project (SARMP). The SARMP is a major flood control project implemented and funded by the Federal government and three local sponsors – the Orange County Flood Control District (OCFCD), San Bernardino County Flood Control District, and Riverside County Flood Control and Water Conservation District. A component of the initial project has been re-designated as the Prado Dam Project (Project), which is being implemented and funded by the Federal government and the OCFCD through a separate Project Cooperation Agreement (PCA). The purpose of the SARMP/Project is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain. When the SARMP was initiated in 1989, the U.S. Army Corps of Engineers (COE) considered this flood plain to constitute the worst flood threat west of the Mississippi River as to impacts to the population and property. The Project involves a combination of flood channel improvements and constructing new channels in Orange, San Bernardino, and Riverside counties, construction of the Seven Oaks Dam in San Bernardino County, construction of improvements and protection at the Santiago retention basin and along the creek, raising the existing Prado Dam and increasing its flood flow outlet gates and reservoir capacity, along with several environmental mitigation related studies, habitat restoration and protection activities, recreation amenities, and preservation of historical sites and records.

The COE's estimated combined cost of all project components is $2,375,000. OCFCD's combined cost share is estimated to be $785,229 for the entire Santa Ana River Project. As of June 30, 2015, the OCFCD has expended about $597,158 on the entire Santa Ana River Project.

The construction of Seven Oaks Dam and most channel improvements in Riverside, San Bernardino, and Orange counties have been completed. The relocation and protection of State Route (SR) 71 adjacent to Prado Dam (a joint OCFCD and Caltrans project) and construction to raise the Prado Dam embankments and install new outlet gates is complete. Landscaping along the Santa Ana River in Orange County was completed in May 2010. Design for the construction of interior dikes in the Prado Dam reservoir, and for improvements and protection of SR-91 in the Santa Ana River canyon are also underway. The COE completed construction of National Housing Tract Dike and Sewage Treatment Plant in 2008. Landscaping for these dikes began in September 2009 and were completed in June 2011. Several environmental mitigation studies and restoration/preservation projects are underway in all three counties. All property right acquisitions for the Seven Oaks Dam and along the lower Santa Ana River in Orange County up to Weir Canyon Road are completed. The escrow for purchase of the Green River Golf Course was closed on September 29, 2006. This property is required for construction of protection along SR-91 and nearby mobile homes, open space/recreation mitigation and to accommodate increased flooding when the Prado Dam outlet gates are constructed and operational. The first phase of SR-91 protection (Reach 9 Phase 2B Project) was completed in September 2014. The second phase (Reach 9 Phase 3) started construction in January 2014 and was completed in March 2015. The OCFCD awarded the construction contract on August 9, 2011 for the four miles of Santa Ana River Interceptor Line (SARI) relocation project, which was completed by August 2014. Phase I of the Auxiliary Embankment (an extension of Prado Dam) was completed in September 2012, and the earliest date for construction of Phase II to start would be September 2017. As an alternative, the COE may elect to make Phase II part of the contract awarded to construct the Prado Dam Spillway, which is planned for some time in the year 2020. A contract for the construction of the Yorba-Slaughter Adobe Dike was awarded in December of 2012 at a cost of $6,000 and is expected to be completed in November 2015. The Women's Prison Dike (to protect the California Institute for Women) was awarded September 2014 for $12,700 and is expected to be completed February 2016 with a $3,400 modification which was awarded August 2015.The OCFCD continues to acquire property rights for the Prado Dam Project, subject to the availability of funding.

The project has been authorized by the State Legislature for reimbursement of up to 70% of the Local Sponsors' expenses through the State Flood Control Subvention Fund, which is administered by the Department of Water Resources (DWR). As of June 30, 2015, OCFCD has submitted $393,528 in claims and received $354,573 in reimbursements. An additional $6,463 in claims is in the process of being prepared for submittal to the DWR. Of the total amount outstanding, $10,207 was accrued as revenue, $27,593 was reported as a deferred inflow of resources at the fund level and recognized as revenue in the government-wide financial statements. Once a claim is reviewed and approved by DWR, 90% of the eligible expenditures can be paid, subject to available funding, with the remaining 10% paid after an audit by the State Controller's Office.

## 16. SELF-INSURANCE

The County is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; salary continuance; and providing health benefits to employees, retirees and their dependents. The County has chosen to establish Internal Service Funds (ISFs) where assets are set aside for claim settlements and judgments associated with such losses.

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention. The Workers' Compensation Program ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to $20,000.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to $5,000. Commercial insurance is purchased for property and other risk exposures. Excess liability insurance provides up to an additional $100,000 in liability coverage. In the past three fiscal years, there were no losses that impacted the County's excess insurance coverage.

Independent actuarial studies are prepared annually for the Workers' Compensation and Property and Casualty Risk ISFs. The reported unpaid claims liabilities are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, allocated loss adjustment expenses and unallocated loss adjustment expenses. Unpaid claims liabilities are calculated considering inflation, claims cost trends, including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Unpaid claims liabilities have been discounted at a rate of 3.50% in the Workers' Compensation ISF and 2.50% in the Property and Casualty Risk ISF to reflect anticipated future investment earnings.

All County departments and other governmental agencies authorized by the Board to participate in the Workers' Compensation ISF are charged for their pro rata share of costs based upon employee classification rates, claims experience, and funding for the Workers' Compensation program. All County departments participate in the Property and Casualty Risk self-insurance program and are charged for their pro rata share based upon claims experience, actual number of positions from a biweekly County payroll report, and funding for the Property and Casualty Risk program. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controller's Office for cost plan allocations.

The County has established: the Unemployment Insurance ISF, which covers all employees and is paid through the State of California; the County self-insured PPO Health Plans ISF, which provides health plan benefits; and the Health and Other Self-Insured Benefits ISF, which provides dental and short-term disability benefits for a portion of the County's employees and accidental death and dismemberment (AD&D) benefit for Reserve Deputy Sheriffs.

The County's Premier Wellwise, Choice Wellwise, Wellwise Retiree, Premier Sharewell, Choice Sharewell, and Sharewell Retirees have no lifetime coverage maximums. The dental insurance coverage is up to $1,500 annually (absolute dollars) for each covered employee or dependent. The short-term disability insurance coverage is up to 12 months or when the employee returns to work, whichever occurs first. Unemployment benefits covered by law is up to 26 weeks per individual or when the employee returns to work or no longer meets the requirements for the benefit. The self-insured AD&D benefit is for Reserve Deputy Sheriffs only and has a maximum benefit of $5,000 (absolute dollars).

## 16. SELF-INSURANCE (Continued)

Changes in the balances of claims liabilities during the past two fiscal years for these self-insurance funds are as follows:

| | Workers' Compensation | Property & Casualty Risk | Unemployment Insurance | Health & Other Insurance | Total |
|---|---|---|---|---|---|
| Unpaid Claims, Beginning of FY 2013-14 | $ 154,237 | $ 42,577 | $ 1,713 | $ 10,697 | $ 209,224 |
| Claims and Changes in Estimates | 33,438 | 6,708 | 165 | 64,407 | 104,718 |
| Claim Payments | (36,934) | (10,037) | (1,095) | (62,777) | (110,843) |
| Unpaid Claims, End of FY 2013-14 | 150,741 | 39,248 | 783 | 12,327 | 203,099 |
| Claims and Changes in Estimates | 40,937 | 14,392 | 1,112 | 58,850 | 115,291 |
| Claim Payments | (36,104) | (14,349) | (943) | (59,417) | (110,813) |
| Unpaid Claims, End of FY 2014-15 | $ 155,574 | $ 39,291 | $ 952 | $ 11,760 | $ 207,577 |

## 17. POLLUTION REMEDIATION

GASB Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations,"* requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The County has identified several environmental sites at John Wayne Airport (JWA) and OC Waste and Recycling (OCWR) for which a pollution remediation liability has been recorded in the County's financial statements. The following describes the nature of the obligating events, and the estimated liability as they relate to JWA and OCWR.

John Wayne Airport (JWA)

In 1988 and 2006, JWA was named as the responsible party in a cleanup and abatement order for two sites on Airport property by the California Regional Water Quality Control Board (RWQCB). The sites, the Old Fuel Farm and the Former Fire Station #33, were identified as having chemical impacts to the soil and groundwater. In 1994 and 2002, JWA began to monitor and remediate the Old Fuel Farm and the Former Fire Station #33 sites, respectively.

In 2008, the sites were sampled as part of an assessment and the results revealed that the soil and groundwater were still impacted by chemical pollutants. In 2011, JWA started implementing a new remediation method, and the sites were estimated to be remediated in about six to ten years. JWA is still performing tests on the sites and the results could possibly affect the estimated pollution remediation liability as well as a change to the remedial technologies used to remediate the sites. As of June 30, 2015, JWA has a liability of $994 based on management's assessment and the results of the consultant's evaluation.

In 1995, JWA entered into Memorandum of Understanding (MOU) with one of its fixed-base operator (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. Reported in the Statement of Net Position as part of accounts receivable, the total expected recovery for the Old Fuel Farm site is $299 as of June 30, 2015.

The estimated pollution remediation obligation as of June 30, 2015 is:

| | |
|---|---|
| Old Fuel Farm Site | $ 785 |
| Former Fire Station #33 Site | 692 |
| Less: Remediation Activity | (483) |
| JWA Pollution Remediation Obligation | $ 994 |

**17. POLLUTION REMEDIATION (Continued)**

Orange County Waste and Recycling (OCWR)

Five closed sites were identified. The remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The combined pollution remediation obligation ending balance as of June 30, 2015 after deducting actual pollution remediation expenses incurred is $11,738.

*Cannery Former Refuse Disposal Station* A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City requiring the City to remedy the landfill gas exceedences and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, the City and the Huntington Beach City School District (School District) issued the Notices of Intent to sue under the Resource Conservative and Recovery Act, and the Comprehensive Environmental Response, Compensation, and Liability Act to the County in 2004. The City's and School District's claims were tolled until June 2006 under a tolling agreement with the County. The City, County and School District entered into a Settlement Agreement in 2007, whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas.

Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, the length of time that the wastes have been buried, and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is $58.

*Lane Road Former Refuse Disposal Station* The site located in the City of Irvine and owned by NGP Realty Sub, L.P. and others, was leased and operated by the County as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owners requiring them to remedy the landfill gas exceedences and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with CEO Risk Management. The County entered into a Settlement Agreement with the property owners in 2005. Per terms of that Settlement Agreement, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and constructed an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site.

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either be inactive or be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the first full year of operation when the carbon canisters need more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and fewer anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is $306.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is $2,958.

*San Joaquin Former Refuse Disposal Station* The site, owned by the University of California at Irvine, was leased and operated by the County as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site

## 17. POLLUTION REMEDIATION (Continued)

Orange County Waste and Recycling (OCWR) (Continued)

*San Joaquin Former Refuse Disposal Station (Continued)*

was sold to the United States Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with the University that was approved by the Board in May 2005. Pursuant to the Cooperative Agreement, the County constructed a landfill gas collection and control system including a carbon treatment element.

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is $149.

The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is $1,222.

*La Veta Former Refuse Disposal Station* Located in the City of Orange, La Veta is a former burn, dump and refuse disposal station leased to and operated by the County from 1946 to 1956. The site has multiple owners and was developed into a YMCA facility, apartments, a mobile home park and a small amount of open space. Recently, the County learned that the California Department of Toxic Substances Control (DTSC) and the United States Environmental Protection Agency had previously performed limited soil and groundwater testing at the site. According to DTSC, the results of these tests indicated that further site assessment was warranted.

DTSC requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County conducted a series of additional site investigations and assessments. Based on the findings of the site investigations, the YMCA is performing required methane monitoring. The County reimburses the YMCA for the costs associated with the monitoring efforts and are accrued as estimable at June 30, 2015.

In addition, the findings of site investigations identified the existence of subsurface refuse extending laterally onto a single-family residence located within the lease boundaries of the former La Veta solid waste disposal site and immediately adjacent to land owned by the YMCA (also covering a portion of the former disposal site). Buried waste was discovered under part of the back yard of the residence, which includes a swimming pool. Since then, CalRecycle and the LEA have required continuous methane monitoring at the property. The current owners have previously filed suit against the County. Although their claims were dismissed, the owners have not cooperated with County or regulator attempts to monitor or remediate potential pollution of the property.

The County will attempt to negotiate the purchase of the property. The amount paid for such purchase would include the value of the property, relocation costs (which would be required by law in an eminent domain proceeding), and a mutual release and waiver of all potential legal claims arising from the property. Acquisition of the property by the County would also ensure that the property is maintained and monitored in a manner that is consistent with the former use of the property as a municipal solid waste disposal facility.

*Forster Former Refuse Disposal Station* The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County from 1958 to 1976. The current owner, Advanced Group 99-SJ, proposed a change in land use for the property and notified the County of its position that the County was responsible for re-closure of the site to meet current commercial and redevelopment requirements. The County disputed responsibility for site development related costs. In early 2010, the City of San Juan Capistrano approved the proposed project and certified the Environmental Impact Report (EIR). The EIR was a subject of a citizen's referendum that ultimately resulted in affirmation of the proposed project. Subsequent to the City approval of the proposed development plan, Advanced Group 99-SJ and the County

(Dollar Amounts in Thousands)

## 17. POLLUTION REMEDIATION (Continued)

Orange County Waste and Recycling (OCWR) (Continued)

*Forster Former Refuse Disposal Station (Continued)*

entered into negotiations to resolve issues related to environmental responsibility at the site. These negotiations resulted in a settlement agreement and release of claims, brought about by a threat of litigation over the California Environmental Quality Act (CEQA) approvals. The settlement and release permitted the development of the site, with monies paid by the County for environmental controls to be installed at the site, an operation and maintenance fund and for environmental insurance, subject to conditions such as obtaining grading permits for the site for its actual development. In exchange, indemnification and environmental releases were provided by the developer to the County.

Total obligation by the County for environmental infrastructure and controls at the site as agreed upon in the Settlement Agreement is $7,500. The entire sum is expected to be released within a five year period, but is dependent upon actions by the owner and regulatory approvals for the project. As of June 30, 2015, the County has not released payment. The County will continue to incur additional costs for work related to the County's current obligation to monitor the groundwater underlying the site. This responsibility will be transferred to the site owner upon completion of one of the settlement agreement milestones. But due to the uncertainty of specific timing, the County is unable to fully estimate the remaining ground water obligations.

The remaining balance for landfill gas remediation at the Forster site is $7,500. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

The estimated pollution remediation obligation as of June 30, 2015 is:

| | | |
|---|---|---|
| Cannery | $ | 58 |
| Lane Road | | 2,958 |
| San Joaquin | | 1,222 |
| Forster | | 7,500 |
| OCWR Pollution Remediation Obligation | $ | 11,738 |

## 18. RETIREMENT PLANS

**Orange County Employees Retirement System (OCERS)**

Plan Description: Substantially all County employees participate in the Orange County Employees Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established by the voters of Orange County in 1945 pursuant to the County Employees Retirement Law of 1937, California Government Code Section 31451 et. seq. (the Retirement Law). OCERS is an independent defined-benefit retirement plan in which employees of the County, Orange County Superior Court, and employees of certain cities and special districts within the County participate. OCERS is governed by the Board of Retirement (the "OCERS Board"). Certain attributes of independence of OCERS are guaranteed under the California Constitution. The OCERS Board consists of nine regular members and one alternate. Four OCERS Board members are appointed by the County Board of Supervisors (the Board), three members plus one alternate are elected from active County employees, one member is elected from retirees, and the County Treasurer-Tax Collector is a statutory member.

The OCERS Board supervises the investment of OCERS assets and the distribution of benefits to retired employees. The OCERS Board also determines the annual contributions required of the County and other participating local governmental entities to fund OCERS.

## 18. RETIREMENT PLANS (Continued)

### Orange County Employees Retirement System (OCERS) (Continued)

Plan Description (Continued)

The Retirement Law requires an actuarial valuation to be performed at least once every three years. OCERS' practice has been to conduct an actuarial valuation annually as of December 31, which is the end of the OCERS fiscal year.

According to OCERS most recent public report, entities paying into the OCERS, also known as plan sponsors, include the County of Orange, City of San Juan Capistrano, Orange County Cemetery District, Children and Families Commission of Orange County, Orange County Department of Education (closed to new members), OCERS, Orange County Fire Authority, Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Public Law Library, Orange County Sanitation District, Orange County Superior Court, Orange County Transportation Authority, Transportation Corridor Agencies, and the University of California, Irvine Medical Center and Campus (closed to new members).

Benefits Provided: OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each County employee receives a defined-benefit pension at retirement, that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement. The OCERS Board does not set the benefit amounts. An OCERS member may be eligible for a Disability Retirement allowance. The member will be asked to designate a beneficiary or beneficiaries, who may be entitled to received lifetime and/or lump sum benefits that may be payable upon a member's death. OCERS also provides two types of disability benefits, a nonservice-connected disability retirement or service-connected disability retirement. Under each type, the eligibility requirements are different. More information can be found on www.ocers.org. OCERS administers benefits that are set by the Board through the collective bargaining process with County employees in accordance with the Retirement Law.

Effective June 28, 2002, Safety members, including Probation Services employees, became eligible for an annual annuity equal to a retirement benefit formula of 3% of the member's "final compensation" for each year of service rendered at age 50. Law enforcement management, which includes executives in the Sheriff and District Attorney Departments, and employees represented by the Association of Orange County Deputy Sheriffs hired after April 9, 2010, receive an annual annuity equal to a retirement benefit formula of 3% of the member's "final compensation" for each year of service rendered at age 55.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General Members who work for the County of Orange (approximately 14,000) became eligible for an enhanced annual annuity equal to a retirement benefit formula of 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General Members, the employee associations agreed to pay the increased retirement costs related to the difference between the prior retirement benefit formulas and the new 2.7% at age 55 enhanced formula, as well as the annual amortization of the unfunded liability created by the retroactive application of the increased benefit. Members of the American Federation of State, County and Municipal Employees (AFSCME) did not elect the 2.7% at age 55 retirement formula and remain at the previous benefit formulas. The benefit formulas for AFSCME are an annual annuity equal to 2% of the "final compensation" for each year of service rendered at age 57 for Tier I General members and 1.667% of the member's "final compensation" for each year of service rendered at age 57.5 for Tier II General members. Due to the passage of the Public Employees' Pension Reform Act (PEPRA) of 2013, most new employees hired on or after January 1, 2013, except for Safety members and members represented by AFSCME and the Orange County Attorneys Association (OCAA) will receive an annual annuity equal to a retirement benefit formula of 1.62% of the member's "final compensation" for each year of service rendered at age 65. The 1.62% at age 65 retirement formula includes a voluntary defined contribution component (see section below) with an employer match.

Non-vested Supplemental Targeted Additional Retiree Cost of Living Adjustment (STAR COLA) benefits are also paid by OCERS to eligible retirees and survivors. Pursuant to Government Code Section 31874.3 of the County Employees Retirement Law of 1937, the OCERS Board has the sole authority to grant STAR COLA

(Dollar Amounts in Thousands)

## 18. RETIREMENT PLANS (Continued)

### Orange County Employees Retirement System (OCERS) (Continued)

Benefits Provided (Continued)

each year. The OCERS Board understands that granting STAR COLA may increase the Unfunded Actuarial Accrued Liability (UAAL) and therefore asks for comments from plan sponsors prior to voting on this issue. Retirees who have lost more than 20% of their purchasing power since retirement are eligible for this benefit, and currently, approximately 397 retirees (of which 388 are County retirees) who retired before April 1, 1980, and their survivors receive the STAR COLA. The STAR COLA benefits are excluded from the actuarial valuation, and are funded annually through current employer contributions. Benefits are considered immaterial to the plan. The OCERS Board has to prior to voting approve the benefits annually.

Contributions: In accordance with various Board's resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. The California Supreme Court's 1997 Ventura decision stated that, for the purpose of calculating pension benefits, "final compensation" means not only base salaries, but also other components. Orange County employee contributions under current contracts are calculated on base salary, eligible premium pay and some categories of overtime as defined in the 1997 Ventura decision.

Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2014-15, employer's contributions, as a percentage of covered payrolls, were 37.34% for General members, 57.28% for Safety-Law Enforcement members and 40.52% for Safety-Probation members, as determined by the December 31, 2012, actuarial valuation.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension: At June 30, 2015, the County reported a liability of $3,897,233 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability (TPL) used to calculate the net pension liability was determined by rolling forward the December 31, 2013 valuation to December 31, 2014. At December 31, 2014, the County's proportion was 76.68%, which was a decrease of 1.737% from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the County recognized pension expense of $410,127. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | $ 175,546 | $ - |
| Differences Between Expected and Actual Experience | - | 205,446 |
| Changes of Assumptions | 116,441 | 188,787 |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 4,068 | 15 |
| County contributions subsequent to the measurement date | 188,826 | - |
| County Prepaid Pension Contribution | 181,585 | - |
| Total | $ 666,466 | $ 394,248 |

$188,826 reported as deferred outflows of resources related to pension resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

**18. RETIREMENT PLANS (Continued)**

**Orange County Employees Retirement System (OCERS) (Continued)**

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

The County reported the full amount of prepaid pension contribution as a part of the prepaid cost at fund level. However, due to the difference in the County's fiscal year end date and the net pension liability measurement date, half of the prepaid pension contribution of $181,585 is recognized as deferred outflows of resources, and the other half will remain as a prepaid cost on the government-wide statement.

In September 1994, the County issued $320,000 of pension obligation bonds, of which $318,000 in proceeds were paid to OCERS. OCERS maintains the proceeds in a County Investment Account. Amounts in the County Investment Account have been used to fund a portion of the County's contributions over time, pursuant to agreements between OCERS and the County, which allows the County significant discretion in applying the credit. As of June 30, 2015, $112,544 of such proceeds remains in the County Investment Account available for future credits to the County's pension obligations. For the year ended June 30, 2015, the County did not utilize funds available in the County Investment Account to meet its annual required contribution.

On January 13, 2015, the County issued its short-term Taxable Pension Obligation Bonds, 2015 Series A in the amount of $339,625. The Bond proceeds were combined with $23,958 in contributions from certain County agencies and departments to prepay the estimated FY 2015-16 actuarially required contribution related to both the amortization of the UAAL and the normal annual contribution to OCERS. In return, the County received a 5.80% discount or $21,058 on the required employer contribution amount. The discount, combined with the interest and issuance costs, resulted in a net savings of $17,918 to the County. Refer to Note 4, Deposits and Investments, and Note 10, Short-term Obligations, for additional information.

Amounts, which provided by OCERS' actuarial study, reported as deferred outflows of resources and deferred inflows of resources related to pension, will be recognized as follows:

| Year ending June 30: | |
|---|---|
| 2016 | $ (8,958) |
| 2017 | (8,958) |
| 2018 | (8,958) |
| 2019 | (8,958) |
| 2020 | (52,849) |
| 2021 | (9,512) |
| Thereafter | - |

Actuarial Assumptions: The actuarial assumptions included a 3.0% inflation rate, 4.25 to 13.5% projected salary increases to general members and 5.00% to 17.50% to safety members, and a 7.25% investment rate of return, net of investment expense. The mortality assumptions used were based on the results of the actuarial experience study for the period of January 1, 2011 through December 31, 2013 using the RP-2000 Combined Healthy Mortality Table projected with the Society of Actuaries Scale BB to 2020.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%, the long-term expected rate of return on plan assets. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the actuarially determined contribution rates.

(Dollar Amounts in Thousands)

## 18. RETIREMENT PLANS (Continued)

### Orange County Employees Retirement System (OCERS) (Continued)

Discount Rate (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.25% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 16 basis points. An investment return excluding administrative expenses would have been 7.41%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference is not material to the County's financial statements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses.

The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| Asset class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Large Cap U.S. Equity | 14.90% | 5.92% |
| Small/Mid Cap U.S. Equity | 2.73% | 6.49% |
| Developed International Equity | 10.88% | 6.90% |
| Emerging International Equity | 6.49% | 8.34% |
| Core Bonds | 10.00% | 0.73% |
| Global Bonds | 2.00% | 0.30% |
| Emerging Market Debt | 3.00% | 4.00% |
| Real Estate | 10.00% | 4.96% |
| Diversified Credit (US Credit) | 8.00% | 4.97% |
| Diversified Credit (Non-US Credit) | 2.00% | 6.76% |
| Hedge Funds | 7.00% | 4.13% |
| GTAA | 7.00% | 4.22% |
| Real Return | 10.00% | 5.86% |
| Private Equity | 6.00% | 9.60% |
| Total | 100.00% | |

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| County's proportionate share of the net pension liability | $ 5,613,735 | $ 3,897,233 | $ 2,485,847 |

## 18. RETIREMENT PLANS (Continued)

### Orange County Employees Retirement System (OCERS) (Continued)

Pension Plan Fiduciary Net Position: OCERS issues an audited stand-alone annual financial report for each year ending December 31. Detailed information about the pension plan's fiduciary net position is available and can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

### County Administered Pension Plans

### County of Orange - 1.62% at 65 Retirement, 401(a) Defined Contribution Plan

Plan Description: On April 20, 2010, the Board approved and adopted the resolution implementing the 1.62% at 65 retirement formula for certain eligible employees. Effective May 7, 2010, as amended and restated on July 1, 2011, the Board approved the County of Orange 1.62% Defined Contribution Plan for the benefit of employees in the 1.62% at 65 retirement formula.

On September 12, 2012, the Governor signed the Public Employees' Pension Reform Act (PEPRA) of 2013. PEPRA created a new pension retirement formula, commonly referred to as 2% @ 62 retirement formula, for all new non-safety public employees hired on or after January 1, 2013. PEPRA also allowed a public employer to continue to offer another retirement formula, if offered before December 31, 2012, to new public employees if the retirement formula has a lower benefit factor at normal retirement age and results in a lower normal cost than the 2% @ 62 PEPRA retirement formula. On December 18, 2012, the Board approved and adopted the 1.62% @ 65 retirement formula for certain general (non-safety) public employees hired on or after January 1, 2013.

The Board has the authority to amend the plan. The plan is intended to comply with the requirements of the Internal Revenue Code (IRC) Section 401(a) and is intended for retirement. The employee acquires a vested interest in the employer contribution account upon attaining normal retirement age, or early retirement age because of death or disability. If an employee terminates prior to early or normal retirement date for any other reason than death or disability, the employee is only entitled to a vested interest of 100% of the employer contribution after five years of service.

Funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the early or normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2015, the plan had 515 active participants and 0 inactive participants.

Funding Policy: This plan is a defined contribution plan funded entirely by employer contributions. As of June 30, 2015, the County provides up to a 2% match per pay period of the employee's voluntary contribution to the IRC Section 457 element of the 1.62% Defined Contribution Plan. Employer contributions are deposited into the 401(a) Plan. Total employer contributions for the year ended June 30, 2015, were $368.

Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and will hold all plan assets in trust. Plan participants will self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2015, the value of plan assets was $542.

Administrative Cost: There is an annual administrative fee of 0.18% charged to participants (at a monthly rate of 0.015%), which is capped for account balances at $100,000. Each month, participant fees are based on the average daily balance of their account(s) over a 30-day period, and are reflected on participants' quarterly statements. No employer-level fees are charged for the Plan.

### County of Orange 401(a) Defined Contribution Plan

Plan Description: Effective January 1, 1999, as amended and restated on May 1, 2013, the Board established the County of Orange 401(a) Plan for the benefit of eligible employees, elected officials, which includes

## 18. RETIREMENT PLANS (Continued)

### County Administered Pension Plans (Continued)

### County of Orange 401(a) Defined Contribution Plan (Continued)

Plan Description (Continued)

members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association, and certain other employee classifications as defined in the plan document. The Board also has the authority to amend the plan. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers included in the Executive Policy Unit effective June 23, 2006. The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2015, the plan had 649 active participants and 29 inactive participants.

Funding Policy: This plan is a defined contribution plan funded entirely by employer contributions. County contributions to the plan vary according to employee classification and range from 3% to 8% of bi-weekly compensation. Additional County contributions equal to 1.5% of compensation are made on behalf of elected officials electing not to participate in OCERS. Individuals elected or appointed to the Board on or after June 5, 2012 are required by Orange County Ordinance to participate in OCERS and may not receive the additional 1.5% of compensation. Total contributions for the year ended June 30, 2015, were $913 by the County and zero by the employees.

Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. Plan participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2015, the value of plan assets was $14,005.

Administrative Cost: There is an annual administrative fee of 0.18% charged to participants (at a monthly rate of 0.015%), which is capped for account balances at $100,000. Each month, participant fees are based on the average daily balance of their account(s) over a 30-day period, and are reflected on participants' quarterly statements. No employer-level fees are charged for the Plan.

### Extra-Help Defined Benefit Plan

Plan Description: The plan is a cost-sharing multiple-employer defined benefit retirement plan for employees working less than half-time or as extra-help for the County and six (6) other cost-sharing agencies. Eligible employees of this plan are not covered by OCERS or Social Security. Initially, the normal retirement benefits for a participant who retired on or after the normal retirement date was a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the final 30 years of credited service. There are no automatic cost-of-living adjustment (COLA) increases and no ad hoc COLAs have ever been granted. The current benefit for a participant who terminates or retires after November 20, 2008 is a lump sum, which is equal to the actuarial equivalent of the participant's contribution plus interest earnings. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday.

The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The County Board of Supervisors has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan. The County is the named fiduciary and has the duty and full power to administer the plan. The Chief Financial Officer of the County is the Trustee of the plan, and has authority over the management and investment of plan assets.

The plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. This plan subsequently froze benefit accruals and stopped collecting employee contributions effective November 21, 2008. As of that date, the normal retirement benefit was changed to a single lump sum distribution equal to the greater of the participant's account balance or the present value of their normal

## 18. RETIREMENT PLANS (Continued)

### County Administered Pension Plans (Continued)

### Extra-Help Defined Benefit Plan (Continued)

Plan Description (Continued)

retirement benefit. As of June 30, 2015, the plan consists of 44 active plan participants, 233 terminated plan participants entitled to but not yet receiving benefits, and 40 retirees receiving benefits.

The plan financial statements are prepared using the accrual basis of accounting. County contributions are recognized in the period in which contributions are due, pursuant to the plan documentation and as may be required by statutory requirements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan.

The County charges a benefits administration fee to County agencies, which funds the cost of administering all of the County benefit programs, including the Extra-Help Defined Benefit Retirement Plan. The County Treasurer charges its normal investment management fee related to the Pension Trust Fund's participation in the County Pool.

Contributions: The County has the authority to determine Plan contributions. GASB Statement No. 67 requires the County to have an actuarial valuation performed at least biennially to determine the plan's total pension liability. This valuation is currently performed biennially. The plan's total pension liability was calculated using the data and assets as of June 30, 2013, rolled forward to June 30, 2014 and June 30, 2015 using actual benefit payments for the fiscal years 2013-14 and 2014-15. In both the 2013 valuation and the 2014 and 2015 roll forward calculations the actuarial assets are valued at market value. The actuary has determined the County's actuarially determined contribution using the entry age normal actuarial cost method, which is (a) normal cost, plus (b) 10-year amortization of the UAAL. Further information on the County's net pension liability and contributions can be found in the Required Supplementary Information (RSI) section following the notes to the basic financial statements. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, the County and six (6) cost-sharing agencies have contributed $4,904. For the fiscal year ended June 30, 2015, the County and six (6) cost-sharing agencies contributed the total actuarially determined contribution of $421, which is equal to normal cost plus 10-year amortization of the UAAL. The County's proportionate share of the contribution was $413.

Plan participants do not contribute to the fund effective November 21, 2008 (the date of the freeze). Note that effective November 21, 2008, the normal cost is $0 due to the plan freeze.

Investment policy: The County has sole authority for establishing and amending the Plan's investment policy and allocation of the invested assets. The Plan's policy in regard to the allocation of invested assets may be established and amended by the Plan's Trustee. The Plan may invest in bonds, mortgages, notes, common or preferred stock, mutual funds, or other securities, policies of life insurance, annuity contracts, or property (real, bank deposits, or retain in cash or other property).

Concentrations: The Plan held 100% of its investments in the Orange County Investment Pool (OCIP). See Note 4, Deposits and Investments for information about OCIP. The Plan has stated its investments in OCIP at fair value based on information provided by OCIP.

Discount Rate: For the year ended June 30, 2015, the annual money-weighted rate of return on the Plan's investments, net of pension plan investment expense, was 0.346%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The discount rate used to measure the total pension liability was 3.25%, the long-term expected rate of return on plan assets. Since this expected long-term rate of return is less than the 20-year AA municipal bond rate on June 30, 2015, 3.25% was used as the discount rate for all years.

(Dollar Amounts in Thousands)

## 18. RETIREMENT PLANS (Continued)

### County Administered Pension Plans (Continued)

### Extra-Help Defined Benefit Plan (Continued)

Discount Rate (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 3.25% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 8 basis points. An investment return excluding administrative expenses would have been 3.33%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and net Pension Liability. The difference is not material to the County's financial statements.

The long-term expected rate of return on plan investments was determined using a building-block method equal to the expected future real rate of return on the OCIP plus expected inflation, rounded to the nearest 0.25%. As of June 30, 2015, OCIP was invested 100% in the major asset class of Cash & Equivalents. The best estimate of the long-term expected arithmetic real rate of return for this asset class (net of investment expense and inflation) is 0.37%.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions: The components of the collective net pension liability of the County and the six (6) cost-sharing agencies at June 30, 2015 were as follows:

| | | |
|---|---|---|
| Collective Total Pension Liability | $ | 8,341 |
| Plan's Collective Fiduciary Net Position | | (5,117) |
| Collective Net Pension Liability | $ | 3,224 |
| | | |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | | 61.35% |

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 and rolled forward to the measurement date of June 30, 2015. The County's proportionate share of the June 30, 2015 net pension liability is $3,163. The County's proportion of 98.12% is based on an employer contribution allocation and has not changed since June 30, 2014.

For the year ended June 30, 2015, the County recognized pension expense of $131. At June 30, 2015, the County reported deferred outflows of resources of $118, which represents the net difference between projected and actual earnings on plan investments.

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|---|---|---|---|
| Net difference between projected and actual earnings on plan investments | $ | 118 | $ | - |
| Total | $ | 118 | $ | - |

The deferred outflows of resources related to this pension plan will be recognized as pension expense for the County as follows:

| Year ended June 30: | | |
|---|---|---|
| 2016 | $ | 29 |
| 2017 | | 29 |
| 2018 | | 30 |
| 2019 | | 30 |

## 18. RETIREMENT PLANS (Continued)

### County Administered Pension Plans (Continued)

### Extra-Help Defined Benefit Plan (Continued)

Actuarial Assumptions: The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement: (a) 3% inflation, (b) 3.25% investment return, (c) the 417(e) lump sum mortality table used for ERISA-governed plans and the 30-year Treasury rate with a look-back month of November grading into the long-term assumption of 5.0%, (d) RP-2000 Combined Healthy Mortality Table with a three year set back, and (e) a 50% participation assumption for vested terminations deemed unlikely to be found. This plan does not have a salary increase assumption or post-retirement benefit increase assumption as these factors do not impact the benefits of this frozen plan.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the collective plan and the County's proportionate share, calculated using the discount rate of 3.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.25%) or 1-percentage-point higher (4.25%) than the current rate:

| Net Pension Liability | 1% Decrease (2.25%) | Current Discount Rate (3.25%) | 1% Increase (4.25%) |
|---|---|---|---|
| Collective plan | $ 3,360 | $ 3,224 | $ 3,113 |
| County's proportionate share | $ 3,297 | $ 3,163 | $ 3,054 |

### Extra-Help Defined Contribution Plan

Plan Description: Effective March 1, 2002, as amended and restated on July 1, 2011, the Board established the Extra-Help Defined Contribution Plan to replace the Extra-Help Defined Benefit Retirement Plan for new employees hired on or after March 1, 2002, and supplements the benefits of the Extra-Help Defined Benefit Retirement Plan for employees hired prior to March 1, 2002. Eligible employees of this plan are not covered by OCERS or Social Security. This plan is a tax-deferred retirement plan, established in accordance with IRC Sections 457 and 3121 and is intended to comply with the Omnibus Budget Reconciliation Act of 1990 and meet the requirements to be a Social Security replacement plan. The Board has the authority to amend the plan. As of June 30, 2015, there were 3,625 active participants and 392 inactive participants in the plan.

The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return.

If a participant's employment status changes from a part-time or extra-help employee to a permanent full-time employee or a part-time employee working 20 hours or more per week, those participants may elect to transfer the balance to the County's Section 457 Defined Contribution Plan or leave the balance in the plan until they are no longer employed with the County.

Funding Policy: Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in the Stable Value Fund offered through Great West Retirement Services, which is designed to protect principal and maximize earnings. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. There is no additional contribution made by the County. Total employee contributions for the year ended June 30, 2015, were $1,018 by the employees and zero by the County. As of June 30, 2015 the value of plan assets was $7,597.

Administrative Cost: There is an annual administrative fee of 0.18% charged to participants (at a monthly rate of 0.015%), which is capped for account balances at $100,000. Each month, participant fees are based on the average daily balance of their account(s) over a 30-day period, and are reflected on participants' quarterly statements. No employer-level fees are charged for the Plan.

(Dollar Amounts in Thousands)

## 18. RETIREMENT PLANS (Continued)

### County Administered Pension Plans (Continued)

### Extra-Help Defined Contribution Plan (Continued)

### Condensed Financial Statements

In lieu of separately issued financial statements for the County administered retirement funds, condensed financial statements are presented below as of and for the year ended June 30, 2015:

| Statement of Fiduciary Net Position | Total | Extra-Help Defined Benefit Plan | Extra-Help Defined Contribution Plan | 401(a) Defined Contribution Plan | 1.62% at 65 Retirement, 401(a) Defined Contribution Plan |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Pooled Cash/Investments | $ 5,115 | $ 5,115 | $ -- | $ -- | $ -- |
| Restricted Cash/Investments with Trustee | 22,117 | -- | 7,597 | 14,005 | 515 |
| Receivables: | | | | | |
| Interest/Dividends | 10 | 10 | -- | -- | -- |
| Due from Other Governmental Agencies | 27 | - | -- | -- | 27 |
| Total Assets | 27,269 | 5,125 | 7,597 | 14,005 | 542 |
| **Liabilities** | | | | | |
| Salaries and Employee Benefits Payable | 8 | 8 | -- | -- | -- |
| Total Liabilities | 8 | 8 | -- | -- | -- |
| **Net Position** | | | | | |
| Restricted for Pension Benefits | 27,261 | 5,117 | 7,597 | 14,005 | 542 |
| Total Net Position | $ 27,261 | $ 5,117 | $ 7,597 | $ 14,005 | $ 542 |

| Statement of Changes in Fiduciary Net Position | Total | Extra-Help Defined Benefit Plan | Extra-Help Defined Contribution Plan | 401(a) Defined Contribution Plan | 1.62% at 65 Retirement, 401(a) Defined Contribution Plan |
|---|---|---|---|---|---|
| Additions: | | | | | |
| Contributions to Pension Trust: | | | | | |
| Employer | $ 1,702 | $ 421 | $ -- | $ 913 | $ 368 |
| Employee | 1,018 | -- | 1,018 | -- | -- |
| Interest and Investment Income | 726 | 29 | 161 | 528 | 8 |
| Less: Investment Expense | (32) | (8) | (9) | (15) | -- |
| Total Additions | 3,414 | 442 | 1,170 | 1,426 | 376 |
| Deductions: | | | | | |
| Benefits Paid to Participants | 2,438 | 522 | 1,175 | 741 | -- |
| Administrative Expense | 4 | 4 | -- | -- | -- |
| Total Deductions | 2,442 | 526 | 1,175 | 741 | -- |
| Change in Net Position for Employees' Retirement | 972 | (84) | (5) | 685 | 376 |
| Net Position at July 1, 2014 | 26,289 | 5,201 | 7,602 | 13,320 | 166 |
| Net Position at June 30, 2015 | $ 27,261 | $ 5,117 | $ 7,597 | $ 14,005 | $ 542 |

## 19. POSTEMPLOYMENT HEALTH CARE BENEFITS

### County of Orange Retiree Medical Plan

Plan Description: The County of Orange Third Amended Retiree Medical Plan (the Retiree Medical Plan) is a single employer defined benefit Other Postemployment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the County Board of Supervisors (Board). The Board is also the authority for amending the Retiree Medical Plan. The Retiree Medical Plan is not required by the County Employees Retirement Law of 1937 ("CERL") – the statute governing County employee retirement benefits. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums. The Retiree Medical Plan specifically states that it does not create any vested right to the benefits.

In order to be eligible to receive the Grant upon retirement, the employee must have completed at least 10 years of continuous County service (although exceptions for disability retirements exist), be enrolled in a County sponsored health plan and/or Medicare, qualify as a retiree as defined by the Retiree Medical Plan and be able to receive a monthly benefit payment from the Orange County Employees Retirement System (OCERS). To qualify as a retiree as defined by the Retiree Medical Plan, the employee upon retirement must be at least 50 years of age or have at least 20 years of service for a safety member of OCERS or at least 30 years of service for a general member of OCERS.

The monthly Grant amount is determined by a formula that multiplies a base number by the number of years of qualifying County employment up to a maximum of 25 years. The base number for calendar year 2014 was $20.51 (absolute dollars) per year of County service, and the maximum base monthly Grant was $512.75 (absolute dollars). The base number for calendar year 2015 is $21.13 (absolute dollars) per year of County service, and the maximum monthly Grant is $528.25 (absolute dollars). The amount of the Grant is netted against the monthly health plan premium and/or reimburses Medicare premiums paid by the retiree for retiree and dependent coverage with the retiree obligated to pay the remaining balance. In no case shall the Grant exceed the actual cost to a retiree for the Qualified Health Plan and Medicare premiums.

The Grant is reduced by 50% once the retiree becomes Medicare A and B eligible. Retirees who were age 65 and/or Medicare A and B eligible on the effective date are not subject to the Medicare reduction. For employees retiring after the effective date, the Grant is reduced or increased by 7.5% based on the employee's age at retirement, such that the Grant is reduced 7.5% for each year under age 60 and increased by 7.5% for each year of age worked after age 60 up to age 70. The effective date varies by labor agreement. Safety employees and disability retirements are exempt from the age adjustment.

The base number for the Grant is adjusted annually based on a formula defined in the Retiree Medical Plan document with a maximum increase/decrease of 3%. Surviving dependents of a deceased employee or retiree eligible for the Grant are entitled to receive 50% of the Grant that the employee/retiree was eligible to receive.

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The qualifying hours of service for calculation of the lump sum payment is frozen and the effective date varies by labor agreement. The frozen lump sum payment is equal to 1% of the employee's final average hourly pay (as defined in the Retiree Medical Plan) multiplied by the employee's qualifying hours of service (as defined) since the Retiree Medical Plan's effective date.

Employees represented by the American Federation of State, County and Municipal Employees (AFSCME) who retired before September 30, 2005 are not subject to the Medicare reduction or age adjustment to the Grant. The base number for these retirees is adjusted annually with a maximum increase/decrease of 5%. AFSCME employees who were employed on or after September 30, 2005 are not eligible for the Grant or the lump sum payment. They may participate in the County-offered health plans at their own cost if they meet the minimum plan requirements.

## 19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

Employees represented by the Association of Orange County Deputy Sheriffs (AOCDS) who were hired on or after October 12, 2007 are not eligible for the Grant or lump sum payment. Service hour accruals for the Grant and lump sum calculations for employees represented by AOCDS who were hired before October 12, 2007 were frozen. A Defined Contribution Plan (Health Reimbursement Arrangement) was established to replace the Grant for new employees, and to supplement the frozen grants for current employees.

Law enforcement management employees who were hired on or after June 19, 2009 are not eligible for the Grant or lump sum payment. Service hour accruals for the Grant calculations for law enforcement management employees who were hired before June 19, 2009 were frozen. The qualifying hours of service for calculation of the lump sum payment for law enforcement management employees were frozen as of June 23, 2006. A Defined Contribution Plan (Health Reimbursement Arrangement) was established to replace the Grant for new employees, and to supplement the frozen grants for current employees.

Effective January 1, 2008, health insurance premium rates were separately pooled for the active and retired employees, except for employees represented by the AOCDS. Effective July 1, 2008, retiree health insurance premium rates for retired employees enrolled in the AOCDS health plans have been 10% higher than active employees.

Funding Policy: The County implemented an employer contribution in an amount equal to the Annual Required Contribution (ARC) for the affected labor groups except AOCDS. In order to more adequately fund benefits under the Retiree Medical Plan, on June 19, 2007, the Board adopted the County of Orange Retiree Medical Trust (Trust) effective July 2, 2007. The Trust is an Internal Revenue Code section 115 trust for which the County Chief Financial Officer is the Trustee. In addition, OCERS has established an Internal Revenue Code section 401(h) account to invest monies and acts as Trustee for the 401(h) account which is used to pay the Grant. OCERS issues a Comprehensive Annual Financial Report (CAFR) for each fiscal year ending on December 31, which includes the Retiree Medical Trust. The CAFR can be obtained online at www.ocers.org. by request, in writing, to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

The County is currently setting aside contributions of 0.6% for AFSCME, 1.8% for AOCDS, 4.8% for law enforcement management, 3.6% for the Probation Department safety personnel and 3.5% of payroll for all other labor groups, which is the estimated ARC for those groups. Additionally, employees represented by AOCDS and law enforcement management employees hired before April 4, 2009 contribute 3.6% of base payroll while employees hired on or after April 4, 2009 contribute 2%. Effective July 25, 2014, contributions for employees represented by AOCDS were reduced to 2.6% and 1%, respectively.

Funds were initially deposited into the Trust in December 2007, with subsequent deposits made throughout each fiscal year. The costs to administer the Trust are paid from the Trust.

Actuarial Methods and Assumptions: The County contracts with an outside actuarial consultant to prepare a biennial actuarial valuation in conformance with GASB Statement No. 45. The County received a June 30, 2013 valuation for fiscal years 2013-14 and 2014-15 for the Retiree Medical Plan (the Report). Among the actuarial methods and assumptions used in the Report are:

- The entry age normal actuarial cost method
- Closed period amortization of the UAAL over 30 years as a level percentage of payroll (23 years remaining as of June 30, 2015)
- A 7.25% long-term expected rate of return on funds held in the Trusts
- A 3.75% per annum payroll increase assumption

## 19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### County of Orange Retiree Medical Plan (Continued)

Actuarial Methods and Assumptions (Continued):

- A 3.25% per annum general inflation rate assumption
- The assumed annual increases in the monthly grant of 3% for non-AFSCME employees and 5% for AFSCME employees. The healthcare trend was assumed to be greater than or equal to the annual increase to the Grant through 2021 and beyond. Therefore, it is the Grant annual increase rather than the healthcare trend that affects the projected benefits and the UAAL.
- There are an estimated 25,682 participants in the plan of which 17,705 are employees, 38 are deferred retirees, and 7,939 are retirees.

Annual OPEB Cost and Net OPEB Obligation/(Asset): The County's annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of time not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost, the amount actually contributed to the 115 and 401(h) Trusts and changes in the County's Net OPEB Obligation (NOO) for the current year:

| | FY 2014-15 |
|---|---|
| Total Annual Required Contribution | $ 44,921 |
| Interest on Net OPEB Asset | (3,043) |
| Amortization on Net OPEB Asset | 2,976 |
| Annual OPEB Cost | 44,854 |
| Contributions Made | (41,181) |
| Decrease in Net OPEB Asset | 3,673 |
| Net OPEB Asset, Beginning of year | (48,729) |
| Net OPEB Asset, End of year | $ (45,056) |

The County's annual OPEB Cost, the percentage of annual OPEB cost contribution to the plan, and the NOO for FY 2014-15 and two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB (Asset) |
|---|---|---|---|
| 6/30/2013 | $ 42,497 | 114% | $ (41,805) |
| 6/30/2014 | 43,136 | 116% | (48,729) |
| 6/30/2015 | 44,854 | 92% | (45,056) |

Funded Status and Funding Progress: The funded status of the OPEB Plan as of June 30, 2013 is as follows:

| | |
|---|---|
| Actuarial Accrued Liability (AAL) | $ 573,763 |
| Actuarial Value of Plan Assets | 155,702 |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 418,061 |
| | |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 27.1% |
| Covered Payroll | $ 1,217,052 |
| UAAL as Percentage of Covered Payroll | 34.4% |

## 19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### County of Orange Retiree Medical Plan (Continued)

Funded Status and Funding Progress (Continued):

The preceding noted actuarial accrued liability was based on the June 30, 2013 actuarial valuation. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial valuations contained in the Report involve estimates of the values of reported amounts and assumptions about the probability of events far into the future and will be subject to continual revision as they reflect a long-term perspective. Assumptions used in the Report also include techniques designed to reduce short-term volatility in AAL and the actuarial value of assets. Current estimates of the funded status and trend information about the funding progress and the employer contributions are presented in the Required Supplementary Information section following the notes to the basic financial statements.

### County of Orange Health Reimbursement Arrangement (HRA)

Plan Description: On October 23, 2007, the Board approved and adopted a Memorandum of Understanding (MOU) agreement with the AOCDS. The MOU restructured the Retiree Medical Plan and established a Defined Contribution Plan (Health Reimbursement Arrangement) to replace the Retiree Medical Plan for new employees, and to supplement the current employees' frozen service hour accruals for the Grant.

On June 24, 2008, the Board approved the County of Orange Health Reimbursement Arrangement (HRA) Plan with an effective date of October 12, 2007. The HRA Plan is not required by California Public Employees' Retirement Law (CERL). The plan is intended to fund the reimbursement accounts of eligible employees on a pre-tax basis and reimburse the eligible unreimbursed and substantiated qualified medical expenses of retired participants.

On March 24, 2009, the Board approved the restructuring of the Retiree Medical Plan and establishment of a Defined Contribution Plan HRA for law enforcement management employees effective June 19, 2009. The HRA replaces the Retiree Medical Plan for new employees, and supplements the current law enforcement management employees' frozen service hour accruals for the Grant.

The HRA is intended to comply with the requirements of Internal Revenue Code (IRC) Sections 105 and 106, and meets the requirements of a health reimbursement arrangement as defined under Internal Revenue Service (IRS) Notice 2002-45. The contributions made to reimbursement accounts, any investment gains and qualified medical expenses reimbursed under this plan are intended to be eligible for exclusion from the gross income of eligible employees, participants and retired participants (including the spouses and dependents of each) under IRC Section 105(b). The HRA may be amended by the employer or the plan administrator to comply with federal, state, or local laws, statues, regulations, or guidelines. Reimbursement of qualified medical expenses was deferred until the selection and implementation of the third party administrator. Administration of the HRA by the third party administrator began in August 2009. As of June 30, 2015, the plan had 2,055 active and 532 inactive participants.

Funding Policy: Employer and mandatory employee contributions were effective October 12, 2007 for employees represented by AOCDS and were effective June 19, 2009 for law enforcement management employees. All contributions to the HRA are deemed to be employer contributions whether made directly by the employer or as a mandatory employee contribution. Employee contributions for employees represented by AOCDS are mandatory pursuant to the MOU and mandatory pursuant to Board action for law enforcement management employees. For employees represented by AOCDS, the County contributes 3.0% of compensation each pay period. Employees represented by AOCDS are required to contribute 2.0% of compensation each pay period. For law enforcement management employees, the County contributes 1.0% of compensation each pay period. Law enforcement management employees in the HRA are required to contribute 1.0% of compensation each pay period.

## 19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### County of Orange Health Reimbursement Arrangement (HRA) (Continued)

Funding Policy (Continued)

ICMA Retirement Corporation serves on behalf of the County as the third party administrator of the HRA and holds HRA assets in trust. HRA participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the HRA. As of June 30, 2015, the value of HRA assets was $72,143.

Administrative Cost: Annual administrative fees include a Plan Asset Fee of 0.25% & Annual Account Fee of $20. Each quarter, twenty-five percent (25%) of the fees are assessed to participant accounts, and are reflected on participants' quarterly statements. No employer-level fees are charged for the Plan.

### Condensed Financial Statements

In lieu of separately issued financial statements for the County administered postemployment health care benefit trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2015:

| Statement of Fiduciary Net Position | Total | Retiree Medical Plan | Health Reimbursement Arrangement Plan |
|---|---|---|---|
| **Assets** | | | |
| Pooled Cash/Investments | $ 4,182 | $ 4,137 | $ 45 |
| Restricted Cash and Investments with Trustee | 277,809 | 206,118 | 71,691 |
| Interest Receivable | 18 | 18 | -- |
| Due from Other Governmental Agencies | 2,761 | 2,354 | 407 |
| Total Assets | 284,770 | 212,627 | 72,143 |
| **Liabilities** | | | |
| Due to Other Governmental Agencies | -- | -- | -- |
| Total Liabilities | -- | -- | -- |
| **Net Position** | | | |
| Restricted for OPEB Benefits | 284,770 | 212,627 | 72,143 |
| Total Net Position | $ 284,770 | $ 212,627 | $ 72,143 |

| Statement of Changes in Fiduciary Net Position | Total | Retiree Medical Plan | Health Reimbursement Arrangement Plan |
|---|---|---|---|
| Additions: | | | |
| Employer Contributions | $ 49,424 | $ 41,181 | $ 8,243 |
| Employee Contributions | 2,798 | 2,798 | -- |
| Interest and Investment Income | 6,002 | 4,668 | 1,334 |
| Less: Investment Expense | (212) | (7) | (205) |
| Total Additions | 58,012 | 48,640 | 9,372 |
| Deductions: | | | |
| Benefits Paid to Participants | 31,190 | 29,874 | 1,316 |
| Administrative Expense | 33 | 33 | -- |
| Total Deductions | 31,223 | 29,907 | 1,316 |
| Change in Net Position | 26,789 | 18,733 | 8,056 |
| Net Position at July 1, 2014 | 257,981 | 193,894 | 64,087 |
| Net Position at June 30, 2015 | $ 284,770 | $ 212,627 | $ 72,143 |

## 20. CONTINGENCIES

*Grants*

The County participates in a number of Federal and State grant programs subject to financial and compliance audits by the grantors or representatives. Audits of certain grant programs for or including the year ended June 30, 2015 have not yet been conducted or settled. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time. The County expects such amounts, if any, to be immaterial.

*Third Party Payor Agreement and the Medical Services Initiative*

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Reform" began in November 2010. Under the Waiver, the County received payments under the Low Income Health Program (LIHP). The non-Federal share of these payments was provided by the County's Medical Services Initiative (MSI) primarily through certified public expenditures, whereby the County would expend its local funding for services to draw down the federal financial participation. The LIHP is a coverage program for low-income uninsured adults that was included as part of California's Section 1115 Medicaid Waiver. The program expanded the previous Health Care Coverage Initiative (HCCI) and allowed for a transition to the anticipated health reform.

The MSI Program ended December 31, 2013 with the majority of the MSI population eligible for either the Medi-Cal expansion or subsidized commercial insurance through the health insurance exchange. While administering the LIHP, the MSI program contracted with all of the County's key clinics and hospitals and provided integrated care through contractual relationships with surgery centers, skilled nursing facilities, urgent care facilities, "Minute Clinics" and a variety of diagnostic centers and programs. The County used a third party administrator to process claims for LIHP and MSI participants related to services provided by all health care providers. The third party administrator invoiced the County monthly for claims processed and had six months after the end of each contract year to reconcile and submit a final settlement invoice followed by a final State reconciliation. As the State processed LIHP claims, additional services were made allowable for certain years. As such, supplemental invoices were still being submitted and processed that resulted in revenue pertaining to prior periods. As the MSI program and LIHP ended in FY 2013-14, estimates have been recorded as deferred inflows of resources for amounts anticipated for remaining final settlements as well as for allowable administrative claims that total approximately $8,488.

Laws and regulations governing Medi-Cal programs are complex and subject to interpretation. The County believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from Medi-Cal programs.

*Estimated Liability for Litigation and Claims*

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the County. To the extent the outcome of such litigation has been determined to result in probable financial loss to the County, a liability has been accrued in the accompanying financial statements. Litigation where loss to the County is reasonably possible has not been accrued. For information regarding accrued liabilities for self-insurance claims incurred but not reported, refer to Note 16, Self-Insurance.

## 21. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2015:

Teeter Plan Notes: On July 15, 2015, the County issued an additional $30,542 in Teeter Plan Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan, leaving an outstanding balance of $64,365. Proceeds of this issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll. For additional information regarding the Teeter Plan Notes, refer to Note 11, Long-Term Obligations.

Airport Terminal Improvements Project: On December 8, 2015, the Board awarded a design-build contract in the amount of $101,837 for the Terminal Improvements Project. The Board also authorized the Airport to file a PFC Amendment with the Federal Aviation Administration (FAA) to allow the Airport to be reimbursed for eligible costs expended on approved and completed PFC projects. Upon approval by the FAA, funds will be available for the Airport to fund a significant portion of the Terminal Improvements Project. The Terminal Improvement Project will enhance efficiency and extend the useful lives of the Terminal components, provide patrons of the Airport with numerous safety, code compliance, comfort, convenience, and aesthetic improvements, and allow patrons to experience a uniform level of quality and service throughout the Thomas F. Riley Terminal.

Passage of Senate Bill 107: In September 2015, the State passed Senate Bill 107 (Bill), which contains additional provisions and provides specifically to existing law governing the dissolution of redevelopment agencies and the wind-down of their existing activities and obligations. The Successor Agency’s management is still evaluating the impact of the Bill to the Successor Agency.

COUNTY OF ORANGE
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## Required Supplementary Information
## (Dollar Amounts in Thousands)

### Orange County Extra-Help Defined Benefit Plan

### Schedule of Changes in the Collective Plan Net Pension Liability and Related Ratios

| | 2015 | 2014 |
|---|---|---|
| **Total Pension Liability** | | |
| Service cost | $ - | $ - |
| Interest | 271 | 282 |
| Changes of benefit terms | - | - |
| Difference between expected and actual experience | - | - |
| Changes of assumptions | - | - |
| Benefit payments, including refunds of member contributions | (522) | (695) |
| Net change in Total Pension Liability | (251) | (413) |
| Total Pension Liability-beginning | 8,592 | 9,005 |
| Total Pension Liability-ending (a) | $ 8,341 | $ 8,592 |
| **Plan Fiduciary Net Position** | | |
| Contributions-employer | $ 421 | $ 421 |
| Contributions-member | - | - |
| Net investment income | 17 | 15 |
| Benefit payments, including refunds of member contributions | (522) | (695) |
| Administrative expense | - | - |
| Other | - | - |
| Net change in Plan Fiduciary Net Position | (84) | (259) |
| Plan Fiduciary Net Position- beginning | 5,201 | 5,460 |
| Plan Fiduciary Net Position-ending (b) | $ 5,117 | $ 5,201 |
| **Plan Net Pension Liability-ending (a) – (b)** | $ 3,224 | $ 3,391 |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability** | 61.35% | 60.53% |
| **Covered employee payroll** | $ 1,829 | $ 1,876 |
| **Plan Net Pension Liability as a percentage of covered employee payroll** | 176.27% | 180.76% |

### Schedule of Investment Returns

| | 2015 | 2014 |
|---|---|---|
| Actual money-weighted rate of return, net of investment expense | 0.35% | 0.26% |

The schedule is presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

(Dollar Amounts in Thousands)

## Orange County Extra-Help Defined Benefit Plan (Continued)

### Schedule of County's Proportionate Share of the Net Pension Liability

| | 2015 |
|---|---|
| County's proportion of the net pension liability | 98.12% |
| County's proportionate share of the net pension liability | $ 3,163 |
| County's covered-employee payroll | $ 1,829 |
| County's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 172.94% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.35% |

### Schedule of Collective Plan Contributions

| | 2015 | 2014 |
|---|---|---|
| Actuarially determined contribution | $ 421 | $ 421 |
| Contributions in relation to the actuarially determined contribution | 421 | 421 |
| Contribution deficiency (excess) | $ - | $ - |
| Covered-employee payroll | $ 1,829 | $ 1,876 |
| Contributions as a percentage of covered-employee payroll | 23.02% | 22.44% |

### Schedule of County Contributions

| | 2015 | 2014 |
|---|---|---|
| Actuarially determined contribution | $ 413 | $ 421 |
| Contributions in relation to the actuarially determined contribution | 413 | 421 |
| Contribution deficiency (excess) | $ - | $ - |
| Covered employee payroll | $ 1,829 | $ 1,876 |
| Contributions as a percentage of covered - employee payroll | 22.58% | 22.44% |

The schedules are presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

## Orange County Extra-Help Defined Benefit Plan (Continued)

**Notes to Schedule**

| | |
|---|---|
| Valuation date | June 30, 2013 |
| **Methods and assumptions used to determine contribution rates:** | |
| Actuarial cost method | Entry Age |
| Amortization method | Level dollar, open |
| Remaining amortization period | 10 years |
| Asset valuation method | Market Value |
| Inflation | 3.00% |
| Salary increases | n/a |
| Investment rate of return | 3.25% |
| Retirement age | 100% retirement at age 65 |
| Participation assumption | 100% for Actives, and 50% for Vested Terminations deemed unlikely to be found |
| Mortality | RP-2000 Combined Healthy Mortality Table set back 3 years |
| Actuarial Equivalence for Lump Sums – Mortality | 417(e) lump sum table |
| Actuarial Equivalence for Lump Sums – Interest Rate | 30-year Treasury rate with look-back month of November, current rates grading into 5% long-term assumption |

## Orange County Employees Retirement System (OCERS)

### Schedule of County's Proportionate Share of the Net Pension Liability

| | 2015 | 2014 |
|---|---|---|
| County's proportion of the net pension liability | 76.68% | 74.20% |
| County's proportionate share of the net pension liability | $ 3,897,233 | $ 3,925,919 |
| County's covered-employee payroll | $ 1,198,458 | $ 1,176,008 |
| County's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 325.19% | 333.83% |
| Plan fiduciary net position as a percentage of the total pension liability | 68.16% | 66.88% |

*For GASB purposes, covered employee payroll represents gross salary.*

The schedule is presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

(Dollar Amounts in Thousands)

## Orange County Employees Retirement System (OCERS) (Continued)

### Schedule of County Contributions

| | 2015 |
|---|---|
| Actuarially determined contribution | $ 340,626 |
| Contributions in relation to the actuarially determined contribution | 340,626 |
| Contribution deficiency (excess) | $ - |
| Covered employee payroll | $ 1,198,458 |
| Contributions as a percentage of covered - employee payroll | 28.42% |

The schedule is presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

## Orange County Retiree Medical Plan

### Schedule of Funding Progress

For Years Ended June 30

| Actuarial Valuation as of June 30 (1) | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a=c) | Funded Ratio (a/b) | Annual Covered Payroll (d) | UAAL as a Percentage of Covered Payroll (c/d) |
|---|---|---|---|---|---|---|
| 2009 | $ 94,110 | $ 456,005 | $ 361,895 | 20.6% | $ 1,267,427 | 28.6% |
| 2011 | 116,804 | 528,639 | 411,835 | 22.1% | 1,273,636 | 32.3% |
| 2013 | 155,702 | 573,763 | 418,061 | 27.1% | 1,217,052 | 34.4% |

(1) The County's outside actuarial consultant prepares a biennial actuarial valuation in conformance with GASB Statement No. 43 and 45.

COUNTY OF ORANGE
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## MAJOR GOVERNMENTAL FUNDS DEBT SERVICE

GASB Statement No. 34 requires budgetary comparisons in Required Supplementary Information (RSI) for the General Fund and for each Major Special Revenue Fund that has a legally adopted annual budget. Governments may elect to report the budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI, which is where the County of Orange has elected to present those required budgetary comparisons. However, GASB Statement No. 34 clearly limits the budgetary comparison requirements to only the General Fund and the Major Special Revenue Funds. Governments do not have the option of presenting budgetary comparisons for other funds in conjunction with the basic financial statements or RSI, which is why the following budgetary comparison schedule for the Major Governmental Debt Service fund is located in Supplemental Information.

Teeter Plan Notes: This fund accounts for the financing of the County's purchase of delinquent taxes receivable pursuant to the Teeter Plan. The Teeter Plan is an alternate secured property tax distribution plan, whereby, the County distributes 100% of the local secured levy to the taxing agencies participating in the Teeter Plan and in exchange receives the right to keep the delinquent taxes, penalties and interest.

(Dollar Amounts in Thousands)

**BUDGETARY COMPARISON SCHEDULE**
**MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Teeter Plan Notes** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Fines, Forfeitures and Penalties | $ 11,500 | $ 11,500 | $ -- | $ (11,500) |
| Use of Money and Property | 250 | 250 | 161 | (89) |
| Other | -- | -- | 1 | 1 |
| Bond Issuance Proceeds | 38,000 | 38,000 | 31,541 | (6,459) |
| Total Revenues and Other Financing Sources | 49,750 | 49,750 | 31,703 | (18,047) |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Teeter Series A Debt Service | 81,250 | 81,250 | 38,186 | 43,064 |
| Total Expenditures and Other Financing Uses | 81,250 | 81,250 | 38,186 | 43,064 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (31,500) | (31,500) | (6,483) | $ 25,017 |
| Fund Balances - Beginning of Year | 58,952 | 58,952 | 58,952 | |
| Fund Balances - End of Year | $ 27,452 | $ 27,452 | $ 52,469 | |

## NONMAJOR GOVERNMENTAL FUNDS

## SPECIAL REVENUE FUNDS

These funds are used to account for the proceeds of specific revenue sources (other than the permanent fund or for major capital projects) that have either legal or operational requirements to restrict expenditures for specified purposes.

Parking Facilities
This fund is used to account for revenues and expenditures related to parking facilities. This includes costs to lease parking spaces for County staff, costs and revenue from the Manchester and Hall of Administration lots, interest revenue, and the County's operating and maintenance costs.

Service Areas, Lighting, Maintenance and Assessment Districts
This group of funds is used to account for the construction of public facilities from the proceeds of various Mello-Roos districts (also known as Community Facilities Districts), bond issues, special assessment district bond issues, and interfund transfers from County Service Area operating funds. Upon completion of construction, the public facilities are transferred to the Special Assessment and Community Facilities Districts. It is also used to account for local park and recreation facilities, highway lighting, and street sweeping services within unincorporated areas of the County. Revenues consist primarily of property taxes and state grants.

Other Environmental Management
This group of funds is used to account for Local Redevelopment Authority (LRA) activities, fees from violations of fish and game laws, usage of various state tidelands held in trust by the County, registration of off-highway vehicles, and motor vehicle fees levied by the South Coast Air Quality Management District.

Tobacco Settlement
This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. On November 7, 2000, Orange County voters passed Measure H. This measure requires the County to utilize its share of the national tobacco litigation settlement revenues in the following percentages:

- *80% for specified health care services*
- *20% for public safety*

Community and Welfare Services
This group of funds is used to account for the Orange County Workforce Investment Act, Welfare-to-Work, Shelter Care Facilities, In Home Supportive Services, Housing and Community Development, Substance Abuse Treatment, and Other Community and Welfare Social Programs. Revenues consist primarily of Federal grants passed through the State, as well as State grants.

OC Parks
This fund accounts for the development and maintenance of County tidelands and related aquatic recreational facilities, as well as the acquisition, operation and maintenance of County beaches, inland, regional park facilities and community park sites in the unincorporated areas. Revenues consist primarily of property taxes, state aid, lease and concession revenues, and park and recreation fees.

OC Dana Point Harbor

This fund is comprised of two funds. The operating fund accounts for monies received primarily through rent and concession revenues which are dedicated to providing public coastal access, environmental stewardship, and a diverse regional recreational facility so all users and visitors may experience the unique Dana Point Harbor resource in a safe and enjoyable way. The other fund is an emergency repair fund to be used only for extraordinary, non-routine repairs as required by the California Department of Boating and Waterways (DBW) loan documents. Maintaining compliance with the DBW loan documents through this emergency repair fund allows OC Dana Point Harbor to utilize low interest loans to finance the Dana Point Marina Revitalization Project.

Housing Asset

The Orange County Development Agency (OCDA) was dissolved effective February 1, 2012 in accordance with Health and Safety Code 34172. The Orange County Housing Authority assumed the housing functions previously performed by OCDA. The Housing Asset Fund was established and the housing assets from the OCDA Low and Moderate Income Housing Fund were transferred into the Fund.

Schedule I County-Administered Accounts

These funds are used to account for the portion of the 1996 Recovery Certificates of Participation which were used to reimburse certain County-administered accounts for their allocated share of the Orange County Investment Pool loss, in accordance with the County's Modified Second Amended Plan of Adjustment ("Plan of Adjustment"), Exhibit 8 - "Schedule I - County-Administered Accounts." In addition, on February 2, 2000, the Bankruptcy Court ordered a segregation of litigation proceeds to ensure indemnification of the representative, Tom Hayes, and others pursuant to the plan, to pay future expenses, fees, and charges incurred by the representative, and to pay litigation costs.

OC Public Libraries

This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. Property taxes provide most of the fund's revenue and licenses, permits, federal and state aid, and charges for services provide the remaining revenue.

Plan of Adjustment Available Cash

This group of funds is used to account for monies set aside, pursuant to the Plan of Adjustment, for specified parties to the 1994 bankruptcy and for County-Administered Accounts. These monies are then distributed from these funds in accordance with the provisions in the Plan of Adjustment.

Health Care Programs

This group of funds is used to account for Board-approved Realignment reserves for health care, Mental Health Services Act revenues, Medi-Cal Mental Health Managed Care programs, Medi-Cal Administrative Activities and Targeted Case Management, Bioterrorism preparedness grant funds, Emergency Medical Services allocations, and other purpose-restricted revenues related to health care programs. Revenues consist primarily of State grants and allocations, and Federal grants passed through the State.

Orange County Housing Authority

This fund is used to account for revenues received from the Federal Government for Section 8 Rental Assistance Program expenditures. This program assists low-income families to obtain decent, safe and sanitary housing through a system of rental subsidies.

Other Governmental Resources

This group of funds is used to account for fees charged for property characteristics information that are purpose-restricted for technological and capital acquisitions and/or improvements.

## NONMAJOR GOVERNMENTAL FUNDS (Continued)

## DEBT SERVICE FUNDS

These funds are used to account for the accumulation and disbursement of taxes and other revenues for the periodic payment of principal and interest on general long-term debt that includes general obligation, revenue, and demand bond issues.

Orange County Public Facilities Corporation Bonds, Master Lease
This fund is used to account for Orange County Public Facilities Corporation Revenue Bonds (governmental fund type components only) and for Master Lease Obligations.

Pension Obligation Bonds
This fund is used to account for the debt service expenditures for the Orange County Taxable Pension Obligation Bonds.

South OC Public Financing Authority
This fund was established to account for the debt service expenditures for the South Orange County Financing Authority (SOCPFA). The SOCPFA was formed to provide for the financing of public capital improvements.

Orange County Public Financing Authority
This fund was established to account for the debt service expenditures for the Orange County Public Financing Authority (OCPFA). On August 16, 2005, OCPFA issued Lease Revenue Refunding Bonds Series 2005 to defease certain non-callable Recovery COPs, refund the remaining COPs, fund a debt service reserve fund, and pay the cost of issuance of the Series 2005 Bonds.

## CAPITAL PROJECTS FUNDS

These funds are used to account for the acquisition and construction of major capital facilities (other than those financed by the proprietary funds).

Criminal Justice Facilities
This group of funds is used to account for monies received from surcharges and penalty assessments on offenses used for capital improvements to court and other criminal justice facilities.

Countywide Capital Projects Non-General Fund
This fund was established to budget and account for the multi-year approved capital projects funded primarily with Net County Cost or general purpose revenue.

## PERMANENT FUND

A Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs, that is, for the benefit of the government or its citizenry.

Regional Park Endowment
This fund is used to account for costs associated with the repair and maintenance of a mitigation area in Limestone Regional Park.

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**

| | Total Nonmajor Governmental Funds | Special Revenue: Parking Facilities | Special Revenue: Service Areas, Lighting, Maintenance, & Assessment Districts | Special Revenue: Other Environmental Management |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Pooled Cash/Investments | $ 656,422 | $ 1,312 | $ 3,836 | $ 3,475 |
| Imprest Cash Funds | 61 | -- | -- | -- |
| Restricted Cash and Investments with Trustee | 185,577 | -- | -- | -- |
| Investments | 1,347 | -- | 1,257 | -- |
| Deposits In-Lieu of Cash | 35 | -- | -- | -- |
| Receivables | | | | |
| Accounts | 1,925 | 21 | -- | -- |
| Taxes | 1,764 | -- | 17 | -- |
| Interest/Dividends | 805 | 4 | 5 | 5 |
| Deposits | 2,113 | -- | -- | -- |
| Allowance for Uncollectible Receivables | (34) | -- | -- | -- |
| Due from Other Funds | 26,613 | 48 | -- | 4 |
| Due from Other Governmental Agencies | 25,107 | 309 | -- | 40 |
| Prepaid Costs | 10,527 | 40 | -- | -- |
| Notes Receivable, Net | 28,255 | -- | -- | 474 |
| Total Assets | $ 940,517 | $ 1,734 | $ 5,115 | $ 3,998 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 11,642 | $ 244 | $ -- | $ 3 |
| Retainage Payable | 1,842 | 1 | -- | -- |
| Salaries and Employee Benefits Payable | 2,973 | 17 | -- | -- |
| Deposits from Others | 4,472 | -- | -- | -- |
| Due to Other Funds | 49,938 | 153 | 6 | 1 |
| Due to Component Unit | 1 | -- | -- | -- |
| Due to Other Governmental Agencies | 9,314 | 400 | -- | -- |
| Unearned Revenue | 8,541 | -- | -- | 52 |
| Advances from Other Funds | 3,800 | -- | -- | -- |
| Total Liabilities | 92,523 | 815 | 6 | 56 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unavailable Revenue - Intergovernmental Revenues | 3,255 | -- | -- | 40 |
| Unavailable Revenue - Property Taxes | 1,274 | -- | 7 | -- |
| Unavailable Revenue - Long-Term Notes Receivables | 473 | -- | -- | 473 |
| Unavailable Revenue - Other | 21 | -- | -- | -- |
| Total Deferred Inflows of Resources | 5,023 | -- | 7 | 513 |
| **FUND BALANCES** | | | | |
| Nonspendable | 10,715 | 40 | -- | -- |
| Restricted | 748,491 | 359 | 5,102 | 1,391 |
| Assigned | 83,765 | 520 | -- | 2,038 |
| Total Fund Balances | 842,971 | 919 | 5,102 | 3,429 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 940,517 | $ 1,734 | $ 5,115 | $ 3,998 |

(Dollar Amounts in Thousands)

| Tobacco Settlement | Community & Welfare Services | OC Parks | OC Dana Point Harbor | |
|---|---|---|---|---|
| | | | | **ASSETS** |
| $ 16,943 | $ 105,388 | $ 87,611 | $ 64,605 | Pooled Cash/Investments |
| -- | 8 | -- | -- | Imprest Cash Funds |
| -- | -- | -- | -- | Restricted Cash and Investments with Trustee |
| -- | 90 | -- | -- | Investments |
| -- | -- | -- | 35 | Deposits In-Lieu of Cash |
| | | | | Receivables |
| -- | 97 | 948 | 310 | Accounts |
| -- | -- | 1,010 | -- | Taxes |
| -- | 126 | 122 | 90 | Interest/Dividends |
| -- | -- | 30 | 2,083 | Deposits |
| -- | -- | -- | -- | Allowance for Uncollectible Receivables |
| -- | 3,971 | 68 | -- | Due from Other Funds |
| -- | 5,989 | 255 | 85 | Due from Other Governmental Agencies |
| -- | 262 | 4,108 | 320 | Prepaid Costs |
| -- | 6,464 | -- | -- | Notes Receivable, Net |
| $ 16,943 | $ 122,395 | $ 94,152 | $ 67,528 | Total Assets |
| | | | | **LIABILITIES** |
| $ -- | $ 3,902 | $ 2,852 | $ 1,433 | Accounts Payable |
| -- | -- | 863 | 381 | Retainage Payable |
| -- | 60 | 1,196 | 69 | Salaries and Employee Benefits Payable |
| -- | 11 | 1,238 | 2,780 | Deposits from Others |
| 4,864 | 20,769 | 1,893 | 520 | Due to Other Funds |
| -- | -- | -- | -- | Due to Component Unit |
| -- | 1,394 | 19 | 102 | Due to Other Governmental Agencies |
| -- | 126 | 670 | 7 | Unearned Revenue |
| -- | -- | -- | -- | Advances from Other Funds |
| 4,864 | 26,262 | 8,731 | 5,292 | Total Liabilities |
| | | | | **DEFERRED INFLOWS OF RESOURCES** |
| -- | 3,195 | -- | -- | Unavailable Revenue - Intergovernmental Revenues |
| -- | -- | 745 | -- | Unavailable Revenue - Property Taxes |
| -- | -- | -- | -- | Unavailable Revenue - Long-Term Notes Receivables |
| -- | -- | -- | -- | Unavailable Revenue - Other |
| -- | 3,195 | 745 | -- | Total Deferred Inflows of Resources |
| | | | | **FUND BALANCES** |
| -- | 262 | 4,108 | 320 | Nonspendable |
| 12,079 | 50,361 | 68,629 | 61,916 | Restricted |
| -- | 42,315 | 11,939 | -- | Assigned |
| 12,079 | 92,938 | 84,676 | 62,236 | Total Fund Balances |
| $ 16,943 | $ 122,395 | $ 94,152 | $ 67,528 | Total Liabilities, Deferred Inflows of Resources and Fund Balances |

**COMBINING BALANCE SHEET (Continued)**
**NONMAJOR GOVERNMENTAL FUNDS**

| | Special Revenue | | | | |
|---|---|---|---|---|---|
| | Housing Asset | Schedule I County - Administered Accounts | OC Public Libraries | Plan of Adjustment Available Cash | Health Care Programs |
| **ASSETS** | | | | | |
| Pooled Cash/Investments | $ 13,093 | $ 6,028 | $ 30,703 | $ 17 | $ 286,807 |
| Imprest Cash Funds | -- | -- | 53 | -- | -- |
| Restricted Cash and Investments with Trustee | -- | -- | -- | -- | -- |
| Investments | -- | -- | -- | -- | -- |
| Deposits In-Lieu of Cash | -- | -- | -- | -- | -- |
| Receivables | | | | | |
| Accounts | -- | -- | 50 | -- | -- |
| Taxes | -- | -- | 737 | -- | -- |
| Interest/Dividends | 18 | 8 | 42 | -- | 350 |
| Deposits | -- | -- | -- | -- | -- |
| Allowance for Uncollectible Receivables | -- | -- | -- | -- | -- |
| Due from Other Funds | -- | -- | 57 | 20,860 | -- |
| Due from Other Governmental Agencies | -- | -- | 27 | -- | 16,624 |
| Prepaid Costs | -- | -- | 4,382 | -- | -- |
| Notes Receivable, Net | 19,187 | -- | -- | -- | -- |
| Total Assets | $ 32,298 | $ 6,036 | $ 36,051 | $ 20,877 | $ 303,781 |
| **LIABILITIES** | | | | | |
| Accounts Payable | $ 9 | $ -- | $ 735 | $ -- | $ -- |
| Retainage Payable | -- | -- | 133 | -- | -- |
| Salaries and Employee Benefits Payable | -- | -- | 1,272 | -- | -- |
| Deposits from Others | -- | -- | 443 | -- | -- |
| Due to Other Funds | 147 | -- | 4,631 | -- | 15,304 |
| Due to Component Unit | -- | -- | -- | -- | 1 |
| Due to Other Governmental Agencies | -- | -- | 220 | -- | 7,172 |
| Unearned Revenue | -- | -- | 20 | -- | 7,666 |
| Advances from Other Funds | -- | -- | -- | -- | -- |
| Total Liabilities | 156 | -- | 7,454 | -- | 30,143 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Unavailable Revenue - Intergovernmental Revenues | -- | -- | 17 | -- | -- |
| Unavailable Revenue - Property Taxes | -- | -- | 522 | -- | -- |
| Unavailable Revenue - Long-Term Notes Receivables | -- | -- | -- | -- | -- |
| Unavailable Revenue - Other | -- | -- | -- | -- | -- |
| Total Deferred Inflows of Resources | -- | -- | 539 | -- | -- |
| **FUND BALANCES** | | | | | |
| Nonspendable | -- | -- | 4,382 | -- | -- |
| Restricted | 32,142 | 6,036 | 23,676 | 20,877 | 260,050 |
| Assigned | -- | -- | -- | -- | 13,588 |
| Total Fund Balances | 32,142 | 6,036 | 28,058 | 20,877 | 273,638 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 32,298 | $ 6,036 | $ 36,051 | $ 20,877 | $ 303,781 |

(Dollar Amounts in Thousands)

| | Special Revenue | | Debt Service | |
|---|---|---|---|---|
| | Orange County Housing Authority | Other Governmental Resources | Orange County Public Facilities Corporation Bonds, Master Lease | Pension Obligation Bonds |
| **ASSETS** | | | | |
| Pooled Cash/Investments | $ 12,064 | $ 932 | $ -- | $ 149 |
| Imprest Cash Funds | -- | -- | -- | -- |
| Restricted Cash and Investments with Trustee | 2,371 | -- | 3,287 | 135,400 |
| Investments | -- | -- | -- | -- |
| Deposits In-Lieu of Cash | -- | -- | -- | -- |
| Receivables | | | | |
| Accounts | 499 | -- | -- | -- |
| Taxes | -- | -- | -- | -- |
| Interest/Dividends | 16 | 1 | -- | -- |
| Deposits | -- | -- | -- | -- |
| Allowance for Uncollectible Receivables | (34) | -- | -- | -- |
| Due from Other Funds | 4 | -- | -- | 2 |
| Due from Other Governmental Agencies | 1,334 | -- | -- | -- |
| Prepaid Costs | 1,415 | -- | -- | -- |
| Notes Receivable, Net | 2,130 | -- | -- | -- |
| Total Assets | $ 19,799 | $ 933 | $ 3,287 | $ 135,551 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 639 | $ -- | $ -- | $ -- |
| Retainage payable | -- | -- | -- | -- |
| Salaries and Employee Benefits Payable | 359 | -- | -- | -- |
| Deposits from Others | -- | -- | -- | -- |
| Due to Other Funds | 1,601 | -- | -- | 3 |
| Due to Component Unit | -- | -- | -- | -- |
| Due to Other Governmental Agencies | 7 | -- | -- | -- |
| Unearned Revenue | -- | -- | -- | -- |
| Advances from Other Funds | -- | -- | -- | -- |
| Total Liabilities | 2,606 | -- | -- | 3 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unavailable Revenue - Intergovernmental Revenues | 3 | -- | -- | -- |
| Unavailable Revenue - Property Taxes | -- | -- | -- | -- |
| Unavailable Revenue - Long-Term Notes Receivable | -- | -- | -- | -- |
| Unavailable Revenue - Other | -- | -- | -- | -- |
| Total Deferred Inflows of Resources | 3 | -- | -- | -- |
| **FUND BALANCES** | | | | |
| Nonspendable | 1,415 | -- | -- | -- |
| Restricted | 15,775 | 933 | 3,287 | 135,548 |
| Assigned | -- | -- | -- | -- |
| Total Fund Balances | 17,190 | 933 | 3,287 | 135,548 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 19,799 | $ 933 | $ 3,287 | $ 135,551 |

**COMBINING BALANCE SHEET (Continued)**
**NONMAJOR GOVERNMENTAL FUNDS**

| | Debt Service | | Capital Projects | | Permanent |
|---|---|---|---|---|---|
| | South OC Public Financing Authority | Orange County Public Financing Authority | Criminal Justice Facilities | Countywide Capital Projects Non-General Fund | Regional Park Endowment |
| **ASSETS** | | | | | |
| Pooled Cash/Investments | $ -- | $ -- | $ 9,765 | $ 13,365 | $ 329 |
| Imprest Cash Funds | -- | -- | -- | -- | -- |
| Restricted Cash and Investments with Trustee | 3,744 | 40,775 | -- | -- | -- |
| Investments | -- | -- | -- | -- | -- |
| Deposits In-Lieu of Cash | -- | -- | -- | -- | -- |
| Receivables | | | | | |
| Accounts | -- | -- | -- | -- | -- |
| Taxes | -- | -- | -- | -- | -- |
| Interest/Dividends | -- | -- | 18 | -- | -- |
| Deposits | -- | -- | -- | -- | -- |
| Allowance for Uncollectible Receivables | -- | -- | -- | -- | -- |
| Due from Other Funds | -- | -- | 1,599 | -- | -- |
| Due from Other Governmental Agencies | -- | -- | 444 | -- | -- |
| Prepaid Costs | -- | -- | -- | -- | -- |
| Notes Receivable, Net | -- | -- | -- | -- | -- |
| Total Assets | $ 3,744 | $ 40,775 | $ 11,826 | $ 13,365 | $ 329 |
| **LIABILITIES** | | | | | |
| Accounts Payable | $ -- | $ -- | $ 1,825 | $ -- | $ -- |
| Retainage payable | -- | -- | 464 | -- | -- |
| Salaries and Employee Benefits Payable | -- | -- | -- | -- | -- |
| Deposits from Others | -- | -- | -- | -- | -- |
| Due to Other Funds | -- | -- | 46 | -- | -- |
| Due to Component Unit | -- | -- | -- | -- | -- |
| Due to Other Governmental Agencies | -- | -- | -- | -- | -- |
| Unearned Revenue | -- | -- | -- | -- | -- |
| Advances from Other Funds | -- | -- | 3,800 | -- | -- |
| Total Liabilities | -- | -- | 6,135 | -- | -- |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Unavailable Revenue - Intergovernmental Revenues | -- | -- | -- | -- | -- |
| Unavailable Revenue - Property Taxes | -- | -- | -- | -- | -- |
| Unavailable Revenue - Long-Term Notes Receivables | -- | -- | -- | -- | -- |
| Unavailable Revenue - Other | -- | -- | 21 | -- | -- |
| Total Deferred Inflows of Resources | -- | -- | 21 | -- | -- |
| **FUND BALANCES** | | | | | |
| Nonspendable | -- | -- | -- | -- | 188 |
| Restricted | 3,744 | 40,775 | 5,670 | -- | 141 |
| Assigned | -- | -- | -- | 13,365 | -- |
| Total Fund Balances | 3,744 | 40,775 | 5,670 | 13,365 | 329 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 3,744 | $ 40,775 | $ 11,826 | $ 13,365 | $ 329 |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS**

| | Total Nonmajor Governmental Funds | Special Revenue: Parking Facilities | Special Revenue: Service Area, Lighting, Maintenance, & Assessment Districts | Special Revenue: Other Environmental Management |
|---|---|---|---|---|
| Revenues | | | | |
| Taxes | $ 107,378 | $ -- | $ 555 | $ -- |
| Licenses, Permits, and Franchises | 1,011 | -- | -- | -- |
| Fines, Forfeitures and Penalties | 14,424 | -- | -- | -- |
| Use of Money and Property | 60,928 | 8,643 | 24 | 460 |
| Intergovernmental | 327,873 | 820 | 4 | 247 |
| Charges for Services | 15,463 | 240 | 29 | 649 |
| Other | 31,113 | 33 | 71 | 163 |
| Total Revenues | 558,190 | 9,736 | 683 | 1,519 |
| Expenditures | | | | |
| Current | | | | |
| General Government | 32,571 | -- | 14,831 | 171 |
| Public Protection | 19 | -- | -- | 19 |
| Public Ways and Facilities | 7,640 | 7,273 | 154 | 213 |
| Health and Sanitation | 1,189 | -- | -- | -- |
| Public Assistance | 178,916 | -- | -- | -- |
| Education | 41,949 | -- | -- | -- |
| Recreation and Cultural Services | 98,001 | -- | -- | -- |
| Capital Outlay | 21,405 | -- | -- | -- |
| Debt Service | | | | |
| Principal Retirement | 34,507 | -- | -- | -- |
| Interest | 22,989 | -- | -- | -- |
| Total Expenditures | 439,186 | 7,273 | 14,985 | 403 |
| Excess (Deficit) of Revenues Over Expenditures | 119,004 | 2,463 | (14,302) | 1,116 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 94,359 | 1,439 | -- | 100 |
| Transfers Out | (183,752) | (3,775) | (1) | (200) |
| Capital Leases | 43 | -- | -- | -- |
| Total Other Financing Sources (Uses) | (89,350) | (2,336) | (1) | (100) |
| Net Change in Fund Balances | 29,654 | 127 | (14,303) | 1,016 |
| Fund Balances - Beginning of Year | 813,317 | 792 | 19,405 | 2,413 |
| Fund Balances - End of Year | $ 842,971 | $ 919 | $ 5,102 | $ 3,429 |

(Dollar Amounts in Thousands)

| Tobacco Settlement | Community & Welfare Services | OC Parks | OC Dana Point Harbor | |
|---|---|---|---|---|
| | | | | Revenues |
| $ -- | $ -- | $ 62,390 | $ -- | Taxes |
| -- | 753 | 248 | 10 | Licenses, Permits, and Franchises |
| -- | -- | 59 | 121 | Fines, Forfeitures and Penalties |
| 89 | 806 | 10,165 | 24,927 | Use of Money and Property |
| -- | 28,091 | 1,577 | -- | Intergovernmental |
| -- | 2,987 | 8,002 | 1,013 | Charges for Services |
| 26,241 | 590 | 1,819 | 155 | Other |
| 26,330 | 33,227 | 84,260 | 26,226 | Total Revenues |
| | | | | Expenditures |
| | | | | Current |
| 14 | -- | -- | -- | General Government |
| -- | -- | -- | -- | Public Protection |
| -- | -- | -- | -- | Public Ways and Facilities |
| -- | -- | -- | -- | Health and Sanitation |
| -- | 22,642 | -- | -- | Public Assistance |
| -- | -- | -- | -- | Education |
| -- | -- | 76,804 | 21,197 | Recreation and Cultural Services |
| -- | 145 | 8,511 | 133 | Capital Outlay |
| | | | | Debt Service |
| -- | -- | -- | -- | Principal Retirement |
| -- | -- | -- | -- | Interest |
| 14 | 22,787 | 85,315 | 21,330 | Total Expenditures |
| 26,316 | 10,440 | (1,055) | 4,896 | Excess (Deficit) of Revenues Over Expenditures |
| | | | | Other Financing Sources (Uses) |
| 14 | 14,248 | 164 | -- | Transfers In |
| (28,670) | (27,277) | (2,183) | (22) | Transfers Out |
| -- | -- | -- | -- | Capital Leases |
| (28,656) | (13,029) | (2,019) | (22) | Total Other Financing Sources (Uses) |
| (2,340) | (2,589) | (3,074) | 4,874 | Net Change in Fund Balances |
| 14,419 | 95,527 | 87,750 | 57,362 | Fund Balances - Beginning of Year |
| $ 12,079 | $ 92,938 | $ 84,676 | $ 62,236 | Fund Balances - End of Year |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**
**AND CHANGES IN FUND BALANCES (Continued)**
**NONMAJOR GOVERNMENTAL FUNDS**

| | Special Revenue | | | | |
|---|---|---|---|---|---|
| | Housing Asset | Schedule I County - Administered Accounts | OC Public Libraries | Plan of Adjustment Available Cash | Health Care Programs |
| Revenues | | | | | |
| Taxes | $ -- | $ -- | $ 44,433 | $ -- | $ -- |
| Licenses, Permits, and Franchises | -- | -- | -- | -- | -- |
| Fines, Forfeitures and Penalties | -- | -- | 6 | -- | 9,724 |
| Use of Money and Property | 291 | 26 | 331 | 14 | 1,251 |
| Intergovernmental | -- | -- | 689 | -- | 143,796 |
| Charges for Services | -- | -- | 1,144 | -- | 1,373 |
| Other | 116 | -- | 1,020 | -- | 5 |
| Total Revenues | 407 | 26 | 47,623 | 14 | 156,149 |
| Expenditures | | | | | |
| Current | | | | | |
| General Government | -- | 4 | -- | 16,932 | -- |
| Public Protection | -- | -- | -- | -- | -- |
| Public Ways and Facilities | -- | -- | -- | -- | -- |
| Health and Sanitation | -- | -- | -- | -- | 1,189 |
| Public Assistance | 877 | -- | -- | -- | -- |
| Education | -- | -- | 41,949 | -- | -- |
| Recreation and Cultural Services | -- | -- | -- | -- | -- |
| Capital Outlay | -- | -- | 2,353 | -- | -- |
| Debt Service | | | | | |
| Principal Retirement | -- | -- | 8 | -- | -- |
| Interest | -- | -- | 1 | -- | -- |
| Total Expenditures | 877 | 4 | 44,311 | 16,932 | 1,189 |
| Excess (Deficit) of Revenues Over Expenditures | (470) | 22 | 3,312 | (16,918) | 154,960 |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | -- | -- | -- | 20,859 | 107 |
| Transfers Out | -- | -- | -- | -- | (116,208) |
| Capital Leases | -- | -- | 43 | -- | -- |
| Total Other Financing Sources (Uses) | -- | -- | 43 | 20,859 | (116,101) |
| Net Change in Fund Balances | (470) | 22 | 3,355 | 3,941 | 38,859 |
| Fund Balances - Beginning of Year | 32,612 | 6,014 | 24,703 | 16,936 | 234,779 |
| Fund Balances - End of Year | $ 32,142 | $ 6,036 | $ 28,058 | $ 20,877 | $ 273,638 |

(Dollar Amounts in Thousands)

| | Special Revenue | | Debt Service | |
|---|---|---|---|---|
| | Orange County Housing Authority | Other Governmental Resources | Orange County Public Facilities Corporation Bonds, Master Lease | Pension Obligation Bonds |
| Revenues | | | | |
| Taxes | $ -- | $ -- | $ -- | $ -- |
| Licenses, Permits, and Franchises | -- | -- | -- | -- |
| Fines, Forfeitures and Penalties | -- | -- | -- | -- |
| Use of Money and Property | 113 | 4 | 70 | 12,914 |
| Intergovernmental | 152,649 | -- | -- | -- |
| Charges for Services | 5 | 21 | -- | -- |
| Other | 607 | 226 | -- | -- |
| Total Revenues | 153,374 | 251 | 70 | 12,914 |
| Expenditures | | | | |
| Current | | | | |
| General Government | -- | 580 | -- | 39 |
| Public Protection | -- | -- | -- | -- |
| Public Ways and Facilities | -- | -- | -- | -- |
| Health and Sanitation | -- | -- | -- | -- |
| Public Assistance | 155,397 | -- | -- | -- |
| Education | -- | -- | -- | -- |
| Recreation and Cultural Services | -- | -- | -- | -- |
| Capital Outlay | 50 | -- | -- | -- |
| Debt Service | | | | |
| Principal Retirement | -- | -- | 518 | 4,966 |
| Interest | -- | -- | 2,090 | 15,394 |
| Total Expenditures | 155,447 | 580 | 2,608 | 20,399 |
| Excess (Deficit) of Revenues Over Expenditures | (2,073) | (329) | (2,538) | (7,485) |
| Other Financing Sources (Uses) | | | | |
| Transfers In | -- | -- | 2,405 | -- |
| Transfers Out | -- | (15) | -- | -- |
| Capital Leases | -- | -- | -- | -- |
| Total Other Financing Sources (Uses) | -- | (15) | 2,405 | -- |
| Net Change in Fund Balances | (2,073) | (344) | (133) | (7,485) |
| Fund Balances - Beginning of Year | 19,263 | 1,277 | 3,420 | 143,033 |
| Fund Balances - End of Year | $ 17,190 | $ 933 | $ 3,287 | $ 135,548 |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS**

| | Debt Service | | Capital Projects | | Permanent |
|---|---|---|---|---|---|
| | South OC Public Financing Authority | Orange County Public Financing Authority | Criminal Justice Facilities | Countywide Capital Projects Non-General Fund | Regional Park Endowment |
| Revenues | | | | | |
| Taxes | $ -- | $ -- | $ -- | $ -- | $ -- |
| Licenses, Permits, and Franchises | -- | -- | -- | -- | -- |
| Fines, Forfeitures and Penalties | -- | -- | 4,514 | -- | -- |
| Use of Money and Property | 1 | 735 | 58 | 5 | 1 |
| Intergovernmental | -- | -- | -- | -- | -- |
| Charges for Services | -- | -- | -- | -- | -- |
| Other | -- | -- | 64 | -- | 3 |
| Total Revenues | 1 | 735 | 4,636 | 5 | 4 |
| Expenditures | | | | | |
| Current | | | | | |
| General Government | -- | -- | -- | -- | -- |
| Public Protection | -- | -- | -- | -- | -- |
| Public Ways and Facilities | -- | -- | -- | -- | -- |
| Health and Sanitation | -- | -- | -- | -- | -- |
| Public Assistance | -- | -- | -- | -- | -- |
| Education | -- | -- | -- | -- | -- |
| Recreation and Cultural Services | -- | -- | -- | -- | -- |
| Capital Outlay | -- | -- | 10,213 | -- | -- |
| Debt Service | | | | | |
| Principal Retirement | 4,780 | 24,235 | -- | -- | -- |
| Interest | 1,049 | 4,455 | -- | -- | -- |
| Total Expenditures | 5,829 | 28,690 | 10,213 | -- | -- |
| Excess (Deficit) of Revenues Over Expenditures | (5,828) | (27,955) | (5,577) | 5 | 4 |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | 5,829 | 29,193 | 6,638 | 13,363 | -- |
| Transfers Out | -- | (895) | (3,627) | (879) | -- |
| Capital Leases | -- | -- | -- | -- | -- |
| Total Other Financing Sources (Uses) | 5,829 | 28,298 | 3,011 | 12,484 | -- |
| Net Change in Fund Balances | 1 | 343 | (2,566) | 12,489 | 4 |
| Fund Balances - Beginning of Year | 3,743 | 40,432 | 8,236 | 876 | 325 |
| Fund Balances - End of Year | $ 3,744 | $ 40,775 | $ 5,670 | $ 13,365 | $ 329 |

**BUDGETARY COMPARISON SCHEDULES**
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Parking Facilities** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 3,038 | $ 3,049 | $ 3,305 | $ 256 |
| Charges for Services | 231 | 517 | 240 | (277) |
| Other | 15 | 15 | 33 | 18 |
| Transfers In | 1,439 | 1,439 | 1,439 | -- |
| Total Revenues and Other Financing Sources | 4,723 | 5,020 | 5,017 | (3) |
| **Expenditures and Other Financing Uses** | | | | |
| Public Ways and Facilities: | | | | |
| Parking Facilities | 4,900 | 5,197 | 4,932 | 265 |
| Total Expenditures and Other Financing Uses | 4,900 | 5,197 | 4,932 | 265 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (177) | (177) | 85 | $ 262 |
| Fund Balances - Beginning of Year | 1,207 | 1,207 | 1,207 | |
| Fund Balances - End of Year | $ 1,030 | $ 1,030 | $ 1,292 | |
| **Service Area, Lighting, Maintenance and Assessment Districts** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Taxes | $ 537 | $ 537 | $ 555 | $ 18 |
| Use of Money and Property | 17 | 23 | 25 | 2 |
| Intergovernmental | 4 | 4 | 4 | -- |
| Charges for Services | 28 | 28 | 29 | 1 |
| Other | 86 | 136 | 71 | (65) |
| Total Revenues and Other Financing Sources | 672 | 728 | 684 | (44) |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Special Assessment-Top of the World Improvement | 54 | 54 | -- | 54 |
| CFD 2002-1 Ladera Construction | 65 | 1,022 | 285 | 737 |
| CFD 2003-1, Ladera Construction | 46 | 160 | 159 | 1 |
| CFD 2004-1 Ladera Construction | 17,385 | 12,201 | 11,426 | 775 |
| Newport Ridge Construction 92-1 | 27 | 38 | 38 | -- |
| Newport Ridge Construction Series B | 256 | 2,923 | 2,923 | -- |
| Public Ways and Facilities: | | | | |
| North Tustin Landscaping and Lighting Assessment District | 2,591 | 2,591 | 110 | 2,481 |
| County Service Area No. 13 - La Mirada | 15 | 17 | 9 | 8 |
| County Service Area No. 20 - La Habra | 200 | 200 | 1 | 199 |
| County Service Area No. 22 - East Yorba Linda | 110 | 118 | 35 | 83 |
| Total Expenditures and Other Financing Uses | 20,749 | 19,324 | 14,986 | 4,338 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (20,077) | (18,596) | (14,302) | $ 4,294 |
| Fund Balances - Beginning of Year | 19,402 | 19,402 | 19,402 | |
| Fund Balances - End of Year | $ (675) | $ 806 | $ 5,100 | |
| **Other Environmental Management** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 386 | $ 386 | $ 459 | $ 73 |
| Intergovernmental | 245 | 245 | 247 | 2 |
| Charges for Services | 75 | 75 | 649 | 574 |
| Other | 148 | 148 | 163 | 15 |
| Transfers In | -- | 100 | 100 | -- |
| Total Revenues and Other Financing Sources | 854 | 954 | 1,618 | 664 |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Real Estate Development Program | 426 | 1,022 | 332 | 690 |
| Air Quality Improvement | 534 | 534 | 39 | 495 |
| Public Protection: | | | | |
| Survey Monument Preservation | 450 | 456 | 19 | 437 |
| Public Ways and Facilities: | | | | |
| El Toro Improvement Fund | 282 | 282 | 213 | 69 |
| Total Expenditures and Other Financing Uses | 1,692 | 2,294 | 603 | 1,691 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (838) | (1,340) | 1,015 | $ 2,355 |
| Fund Balances - Beginning of Year | 2,412 | 2,412 | 2,412 | |
| Fund Balances - End of Year | $ 1,574 | $ 1,072 | $ 3,427 | |

(Dollar Amounts in Thousands)

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Tobacco Settlement** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Other | $ 25,179 | $ 25,179 | $ 26,241 | $ 1,062 |
| Total Revenues and Other Financing Sources | 25,179 | 25,179 | 26,241 | 1,062 |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Orange County Tobacco Settlement Fund | 40,211 | 39,571 | 28,588 | 10,983 |
| Total Expenditures and Other Financing Uses | 40,211 | 39,571 | 28,588 | 10,983 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (15,032) | (14,392) | (2,347) | $ 12,045 |
| Fund Balances - Beginning of Year | 14,391 | 14,391 | 14,391 | |
| Fund Balances - End of Year | $ (641) | $ (1) | $ 12,044 | |
| **Community and Welfare Services** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Licenses, Permits, and Franchises | $ 815 | $ 815 | $ 753 | $ (62) |
| Use of Money and Property | 601 | 601 | 790 | 189 |
| Intergovernmental | 41,620 | 41,920 | 30,030 | (11,890) |
| Charges for Services | 2,889 | 3,193 | 2,987 | (206) |
| Other | 259 | 259 | 590 | 331 |
| Transfers In | 17,846 | 17,993 | 14,394 | (3,599) |
| Total Revenues and Other Financing Sources | 64,030 | 64,781 | 49,544 | (15,237) |
| **Expenditures and Other Financing Uses** | | | | |
| Public Assistance: | | | | |
| MHSA Housing Fund | 1,531 | 1,531 | 25 | 1,506 |
| Dispute Resolution Program | 905 | 905 | 656 | 249 |
| Domestic Violence Program | 816 | 899 | 783 | 116 |
| Facilities Development and Maintenance | 11,877 | 18,977 | 7,623 | 11,354 |
| Workforce Investment Act | 23,469 | 22,613 | 14,285 | 8,328 |
| County Executive Office - Single Family Housing | 8,922 | 8,922 | 276 | 8,646 |
| OC Housing | 6,398 | 7,101 | 5,591 | 1,510 |
| Strategic Priority Affordable Housing | 66 | 66 | 5 | 61 |
| In-Home Support Services Public Authority | 1,326 | 1,441 | 1,222 | 219 |
| SSA Donations and Fees | 1,230 | 1,377 | 856 | 521 |
| SSA Wraparound | 23,515 | 25,513 | 18,539 | 6,974 |
| CalHome Program Reuse Fund | 1,275 | 1,275 | 274 | 1,001 |
| SARC Lease Conveyance | 72 | 72 | 70 | 2 |
| Total Expenditures and Other Financing Uses | 81,402 | 90,692 | 50,205 | 40,487 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (17,372) | (25,911) | (661) | $ 25,250 |
| Fund Balances - Beginning of Year | 96,658 | 96,658 | 96,658 | |
| Fund Balances - End of Year | $ 79,286 | $ 70,747 | $ 95,997 | |
| **OC Parks** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Taxes | $ 59,681 | $ 59,681 | $ 62,614 | $ 2,933 |
| Licenses, Permits, and Franchises | 205 | 205 | 248 | 43 |
| Fines, Forfeitures and Penalties | 20 | 20 | 59 | 39 |
| Use of Money and Property | 9,520 | 9,520 | 10,165 | 645 |
| Intergovernmental | 2,462 | 2,462 | 1,425 | (1,037) |
| Charges for Services | 6,599 | 6,599 | 8,002 | 1,403 |
| Other | 2,382 | 2,382 | 1,512 | (870) |
| Transfers In | 15,226 | 15,390 | 15,389 | (1) |
| Total Revenues and Other Financing Sources | 96,095 | 96,259 | 99,414 | 3,155 |
| **Expenditures and Other Financing Uses** | | | | |
| Recreation and Cultural Services: | | | | |
| County Tidelands - Newport Bay | 5,916 | 5,916 | 3,491 | 2,425 |
| OC Parks | 101,305 | 101,305 | 85,843 | 15,462 |
| OC Capital | 23,208 | 23,511 | 13,438 | 10,073 |
| Total Expenditures and Other Financing Uses | 130,429 | 130,732 | 102,772 | 27,960 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (34,334) | (34,473) | (3,358) | $ 31,115 |
| Fund Balances - Beginning of Year | 87,069 | 87,069 | 87,069 | |
| Fund Balances - End of Year | $ 52,735 | $ 52,596 | $ 83,711 | |

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **OC Dana Point Harbor** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Licenses, Permits, and Franchises | $ 10 | $ 10 | $ 10 | $ -- |
| Fines, Forfeitures and Penalties | 108 | 108 | 121 | 13 |
| Use of Money and Property | 23,255 | 23,255 | 25,182 | 1,927 |
| Charges for Services | 694 | 694 | 1,013 | 319 |
| Other | 78 | 78 | 146 | 68 |
| Transfers In | 302 | 302 | 292 | (10) |
| Total Revenues and Other Financing Sources | 24,447 | 24,447 | 26,764 | 2,317 |
| **Expenditures and Other Financing Uses** | | | | |
| Recreation and Cultural Services: | | | | |
| OC Dana Point Harbor | 30,377 | 30,377 | 21,517 | 8,860 |
| Dana Point Marina Department of Boating and Waterways Emergency Repair Fund | 2,948 | 2,946 | 2 | 2,944 |
| Total Expenditures and Other Financing Uses | 33,325 | 33,323 | 21,519 | 11,804 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (8,878) | (8,876) | 5,245 | $ 14,121 |
| Fund Balances - Beginning of Year | 57,346 | 57,346 | 57,346 | |
| Fund Balances - End of Year | $ 48,468 | $ 48,470 | $ 62,591 | |
| **Housing Asset** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Taxes | $ 150 | $ 150 | $ -- | $ (150) |
| Use of Money and Property | 202 | 202 | 290 | 88 |
| Other | 50 | 50 | 117 | 67 |
| Total Revenues and Other Financing Sources | 402 | 402 | 407 | 5 |
| **Expenditures and Other Financing Uses** | | | | |
| Public Assistance: | | | | |
| Orange County Development Agency Housing Asset | 10,720 | 10,720 | 837 | 9,883 |
| Total Expenditures and Other Financing Uses | 10,720 | 10,720 | 837 | 9,883 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (10,318) | (10,318) | (430) | $ 9,888 |
| Fund Balances - Beginning of Year | 32,564 | 32,564 | 32,564 | |
| Fund Balances - End of Year | $ 22,246 | $ 22,246 | $ 32,134 | |
| **Schedule 1 County-Administered Accounts** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 16 | $ 16 | $ 25 | $ 9 |
| Total Revenues and Other Financing Sources | 16 | 16 | 25 | 9 |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Indemnification Reserve | 4 | 4 | 1 | 3 |
| Litigation Reserve | 12 | 12 | 3 | 9 |
| Total Expenditures and Other Financing Uses | 16 | 16 | 4 | 12 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | -- | -- | 21 | $ 21 |
| Fund Balances - Beginning of Year | 6,011 | 6,011 | 6,011 | |
| Fund Balances - End of Year | $ 6,011 | $ 6,011 | $ 6,032 | |

(Dollar Amounts in Thousands)

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **OC Public Libraries** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Taxes | $ 41,530 | $ 41,530 | $ 44,572 | $ 3,042 |
| Licenses, Permits, and Franchises | 657 | -- | -- | -- |
| Fines, Forfeitures and Penalties | 19 | 19 | 6 | (13) |
| Use of Money and Property | 150 | 150 | 324 | 174 |
| Intergovernmental | 1,056 | 869 | 689 | (180) |
| Charges for Services | 1,059 | 1,059 | 1,144 | 85 |
| Other | 676 | 676 | 1,021 | 345 |
| Transfers In | 1,335 | 1,335 | 792 | (543) |
| Total Revenues and Other Financing Sources | 46,482 | 45,638 | 48,548 | 2,910 |
| **Expenditures and Other Financing Uses** | | | | |
| Education: | | | | |
| OC Public Libraries - Capital | 3,954 | 3,954 | 2,344 | 1,610 |
| OC Public Libraries | 50,551 | 55,413 | 42,509 | 12,904 |
| Total Expenditures and Other Financing Uses | 54,505 | 59,367 | 44,853 | 14,514 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (8,023) | (13,729) | 3,695 | $ 17,424 |
| Fund Balances - Beginning of Year | 24,187 | 24,187 | 24,187 | |
| Fund Balances - End of Year | $ 16,164 | $ 10,458 | $ 27,882 | |
| **Plan of Adjustment Available Cash** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 11 | $ 11 | $ 13 | $ 2 |
| Transfers In | 9,492 | 18,936 | 20,859 | 1,923 |
| Total Revenues and Other Financing Sources | 9,503 | 18,947 | 20,872 | 1,925 |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Recovery Plan of Adjustment Available Cash | 9,503 | 26,381 | 16,932 | 9,449 |
| Total Expenditures and Other Financing Uses | 9,503 | 26,381 | 16,932 | 9,449 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | -- | (7,434) | 3,940 | $ 11,374 |
| Fund Balances - Beginning of Year | 16,936 | 16,936 | 16,936 | |
| Fund Balances - End of Year | $ 16,936 | $ 9,502 | $ 20,876 | |
| **Health Care Programs** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Fines, Forfeitures and Penalties | $ 9,794 | $ 9,394 | $ 9,724 | $ 330 |
| Use of Money and Property | 920 | 975 | 1,088 | 113 |
| Intergovernmental | 122,498 | 123,266 | 143,796 | 20,530 |
| Charges for Services | 1,277 | 1,277 | 1,373 | 96 |
| Other | 260 | 260 | 5 | (255) |
| Transfers In | 410 | 410 | 91 | (319) |
| Total Revenues and Other Financing Sources | 135,159 | 135,582 | 156,077 | 20,495 |
| **Expenditures and Other Financing Uses** | | | | |
| Health and Sanitation: | | | | |
| Medi-Cal Administrative Activities Targeted Case Management | 1,932 | 1,932 | 1,184 | 748 |
| Emergency Medical Services | 9,834 | 9,834 | 8,837 | 997 |
| HCA Purpose Restricted Revenues | 2,266 | 2,266 | 1,042 | 1,224 |
| HCA Interest Bearing Purpose Restricted Revenue | 84 | 84 | 26 | 58 |
| HCA Realignment | 4,444 | 4,444 | -- | 4,444 |
| Mental Health Services Act | 144,023 | 144,038 | 104,115 | 39,923 |
| Bioterrorism Center for Disease Control | 4,549 | 5,357 | 2,077 | 3,280 |
| Total Expenditures and Other Financing Uses | 167,132 | 167,955 | 117,281 | 50,674 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (31,973) | (32,373) | 38,796 | $ 71,169 |
| Fund Balances - Beginning of Year | 234,644 | 234,644 | 234,644 | |
| Fund Balances - End of Year | $ 202,671 | $ 202,271 | $ 273,440 | |

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - SPEICAL REVENUE (Continued)**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Orange County Housing Authority** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 145 | $ 145 | $ 113 | $ (32) |
| Intergovernmental | 159,281 | 159,281 | 152,465 | (6,816) |
| Charges for Services | -- | -- | 5 | 5 |
| Other | 868 | 868 | 607 | (261) |
| Total Revenues and Other Financing Sources | 160,294 | 160,294 | 153,190 | (7,104) |
| **Expenditures and Other Financing Uses** | | | | |
| Public Assistance: | | | | |
| Orange County Housing Authority-Operating Reserve | 3,343 | 3,343 | 573 | 2,770 |
| Orange County Housing Authority | 167,155 | 165,945 | 154,875 | 11,070 |
| Total Expenditures and Other Financing Uses | 170,498 | 169,288 | 155,448 | 13,840 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (10,204) | (8,994) | (2,258) | $ 6,736 |
| Fund Balances - Beginning of Year | 19,444 | 19,444 | 19,444 | |
| Fund Balances - End of Year | $ 9,240 | $ 10,450 | $ 17,186 | |
| **Other Governmental Resources** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 3 | $ 3 | $ 4 | $ 1 |
| Charges for Services | 30 | 30 | 21 | (9) |
| Other | 212 | 212 | 226 | 14 |
| Transfers In | 86 | 86 | -- | (86) |
| Total Revenues and Other Financing Sources | 331 | 331 | 251 | (80) |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Remittance Processing Equipment Replacement | 550 | 550 | 6 | 544 |
| Assessor Property Characteristic | 400 | 400 | 399 | 1 |
| Deferred Compensation Reimbursement - CEO | 202 | 214 | 189 | 25 |
| Total Expenditures and Other Financing Uses | 1,152 | 1,164 | 594 | 570 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (821) | (833) | (343) | $ 490 |
| Fund Balances - Beginning of Year | 1,275 | 1,275 | 1,275 | |
| Fund Balances - End of Year | $ 454 | $ 442 | $ 932 | |

(Dollar Amounts in Thousands)

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Pension Obligation Bonds** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 11,036 | $ 11,036 | $ 11,037 | $ 1 |
| Total Revenues and Other Financing Sources | 11,036 | 11,036 | 11,037 | 1 |
| **Expenditures and Other Financing Uses** | | | | |
| General Government: | | | | |
| Pension Obligation Bonds Debt Service | 20,406 | 20,406 | 20,399 | 7 |
| Total Expenditures and Other Financing Uses | 20,406 | 20,406 | 20,399 | 7 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (9,370) | (9,370) | (9,362) | $ 8 |
| Fund Balances - Beginning of Year | 72,996 | 72,996 | 72,996 | |
| Fund Balances - End of Year | $ 63,626 | $ 63,626 | $ 63,634 | |

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Criminal Justice Facilities** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Fines, Forfeitures and Penalties | $ 4,512 | $ 4,515 | $ 4,514 | $ (1) |
| Use of Money and Property | 27 | 27 | 55 | 28 |
| Other | 35 | 35 | 64 | 29 |
| Transfers In | 16,068 | 15,206 | 6,638 | (8,568) |
| Total Revenues and Other Financing Sources | 20,642 | 19,783 | 11,271 | (8,512) |
| **Expenditures and Other Financing Uses** | | | | |
| Public Protection: | | | | |
| Criminal Justice Facilities Accumulated Capital Outlay | 9,783 | 9,994 | 4,749 | 5,245 |
| Courthouse Temporary Construction | 3,939 | 3,942 | 3,939 | 3 |
| Sheriff-Coroner Construction and Facility Development | 11,412 | 10,161 | 5,007 | 5,154 |
| Total Expenditures and Other Financing Uses | 25,134 | 24,097 | 13,695 | 10,402 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (4,492) | (4,314) | (2,424) | $ 1,890 |
| Fund Balances - Beginning of Year | 8,230 | 8,230 | 8,230 | |
| Fund Balances - End of Year | $ 3,738 | $ 3,916 | $ 5,806 | |
| **Countywide Capital Projects Non General Fund** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Transfers In | $ -- | $ 12,691 | $ 13,363 | $ 672 |
| Total Revenues and Other Financing Sources | -- | 12,691 | 13,363 | 672 |
| **Expenditures and Other Financing Uses** | | | | |
| Capital Improvements: | | | | |
| Countywide Capital Projects Non General | 884 | 7,340 | 876 | 6,464 |
| Total Expenditures and Other Financing Uses | 884 | 7,340 | 876 | 6,464 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (884) | 5,351 | 12,487 | $ 7,136 |
| Fund Balances - Beginning of Year | 876 | 876 | 876 | |
| Fund Balances - End of Year | $ (8) | $ 6,227 | $ 13,363 | |

**BUDGETARY COMPARISON SCHEDULE**
**NONMAJOR GOVERNMENTAL FUNDS - PERMANENT FUND**

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Regional Park Endowment** | | | | |
| **Revenues and Other Financing Sources** | | | | |
| Use of Money and Property | $ 1 | $ 1 | $ 1 | $ -- |
| Other | 2 | 2 | 4 | 2 |
| Total Revenues and Other Financing Sources | 3 | 3 | 5 | 2 |
| **Expenditures and Other Financing Uses** | | | | |
| Public Ways and Facilities: | | | | |
| Limestone Regional Park Mitigation Maintenance Endowment | 5 | 3 | -- | 3 |
| Total Revenues and Other Financing Sources | 5 | 3 | -- | 3 |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (2) | -- | 5 | $ 5 |
| Fund Balances - Beginning of Year | 168 | 168 | 168 | |
| Fund Balances - End of Year | $ 166 | $ 168 | $ 173 | |

## INTERNAL SERVICE FUNDS

These funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

Health and Other Self-Insured Employee Benefits
These funds are used to account for the County's self-funded health insurance programs, group salary continuance plan, and group dental insurance programs.

Health Maintenance Organization (HMO) Health Insurance
This fund is used to account for the fully insured health plans for the County employees and retirees.

Life Insurance
This fund is used to account for the County's life insurance and accidental death and dismemberment insurance for employees.

Workers' Compensation
This fund is used to account for the County's self-funded workers' compensation insurance program.

Unemployment Insurance
This fund is used to account for the County's self-funded unemployment insurance program.

Property and Casualty Risk
This fund is used to account for the County's self-funded property and casualty risk insurance program.

Transportation
This fund is used to account for motor pool repair and maintenance, and for other transportation services, which are provided to departments and agencies on a cost-reimbursement basis.

Publishing Services
This fund is used to account for printing and graphic services, which are provided to departments and agencies on a cost-reimbursement basis.

Information and Technology
This fund is used to account for voice and data services to departments and agencies on a cost-reimbursement basis.

**COMBINING STATEMENT OF NET POSITION**
**INTERNAL SERVICE FUNDS**

| | Total | Health and Other Self-Insured Employee Benefits | HMO Health Insurance |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Pooled Cash/Investments | $ 213,905 | $ 28,439 | $ 4,012 |
| Imprest Cash Funds | 133 | 125 | -- |
| Restricted Cash and Investments with Trustee | 10 | 10 | -- |
| Receivables | | | |
| Accounts | 137 | 13 | 23 |
| Interest/Dividends | 300 | 41 | -- |
| Allowance for Uncollectible Receivables | (91) | -- | -- |
| Due from Other Funds | 2,657 | -- | -- |
| Due from Other Governmental Agencies | 586 | 292 | -- |
| Inventory of Materials and Supplies | 453 | -- | -- |
| Prepaid Costs | 1,657 | -- | -- |
| Total Current Assets | 219,747 | 28,920 | 4,035 |
| Noncurrent Assets | | | |
| Capital Assets | | | |
| Construction in Progress | 824 | -- | -- |
| Structures and Improvements | 11,788 | -- | -- |
| Accumulated Depreciation | (5,807) | -- | -- |
| Equipment | 115,167 | -- | -- |
| Accumulated Depreciation | (70,639) | -- | -- |
| Total Capital Assets | 51,333 | -- | -- |
| Total Assets | 271,080 | 28,920 | 4,035 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred Outflows of Resources Related to Pension | 6,417 | -- | -- |
| Total Deferred Outflows of Resources | 6,417 | -- | -- |
| **LIABILITIES** | | | |
| Current Liabilities | | | |
| Accounts Payable | 26,566 | 107 | -- |
| Retainage Payable | 3 | -- | -- |
| Salaries and Employee Benefits Payable | 901 | -- | -- |
| Due to Other Funds | 820 | 1 | -- |
| Due to Other Governmental Agencies | 5 | -- | -- |
| Insurance Claims Payable | 51,836 | 11,760 | -- |
| Compensated Employee Absences Payable | 971 | -- | -- |
| Capital Lease Obligations Payable | 6,900 | -- | -- |
| Total Current Liabilities | 88,002 | 11,868 | -- |
| Noncurrent Liabilities | | | |
| Insurance Claims Payable | 155,741 | -- | -- |
| Compensated Employee Absences Payable | 1,133 | -- | -- |
| Capital Lease Obligations Payable | 13,800 | -- | -- |
| Net Pension Liability | 37,220 | -- | -- |
| Total Noncurrent Liabilities | 207,894 | -- | -- |
| Total Liabilities | 295,896 | 11,868 | -- |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred Inflows of Resources Related to Pension | 3,763 | -- | -- |
| Total Deferred Inflows of Resources | 3,763 | -- | -- |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | 51,333 | -- | -- |
| Unrestricted | (73,495) | 17,052 | 4,035 |
| Total Net Position | $ (22,162) | $ 17,052 | $ 4,035 |

(Dollar Amounts in Thousands)

| Life Insurance | Workers' Compensation | Unemployment Insurance | |
|---|---|---|---|
| | | | **ASSETS** |
| | | | Current Assets |
| $ 151 | $ 72,388 | $ 10,924 | Pooled Cash/Investments |
| -- | -- | -- | Imprest Cash Funds |
| -- | -- | -- | Restricted Cash and Investments with Trustee |
| | | | Receivables |
| -- | -- | -- | Accounts |
| -- | 109 | 15 | Interest/Dividends |
| -- | -- | -- | Allowance for Uncollectible Receivables |
| -- | -- | -- | Due from Other Funds |
| -- | 1 | -- | Due from Other Governmental Agencies |
| -- | -- | -- | Inventory of Materials and Supplies |
| -- | 183 | -- | Prepaid Costs |
| 151 | 72,681 | 10,939 | Total Current Assets |
| | | | Noncurrent Assets |
| | | | Capital Assets |
| -- | -- | -- | Construction in Progress |
| -- | -- | -- | Structures and Improvements |
| -- | -- | -- | Accumulated Depreciation |
| -- | 8 | -- | Equipment |
| -- | (8) | -- | Accumulated Depreciation |
| -- | -- | -- | Total Capital Assets |
| 151 | 72,681 | 10,939 | Total Assets |
| | | | **DEFERRED OUTFLOWS OF RESOURCES** |
| -- | 1,173 | -- | Deferred Outflows of Resources Related to Pension |
| -- | 1,173 | -- | Total Deferred Outflows of Resources |
| | | | **LIABILITIES** |
| | | | Current Liabilities |
| -- | 1,244 | -- | Accounts Payable |
| -- | -- | -- | Retainage Payable |
| -- | 103 | -- | Salaries and Employee Benefits Payable |
| -- | 6 | 1 | Due to Other Funds |
| -- | -- | -- | Due to Other Governmental Agencies |
| -- | 28,313 | 952 | Insurance Claims Payable |
| -- | 110 | -- | Compensated Employee Absences Payable |
| -- | -- | -- | Capital Lease Obligations Payable |
| -- | 29,776 | 953 | Total Current Liabilities |
| | | | Noncurrent Liabilities |
| -- | 127,261 | -- | Insurance Claims Payable |
| -- | 135 | -- | Compensated Employee Absences Payable |
| -- | -- | -- | Capital Lease Obligations Payable |
| -- | 7,184 | -- | Net Pension Liability |
| -- | 134,580 | -- | Total Noncurrent Liabilities |
| -- | 164,356 | 953 | Total Liabilities |
| | | | **DEFERRED INFLOWS OF RESOURCES** |
| -- | 727 | -- | Deferred Inflows of Resources Related to Pension |
| -- | 727 | -- | Total Deferred Inflows of Resources |
| | | | **NET POSITION** |
| -- | -- | -- | Net Investment in Capital Assets |
| 151 | (91,229) | 9,986 | Unrestricted |
| $ 151 | $ (91,229) | $ 9,986 | Total Net Position |

**COMBINING STATEMENT OF NET POSITION (Continued)**
**INTERNAL SERVICE FUNDS**

| | Property & Casualty Risk | Transportation | Publishing Services | Information & Technology |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | | | | |
| Pooled Cash/Investments | $ 37,662 | $ 13,761 | $ 2,443 | $ 44,125 |
| Imprest Cash Funds | 5 | -- | -- | 3 |
| Restricted Cash and Investments with Trustee | -- | -- | -- | -- |
| Receivables | | | | |
| Accounts | 14 | 57 | -- | 30 |
| Interest/Dividends | 60 | 18 | 3 | 54 |
| Allowance for Uncollectible Receivables | (11) | (56) | -- | (24) |
| Due from Other Funds | 469 | 1,335 | -- | 853 |
| Due from Other Governmental Agencies | 9 | 54 | 66 | 164 |
| Inventory of Materials and Supplies | -- | 453 | -- | -- |
| Prepaid Costs | 131 | 570 | 113 | 660 |
| Total Current Assets | 38,339 | 16,192 | 2,625 | 45,865 |
| Noncurrent Assets | | | | |
| Capital Assets | | | | |
| Construction in Progress | -- | 91 | -- | 733 |
| Structures and Improvements | -- | 8,986 | -- | 2,802 |
| Accumulated Depreciation | -- | (5,115) | -- | (692) |
| Equipment | -- | 38,646 | 1,536 | 74,977 |
| Accumulated Depreciation | -- | (24,668) | (1,174) | (44,789) |
| Total Capital Assets | -- | 17,940 | 362 | 33,031 |
| Total Assets | 38,339 | 34,132 | 2,987 | 78,896 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred Outflows of Resources Related to Pension | 474 | 2,092 | 400 | 2,278 |
| Total Deferred Outflows of Resources | 474 | 2,092 | 400 | 2,278 |
| **LIABILITIES** | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 2,114 | 303 | 170 | 22,628 |
| Retainage Payable | -- | -- | -- | 3 |
| Salaries and Employee Benefits Payable | 71 | 331 | 59 | 337 |
| Due to Other Funds | 2 | 389 | 288 | 133 |
| Due to Other Governmental Agencies | -- | -- | 5 | -- |
| Insurance Claims Payable | 10,811 | -- | -- | -- |
| Compensated Employee Absences Payable | 85 | 329 | 73 | 374 |
| Capital Lease Obligations Payable | -- | -- | -- | 6,900 |
| Total Current Liabilities | 13,083 | 1,352 | 595 | 30,375 |
| Noncurrent Liabilities | | | | |
| Insurance Claims Payable | 28,480 | -- | -- | -- |
| Compensated Employee Absences Payable | 120 | 370 | 80 | 428 |
| Capital Lease Obligations Payable | -- | -- | -- | 13,800 |
| Net Pension Liability | 2,757 | 12,090 | 2,342 | 12,847 |
| Total Noncurrent Liabilities | 31,357 | 12,460 | 2,422 | 27,075 |
| Total Liabilities | 44,440 | 13,812 | 3,017 | 57,450 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred Inflows of Resources Related to Pension | 279 | 1,223 | 235 | 1,299 |
| Total Deferred Inflows of Resources | 279 | 1,223 | 235 | 1,299 |
| **NET POSITION** | | | | |
| Net Investment in Capital Assets | -- | 17,939 | 362 | 33,032 |
| Unrestricted | (5,906) | 3,250 | (227) | (10,607) |
| Total Net Position | $ (5,906) | $ 21,189 | $ 135 | $ 22,425 |

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**INTERNAL SERVICE FUNDS**

| | Total | Health and Other Self-Insured Employee Benefits | HMO Health Insurance |
|---|---|---|---|
| Operating Revenues | | | |
| Use of Money and Property | $ 1,970 | $ -- | $ -- |
| Charges for Services | 88,104 | -- | -- |
| Insurance Premiums | 297,564 | 64,717 | 158,107 |
| Total Operating Revenues | 387,638 | 64,717 | 158,107 |
| Operating Expenses | | | |
| Salaries and Employee Benefits | 18,665 | -- | -- |
| Services and Supplies | 31,171 | 1,758 | -- |
| Professional Services | 45,471 | 3,898 | 6 |
| Operating Leases | 2,472 | -- | -- |
| Insurance Claims and Premiums | 275,732 | 59,255 | 159,038 |
| Other Charges | 196 | 196 | -- |
| Taxes and Other Fees | 10 | -- | -- |
| Depreciation | 4,178 | -- | -- |
| Total Operating Expenses | 377,895 | 65,107 | 159,044 |
| Operating Income (Loss) | 9,743 | (390) | (937) |
| Nonoperating Revenues | | | |
| Intergovernmental Revenues | 1,115 | 1,115 | -- |
| Interest Revenue | 778 | 124 | 33 |
| Gain on Disposition of Capital Assets | 212 | -- | -- |
| Other Revenue, Net | 5,196 | 2,139 | 250 |
| Total Nonoperating Revenues | 7,301 | 3,378 | 283 |
| Income (Loss) Before Contributions and Transfers | 17,044 | 2,988 | (654) |
| Capital Contributions | 112 | -- | -- |
| Transfers In | 5,758 | 1,003 | 5 |
| Transfers Out | (250) | -- | (31) |
| Change in Net Position | 22,664 | 3,991 | (680) |
| Net Position - Beginning of Year | (9,033) | 13,061 | 4,715 |
| Adjustment Due to Change in Accounting Principle | (35,793) | -- | -- |
| Net Position - Beginning of Year, as Restated | (44,826) | 13,061 | 4,715 |
| Net Position - End of Year | $ (22,162) | $ 17,052 | $ 4,035 |

(Dollar Amounts in Thousands)

| Life Insurance | Workers' Compensation | Unemployment Insurance | |
|---|---|---|---|
| | | | Operating Revenues |
| $ -- | $ -- | $ -- | Use of Money and Property |
| -- | -- | -- | Charges for Services |
| 996 | 41,162 | -- | Insurance Premiums |
| 996 | 41,162 | -- | Total Operating Revenues |
| | | | Operating Expenses |
| -- | 2,146 | -- | Salaries and Employee Benefits |
| -- | 280 | -- | Services and Supplies |
| -- | 4,778 | 138 | Professional Services |
| -- | 205 | -- | Operating Leases |
| 998 | 40,937 | 1,112 | Insurance Claims and Premiums |
| -- | -- | -- | Other Charges |
| -- | -- | -- | Taxes and Other Fees |
| -- | -- | -- | Depreciation |
| 998 | 48,346 | 1,250 | Total Operating Expenses |
| (2) | (7,184) | (1,250) | Operating Income (Loss) |
| | | | Nonoperating Revenues |
| -- | -- | -- | Intergovernmental Revenues |
| 1 | 266 | 49 | Interest Revenue |
| -- | -- | -- | Gain on Disposition of Capital Assets |
| -- | 1,756 | 7 | Other Revenue, Net |
| 1 | 2,022 | 56 | Total Nonoperating Revenues |
| (1) | (5,162) | (1,194) | Income (Loss) Before Contributions and Transfers |
| -- | -- | -- | Capital Contributions |
| -- | 677 | -- | Transfers In |
| (1) | -- | -- | Transfers Out |
| (2) | (4,485) | (1,194) | Change in Net Position |
| 153 | (79,959) | 11,180 | Net Position - Beginning of Year |
| -- | (6,785) | -- | Adjustment Due to Change in Accounting Principle |
| 153 | (86,744) | 11,180 | Net Position - Beginning of Year, as Restated |
| $ 151 | $ (91,229) | $ 9,986 | Net Position - End of Year |

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (Continued)**
**INTERNAL SERVICE FUNDS**

| | Property & Casualty Risk | Transportation | Publishing Services | Information & Technology |
|---|---|---|---|---|
| Operating Revenues | | | | |
| Use of Money and Property | $ -- | $ -- | $ -- | $ 1,970 |
| Charges for Services | -- | 20,526 | 4,613 | 62,965 |
| Insurance Premiums | 32,582 | -- | -- | -- |
| Total Operating Revenues | 32,582 | 20,526 | 4,613 | 64,935 |
| Operating Expenses | | | | |
| Salaries and Employee Benefits | 1,455 | 7,130 | 1,297 | 6,637 |
| Services and Supplies | 9,110 | 9,327 | 1,876 | 8,820 |
| Professional Services | 664 | 2,241 | 591 | 33,155 |
| Operating Leases | 188 | 28 | 526 | 1,525 |
| Insurance Claims and Premiums | 14,392 | -- | -- | -- |
| Other Charges | -- | -- | -- | -- |
| Taxes and Other Fees | -- | 10 | -- | -- |
| Depreciation | -- | 2,656 | 67 | 1,455 |
| Total Operating Expenses | 25,809 | 21,392 | 4,357 | 51,592 |
| Operating Income (Loss) | 6,773 | (866) | 256 | 13,343 |
| Nonoperating Revenues | | | | |
| Intergovernmental Revenues | -- | -- | -- | -- |
| Interest Revenue | 118 | 62 | 8 | 117 |
| Gain on Disposition of Capital Assets | -- | 212 | (1) | 1 |
| Other Revenue, Net | 584 | 180 | 220 | 60 |
| Total Nonoperating Revenues | 702 | 454 | 227 | 178 |
| Income (Loss) Before Contributions and Transfers | 7,475 | (412) | 483 | 13,521 |
| Capital Contributions | -- | 112 | -- | -- |
| Transfers In | -- | 3,280 | 3 | 790 |
| Transfers Out | -- | (218) | -- | -- |
| Change in Net Position | 7,475 | 2,762 | 486 | 14,311 |
| Net Position - Beginning of Year | (10,716) | 30,104 | 1,908 | 20,521 |
| Adjustment Due to Change in Accounting Principle | (2,665) | (11,677) | (2,259) | (12,407) |
| Net Position - Beginning of Year, as Restated | (13,381) | 18,427 | (351) | 8,114 |
| Net Position - End of Year | $ (5,906) | $ 21,189 | $ 135 | $ 22,425 |

**COMBINING STATEMENT OF CASH FLOWS**
**INTERNAL SERVICE FUNDS**

| | Total | Health and Other Self-Insured Employee Benefits | HMO Health Insurance | Life Insurance |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from Customers | $ 90,719 | $ 232 | $ -- | $ -- |
| Cash Received for Premiums Within the County's Entity | 297,564 | 64,717 | 158,107 | 996 |
| Payments to Suppliers for Goods and Services | (330,423) | (65,492) | (159,044) | (998) |
| Payments to Employees for Services | (19,620) | -- | -- | -- |
| Payments for Interfund Services | (2,178) | -- | -- | -- |
| Receipts for Interfund Services | 231 | -- | -- | -- |
| Taxes and Other Fees | (10) | -- | -- | -- |
| Other Operating Receipts (Payments) - Net | 2,520 | 1,943 | 241 | -- |
| Net Cash Provided (Used) by Operating Activities | 38,803 | 1,400 | (696) | (2) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Transfers In | 5,758 | 1,003 | 5 | -- |
| Transfers Out | (250) | -- | (31) | (1) |
| Intergovernmental Revenues | 1,115 | 1,115 | -- | -- |
| Net Cash Provided (Used) by Noncapital Financing Activities | 6,623 | 2,118 | (26) | (1) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Acquisition of Capital Assets | (14,188) | -- | -- | -- |
| Net Cash Used by Capital and Related Financing Activities | (14,188) | -- | -- | -- |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Interest on Investments | 633 | 107 | 33 | 1 |
| Net Cash Provided by Investing Activities | 633 | 107 | 33 | 1 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 31,871 | 3,625 | (689) | (2) |
| Cash and Cash Equivalents - Beginning of Year | 182,177 | 24,949 | 4,701 | 153 |
| Cash and Cash Equivalents - End of Year | $ 214,048 | $ 28,574 | $ 4,012 | $ 151 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | | | |
| Operating Income (Loss) | $ 9,743 | $ (391) | $ (938) | $ (2) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 4,178 | -- | -- | -- |
| Other Revenue - Net | 5,196 | 2,139 | 250 | -- |
| (Increases) Decreases In: | | | | |
| Accounts Receivable | 125 | (3) | (23) | -- |
| Due from Other Funds | (14) | -- | -- | -- |
| Due from Other Governmental Agencies | 512 | 235 | 15 | -- |
| Inventory of Materials and Supplies | 36 | -- | -- | -- |
| Prepaid Costs | 1,559 | -- | -- | -- |
| Deferred Outflows and Inflows of Resources from Pension Contributions | (3,590) | -- | -- | -- |
| Increases (Decreases) In: | | | | |
| Accounts Payable | 16,068 | (13) | -- | -- |
| Retainage Payable | 3 | -- | -- | -- |
| Salaries and Employee Benefits Payable | 262 | -- | -- | -- |
| Due to Other Funds | (1,933) | -- | -- | -- |
| Due to Other Governmental Agencies | (193) | -- | -- | -- |
| Insurance Claims Payable | 4,478 | (567) | -- | -- |
| Compensated Employee Absences Payable | 7 | -- | -- | -- |
| Net Pension Liability from Pension Contributions and Expenses | 2,366 | -- | -- | -- |
| Total Adjustments | 29,060 | 1,791 | 242 | -- |
| Net Cash Provided (Used) by Operating Activities | $ 38,803 | $ 1,400 | $ (696) | $ (2) |
| **Reconciliation of Cash and Cash Equivalents to Statement of Net Position** | | | | |
| Pooled Cash/Investments | $ 213,905 | $ 28,439 | $ 4,012 | $ 151 |
| Imprest Cash Funds | 133 | 125 | -- | -- |
| Restricted Cash and Investments with Trustee | 10 | 10 | -- | -- |
| Total Cash and Cash Equivalents | $ 214,048 | $ 28,574 | $ 4,012 | $ 151 |

(Dollar Amounts in Thousands)

| Workers' Compensation | Unemployment Insurance | Property & Casualty Risk | |
|---|---|---|---|
| | | | **CASH FLOWS FROM OPERATING ACTIVITIES** |
| $ -- | $ -- | $ 3 | Receipts from Customers |
| 41,162 | -- | 32,582 | Cash Received for Premiums Within the County's Entity |
| (40,781) | (1,081) | (23,981) | Payments to Suppliers for Goods and Services |
| (2,159) | -- | (1,540) | Payments to Employees for Services |
| (112) | (27) | (183) | Payments for Interfund Services |
| -- | | | Receipts for Interfund Services |
| -- | -- | -- | Taxes and Other Fees |
| 1,551 | 7 | 396 | Other Operating Receipts (Payments) - Net |
| (339) | (1,101) | 7,277 | Net Cash Provided (Used) by Operating Activities |
| | | | **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** |
| 677 | -- | -- | Transfers In |
| -- | -- | -- | Transfers Out |
| -- | -- | -- | Intergovernmental Revenues |
| 677 | -- | -- | Net Cash Provided (Used) by Noncapital Financing Activities |
| | | | **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** |
| -- | -- | -- | Acquisition of Capital Assets |
| -- | -- | -- | Net Cash Used by Capital and Related Financing Activities |
| | | | **CASH FLOW FROM INVESTING ACTIVITIES** |
| 224 | 44 | 87 | Interest on Investments |
| 224 | 44 | 87 | Net Cash Provided by Investing Activities |
| 562 | (1,057) | 7,364 | Net Increase (Decrease) in Cash and Cash Equivalents |
| 71,826 | 11,981 | 30,303 | Cash and Cash Equivalents - Beginning of Year |
| $ 72,388 | $ 10,924 | $ 37,667 | Cash and Cash Equivalents - End of Year |
| | | | **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** |
| $ (7,184) | $ (1,250) | $ 6,773 | Operating Income (Loss) |
| | | | Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: |
| -- | -- | -- | Depreciation |
| 1,756 | 7 | 584 | Other Revenue - Net |
| | | | (Increases) Decreases In: |
| -- | -- | 1 | Accounts Receivable |
| 261 | -- | 71 | Due from Other Funds |
| -- | -- | 2 | Due from Other Governmental Agencies |
| -- | -- | -- | Inventory of Materials and Supplies |
| 178 | -- | 124 | Prepaid Costs |
| (627) | -- | (265) | Deferred Outflows and Inflows of Resources from Pension Contributions |
| | | | Increases (Decreases) In: |
| 225 | -- | 33 | Accounts Payable |
| -- | -- | -- | Retainage Payble |
| 36 | -- | 24 | Salaries and Employee Benefits Payable |
| (373) | (27) | (254) | Due to Other Funds |
| (22) | -- | (15) | Due to Other Governmental Agencies |
| 4,833 | 169 | 43 | Insurance Claims Payable |
| (2) | -- | (6) | Compensated Employee Absences Payable |
| 580 | -- | 162 | Net Pension Liability from Pension Contributions and Expenses |
| 6,845 | 149 | 504 | Total Adjustments |
| $ (339) | $ (1,101) | $ 7,277 | Net Cash Provided (Used) by Operating Activities |
| | | | **Reconciliation of Cash and Cash Equivalents to Statement of Net Position** |
| $ 72,388 | $ 10,924 | $ 37,662 | Pooled Cash/Investments |
| -- | -- | 5 | Imprest Cash Funds |
| -- | -- | -- | Restricted Cash and Investments with Trustee |
| $ 72,388 | $ 10,924 | $ 37,667 | Total Cash and Cash Equivalents |

**COMBINING STATEMENT OF CASH FLOWS (Continued)**
**INTERNAL SERVICE FUNDS**

| | Transportation | Publishing Services | Information & Technology |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from Customers | $ 20,625 | $ 4,583 | $ 65,276 |
| Cash Received for Premiums Within the County's Entity | -- | -- | -- |
| Payments to Suppliers for Goods and Services | (11,175) | (2,358) | (25,513) |
| Payments to Employees for Services | (7,455) | (1,357) | (7,109) |
| Payments for Interfund Services | -- | (11) | (1,845) |
| Receipts for Interfund Services | 231 | -- | -- |
| Taxes and Other Fees | (10) | -- | -- |
| Other Operating Receipts (Payments) - Net | 152 | (305) | (1,465) |
| Net Cash Provided (Used) by Operating Activities | 2,368 | 552 | 29,344 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | |
| Transfers In | 3,280 | 3 | 790 |
| Transfers Out | (218) | -- | -- |
| Intergovernmental Revenues | -- | -- | -- |
| Net Cash Provided (Used) by Noncapital Financing Activities | 3,062 | 3 | 790 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | |
| Acquisition of Capital Assets | (6,232) | -- | (7,956) |
| Net Cash Used by Capital and Related Financing Activities | (6,232) | -- | (7,956) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Interest on Investments | 56 | 4 | 77 |
| Net Cash Provided by Investing Activities | 56 | 4 | 77 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (746) | 559 | 22,255 |
| Cash and Cash Equivalents - Beginning of Year | 14,507 | 1,884 | 21,873 |
| Cash and Cash Equivalents - End of Year | $ 13,761 | $ 2,443 | $ 44,128 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | | |
| Operating Income (Loss) | $ (866) | $ 256 | $ 13,345 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation | 2,656 | 67 | 1,455 |
| Other Revenue - Net | 180 | 220 | 60 |
| (Increases) Decreases In: | | | |
| Accounts Receivable | 56 | -- | 94 |
| Due from Other Funds | 164 | -- | (510) |
| Due from Other Governmental Agencies | 43 | (30) | 247 |
| Inventory of Materials and Supplies | 36 | -- | -- |
| Prepaid Costs | 557 | 145 | 555 |
| Deferred Outflows and Inflows of Resources from Pension Contributions | (1,174) | (222) | (1,302) |
| Increases (Decreases) In: | | | |
| Accounts Payable | (134) | (24) | 15,981 |
| Retainage Payble | -- | -- | 3 |
| Salaries and Employee Benefits Payable | 96 | 15 | 91 |
| Due to Other Funds | 67 | (11) | (1,335) |
| Due to Other Governmental Agencies | (66) | (11) | (79) |
| Insurance Claims Payable | -- | -- | -- |
| Compensated Employee Absences Payable | 36 | 5 | (26) |
| Net Pension Liability from Pension Contributions and Expenses | 717 | 142 | 765 |
| Total Adjustments | 3,234 | 296 | 15,999 |
| Net Cash Provided (Used) by Operating Activities | $ 2,368 | $ 552 | $ 29,344 |
| **Reconciliation of Cash and Cash Equivalents to Statement of Net Position** | | | |
| Pooled Cash/Investments | $ 13,761 | $ 2,443 | $ 44,125 |
| Imprest Cash Funds | -- | -- | 3 |
| Restricted Cash and Investments with Trustee | -- | -- | -- |
| Total Cash and Cash Equivalents | $ 13,761 | $ 2,443 | $ 44,128 |

## FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the County in a trustee or agency capacity on behalf of outside parties, including employees, individuals, private organizations or other governments. These funds cannot be used to support the County's programs. When these assets are held under a formal trust agreement, a trust fund is used. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent in a purely custodial capacity.

## PRIVATE-PURPOSE TRUST FUNDS

### Public Administration Trust Funds

These funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples of private-purpose trusts include unidentified funds, unclaimed prisoner funds and decedents' property held for escheatment.

### OCDA Redevelopment Successor Agency

The Orange County Development Agency was dissolved effective February 1, 2012 in accordance with Health and Safety Code 34172. A successor agency was designated as the successor entity to the former redevelopment agency in accordance with Health and Safety Code 34173. The OCDA Redevelopment Successor Agency holds the assets of the dissolved Orange County Development Agency pending liquidation and distribution.

## PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS

### Extra-Help Defined Benefit Plan

This fund is used to account for the retirement plan for employees working less than half-time or as extra-help. This retirement plan was closed to new participants as of February 28, 2002. The eligible employees of these plans are not covered by the Orange County Employees Retirement System.

### Extra-Help Defined Contribution Plan

This fund is used to account for the defined contribution retirement plan for extra-help and part-time employees. This plan replaced the Extra-Help Defined Benefit Retirement Plan and was effective for new employees on March 1, 2002. Effective February 10, 2015, the plan also includes new employees who have attained age 60 at date of hire, who waive membership in the Orange County Employees Retirement System ("OCERS"), and do not have funds on deposit with OCERS and otherwise meet the requirements under OCERS' regulations and state law to waive membership in OCERS. The eligible employees of these plans are not covered by the Orange County Employees Retirement System.

### 401(a) Defined Contribution Plan

This fund accounts for the 401(a) defined contribution plan, which was established in January 1999 for eligible employees, including the members of the Board of Supervisors, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association and certain other employee classifications as defined in the plan document. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers effective June 23, 2006.

1.62% at 65 Retirement, 401(a) Defined Contribution Plan

This fund is used to account for the matching 401(a) employer contributions for eligible employees in the "1.62@65" Retirement (OCERS) formula who voluntarily contribute to the "1.62@65" Retirement, 457(b) defined contribution plan. The Plan was established on May 7, 2010.

Retiree Medical Plan

This fund is used to account for the annual required contributions, benefit payments, and investment losses and gains in the Retiree Medical Trust which was established effective July 2, 2007. The Retiree Medical Trust was established exclusively for the Retiree Medical Plan which is a single employer Other Postemployment Benefit plan that was established on August 1, 1993 for eligible employees as defined in the plan document.

Health Reimbursement Arrangement Plan

This fund is used to account for the employer contributions to the Health Reimbursement Arrangement, a defined contribution plan, which was established on June 17, 2008 for eligible employees, including employees represented by the Association of Orange County Deputy Sheriffs and Law Enforcement Management employees as defined in the plan document.

## AGENCY FUNDS

Unapportioned Tax and Interest Funds

This group of funds is used to account for the collection of property taxes, and later distribution of such taxes, as well as the interest earned on them. Included are taxes collected by the County for other governmental units using the County treasury, as well as governmental units not using the County treasury, such as cities.

Departmental Funds

This group of funds is used by certain County officers to hold various types of cash receipts and deposits in a fiduciary capacity. Disbursements are made from these funds by checks issued by the County Auditor-Controller upon requisition of the responsible officer.

**COMBINING STATEMENT OF FIDUCIARY NET POSITION**
**PRIVATE-PURPOSE TRUST FUNDS**

| | Total | Public Administration Trust Funds | OCDA Redevelopment Successor Agency |
|---|---|---|---|
| **ASSETS** | | | |
| Pooled Cash/Investments | $ 57,364 | $ 41,701 | $ 15,663 |
| Restricted Cash and Investments | | | |
| Restricted Cash | 4,630 | -- | 4,630 |
| Receivables | | | |
| Interest/Dividends | 143 | 100 | 43 |
| Due from Other Governmental Agencies | 2 | 2 | -- |
| Land and Improvemtents Held for Resale | 619 | -- | 619 |
| Total Assets | 62,758 | 41,803 | 20,955 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred Charge on Refunding | 305 | -- | 305 |
| Total Deferred Outflows of Resources | 305 | -- | 305 |
| **LIABILITIES** | | | |
| Bonds Payable | 33,628 | -- | 33,628 |
| Interest Payable | 429 | -- | 429 |
| Due to Other Governmental Agencies | 644 | 622 | 22 |
| Total Liabilities | 34,701 | 622 | 34,079 |
| **NET POSITION** | | | |
| Restricted for Private-Purpose Trust Funds | 28,362 | 41,181 | (12,819) |
| Net Position | $ 28,362 | $ 41,181 | $ (12,819) |

(Dollar Amounts in Thousands)

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**PRIVATE-PURPOSE TRUST FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2015**

| | Total | Public Administration Trust Funds | OCDA Redevelopment Successor Agency |
|---|---|---|---|
| Additions: | | | |
| Contributions to Private-Purpose Trust | $ 83,033 | $ 83,033 | $ -- |
| Intergovernmental Revenues | 17,568 | -- | 17,568 |
| Other Revenues | 786 | -- | 786 |
| Interest and Investment Income | 112 | 65 | 47 |
| Less: Investment Expense | (7) | -- | (7) |
| Total Additions | 101,492 | 83,098 | 18,394 |
| Deductions: | | | |
| Distributions from Private-Purpose Trust | 78,892 | 78,892 | -- |
| Professional Services | 274 | 24 | 250 |
| Bond Issuance Costs | 183 | -- | 183 |
| Tax Pass-Throughs | 4,000 | -- | 4,000 |
| Interest Expense | 1,539 | -- | 1,539 |
| Total Deductions | 84,888 | 78,916 | 5,972 |
| Change in Net Position | 16,604 | 4,182 | 12,422 |
| Net Position, Beginning of Year | 11,758 | 36,999 | (25,241) |
| Net Position, End of Year | $ 28,362 | $ 41,181 | $ (12,819) |

## COMBINING STATEMENT OF FIDUCIARY NET POSITION
## PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS

| | Total | Extra-Help Defined Benefit Plan | Extra-Help Defined Contribution Plan | 401(a) Defined Contribution Plan |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Pooled Cash/Investments | $ 9,297 | $ 5,115 | $ -- | $ -- |
| Restricted Cash and Investments with Trustee | 299,926 | -- | 7,597 | 14,005 |
| Receivables | | | | |
| Interest/Dividends | 28 | 10 | -- | -- |
| Due from Other Governmental Agencies | 2,788 | -- | -- | -- |
| Total Assets | 312,039 | 5,125 | 7,597 | 14,005 |
| **LIABILITIES** | | | | |
| Salaries and Employee Benefits Payable | 8 | 8 | -- | -- |
| Total Liabilities | 8 | 8 | -- | -- |
| **NET POSITION** | | | | |
| Restricted for Pension and OPEB Benefits | 312,031 | 5,117 | 7,597 | 14,005 |
| Net Position | $ 312,031 | $ 5,117 | $ 7,597 | $ 14,005 |

(Dollar Amounts in Thousands)

| 1.62% at 65 Retirement, 401(a) Defined Contribution Plan | Retiree Medical Plan | Health Reimbursement Arrangement Plan | |
|---|---|---|---|
| | | | **ASSETS** |
| $ -- | $ 4,137 | $ 45 | Pooled Cash/Investments |
| 515 | 206,118 | 71,691 | Restricted Cash and Investments with Trustee |
| | | | Receivables |
| -- | 18 | -- | Interest/Dividends |
| 27 | 2,354 | 407 | Due from Other Governmental Agencies |
| 542 | 212,627 | 72,143 | Total Assets |
| | | | **LIABILITIES** |
| -- | -- | -- | Salaries and Employee Benefits Payable |
| -- | -- | -- | Total Liabilities |
| | | | **NET POSITION** |
| 542 | 212,627 | 72,143 | Restricted for Pension and OPEB Benefits |
| $ 542 | $ 212,627 | $ 72,143 | Net Position |

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS**

| | Total | Extra-Help Defined Benefit Plan | Extra-Help Defined Contribution Plan | 401(a) Defined Contribution Plan |
|---|---|---|---|---|
| Additions: | | | | |
| Contributions to Pension and Other Employee Benefits Trust: | | | | |
| Employer | $ 51,126 | $ 421 | $ -- | $ 913 |
| Employee | 3,816 | -- | 1,018 | -- |
| Interest and Investment Income | 6,728 | 29 | 161 | 528 |
| Less: Investment Expense | (244) | (8) | (9) | (15) |
| Total Additions | 61,426 | 442 | 1,170 | 1,426 |
| Deductions: | | | | |
| Benefits Paid to Participants | 33,628 | 522 | 1,175 | 741 |
| Administrative Expense | 37 | 4 | -- | -- |
| Total Deductions | 33,665 | 526 | 1,175 | 741 |
| Change in Net Position | 27,761 | (84) | (5) | 685 |
| Net Position, Beginning of Year | 284,270 | 5,201 | 7,602 | 13,320 |
| Net Position, End of Year | $ 312,031 | $ 5,117 | $ 7,597 | $ 14,005 |

(Dollar Amounts in Thousands)

| 1.62%@65 Retirement, 401(a) Defined Contribution Plan | Retiree Medical Plan | Health Reimbursement Arrangement Plan | |
|---|---|---|---|
| | | | Additions: |
| | | | Contributions to Pension and Other Employee Benefits Trust: |
| $ 368 | $ 41,181 | $ 8,243 | Employer |
| -- | 2,798 | -- | Employee |
| 8 | 4,668 | 1,334 | Interest and Investment Income |
| -- | (7) | (205) | Less: Investment Expense |
| 376 | 48,640 | 9,372 | Total Additions |
| | | | Deductions: |
| -- | 29,874 | 1,316 | Benefits Paid to Participants |
| -- | 33 | -- | Administrative Expense |
| -- | 29,907 | 1,316 | Total Deductions |
| 376 | 18,733 | 8,056 | Change in Net Position |
| 166 | 193,894 | 64,087 | Net Position, Beginning of Year |
| $ 542 | $ 212,627 | $ 72,143 | Net Position, End of Year |

**COMBINING STATEMENT OF FIDUCIARY NET POSITION**
**ALL AGENCY FUNDS**

| | Total | Unapportioned Tax and Interest Funds | Departmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Pooled Cash/Investments | $ 338,086 | $ 189,325 | $ 148,761 |
| Cash/Cash Equivalents | 326 | -- | 326 |
| Restricted Cash and Investments with Trustee | 31,075 | -- | 31,075 |
| Investments | 1,082 | -- | 1,082 |
| Deposits In-Lieu of Cash | 19,247 | -- | 19,247 |
| Receivables | | | |
| Accounts | 3 | -- | 3 |
| Taxes | 317,620 | 317,620 | -- |
| Interest/Dividends | 7,328 | 6,995 | 333 |
| Allowance For Uncollectible Receivables | (154,807) | (154,805) | (2) |
| Due from Other Governmental Agencies | 5,565 | 2,126 | 3,439 |
| Notes Receivable | 30,376 | -- | 30,376 |
| Total Assets | 595,901 | 361,261 | 234,640 |
| **LIABILITIES** | | | |
| Interest Payable | 6,015 | 6,015 | -- |
| Deposits from Others | 30,386 | -- | 30,386 |
| Monies Held for Others | 155,775 | -- | 155,775 |
| Due to Other Governmental Agencies | 50,808 | 2,329 | 48,479 |
| Unapportioned Taxes | 352,917 | 352,917 | -- |
| Total Liabilities | 595,901 | 361,261 | 234,640 |
| **NET POSITION** | $ -- | $ -- | $ -- |

**COMBINING STATEMENT OF CHANGES ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**

| UNAPPORTIONED TAX AND INTEREST FUNDS | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---|---|---|---|
| ASSETS | | | | |
| Pooled Cash/Investments | $ 158,931 | $ 7,643,015 | $ 7,612,621 | $ 189,325 |
| Receivables | | | | |
| Taxes | 304,568 | 16,512,040 | 16,498,988 | 317,620 |
| Interest | 4,686 | 46,900 | 44,591 | 6,995 |
| Allowance for Uncollectible Receivables | (137,072) | -- | 17,733 | (154,805) |
| Due from Other Governmental Agencies | 9 | 29,776 | 27,659 | 2,126 |
| Total Assets | $ 331,122 | $ 24,231,731 | $ 24,201,592 | $ 361,261 |
| LIABILITIES | | | | |
| Interest Payable | $ 3,436 | $ 19,070 | $ 16,491 | $ 6,015 |
| Due to Other Governmental Agencies | 4,683 | 81,784 | 84,138 | 2,329 |
| Unapportioned Taxes | 323,003 | 10,342,523 | 10,312,609 | 352,917 |
| Total Liabilities | $ 331,122 | $ 10,443,377 | $ 10,413,238 | $ 361,261 |

| DEPARTMENTAL FUNDS | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---|---|---|---|
| ASSETS | | | | |
| Pooled Cash/Investments | $ 139,343 | $ 3,482,403 | $ 3,472,985 | $ 148,761 |
| Cash/Cash Equivalents | 253 | 557 | 484 | 326 |
| Restricted Cash and Investments with Trustee | 38,726 | 90,525 | 98,176 | 31,075 |
| Investments | 1,082 | -- | -- | 1,082 |
| Deposits In-Lieu of Cash | 11,891 | 9,914 | 2,558 | 19,247 |
| Receivables | | | | |
| Accounts | 8 | 63 | 68 | 3 |
| Taxes | -- | 6 | 6 | -- |
| Interest | 204 | 812 | 683 | 333 |
| Allowance for Uncollectible Receivables | (1) | -- | 1 | (2) |
| Due from Other Governmental Agencies | 24,030 | 601,510 | 622,101 | 3,439 |
| Prepaid Costs | -- | 2,559 | 2,559 | -- |
| Notes Receivable | 28,233 | 2,372 | 229 | 30,376 |
| Total Assets | $ 243,769 | $ 4,190,721 | $ 4,199,850 | $ 234,640 |
| LIABILITIES | | | | |
| Deposits From Others | $ 17,312 | $ 46,663 | $ 33,589 | $ 30,386 |
| Monies Held for Others | 181,297 | 5,988,410 | 6,013,932 | 155,775 |
| Due to Component Unit | -- | 13 | 13 | -- |
| Due to Other Governmental Agencies | 45,160 | 1,101,674 | 1,098,355 | 48,479 |
| Total Liabilities | $ 243,769 | $ 7,136,760 | $ 7,145,889 | $ 234,640 |

(Dollar Amounts in Thousands)

| TOTAL - ALL AGENCY FUNDS | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---|---|---|---|
| ASSETS | | | | |
| Pooled Cash/Investments | $ 298,274 | $ 11,125,418 | $ 11,085,606 | $ 338,086 |
| Cash/Cash Equivalents | 253 | 557 | 484 | 326 |
| Restricted Cash and Investments with Trustee | 38,726 | 90,525 | 98,176 | 31,075 |
| Investments | 1,082 | -- | -- | 1,082 |
| Deposits In-Lieu of Cash | 11,891 | 9,914 | 2,558 | 19,247 |
| Receivables | | | | |
| Accounts | 8 | 63 | 68 | 3 |
| Taxes | 304,568 | 16,512,040 | 16,498,988 | 317,620 |
| Interest | 4,890 | 47,712 | 45,274 | 7,328 |
| Allowance for Uncollectible Receivables | (137,073) | -- | 17,734 | (154,807) |
| Due from Other Governmental Agencies | 24,039 | 631,286 | 649,760 | 5,565 |
| Prepaid Costs | -- | 2,559 | 2,559 | -- |
| Notes Receivable | 28,233 | 2,372 | 229 | 30,376 |
| Total Assets | $ 574,891 | $ 28,422,446 | $ 28,401,436 | $ 595,901 |
| LIABILITIES | | | | |
| Interest Payable | $ 3,436 | $ 19,070 | $ 16,491 | $ 6,015 |
| Deposits from Others | 17,312 | 46,663 | 33,589 | 30,386 |
| Monies Held for Others | 181,297 | 5,988,410 | 6,013,932 | 155,775 |
| Due to Component Unit | -- | 13 | 13 | -- |
| Due to Other Governmental Agencies | 49,843 | 1,183,458 | 1,182,493 | 50,808 |
| Unapportioned Taxes | 323,003 | 10,342,523 | 10,312,609 | 352,917 |
| Total Liabilities | $ 574,891 | $ 17,580,137 | $ 17,559,127 | $ 595,901 |

COUNTY OF ORANGE
CALIFORNIA

## STATISTICAL SECTION
## (UNAUDITED)

The information in this section is not covered by the Independent Auditor's Report, but is presented as supplemental data for the benefit of the readers of the Comprehensive Annual Financial Report. The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the basic financial statements, notes to the basic financial statements, and required supplementary information to understand and assess a government's economic condition.

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Source: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

## Net Position by Component
## Last Ten Fiscal Years
## (Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2013-14 (4) | 2012-13 | 2011-12 (4) | 2010-11 |
| **Governmental Activities** | | | | | |
| Net Investment in Capital Assets | $ 2,670,577 | $ 2,646,812 | $ 2,563,976 | $ 2,699,809 | $ 2,626,281 |
| Restricted for: | | | | | |
| Expendable | | | | | |
| Other Postemployment Benefits | -- | -- | -- | -- (1) | 41,609 |
| Pension Benefits | 112,544 | 109,986 | 105,900 | 96,604 | 107,807 |
| Capital Projects | 6,154 | 8,661 | 11,904 | 16,269 | 56,219 |
| Debt Service | 37,734 | 37,639 | 31,965 | - | 87,253 |
| Legally Segregated for Grants and Other Purposes | 1,045,897 | 1,190,106 | 1,174,791 | 1,077,117 | 1,133,256 |
| Regional Park Endowment | 141 | 140 | 139 | -- | -- |
| Nonexpendable | | | | | |
| Regional Park Endowment | 188 | 185 | 183 | 319 | 315 |
| Unrestricted | (2,991,814) | 331,408 | 196,850 | 37,790 | (73,741) |
| Total Governmental Activities Net Position | $ 881,421 | $ 4,324,937 | $ 4,085,708 | $ 3,927,908 | $ 3,978,999 |
| **Business-Type Activities** | | | | | |
| Net Investment in Capital Assets | $ 642,427 | $ 624,621 | $ 587,934 | $ 574,982 | $ 591,664 |
| Restricted for: | | | | | |
| Expendable | | | | | |
| Debt Service | 7,324 | 7,090 | 58,772 | -- | -- |
| Passenger Facility Charges | | | | -- | -- |
| Approved Capital Projects | 70,538 | 62,522 | 55,331 | -- | -- |
| Capital Projects - Replacements and Renewals | 1,000 | 1,000 | 1,000 | -- | -- |
| Landfill Closure/Postclosure | 33,337 | 37,412 | 40,355 | -- | -- |
| Landfill Corrective Action | 8,174 | 7,141 | 6,109 | -- | -- |
| Wetland | 879 | 879 | 879 | -- | -- |
| Prima Deshecha/La Pata | | | | -- | -- |
| Closure | 104 | 104 | 104 | | |
| Airport (3) | -- | -- | -- | 58,149 | 50,899 |
| Waste Management (3) | -- | -- | -- | 82,205 | 84,070 |
| Unrestricted (2) | 362,546 | 384,871 | 335,122 | 350,474 | 313,568 |
| Total Business-Type Activities Net Position | $ 1,126,329 | $ 1,125,640 | $ 1,085,606 | $ 1,065,810 | $ 1,040,201 |

Notes:
(1) In FY 2011-12, it was determined that the Restricted Net Position for Other Postemployment Benefits does not meet the definition of restriction and should be reported as unrestricted.
(2) In accordance with GASB Statement No. 54, which was implemented in FY 2010-11, net positions for business-type activities have been reclassified in the government-wide statements to be consistent with the classification of net position in the enterprise fund financial statements.
(3) Starting in FY 2012-13, Restricted Net Position for Business-Type Activities will be shown by activity detail.
(4) The balances shown have not been restated to include the prior period adjustments.

(Dollar Amounts in Thousands)

| Fiscal Year 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | |
|---|---|---|---|---|---|
| | | | | | **Governmental Activities** |
| | | | | | Net Investment |
| $ 2,560,468 | $ 2,445,397 | $ 2,302,926 | $ 2,273,891 | $ 2,306,178 | in Capital Assets |
| | | | | | Restricted for: |
| | | | | | Expendable |
| | | | | | Other Postemployment |
| 43,580 | 57,322 | 46,442 | -- | -- | Benefits |
| -- | -- | -- | -- | -- | Pension Benefits |
| 58,947 | 85,197 | 211,426 | 247,277 | 255,201 | Capital Projects |
| 76,936 | 66,515 | 168,468 | 155,918 | 121,840 | Debt Service |
| | | | | | Legally Segregated |
| | | | | | for Grants and |
| 1,069,801 | 1,047,284 | 990,198 | 916,563 | 738,515 | Other Purposes |
| -- | -- | -- | -- | -- | Regional Park Endowment |
| | | | | | Nonexpendable |
| 154 | 149 | 139 | 125 | 109 | Regional Park Endowment |
| (9,986) | (1,271) | 57,812 | 135,826 | (33,051) | Unrestricted |
| | | | | | Total Governmental Activities |
| $ 3,799,900 | $ 3,700,593 | $ 3,777,411 | $ 3,729,600 | $ 3,388,792 | Net Position |
| | | | | | **Business-Type Activities** |
| | | | | | Net Investment |
| $ 537,375 | $ 493,658 | $ 395,227 | $ 359,544 | $ 343,390 | in Capital Assets |
| | | | | | Restricted for: |
| | | | | | Expendable |
| -- | -- | -- | -- | -- | Debt Service |
| -- | -- | -- | -- | -- | Passenger Facility Charges |
| -- | -- | -- | -- | -- | Approved Capital Projects |
| -- | -- | -- | -- | -- | Replacements and Renewals |
| -- | -- | -- | -- | -- | Landfill Closure/Postclosure |
| -- | -- | -- | -- | -- | Landfill Corrective Action |
| -- | -- | -- | -- | -- | Wetland |
| -- | -- | -- | -- | -- | Prima Deshecha/La Pata |
| | | | | | Closure |
| 48,225 | 176,225 | 218,293 | 194,038 | 146,332 | Airport |
| 86,943 | 284,943 | 294,068 | 292,847 | 264,502 | Waste Management |
| 321,778 | -- | -- | -- | -- | Unrestricted |
| | | | | | Total Business-Type Activities |
| $ 994,321 | $ 954,826 | $ 907,588 | $ 846,429 | $ 754,224 | Net Position |

## Net Position by Component
## Last Ten Fiscal Years
## (Accrual Basis of Accounting) (Continued)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2013-14 (1) | 2012-13 | 2011-12 (1) | 2010-11 |
| **Primary Government** | | | | | |
| Net Investment | | | | | |
| in Capital Assets | $ 3,313,004 | $ 3,271,433 | $ 3,151,910 | $ 3,274,791 | $ 3,217,945 |
| Restricted for: | | | | | |
| Expendable | | | | | |
| Other Postemployment | | | | | |
| Benefits | -- | -- | -- | -- | 41,609 |
| Pension Benefits | 112,544 | 109,986 | 105,900 | 96,604 | 107,807 |
| Capital Projects | 6,154 | 8,661 | 11,904 | 16,269 | 56,219 |
| Debt Service | 45,058 | 44,729 | 90,737 | -- | 87,253 |
| Legally Segregated | | | | | |
| for Grants and | | | | | |
| Other Purposes | 1,045,897 | 1,190,106 | 1,174,791 | 1,077,117 | 1,133,256 |
| Regional Park Endowment | 141 | 140 | 139 | -- | -- |
| Passenger Facility Charges | | | | | |
| Approved Capital Projects | 70,538 | 62,522 | 55,331 | -- | -- |
| Replacements and Renewals | 1,000 | 1,000 | 1,000 | -- | -- |
| Landfill Closure/Postclosure | 33,337 | 37,412 | 40,355 | -- | -- |
| Landfill Corrective Action | 8,174 | 7,141 | 6,109 | -- | -- |
| Wetland | 879 | 879 | 879 | -- | -- |
| Prima Deshecha/La Pata | | | | | |
| Closure | 104 | 104 | 104 | -- | -- |
| Airport (3) | -- | -- | -- | 58,149 | 50,899 |
| Waste Management (3) | -- | -- | -- | 82,205 | 84,070 |
| Nonexpendable | | | | | |
| Regional Park Endowment | 188 | 185 | 183 | 319 | 315 |
| Unrestricted (2) | (2,629,268) | 716,279 | 531,972 | 388,264 | 239,827 |
| Total Primary Government | | | | | |
| Net Position | $ 2,007,750 | $ 5,450,577 | $ 5,171,314 | $ 4,993,718 | $ 5,019,200 |

Notes:
(1) The balances shown have not been restated to include prior period adjustments.
(2) In accordance with GASB Statement No. 54, which was implemented in FY 2010-11, net positions for business-type activities have been reclassified in the government-wide statements to be consistent with the classification of net position in the enterprise fund financial statements.
(3) Starting in FY 2012-13, Restricted Net Position for Business-Type Activities will be shown by activity detail.

(Dollar Amounts in Thousands)

| Fiscal Year 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | |
|---|---|---|---|---|---|
| | | | | | **Primary Government** |
| | | | | | Net Investment |
| $ 3,097,843 | $ 2,939,055 | $ 2,698,153 | $ 2,633,435 | $ 2,649,568 | in Capital Assets |
| | | | | | Restricted for: |
| | | | | | Expendable |
| | | | | | Other Postemployment |
| 43,580 | 57,322 | 46,442 | -- | -- | Benefits |
| -- | -- | -- | -- | -- | Pension Benefits |
| 58,947 | 85,197 | 211,426 | 247,277 | 255,201 | Capital Projects |
| 76,936 | 66,515 | 168,468 | 155,918 | 121,840 | Debt Service |
| | | | | | Legally Segregated |
| | | | | | for Grants and |
| 1,069,801 | 1,047,284 | 990,198 | 916,563 | 738,515 | Other Purposes |
| -- | -- | -- | -- | -- | Regional Park Endowment |
| | | | | | Passenger Facility Charges |
| -- | -- | -- | -- | -- | Approved Capital Projects |
| -- | -- | -- | -- | -- | Replacements and Renewals |
| -- | -- | -- | -- | -- | Landfill Closure/Postclosure |
| -- | -- | -- | -- | -- | Landfill Corrective Action |
| -- | -- | -- | -- | -- | Wetland |
| | | | | | Prima Deshecha/La Pata |
| -- | -- | -- | -- | -- | Closure |
| 48,225 | 176,225 | 218,293 | 194,038 | 146,332 | Airport |
| 86,943 | 284,943 | 294,068 | 292,847 | 264,502 | Waste Management |
| | | | | | Nonexpendable |
| 154 | 149 | 139 | 125 | 109 | Regional Park Endowment |
| 311,792 | (1,271) | 57,812 | 135,826 | (33,051) | Unrestricted |
| | | | | | Total Primary Government |
| $ 4,794,221 | $ 4,655,419 | $ 4,684,999 | $ 4,576,029 | $ 4,143,016 | Net Position |

## Changes in Net Position
## Last Ten Fiscal Years
## (Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2013-14 (1) | 2012-13 | 2011-12 (1) | 2010-11 |
| **Expenses** | | | | | |
| Governmental Activities: | | | | | |
| General Government | $ 191,793 | $ 131,026 | $ 221,110 | $ 161,615 | $ 223,710 |
| Public Protection | 1,326,028 | 1,261,984 | 1,264,354 | 1,231,925 | 1,174,859 |
| Public Ways and Facilities | 114,398 | 127,561 | 137,651 | 144,382 | 136,017 |
| Health and Sanitation | 537,580 | 626,063 | 621,381 | 593,657 | 586,525 |
| Public Assistance | 1,049,665 | 988,735 | 944,230 | 930,348 | 931,263 |
| Education | 43,314 | 41,240 | 38,548 | 41,226 | 39,788 |
| Recreation and Cultural Services | 102,069 | 96,820 | 101,232 | 102,762 | 101,993 |
| Interest on Long-Term Debt | 23,560 | 28,028 | 31,269 | 56,765 | 53,806 |
| Subtotal Governmental Activities | 3,388,407 | 3,301,457 | 3,359,775 | 3,262,680 | 3,247,961 |
| Business-Type Activities: | | | | | |
| Airport | 124,778 | 120,731 | 122,568 | 107,120 | 88,059 |
| Waste Management | 69,307 | 94,161 | 94,737 | 94,553 | 93,985 |
| Compressed Natural Gas | 331 | 379 | 305 | 306 | 349 |
| Subtotal Business-Type Activities | 194,416 | 215,271 | 217,610 | 201,979 | 182,393 |
| Total Primary Government Expenses | $ 3,582,823 | $ 3,516,728 | $ 3,577,385 | $ 3,464,659 | $ 3,430,354 |
| **Program Revenues** | | | | | |
| Governmental Activities: | | | | | |
| Charges for Services | | | | | |
| General Government | $ 36,924 | $ 32,016 | $ 32,127 | $ 26,942 | $ 33,561 |
| Public Protection | 286,644 | 273,215 | 283,031 | 271,423 | 310,773 |
| Public Ways and Facilities | 53,834 | 53,071 | 39,981 | 62,653 | 53,960 |
| Health and Sanitation | 102,599 | 93,470 | 81,039 | 86,027 | 93,815 |
| Public Assistance | 37,650 | 42,300 | 34,780 | 35,036 | 36,304 |
| Education | 1,480 | 2,059 | 1,327 | 1,437 | 1,576 |
| Recreation and Cultural Cultural Services | 43,882 | 39,251 | 39,637 | 38,888 | 37,560 |
| Operating Grants and Contributions | 1,996,861 | 2,033,550 | 1,904,858 | 1,800,296 | 1,706,231 |
| Capital Grants and Contributions | 33,241 | 54,478 | 62,893 | 39,010 | 170,516 |
| Subtotal Governmental Activities Program Revenues | 2,593,115 | 2,623,410 | 2,479,673 | 2,361,712 | 2,444,296 |
| Business-Type Activities: | | | | | |
| Charges for Services | | | | | |
| Airport | 141,563 | 136,359 | 132,941 | 129,213 | 124,298 |
| Waste Management | 139,493 | 125,106 | 106,876 | 99,249 | 102,595 |
| Compressed Natural Gas | 312 | 392 | 385 | 293 | 242 |
| Operating Grants and Contributions | 255 | 900 | 200 | 212 | 657 |
| Capital Grants and Contributions | 9,215 | 5,277 | 3,839 | 5,216 | 6,544 |
| Subtotal Business-Type Activities Program Revenues | 290,838 | 268,034 | 244,241 | 234,183 | 234,336 |
| Total Primary Government Program Revenues | $ 2,883,953 | $ 2,891,444 | $ 2,723,914 | $ 2,595,895 | $ 2,678,632 |

Notes: (1) The balances shown have not been restated to include prior year adjustments.
(2) In FY 2006-07, the Unrestricted Investment Earnings were reclassified from Program Revenues to General Revenues for Business-Type Activities.

(Dollar Amounts in Thousands)

| | Fiscal Year 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Governmental Activities: | | | | | |
| General Government | $ 165,489 | $ 268,092 | $ 264,049 | $ 281,739 | $ 227,536 |
| Public Protection | 1,160,823 | 1,230,894 | 1,164,458 | 1,055,593 | 972,996 |
| Public Ways and Facilities | 120,135 | 108,748 | 131,563 | 96,776 | 105,342 |
| Health and Sanitation | 578,983 | 593,331 | 576,160 | 527,541 | 467,640 |
| Public Assistance | 931,469 | 898,668 | 862,709 | 794,862 | 773,109 |
| Education | 41,009 | 41,265 | 37,728 | 32,722 | 40,452 |
| Recreation and Cultural Services | 90,649 | 81,896 | 75,612 | 80,279 | 72,535 |
| Interest on Long-Term Debt | 53,782 | 59,751 | 76,210 | 65,961 | 64,680 |
| Subtotal Governmental Activities | 3,142,339 | 3,282,645 | 3,188,489 | 2,935,473 | 2,724,290 |
| Business-Type Activities: | | | | | |
| Airport | 92,068 | 91,959 | 86,750 | 90,524 | 84,362 |
| Waste Management | 84,754 | 79,374 | 101,990 | 85,378 | 76,771 |
| Compressed Natural Gas | 95 | -- | -- | -- | -- |
| Subtotal Business-Type Activities | 176,917 | 171,333 | 188,740 | 175,902 | 161,133 |
| Total Primary Government Expenses | $ 3,319,256 | $ 3,453,978 | $ 3,377,229 | $ 3,111,375 | $ 2,885,423 |
| **Program Revenues** | | | | | |
| Governmental Activities: | | | | | |
| Charges for Services | | | | | |
| General Government | $ 27,452 | $ 44,782 | $ 40,659 | $ 45,647 | $ 38,645 |
| Public Protection | 278,355 | 289,014 | 295,740 | 283,215 | 275,703 |
| Public Ways and Facilities | 45,809 | 47,283 | 45,898 | 41,014 | 42,483 |
| Health and Sanitation | 86,430 | 82,059 | 95,069 | 85,305 | 79,493 |
| Public Assistance | 30,914 | 26,636 | 6,360 | 5,372 | 4,709 |
| Education | 1,449 | 1,338 | 1,349 | 4,743 | 1,353 |
| Recreation and Cultural Cultural Services | 38,223 | 40,138 | 40,449 | 39,028 | 34,974 |
| Operating Grants and Contributions | 1,741,762 | 1,641,501 | 1,735,820 | 1,759,887 | 1,605,063 |
| Capital Grants and Contributions | 16,828 | 94,031 | 46,308 | 69,340 | 18,178 |
| Subtotal Governmental Activities Program Revenues | 2,267,222 | 2,266,782 | 2,307,652 | 2,333,551 | 2,100,601 |
| Business-Type Activities: | | | | | |
| Charges for Services | | | | | |
| Airport | 126,656 | 125,095 | 126,139 | 127,747 | 101,775 |
| Waste Management | 82,442 | 93,456 | 99,548 | 111,362 | 114,239 |
| Compressed Natural Gas | 129 | -- | -- | -- | -- |
| Operating Grants and Contributions | 1,432 | 171 | 569 | 691 (2) | 22,846 |
| Capital Grants and Contributions | 8,077 | 7,466 | 15,188 | 6,731 | 1,720 |
| Subtotal Business-Type Activities Program Revenues | 218,736 | 226,188 | 241,444 | 246,531 | 240,580 |
| Total Primary Government Program Revenues | $ 2,485,958 | $ 2,492,970 | $ 2,549,096 | $ 2,580,082 | $ 2,341,181 |

## Changes in Net Position
## Last Ten Fiscal Years
## (Accrual Basis of Accounting) (Continued)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2013-14 (4) | 2012-13 | 2011-12 (4) | 2010-11 |
| **Net (Expense)/Revenue** | | | | | |
| Governmental Activities | $ (795,292) | $ (678,047) | $ (880,102) | $ (900,968) | $ (803,665) |
| Business-Type Activities | 96,422 | 52,763 | 26,631 | 32,204 | 51,943 |
| Total Primary Government Net Revenue/(Expense) | $ (698,870) | $ (625,284) | $ (853,471) | $ (868,764) | $ (751,722) |
| **General Revenue and Other Changes in Net Position** | | | | | |
| Governmental Activities: | | | | | |
| Taxes | | | | | |
| Property Taxes, Levied for General Fund | $ 328,500 | $ 277,591 | $ 313,299 | $ 311,779 | $ 298,953 |
| Property Taxes, Levied for Flood Control District | 77,090 | 72,737 | 69,321 | 68,184 | 73,260 |
| Property Taxes, Levied for OC Parks | 57,266 | 54,042 | 51,550 | 51,168 | 51,554 |
| Property Taxes, Levied for OC Public Libraries | 42,333 | 39,734 | 37,961 | 37,389 | 37,590 |
| Property Tax Increments (3) | -- | -- | -- | 18,308 | 30,755 |
| Property Taxes in-Lieu of Motor Vehicle License Fees | 314,957 | 295,798 | 309,745 | 303,955 | 228,421 |
| Other Taxes | 71,613 | 73,178 | 108,430 | 43,568 | 83,938 |
| Grants and Contributions Not Restricted to Specific Programs | 49,476 | 14,192 | 6,711 | 9,377 | 27,457 |
| State Allocation of Motor Vehicle License Fees | 764 | 895 | 1,659 | 2,667 | 49,889 |
| Unrestricted Investment Earnings | 6,796 | 18,459 | 11,559 | 4,195 | 23,703 |
| Miscellaneous | 69,789 | 54,412 | 48,478 | 57,125 | 64,563 |
| Gain on Sale of Capital Assets | -- | -- | -- | 34 | -- |
| Transfers | 19,959 | 17,557 | 10,276 | 11,767 | 12,681 |
| Subtotal Governmental Activities | 1,038,543 | 918,595 | 968,989 | 919,516 | 982,764 |
| Extraordinary Gain/(Loss) Dissolution of OCDA (1) | -- | -- | 1,800 | (69,639) | -- |
| Business-Type Activities: | | | | | |
| Other Taxes | 109 | 101 | 93 | 134 | - |
| Unrestricted Investment Earnings | 3,042 | 3,064 | 2,113 | 3,530 | 5,509 |
| Miscellaneous Revenues | 1,597 | 3,177 | 1,235 | 1,508 | 1,109 |
| Special Items | -- | -- | -- | -- | -- |
| Transfers | (19,959) | (17,557) | (10,276) | (11,767) | (12,681) |
| Subtotal Business-Type Activities | (15,211) | (11,215) | (6,835) | (6,595) | (6,063) |
| Total Primary Government | $ 1,023,332 | $ 907,380 | $ 963,954 | $ 843,282 | $ 976,701 |
| **Change in Net Position** | | | | | |
| Governmental Activities | $ 243,251 | $ 240,548 | $ 90,687 | $ (51,091) | $ 179,099 |
| Business-Type Activities | 81,211 | 41,548 | 19,796 | 25,609 | 45,880 |
| Total Primary Government | $ 324,462 | $ 282,096 | $ 110,483 | $ (25,482) | $ 224,979 |

Notes:
(1) Extraordinary item results from dissolution of OCDA which is now reported as a private-purpose trust fund.
(2) In FY 2006-07, the Unrestricted Investment Earnings were reclassified from Program Revenues to General Revenues for Business-Type Activities.
(3) Starting in FY 2012-13, there were no property tax increment revenue due to dissolution of OCDA.
(4) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

| | Fiscal Year 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|---|---|---|---|---|
| **Net (Expense)/Revenue** | | | | | |
| Governmental Activities | $ (875,117) | $ (1,015,863) | $ (880,837) | $ (601,922) | $ (623,689) |
| Business-Type Activities | 41,819 | 54,855 | 52,704 | 70,629 | 79,447 |
| Total Primary Government Net Revenue/(Expense) | $ (833,298) | $ (961,008) | $ (828,133) | $ (531,293) | $ (544,242) |
| **General Revenue and Other Changes in Net Position** | | | | | |
| Governmental Activities: | | | | | |
| Taxes | | | | | |
| Property Taxes, Levied for General Fund | $ 290,054 | $ 263,893 | $ 273,259 | $ 283,112 | $ 271,925 |
| Property Taxes, Levied for Flood Control District | 67,103 | 68,747 | 68,042 | 63,209 | 53,662 |
| Property Taxes, Levied for OC Parks | 49,857 | 51,076 | 50,551 | 46,965 | 39,869 |
| Property Taxes, Levied for OC Public Libraries | 37,057 | 37,932 | 37,454 | 34,427 | 31,408 |
| Property Tax Increments | 31,917 | 35,276 | 32,376 | 25,828 | 26,580 |
| Property Taxes in-Lieu of Motor Vehicle License Fees | 229,635 | 232,760 | 224,210 | 206,933 | 158,240 |
| Other Taxes | 93,024 | 94,184 | 84,434 | 54,644 | 50,676 |
| Grants and Contributions Not Restricted to Specific Programs | 10,299 | 27,637 | 23,434 | 1,917 | 1,881 |
| State Allocation of Motor Vehicle License Fees | 46,697 | 50,390 | 54,656 | 58,487 | 56,873 |
| Unrestricted Investment Earnings | 15,541 | 13,583 | 27,773 | 60,856 | 38,588 |
| Miscellaneous | 54,496 | 49,438 | 66,887 | 60,762 | 66,239 |
| Gain on Sale of Capital Assets | -- | -- | -- | 31,460 | -- |
| Transfers | 11,188 | 14,129 | 16,802 | 14,130 | 11,435 |
| Subtotal Governmental Activities | 936,868 | 939,045 | 959,878 | 942,730 | 807,376 |
| Extraordinary Gain/(Loss) Dissolution of OCDA | -- | -- | -- | -- | -- |
| Business-Type Activities: | | | | | |
| Other Taxes | -- | -- | -- | -- | -- |
| Unrestricted Investment Earnings | 6,411 | 17,332 | 29,206 | 34,500 (2) | -- |
| Miscellaneous Revenues | 2,453 | 786 | 2,886 | 1,206 | 3,016 |
| Special Items | -- | -- | (6,835) | -- | -- |
| Transfers | (11,188) | (14,129) | (16,802) | (14,130) | (11,435) |
| Subtotal Business-Type Activities | (2,324) | 3,989 | 8,455 | 21,576 | (8,419) |
| Total Primary Government | $ 934,544 | $ 943,034 | $ 968,333 | $ 964,306 | $ 798,957 |
| **Change in Net Position** | | | | | |
| Governmental Activities | $ 61,751 | $ (76,818) | $ 79,041 | $ 340,808 | $ 183,687 |
| Business-Type Activities | 39,495 | 58,844 | 61,159 | 92,205 | 71,028 |
| Total Primary Government | $ 101,246 | $ (17,974) | $ 140,200 | $ 433,013 | $ 254,715 |

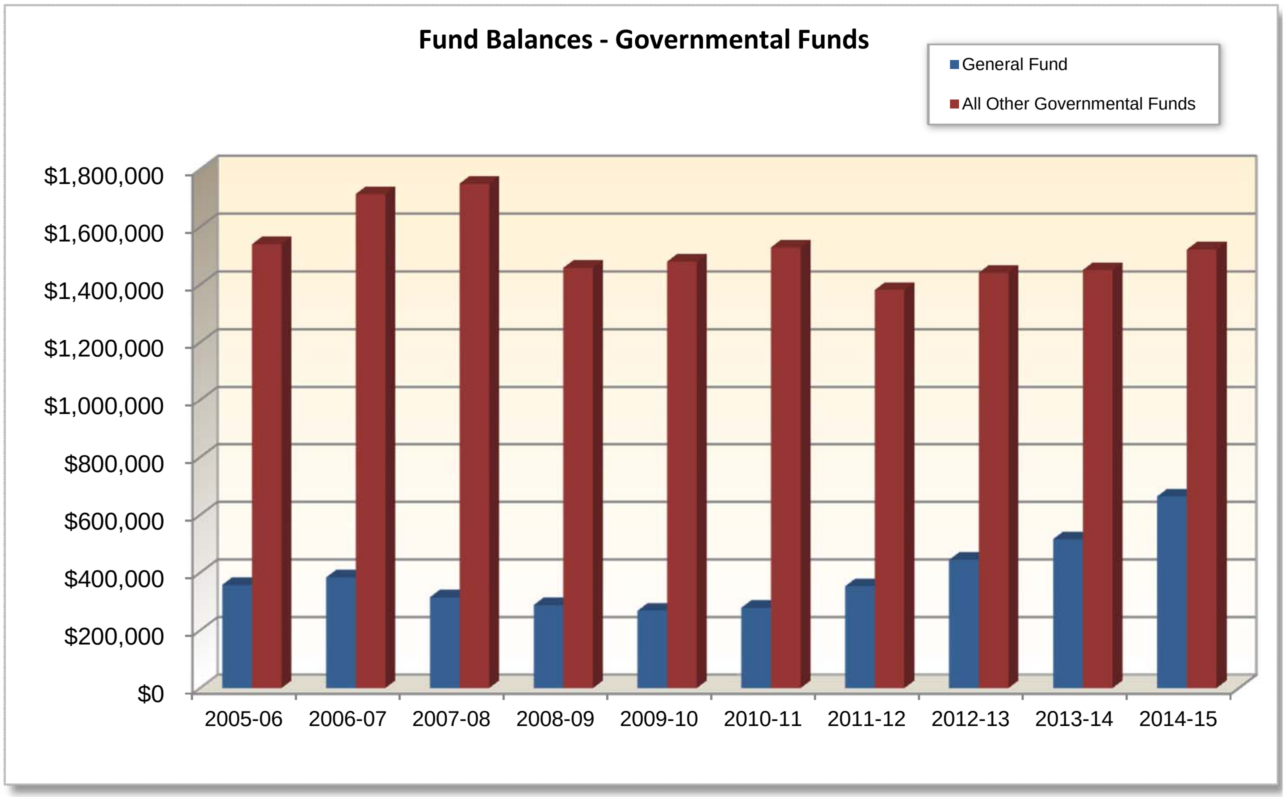
## Fund Balances, Governmental Funds
## Last Ten Fiscal Years
## (Modified Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2013-14 | 2012-13 (2) | 2011-12 | 2010-11 |
| **General Fund** | | | | | |
| Reserved | $ -- | $ -- | $ -- | $ -- | $ -- |
| Unreserved | -- | -- | -- | -- | -- |
| Nonspendable (1) | 336,606 | 321,022 | 263,446 | 225,460 | 266,328 |
| Restricted (1) | 31,486 | 42,028 | 34,679 | 26,336 | 10,872 |
| Assigned (1) | 269,529 | 153,336 | 68,157 | 100,448 | 1,394 |
| Unassigned (1) | 26,887 | -- | 78,264 | 990 | -- |
| **Total General Fund** | $ 664,508 | $ 516,386 | $ 444,546 | $ 353,234 | $ 278,594 |
| | | | | | |
| **All Other Governmental Funds** | | | | | |
| Reserved | $ -- | $ -- | $ -- | $ -- | $ -- |
| Unreserved, | | | | | |
| Reported in: | | | | | |
| Special Revenue Funds | -- | -- | -- | -- | -- |
| Debt Service Funds | -- | -- | -- | -- | -- |
| Capital Projects Funds | -- | -- | -- | -- | -- |
| Permanent Fund | -- | -- | -- | -- | -- |
| Nonspendable (1) | 21,296 | 21,207 | 18,929 | 23,057 | 20,802 |
| Restricted (1) | 1,417,122 | 1,362,102 | 1,357,556 | 1,318,071 | 1,482,755 |
| Assigned (1) | 83,765 | 67,929 | 65,556 | 43,900 | 34,173 |
| Unassigned (1) | -- | -- | -- | (3,016) | (8,074) |
| **Total All Other Governmental Funds** | $ 1,522,183 | $ 1,451,238 | $ 1,442,041 | $ 1,382,012 | $ 1,529,656 |

Note: (1) In accordance with GASB Statement No. 54, which was implemented in FY 2010-11, the classification of fund balance was redefined.
(2) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

| | Fiscal Year 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|---|---|---|---|---|
| **General Fund** | | | | | |
| Reserved | $ 53,190 | $ 49,423 | $ 99,877 | $ 89,001 | $ 68,082 |
| Unreserved | 215,094 | 238,621 | 215,096 | 294,739 | 290,053 |
| Nonspendable (1) | -- | -- | -- | -- | -- |
| Restricted (1) | -- | -- | -- | -- | -- |
| Assigned (1) | -- | -- | -- | -- | -- |
| Unassigned (1) | -- | -- | -- | -- | -- |
| **Total General Fund** | $ 268,284 | $ 288,044 | $ 314,973 | $ 383,740 | $ 358,135 |
| **All Other Governmental Funds** | | | | | |
| Reserved | $ 540,745 | $ 517,375 | $ 671,739 | $ 626,134 | $ 594,090 |
| Unreserved, | | | | | |
| Reported in: | | | | | |
| Special Revenue Funds | 894,148 | 878,113 | 880,288 | 838,291 | 694,973 |
| Debt Service Funds | (1,813) | (9,903) | -- | 17,456 | 5,323 |
| Capital Projects Funds | 47,362 | 73,045 | 198,348 | 232,317 | 245,770 |
| Permanent Fund | 154 | 149 | 139 | 125 | 110 |
| Nonspendable (1) | -- | -- | -- | -- | -- |
| Restricted (1) | -- | -- | -- | -- | -- |
| Assigned (1) | -- | -- | -- | -- | -- |
| Unassigned (1) | -- | -- | -- | -- | -- |
| **Total All Other Governmental Funds** | $ 1,480,596 | $ 1,458,779 | $ 1,750,514 | $ 1,714,323 | $ 1,540,266 |



**Changes in Fund Balances of Governmental Funds**
**Last Ten Fiscal Years**
**(Modified Basis of Accounting)**

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2013-14 | 2012-13 | 2011-12 (2) | 2010-11 |
| **Revenues** | | | | | |
| Taxes | $ 822,511 | $ 778,936 | $ 854,587 | $ 784,797 | $ 738,109 |
| Licenses, Permits and Franchises | 24,583 | 24,920 | 15,213 | 18,046 | 16,831 |
| Fines, Forfeitures and Penalties | 108,115 | 62,081 | 79,267 | 80,180 | 93,461 |
| Use of Money and Property | 73,700 | 63,611 | 58,441 | 81,088 | 89,514 |
| Intergovernmental | 2,064,354 | 2,070,245 | 1,940,687 | 1,846,311 | 1,745,066 |
| Charges for Services | 480,023 | 470,899 | 439,224 | 435,920 | 478,916 |
| Contributions from Property Owners | -- | -- | -- | -- | -- |
| Other | 71,207 | 54,406 | 77,464 | 66,920 | 64,125 |
| Total Revenues | 3,644,493 | 3,525,098 | 3,464,883 | 3,313,262 | 3,226,022 |
| **Expenditures** | | | | | |
| General Government | 212,805 | 172,195 | 186,145 | 170,156 | 207,193 |
| Public Protection | 1,230,878 | 1,194,069 | 1,157,676 | 1,125,831 | 1,068,267 |
| Public Ways and Facilities | 102,732 | 127,506 | 112,294 | 126,809 | 110,789 |
| Health and Sanitation | 515,560 | 621,891 | 611,369 | 580,791 | 576,793 |
| Public Assistance | 1,030,404 | 972,156 | 932,414 | 909,296 | 911,704 |
| Education | 41,949 | 40,008 | 37,239 | 37,621 | 37,671 |
| Recreation and Cultural Services | 98,001 | 98,388 | 94,051 | 91,753 | 84,506 |
| Capital Outlay | 102,863 | 125,781 | 122,639 | 105,207 | 84,311 |
| Debt Service | | | | | |
| Principal Retirement | 104,756 | 111,486 | 72,499 | 95,429 | 87,685 |
| Escrow Bond Agent | -- | -- | -- | -- | -- |
| Interest | 31,513 | 35,107 | 43,777 | 46,152 | 40,634 |
| Debt Issuance Costs | -- | 200 | -- | -- | -- |
| Total Expenditures | 3,471,461 | 3,498,787 | 3,370,103 | 3,289,045 | 3,209,553 |
| Excess (Deficit) of Revenues Over Expenditures | 173,032 | 26,311 | 94,780 | 24,217 | 16,469 |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers In | 338,055 | 294,374 | 274,363 | 345,692 | 395,752 |
| Transfers Out | (323,604) | (279,287) | (268,110) | (336,157) | (388,274) |
| Bonds Issued | 31,541 | 39,639 | 78,419 | 10,000 | 36,000 |
| Premium on Bonds Issued | -- | -- | -- | 2,927 | -- |
| Principal Payment on Demand Bonds | -- | -- | -- | -- | -- |
| Refunding Bonds Issued | -- | -- | -- | 34,380 | -- |
| Payment to Refunded Bond Escrow | -- | -- | -- | (40,491) | (710) |
| Provisions for Increase in Land Held for Resale | -- | -- | -- | 43 | -- |
| Capital Leases | 43 | -- | -- | - | 133 |
| Total Other Financing Sources | 46,035 | 54,726 | 84,672 | 16,394 | 42,901 |
| Extraordinary Gain/(Loss) | -- | -- | 1,800 | (113,615) | -- |
| Net Change in Fund Balances | $ 219,067 | $ 81,037 | $ 181,252 | $ (73,004) | $ 59,370 |
| Debt Service as a Percentage of Noncapital Expenditures: | 4.04% | 4.34% | 3.60% | 4.44% | 4.12% |

Notes: (1) In FY 2005-06, the County eliminated the effect of intra-departmental billings and expenditures for annual required pension contribution. Prior years have not been restated.

(2) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

| Fiscal Year | | | | | |
|---|---|---|---|---|---|
| 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | |
| | | | | | **Revenues** |
| $ 741,850 | $ 727,159 | $ 719,742 | $ 674,278 | $ 618,429 | Taxes |
| 14,976 | 17,965 | 20,516 | 23,289 | 18,011 | Licenses, Permits and Franchises |
| 102,959 | 112,882 | 89,700 | 73,353 | 70,624 | Fines, Forfeitures and Penalties |
| 88,350 | 69,667 | 146,983 | 165,042 | 100,207 | Use of Money and Property |
| 1,769,253 | 1,697,017 | 1,743,637 | 1,722,951 | 1,614,484 | Intergovernmental |
| 418,373 | 443,456 | 423,611 | 406,071 | 386,332 | Charges for Services |
| -- | -- | -- | -- | 18,094 | Contributions from Property Owners |
| 65,727 | 89,064 | 91,197 | 104,046 | 90,721 (1) | Other |
| 3,201,488 | 3,157,210 | 3,235,386 | 3,169,030 | 2,916,902 | Total Revenues |
| | | | | | **Expenditures** |
| 211,434 | 277,369 | 252,781 | 204,585 | 303,827 (1) | General Government |
| 1,054,947 | 1,117,882 | 1,103,442 | 1,005,737 | 910,531 | Public Protection |
| 106,985 | 110,548 | 117,963 | 90,683 | 95,161 | Public Ways and Facilities |
| 559,315 | 576,964 | 564,335 | 516,901 | 458,741 | Health and Sanitation |
| 903,733 | 878,436 | 851,836 | 788,326 | 664,723 | Public Assistance |
| 38,921 | 39,666 | 37,091 | 35,904 | 40,061 | Education |
| 82,826 | 79,889 | 70,084 | 73,386 | 67,776 | Recreation and Cultural Services |
| 124,077 | 155,286 | 143,468 | 154,373 | 99,519 | Capital Outlay |
| | | | | | Debt Service |
| 88,962 | 205,268 | 301,066 | 191,012 | 67,602 | Principal Retirement |
| -- | -- | -- | -- | 230,719 | Escrow Bond Agent |
| 39,565 | 46,697 | 53,478 | 58,586 | 57,028 | Interest |
| -- | -- | -- | 799 | 4,402 | Debt Issuance Costs |
| 3,210,765 | 3,488,005 | 3,495,544 | 3,120,292 | 3,000,090 | Total Expenditures |
| (9,277) | (330,795) | (260,158) | 48,738 | (83,188) | Excess (Deficit) of Revenues Over Expenditures |
| | | | | | **Other Financing Sources (Uses)** |
| 382,154 | 793,528 | 359,791 | 298,138 | 245,441 | Transfers In |
| (370,820) | (781,397) | (345,674) | (288,045) | (239,834) | Transfers Out |
| -- | -- | -- | 32,700 | -- | Bonds Issued |
| -- | -- | -- | 2,140 | 29,290 | Premium on Bonds Issued |
| -- | -- | 211,065 | 105,991 | -- | Principal Payment on Demand Bonds |
| -- | -- | -- | -- | 565,762 | Refunding Bonds Issued |
| -- | -- | -- | -- | (568,409) | Payment to Refunded Bond Escrow |
| -- | -- | -- | -- | -- | Provisions for Increase in Land Held for Resale |
| -- | -- | 2,400 | -- | 396 | Capital Leases |
| 11,334 | 12,131 | 227,582 | 150,924 | 32,646 | Total Other Financing Sources |
| -- | -- | -- | -- | -- | Extraordinary Loss |
| $ 2,057 | $ (318,664) | $ (32,576) | $ 199,662 | $ (50,542) | Net Change in Fund Balances |
| 4.18% | 7.54% | 10.43% | 8.44% | 12.40% | Debt Service as a Percentage of Noncapital Expenditures: |

## Assessed Value of Taxable Property [1]
## Last Ten Fiscal Years

| Fiscal Year | Residential Property | Industrial/ Commercial Property | Other Property [2] | Unsecured Roll Gross Total [3] |
|---|---|---|---|---|
| 2014-15 | $ 352,800,864 | $ 105,523,254 | $ 3,694,094 | $ 20,902,660 |
| 2013-14 | 328,138,473 | 102,580,010 | 3,792,261 | 19,281,087 |
| 2012-13 | 315,635,908 | 100,074,695 | 3,489,057 | 19,905,480 |
| 2011-12 | 310,211,002 | 96,431,670 | 2,848,162 | 20,634,672 |
| 2010-11 | 304,895,403 | 97,097,750 | 3,038,747 | 21,198,638 |
| 2009-10 | 302,855,181 | 100,686,715 | 2,814,952 | 21,516,171 |
| 2008-09 | 310,398,180 | 97,515,067 | 3,125,331 | 21,026,522 |
| 2007-08 | 302,853,813 | 89,547,612 | 2,772,022 | 20,318,430 |
| 2006-07 | 277,879,918 | 82,230,790 | 2,948,207 | 20,831,767 |
| 2005-06 | 249,353,174 | 74,875,049 | 2,282,746 | 18,341,319 |

Notes:
(1) Article XIIIA, added to the California Constitution by Proposition 13 in 1978, fixed the base valuation of property subject to taxes at the full cash value appeared on the Assessor's 1975-76 assessment roll. The full cash value can be increased to reflect the annual inflation up to 2 percent, the current market value at time of ownership change and the market value for new construction. Estimated actual value of taxable property cannot easily be determined as the property in the County is not reassessed annually. Reassessment normally occurs when ownership changes.
(2) Other property includes: timeshares, rural/agricultural land, unique miscellaneous, mineral rights, water rights and personal property and fixtures.
(3) Unsecured roll includes properties for which taxes assessed are not a lien on real property and are not sufficient, in the opinion of the Assessor, to secure payment of taxes. It consists of improvements, business personal property, boats and aircrafts, and it can also include land and improvements that are identified as real estate of others, as defined by the Assessor (reference Revenue and Taxation Code Section 134).

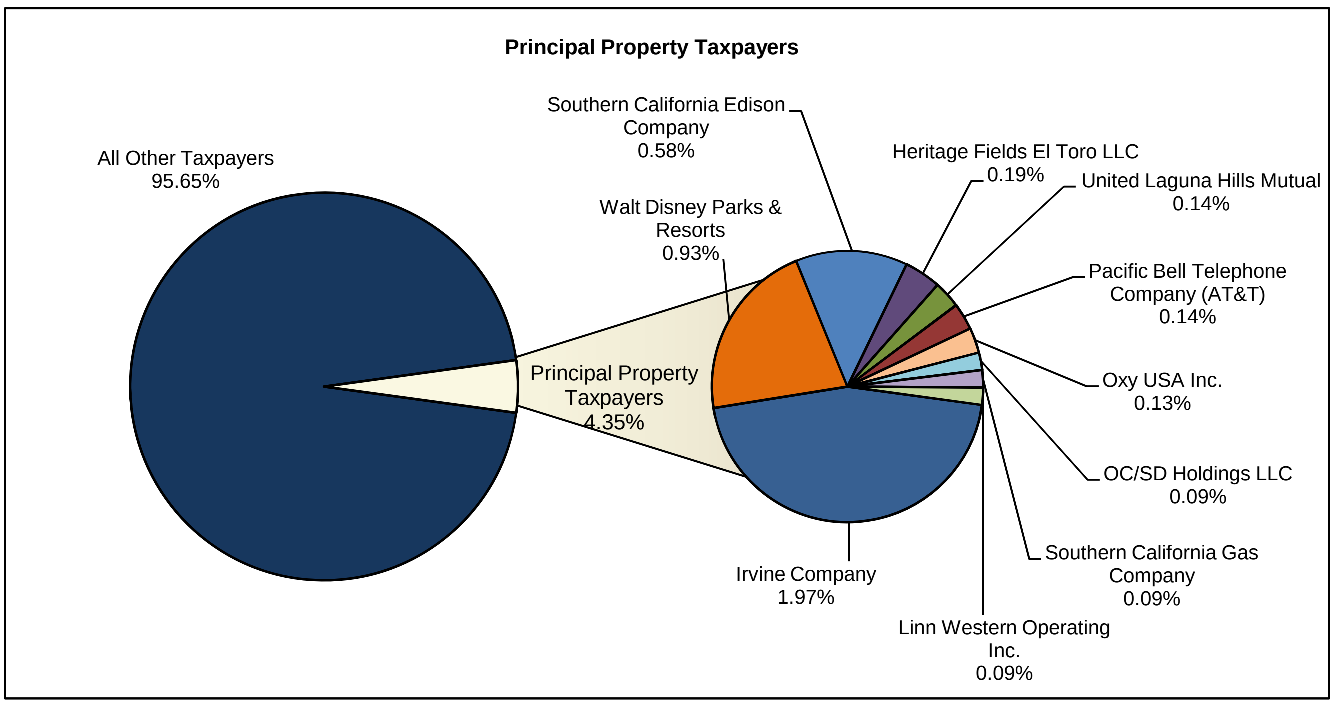
Source: Orange County Assessor Department

(Dollar Amounts in Thousands)

| Total Taxable Assessed Value | Less: Exempt & Non-Reimbursed Exemptions | Net Taxable Assessed Value | Total Direct Tax Rate Percent [1] |
|---|---|---|---|
| $ 482,920,872 | $ (11,661,965) | $ 471,258,907 | 1.00 |
| 453,791,831 | (10,943,554) | 442,848,277 | 1.00 |
| 439,105,140 | (10,634,193) | 428,470,947 | 1.00 |
| 430,125,506 | (9,729,486) | 420,396,020 | 1.00 |
| 426,230,538 | (9,452,472) | 416,778,066 | 1.00 |
| 427,873,019 | (9,063,739) | 418,809,280 | 1.00 |
| 432,065,100 | (8,051,290) | 424,013,810 | 1.00 |
| 415,491,877 | (6,757,810) | 408,734,067 | 1.00 |
| 383,890,682 | (6,613,199) | 377,277,483 | 1.00 |
| 344,852,288 | (5,615,327) | 339,236,961 | 1.00 |

## Principal Property Taxpayers
## Current Year and Nine Years Ago

| | 2015 | | | 2006 | | |
|---|---|---|---|---|---|---|
| Taxpayer | Actual Taxes Levied | Rank | Percentage of Total Taxes Levied | Actual Taxes Levied | Rank | Percentage of Total Taxes Levied |
| Irvine Company | $ 106,692 | 1 | 1.97% | $ 48,788 | 1 | 1.28% |
| Walt Disney Parks & Resorts | 50,529 | 2 | 0.93% | 35,813 | 2 & 6 | 0.94% |
| Southern California Edison Company | 31,303 | 3 | 0.58% | 17,776 | 4 | 0.47% |
| Heritage Fields El Toro LLC | 10,503 | 4 | 0.19% | | | |
| United Laguna Hills Mutual | 7,825 | 5 | 0.14% | 6,792 | 7 | 0.18% |
| Pacific Bell Telephone Company (AT&T) | 7,672 | 6 | 0.14% | | | |
| Oxy USA Inc. | 6,977 | 7 | 0.13% | | | |
| OC/SD Holdings LLC | 5,091 | 8 | 0.09% | | | |
| Southern California Gas Company | 4,727 | 9 | 0.09% | | | |
| Linn Western Operating Inc. | 4,611 | 10 | 0.09% | | | |
| Irvine Apartment Communities | | | | 18,995 | 3 | 0.50% |
| SBC California | | | | 7,727 | 5 | 0.20% |
| Irvine Co. of W VA | | | | 5,309 | 8 | 0.14% |
| Maguire Properties-Park Place | | | | 4,318 | 9 | 0.11% |
| Irvine Community Development | | | | 4,127 | 10 | 0.11% |
| Total | $ 235,930 | | 4.35% | $ 149,645 | | 3.93% |

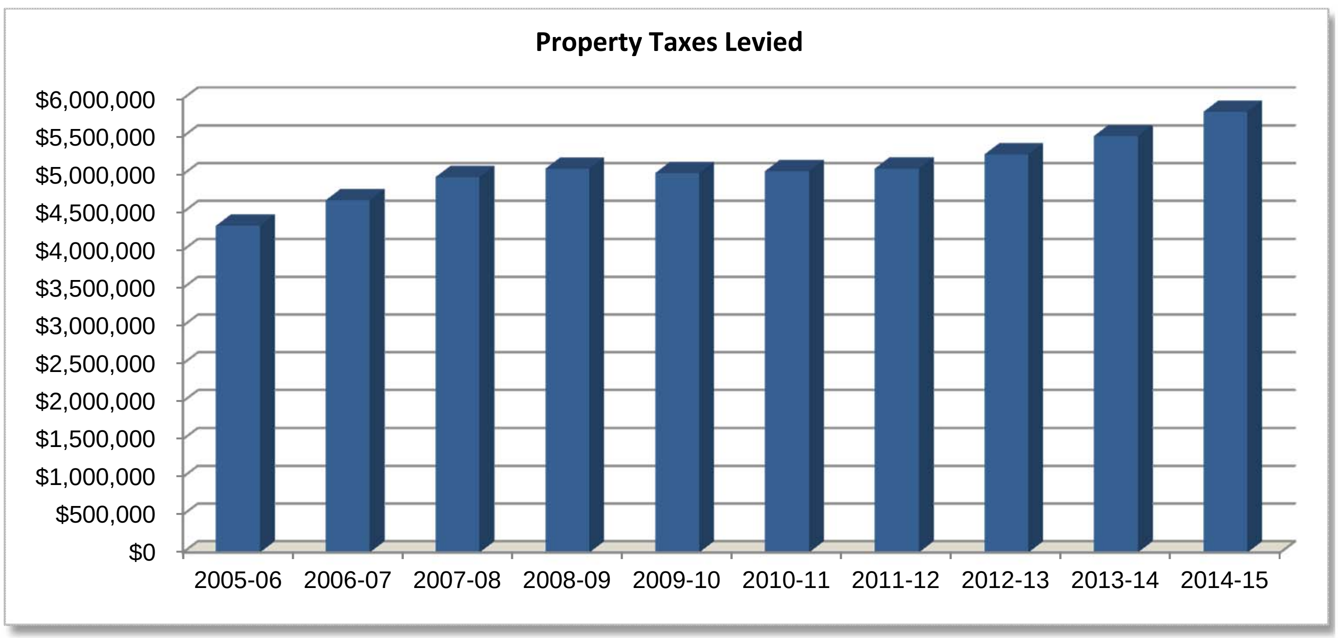



Source: Treasurer-Tax Collector, County of Orange

(Dollar Amounts in Thousands)

## Property Tax Levies and Collections
## Last Ten Fiscal Years

| Fiscal Year | Taxes Levied for the Fiscal Year[1] | Collections Within the Fiscal Year of the Levy[2] | | Collections of Delinquent Taxes from Prior Years[4] | Total Collections for the Fiscal Year[3] | |
|---|---|---|---|---|---|---|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 2014-15 | $ 5,828,106 | $ 5,759,699 | 98.83% | $ - | $ 5,759,699 | 98.83% |
| 2013-14 | 5,509,379 | 5,444,912 | 98.83% | 35,142 | 5,480,054 | 99.47% |
| 2012-13 | 5,265,844 | 5,194,193 | 98.64% | 36,579 | 5,230,772 | 99.33% |
| 2011-12 | 5,079,589 | 5,002,490 | 98.48% | 58,963 | 5,061,453 | 99.64% |
| 2010-11 | 5,045,802 | 4,960,748 | 98.31% | 17,752 | 4,978,500 | 98.67% |
| 2009-10 | 5,019,061 | 4,904,188 | 97.71% | 8,628 | 4,912,816 | 97.88% |
| 2008-09 | 5,076,796 | 4,901,574 | 96.55% | 6,882 | 4,908,456 | 96.68% |
| 2007-08 | 4,965,990 | 4,784,438 | 96.34% | 4,088 | 4,788,526 | 96.43% |
| 2006-07 | 4,661,169 | 4,499,537 | 96.53% | 1,333 | 4,500,870 | 96.56% |
| 2005-06 | 4,323,550 | 4,133,562 | 95.61% | 425 | 4,133,987 | 95.62% |




Notes:
(1) Total tax levy includes secured, supplemental, unsecured and former redevelopment agency increment, including penalties.
(2) Total tax collections include penalties.
(3) Total collections include collections of current year taxes and collections related to prior year levies.
The percentage of levy represents the ratio of total collections to the taxes levied for that fiscal year.
(4) No amounts are shown in FY 2014-15 because the property taxes levied will be collected in the following year.

Source: Auditor-Controller, County of Orange

## Ratios of Outstanding Debt [(1)] by Type
## Last Ten Fiscal Years (in Thousands Except Per Capita)
## (Accrual Basis of Accounting)

| | Governmental Activities | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Refunding Recovery Bonds [(6)] | Redevelopment Bonds [(2)] | Certificates of Participation [(5)] | Pension Obligation Bonds [(5)] | Teeter Plan Revenue Bonds | Teeter Plan Notes |
| 2014-15 | $ - | $ -- | $ 8,780 | $ 116,494 | $ -- | $ 33,823 |
| 2013-14 | 19,172 | -- | 10,626 | 127,206 | -- | 39,830 |
| 2012-13 | 35,317 | -- | 12,347 | 138,484 | -- | 43,486 |
| 2011-12 | 51,600 | -- | 3,422 | 47,523 | -- | -- |
| 2010-11 | 67,028 | 47,009 | 4,064 | 54,680 | -- | -- |
| 2009-10 | 81,619 | 49,729 | 4,758 | 59,331 | -- | -- |
| 2008-09 | 95,206 | 52,306 | 5,502 | 69,711 | -- | -- |
| 2007-08 | 108,175 | 54,750 | 6,306 | 72,728 | 123,725 | -- |
| 2006-07 | 120,019 | 57,122 | 7,165 | 89,891 | 123,725 | -- |
| 2005-06 | 131,420 | 58,994 | 8,092 | 99,714 | 123,725 | -- |

Notes:
(1) Details regarding the County's outstanding debt can be found in Note 11, Long-Term Obligations.
(2) Redevelopment Bonds are no longer County debt due to the dissolution of Redevelopment Agency on February 1, 2012. Details regarding the Redevelopment Bonds can be found in Note 12, Conduit Debt Obligations and Successor Agency Debt.
(3) Capital lease obligations arise from lease agreements which are in-substance like purchases. The agreements convey property rights to the lessee and the lessee assumes substantially all the risks and benefits of ownership.
(4) See demographic and economic statistics schedule for personal income and population data. For years prior to FY 2012-13, the personal income ratio and the debt per capita amounts were calculated using personal income and population from the prior fiscal year.
(5) Beginning FY 2012-13, outstanding debt includes accreted interest on capital appreciation bonds.
(6) Beginning FY 2013-14, outstanding debt does not include deferred amount on refunding due to implementation of GASB Statement No. 65. Prior years have not been restated.

Source: Auditor-Controller, County of Orange

(Dollar Amounts in Thousands)

| | | Business-Type Activities | | | | |
|---|---|---|---|---|---|---|
| Lease Revenue Bonds [6] | Capital Lease Obligations [3] | Airport Revenue Bonds | Waste Management System Revenue Bonds | Total Primary Government | Percentage of Personal Income [4] | Per Capita [4] |
| $ 105,880 | $ 79,168 | $ 202,536 | $ -- | $ 546,681 | 0.29% | $ 174 |
| 137,115 | 62,446 | 209,804 | - | 606,199 | 0.34% | 195 |
| 155,828 | 67,353 | 240,540 | 7,018 | 700,373 | 0.41% | 227 |
| 181,097 | 71,755 | 248,900 | 13,666 | 617,963 | 0.37% | 202 |
| 249,924 | 76,074 | 256,683 | 19,921 | 775,383 | 0.49% | 258 |
| 309,517 | 80,114 | 264,099 | 25,738 | 874,905 | 0.57% | 276 |
| 365,850 | 84,952 | 33,502 | 31,144 | 738,173 | 0.50% | 235 |
| 420,668 | 90,769 | 89,897 | 36,177 | 1,003,195 | 0.65% | 321 |
| 470,616 | 93,533 | 101,925 | 40,881 | 1,104,877 | 0.72% | 357 |
| 486,020 | 101,546 | 113,156 | 45,272 | 1,167,939 | 0.81% | 380 |

## Ratios of Net General Bonded Debt [1] Outstanding
## Last Ten Fiscal Years (in Thousands Except Per Capita)
## (Accrual Basis of Accounting)

| | General Debt Outstanding | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Refunding Recovery Bonds | Pension Obligation Bonds [3] | Restricted for Debt Payments [3] | Total (Excess)/ Under | Percentage of Assessed Value | Per Capita [2] |
| 2014-15 | $ - | $ 116,494 | $ 116,494 | $ - | 0.00% | $ - |
| 2013-14 | 19,172 | 127,206 | 127,206 | 19,172 | 0.00% | 6 |
| 2012-13 | 35,317 | 138,484 | 138,484 | 35,317 | 0.01% | 11 |
| 2011-12 | 51,600 | 47,523 | 47,523 | 51,600 | 0.01% | 17 |
| 2010-11 | 67,028 | 54,680 | 54,680 | 67,028 | 0.02% | 22 |
| 2009-10 | 81,619 | 59,331 | 59,331 | 81,619 | 0.02% | 26 |
| 2008-09 | 95,206 | 69,711 | 69,711 | 95,206 | 0.02% | 30 |
| 2007-08 | 108,175 | 72,728 | 72,728 | 108,175 | 0.03% | 35 |
| 2006-07 | 120,019 | 89,891 | 89,891 | 120,019 | 0.04% | 39 |
| 2005-06 | 131,420 | 99,714 | 99,714 | 131,420 | 0.04% | 43 |

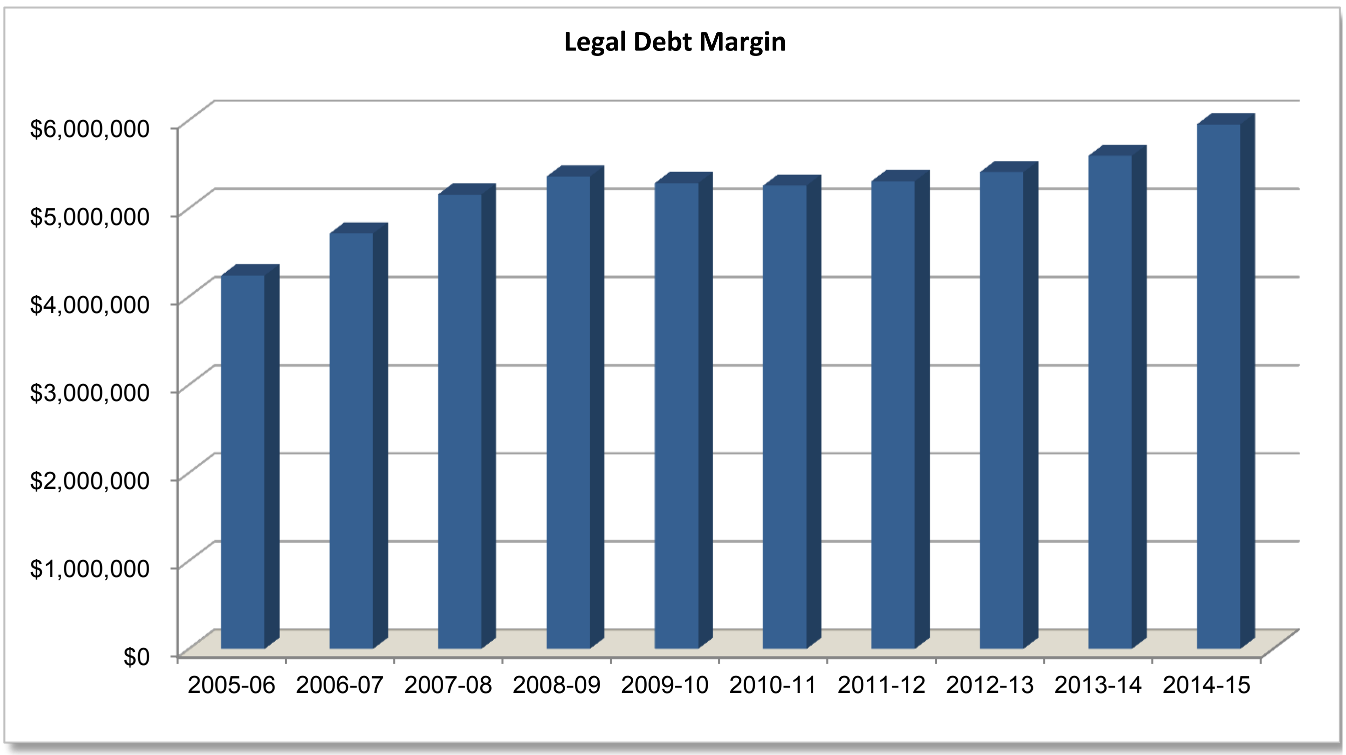
Notes:
(1) Details regarding the County's outstanding debt can be found in Note 11, Long-Term Obligations.
(2) See demographic and economic statistics schedule for population data. For years prior to FY 2012-13, the debt per capita amount was calculated using the population for the prior fiscal year.
(3) Beginning in FY 2012-13, outstanding debt includes accreted interest on capital appreciation bonds.

Source: Auditor Controller, County of Orange

(Dollar Amounts in Thousands)

## Legal Debt Margin as a Percentage of Debt Limit
## Last Ten Fiscal Years

| Fiscal Year | Assessed Value [1] | Legal Debt Limit | Total Net Debt Applicable to Limit | Legal Debt Margin | Total Net Debt Applicable to the Limit as a Percentage of Debt Limit [2] |
|---|---|---|---|---|---|
| 2014-15 | $ 476,303,290 | $ 5,953,791 | $ -- | $ 5,953,791 | 0% |
| 2013-14 | 447,749,156 | 5,596,864 | -- | 5,596,864 | 0% |
| 2012-13 | 432,902,274 | 5,411,278 | -- | 5,411,278 | 0% |
| 2011-12 | 424,769,642 | 5,309,621 | -- | 5,309,621 | 0% |
| 2010-11 | 420,751,575 | 5,259,395 | -- | 5,259,395 | 0% |
| 2009-10 | 422,965,596 | 5,287,070 | -- | 5,287,070 | 0% |
| 2008-09 | 428,809,224 | 5,360,115 | -- | 5,360,115 | 0% |
| 2007-08 | 412,669,779 | 5,158,372 | -- | 5,158,372 | 0% |
| 2006-07 | 377,277,483 | 4,715,969 | -- | 4,715,969 | 0% |
| 2005-06 | 339,236,961 | 4,240,462 | -- | 4,240,462 | 0% |




Note: (1) Starting from FY 2007-08, Assessed Value includes values for the State assessed properties.

(2) The amount of the general obligation bonded indebtedness the County can incur is limited by law to 1.25 percent of the equalized assessment property tax roll. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, section 1 requres the approval of 2/3 of the voting on the proposition.

Source: Auditor-Controller, County of Orange

# Pledged Revenue Coverage (1)
## Last Ten Fiscal Years

### South Orange County Public Financing Authority

**Funding Source:** Interest Earnings, Rents and Concessions, and Transfers

| Fiscal Year | Gross Revenue | Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2014-15 | $ 5,830 | $ -- | $ 5,830 | $ 4,780 | $ 1,049 | 1.00 |
| 2013-14 | 5,825 | -- | 5,825 | 4,680 | 1,143 | 1.00 |
| 2012-13 | 5,841 | -- | 5,841 | 4,520 | 1,307 | 1.00 |
| 2011-12 | -- | 262 | (262) | -- | -- | -- |
| 2010-11 | -- | -- | -- | -- | -- | -- |
| 2009-10 | -- | -- | -- | -- | -- | -- |
| 2008-09 | -- | -- | -- | -- | -- | -- |
| 2007-08 | -- | -- | -- | -- | -- | -- |
| 2006-07 | -- | -- | -- | -- | -- | -- |
| 2005-06 | -- | -- | -- | -- | -- | -- |

### Orange County Public Facilities Corporation Bonds

**Funding Source:** Interest Earnings and Transfers

| Fiscal Year | Gross Revenue | Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2014-15 | $ 2,475 | $ -- | $ 2,475 | $ 518 | $ 2,090 | 0.95 |
| 2013-14 | 2,459 | -- | 2,459 | 560 | 2,045 | 0.94 |
| 2012-13 | 2,403 | 44 | 2,359 | 600 | 2,005 | 0.91 |
| 2011-12 | 2,770 | -- | 2,770 | 642 | 1,958 | 1.07 |
| 2010-11 | 2,525 | -- | 2,525 | 694 | 1,906 | 0.97 |
| 2009-10 | 2,743 | -- | 2,743 | 744 | 1,861 | 1.05 |
| 2008-09 | 2,700 | -- | 2,700 | 804 | 1,801 | 1.04 |
| 2007-08 | 2,789 | -- | 2,789 | 859 | 1,741 | 1.07 |
| 2006-07 | 2,605 | -- | 2,605 | 927 | 1,678 | 1.00 |
| 2005-06 | 2,234 | -- | 2,234 | 992 | 1,615 | 0.86 |

### Orange County Public Financing Authority

**Funding Source:** Interest Earnings, Rents and Concessions, and Transfers

| Fiscal Year | Gross Revenue | Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2014-15 | $ 29,928 | -- | $ 29,928 | $ 24,235 | $ 4,455 | 1.04 |
| 2013-14 | 29,949 | -- | 29,949 | 23,115 | 5,605 | 1.04 |
| 2012-13 | 29,952 | -- | 29,952 | 22,160 | 6,638 | 1.04 |
| 2011-12 | 35,697 | -- | 35,697 | 61,630 | 10,837 | 0.49 |
| 2010-11 | 74,725 | -- | 74,725 | 58,990 | 13,643 | 1.03 |
| 2009-10 | 74,838 | -- | 74,838 | 56,580 | 16,151 | 1.03 |
| 2008-09 | 77,027 | -- | 77,027 | 56,225 | 18,385 | 1.03 |
| 2007-08 | 77,308 | -- | 77,308 | 51,680 | 20,283 | 1.07 |
| 2006-07 | 76,162 | 2,137 | 74,025 | 52,050 | 21,656 | 1.00 |
| 2005-06 | 73,479 | -- | 73,479 | 5,340 | 10,422 | 4.66 |

### Teeter Plan Notes (3)

**Funding Source:** Delinquent Property Taxes Collected

| Fiscal Year | Gross Revenue | Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2014-15 | $ 174 | $ 2,954 | $ (2,780)(4) | $ 37,548 | $ 352 | (0.07) |
| 2013-14 | 11,147 | 251 | 10,896 | 43,295 | 413 | 0.25 |
| 2012-13 | 15,706 | 1,032 | 14,674 | 14,449 | 327 | 0.99 |
| 2011-12 | 17,094 | 1,769 | 15,325 | -- | 267 | 57.40 |
| 2010-11 | 25,679 | 1,989 | 23,690 | -- | 654 | 36.22 |
| 2009-10 | 35,113 | 2,203 | 32,910 | -- | 917 | 35.89 |
| 2008-09 | 35,117 | 45,284 | (10,167)(2) | -- | 1,170 | (8.69) |
| 2007-08 | -- | -- | -- | -- | -- | -- |
| 2006-07 | -- | -- | -- | -- | -- | -- |
| 2005-06 | -- | -- | -- | -- | -- | -- |

### Airport Revenue Bonds

**Funding Source:** Rents and Concessions, Other Charges for Services, Misc Revenue, Interest Earnings, and Available Passenger Facility Charge Revenue

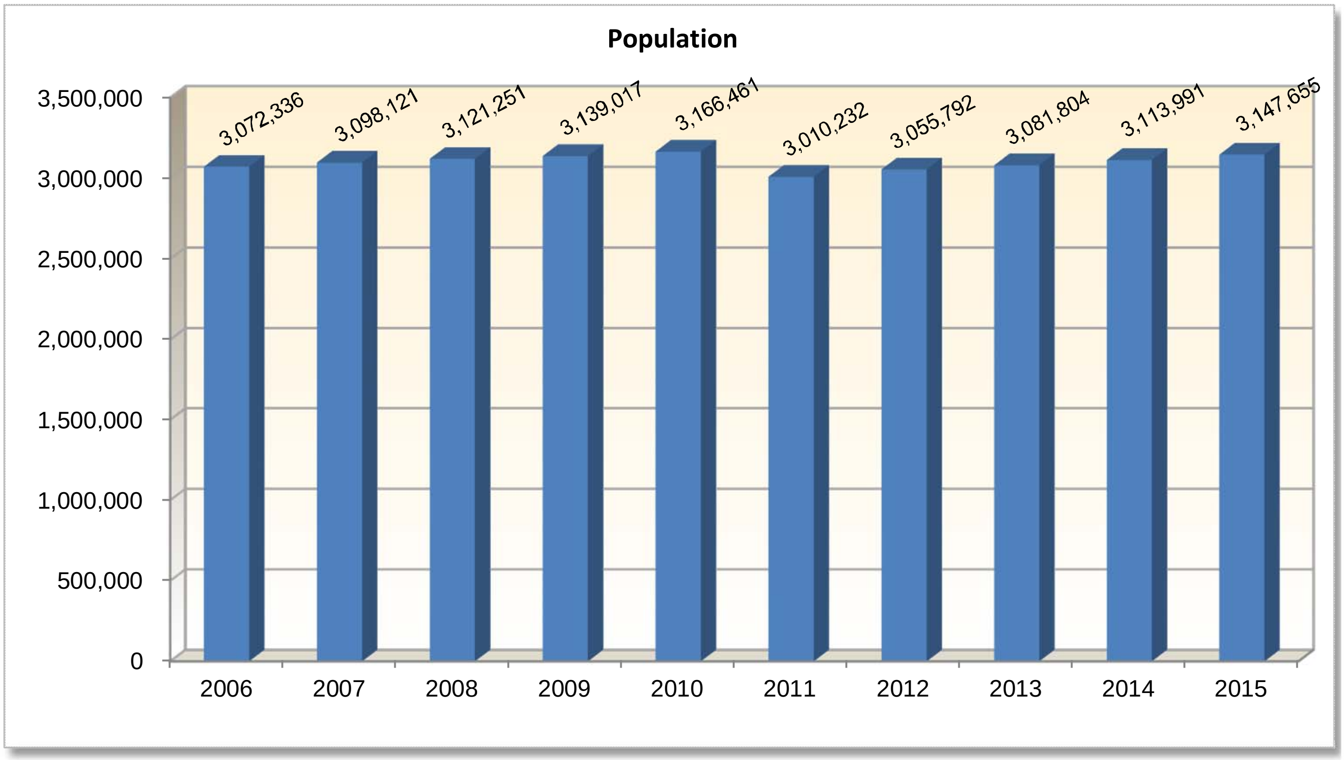
| Fiscal Year | Gross Revenue | Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2014-15 | $ 135,491 | $ 82,558 | $ 52,933 | $ 6,995 | $ 10,603 | 3.01 |
| 2013-14 | 131,285 | 84,708 | 46,577 | 30,473 | 11,395 | 1.11 |
| 2012-13 | 126,966 | 79,739 | 47,227 | 9,250 | 12,250 | 2.20 |
| 2011-12 | 124,403 | 77,628 | 46,775 | 7,851 | 12,592 | 2.29 |
| 2010-11 | 120,088 | 70,521 | 49,567 | 7,460 | 12,906 | 2.43 |
| 2009-10 | 121,761 | 68,771 | 52,990 | 2,865 | 7,163 | 5.28 |
| 2008-09 | 115,026 | 67,749 | 47,277 | 13,480 | 4,567 | 2.62 |
| 2007-08 | 118,105 | 63,174 | 54,931 | 12,765 | 5,280 | 3.04 |
| 2006-07 | 117,879 | 82,383 | 35,496 | 12,120 | 6,249 | 1.93 |
| 2005-06 | 111,324 | 75,992 | 35,332 | 11,500 | 6,866 | 1.92 |

Notes:
(1) Details regarding the County's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation or amortization expenses.
(2) For FY 2008-09, there is a deficit balance for Net Available Revenue due to additional expenditures resulting from the establishment of the Teeter tax loss reserves in the Tax Loss Reserve Agency Fund during the first year of the program.
(3) Teeter Plan Notes were converted from short-term commercial paper to long-term note in FY 2012-13.
(4) For FY 2014-15, there is a deficit balance for Net Available Revenue due to the change in Teeter Plan Reserve methodology.

Source: Auditor-Controller, County of Orange

## Demographic and Economic Statistics
## Last Ten Calendar Years

| Year | Population (1) | Personal Income (2) | Per Capita Personal Income (Absolute Dollars) (2) | Median Age (3) | Public School Enrollment (In Thousands) (4) | Unemployment Rate (5) |
|---|---|---|---|---|---|---|
| 2015 | 3,147,655 | $ 185,500,000 | $ 58,933 | N/A | 497,116 | 4.0% |
| 2014 | 3,113,991 | 177,412,900 | 56,973 | 36.4 | 500,487 | 5.4% |
| 2013 | 3,081,804 | 168,966,400 | 54,827 | 36.2 | 501,801 | 6.2% |
| 2012 | 3,055,792 | 166,345,500 | 54,436 | 36.7 | 502,195 | 7.7% |
| 2011 | 3,010,232 | 159,007,100 | 52,822 | 37.3 | 502,895 | 8.6% |
| 2010 | 3,166,461 | 153,098,600 | 48,350 | 37.2 | 502,239 | 9.6% |
| 2009 | 3,139,017 | 148,372,600 | 47,267 | 36.9 | 504,136 | 9.6% |
| 2008 | 3,121,251 | 155,068,400 | 49,681 | 36.1 | 503,225 | 5.7% |
| 2007 | 3,098,121 | 153,446,600 | 49,529 | 35.9 | 503,955 | 3.8% |
| 2006 | 3,072,336 | 143,949,044 | 48,209 | 35.3 | 510,114 | 3.4% |




N/A means Not Available

Sources:

(1) California Department of Finance, Demographic Research Unit, http://www.dof.ca.gov

(2) For years prior to 2007, source is U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov. From 2007 to current, the source for personal income is from the Chapman University Economic & Business Review. Starting in 2007, per capita personal income was calculated by dividing personal income by the population.

(3) U.S. Census Bureau, American Community Survey, http://www.census.gov, 2015 N/A

(4) California Department of Education, http://www.cde.ca.gov

(5) State of California, Employment Development Department, http://www.edd.ca.gov/

## Principal Employers
## Current Year and Nine Years Ago

2015

| Employer | Number of Employees | Rank | Percentage of Total County Employment |
|---|---|---|---|
| Walt Disney Co. | 27,000 | 1 | 1.69% |
| University of California, Irvine | 22,385 | 2 | 1.40% |
| County of Orange | 18,135 | 3 | 1.13% |
| St. Joseph Health System | 12,227 | 4 | 0.76% |
| Kaiser Permanente | 7,000 | 5 | 0.44% |
| Boeing Co. | 6,890 | 6 | 0.43% |
| Walmart | 6,000 | 7 | 0.38% |
| Memorial Care Health System | 5,650 | 8 | 0.35% |
| Bank of America | 5,500 | 9 | 0.34% |
| Target Corporation | 5,400 | 10 | 0.34% |

2006

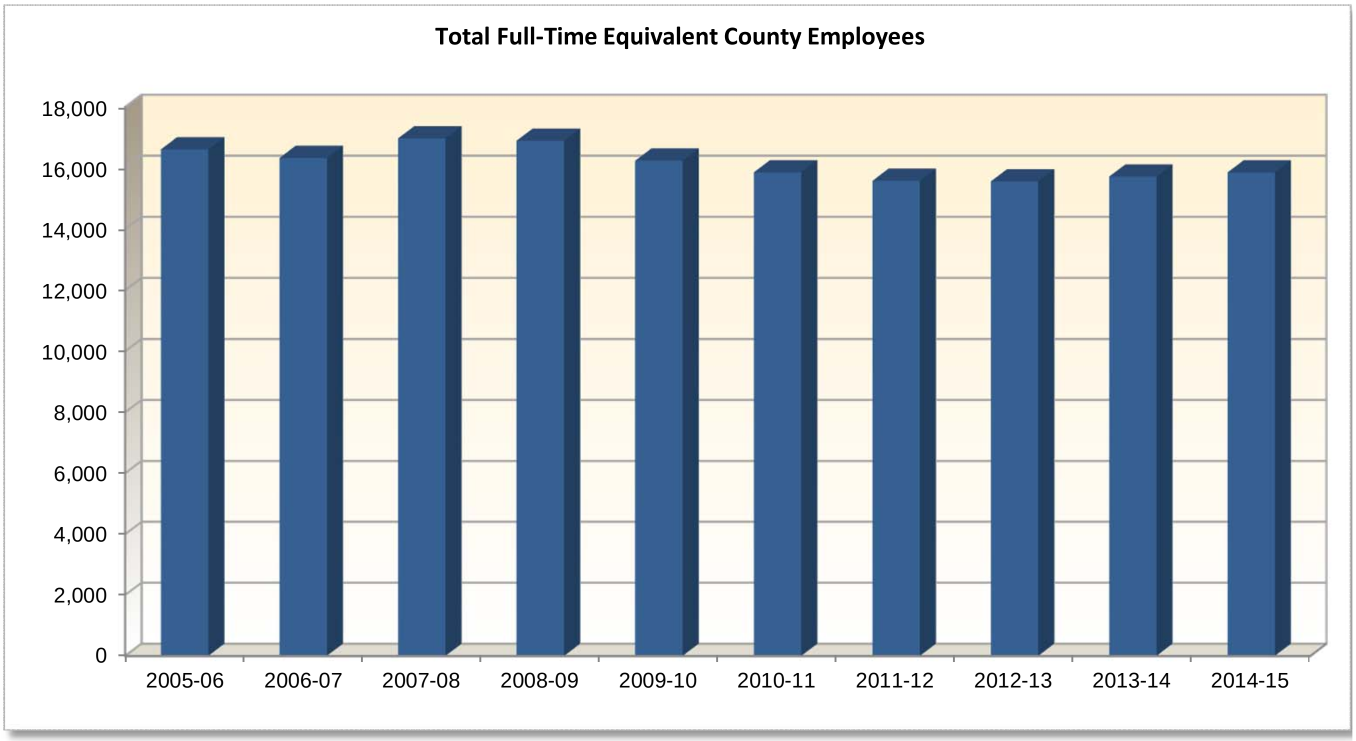
| Employer | Number of Employees | Rank | Percentage of Total County Employment |
|---|---|---|---|
| Walt Disney Co. | 21,000 | 1 | 1.37% |
| County of Orange | 17,785 | 2 | 1.16% |
| University of California, Irvine | 16,229 | 3 | 1.06% |
| Boeing Co. | 12,042 | 4 | 0.79% |
| St. Joseph Health System | 9,385 | 5 | 0.61% |
| Yum! Brands Inc. | 6,600 | 6 | 0.43% |
| Ameriquest Capital Corporation | 6,300 | 7 | 0.41% |
| California State University, Fullerton | 5,256 | 8 | 0.34% |
| PacifiCare Health System | 5,074 | 9 | 0.33% |
| Home Depot, Incorporated | 5,000 | 10 | 0.33% |

Source: Source: Orange County Business Journal Book of Lists - County of Orange
http://www.labormarketinfo.edd.ca.gov

(Dollar Amounts in Thousands)

## Full-time Equivalent County Employees by Function
## Last Ten Fiscal Years

| Function/Program | 2014-15 | 2013-14 | 2012-13[2] | 2011-12 | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|---|---|---|---|---|---|---|---|---|---|
| General Government | 1,341 | 1,322 | 1,273 | 1,279 | 1,314 | 1,346 | 1,383 | 1,377 | 1,334 | 1,384 |
| Public Protection | 6,674 | 6,760 | 6,781 | 6,653 | 6,692 | 6,879 | 7,298 | 7,226 | 6,943 | 7,068 |
| Public Ways and Facilities | 440 | 478 | 508 | 542 | 569 | 585 | 622 | 621 | 579 | 598 |
| Health and Sanitation | 2,198 | 2,128 | 2,137 | 2,209 | 2,292 | 2,346 | 2,507 | 2,550 | 2,441 | 2,478 |
| Public Assistance | 4,239 | 4,043 | 3,876 | 3,867 | 3,935 | 4,023 | 4,000 | 4,123 | 3,992 | 4,029 |
| Education | 286 | 290 | 286 | 307 | 324 | 325 | 350 | 360 | 351 | 359 |
| Recreation and Cultural Services | 265 | 274 | 268 | 283 | 289 | 285 | 277 | 264 | 257 | 265 |
| Airport | 159 | 162 | 167 | 168 | 168 | 169 | 168 | 161 | 157 | 150 |
| Waste Management | 241 | 249 | 255 | 257 | 261 | 267 | 272 | 270 | 258 | 263 |
| Children and Families Commission of Orange County | 11 | 11 | 11 | 13 | 14 | 16 | 17 | 17 | 16 | 15 |
| Total Full-time Equivalent Employees [1] | 15,854 | 15,717 | 15,562 | 15,578 | 15,858 | 16,241 | 16,894 | 16,969 | 16,328 | 16,609 |




Note: (1) Full-time equivalent employment is calculated by dividing total labor hours by the total of hours in a fiscal year (2,080 hours).
(2) Updated FY 2012-13 numbers due to revaluation of methodology. It was subsequently determined that prior methodology was appropriate.

Source: County Executive Office, County of Orange

## Operating Indicators by Function/Program
## Last Ten Fiscal Years

| Function/Program | Fiscal Year 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|---|---|---|---|---|---|
| General Government | | | | | |
| Auditor-Controller | | | | | |
| Property Tax Bills Prepared | 1,216,325 | 1,220,750 | 1,186,238 | 1,153,816 | 1,189,320 |
| Assessor | | | | | |
| Number of Real Property Valued | 924,791 | 918,672 | 914,489 | 901,840 | 899,644 |
| Number of Unsecured Property Assessed | 145,151 | 135,551 | 139,865 | 159,464 | 161,005 |
| New Parcels Created and Mapped | 6,918 | 4,519 | 8,175 | 3,649 | 2,739 |
| New Construction Events | 18,530 | 16,904 | 17,173 | 17,129 | 9,372 |
| County Executive Office | | | | | |
| Volunteer Program Service Hours | 638,230 | 700,759 | 815,407 | 885,416 | 935,284 |
| Clerk-Recorder | | | | | |
| Marriage Licenses Issued | 23,553 | 25,244 | 22,502 | 22,415 | 20,868 |
| Marriage Ceremonies Performed | 11,213 | 12,056 | * | * | * |
| Copies of Birth Certificates Issued | 79,826 | 82,268 | 81,775 | 83,611 | 85,773 |
| Property-Related Document Recordings | 651,866 | 580,899 | 839,353 | 741,935 | 725,323 |
| Passport Applications Filed | 5,016 | 2,686 | * | * | * |
| Treasurer-Tax Collector | | | | | |
| Orange County Investment Pool Income | $ 14,581 | $ 11,298 | $ 12,958 | $ 17,978 | $ 22,295 |
| Assets Under Management | $ 7,604,246 | $ 6,566,145 | $ 6,490,056 | $ 5,922,768 | $ 6,183,195 |
| Number of Property Tax Bills | 1,381,808 | 1,421,654 | 1,347,596 | 1,257,709 | 1,382,198 |
| Percentage of Secured Tax Bill Collection | 99.21% | 99.16% | 98.94% | 98.51% | 98.35% |
| Number of Incoming Phone Calls | 121,461 | 115,123 | 150,830 | 148,463 | 162,955 |
| Percentage of Electronic Payments | 54.2% | 53.8% | 49.4% | 51.1% | 49.3% |
| Secured Tax Bill Reminders | 35,917 | 31,988 | 28,664 | 25,451 | 21,027 |
| Property Tax Payments by eCheck | 285,932 | 248,908 | 213,146 | 181,151 | 143,136 |
| Registrar of Voters | | | | | |
| Registered Voters | 1,424,216 | 1,411,232 | 1,683,001 | 1,612,145 | 1,621,934 |
| Highest Number of Ballots Cast | 640,358 | 340,187 | 1,133,204 | 145,474 | 898,205 |
| Elections Conducted | 7 | 3 | 2 | 2 | 5 |
| Public Protection | | | | | |
| Sheriff-Coroner | | | | | |
| Patrolled Cities Population | 637,261 | 631,934 | 627,447 | 557,403 | 553,148 |
| Patrolled Unincorporated Areas Population | 124,014 | 121,473 | 120,396 | 119,698 | 121,488 |
| Number of Bookings to Orange County Jail System | 56,135 | 61,262 | 63,439 | 65,256 | 63,615 |
| Average Daily Jail Head Count | 6,055 | 7,039 | 6,805 | 6,265 | 5,721 |
| District Attorney | | | | | |
| Defendants Prosecuted - Adult | 56,233 | 55,906 | 57,873 | 61,759 | 64,418 |
| Defendants Prosecuted - Juvenile | 4,482 | 5,103 | 6,651 | 6,743 | 7,907 |
| Probation | | | | | |
| Physical Arrests - Adult | * | * | 2,947 | 2,307 | 1,926 |
| Physical Arrests - Juvenile | * | * | 640 | 467 | 488 |
| Probationers under Supervision as of June 30th-Adult | 10,725 | 14,425 | 14,186 | 14,788 | 13,243 |
| Probationers under Supervision as of June 30th-Juvenile | 3,124 | 4,156 | 4,984 | 5,399 | 5,792 |
| Avg. Daily Juvenile Hall Population | 150 | 229 | 320 | 315 | 417 |
| Avg. Daily Camp Population | 203 | 182 | 193 | 169 | 194 |
| Public Defender | | | | | |
| Cases Appointed Annually | 79,119 | 74,101 | 77,073 | 73,487 | 77,661 |

(Dollar Amounts in Thousands)

| 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | Function/Program |
|---|---|---|---|---|---|
| | | | | | General Government |
| | | | | | Auditor-Controller |
| 1,144,933 | 1,148,720 | 1,149,007 | 1,164,584 | 1,155,562 | Property Tax Bills Prepared |
| | | | | | Assessor |
| 897,547 | 888,770 | 881,233 | 872,439 | 859,112 | Number of Real Property Valued |
| 168,208 | 169,821 | 176,584 | 171,542 | 168,342 | Number of Unsecured Property Assessed |
| 9,413 | 9,185 | 10,252 | 14,760 | 13,800 | New Parcels Created and Mapped |
| 13,172 | 16,565 | 19,380 | 19,991 | 16,730 | New Construction Events |
| | | | | | County Executive Office |
| 882,680 | 839,125 | 675,285 | 923,689 | 1,021,153 | Volunteer Program Service Hours |
| | | | | | Clerk-Recorder |
| 20,292 | 21,339 | 20,894 | 21,088 | 21,198 | Marriage Licenses Issued |
| * | * | * | * | * | Marriage Ceremonies Performed |
| 87,999 | 98,231 | 117,226 | 120,817 | 99,792 | Copies of Birth Certificates Issued |
| 669,332 | 629,373 | 658,005 | 849,739 | 979,733 | Property-Related Document Recordings |
| * | * | * | * | * | Passport Applications Filed |
| | | | | | Treasurer-Tax Collector |
| $ 35,656 | $ 67,242 | $ 141,824 | $ 167,107 | $ 119,561 | Orange County Investment Pool Income |
| $ 5,975,392 | $ 5,963,577 | $ 6,064,067 | $ 6,186,614 | $ 5,537,981 | Assets Under Management |
| 1,362,221 | 1,367,901 | 1,472,466 | 1,477,237 | 1,421,439 | Number of Property Tax Bills |
| 97.61% | 96.30% | 96.13% | 97.18% | 98.35% | Percentage of Secured Tax Bill Collection |
| 160,067 | 178,420 | 175,149 | 161,832 | * | Number of Incoming Phone Calls |
| 43.8% | 40.8% | 41.2% | * | * | Percentage of Electronic Payments |
| * | * | * | * | * | Secured Tax Bill Reminders |
| 126,942 | 112,114 | 105,396 | * | * | Property Tax Payments by eCheck |
| | | | | | Registrar of Voters |
| 1,603,312 | 1,607,989 | 1,566,951 | 1,497,397 | 1,491,009 | Registered Voters |
| 482,708 | 1,167,657 | 748,910 | 756,348 | 653,077 | Highest Number of Ballots Cast |
| 5 | 4 | 5 | 3 | 8 | Elections Conducted |
| | | | | | Public Protection |
| | | | | | Sheriff-Coroner |
| 584,947 | 581,109 | 575,909 | 571,648 | 571,456 | Patrolled Cities Population |
| 120,088 | 119,480 | 118,136 | 120,174 | 118,664 | Patrolled Unincorporated Areas Population |
| 58,322 | 61,778 | 64,596 | 66,869 | 67,062 | Number of Bookings to Orange County Jail System |
| 5,171 | 6,090 | 6,183 | 6,571 | 6,517 | Average Daily Jail Head Count |
| | | | | | District Attorney |
| 64,969 | 70,058 | 69,507 | 74,010 | 71,094 | Defendants Prosecuted - Adult |
| 6,894 | 7,740 | 9,076 | 8,763 | 7,670 | Defendants Prosecuted - Juvenile |
| | | | | | Probation |
| 1,822 | 1,725 | 2,470 | 3,000 | 3,052 | Physical Arrests - Adult |
| 685 | 595 | 1,051 | 1,363 | 1,421 | Physical Arrests - Juvenile |
| 13,476 | 15,022 | 16,223 | 16,646 | 16,656 | Probationers under Supervision as of June 30th-Adult |
| 6,527 | 6,492 | 6,569 | 6,112 | 5,912 | Probationers under Supervision as of June 30th-Juvenile |
| 428 | 455 | 490 | 502 | 522 | Avg. Daily Juvenile Hall Population |
| 191 | 310 | 438 | 333 | 328 | Avg. Daily Camp Population |
| | | | | | Public Defender |
| 76,191 | 83,029 | 79,052 | 83,299 | 79,785 | Cases Appointed Annually |

(Column group heading: Fiscal Year)

* means Not Available
Sources:  County Departments

## Operating Indicators by Function/Program
## Last Ten Fiscal Years (Continued)

| Function/Program | Fiscal Year 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|---|---|---|---|---|---|
| Recreation | | | | | |
| OC Community Resources | | | | | |
| Exotic Invasive Plant Removal (acres) | 1,466 | 1,154 | 4,102 | 4,042 | 629 |
| Native Vegetation Restoration (acres) | 312 | 368 | 843 | 994 | 2,448 |
| New Open Space Management (acres) | -- | -- | -- | -- | -- |
| Dana Point Harbor | | | | | |
| Slip and Dry Storage Tenants | 3,204 | 2,679 | 2,700 | 2,237 | 2,748 |
| Boat Launches | 15,511 | 15,606 | 15,037 | 14,327 | 15,150 |
| Sailing and Event Center Participants | 75,000 | 111,838 | 115,996 | 111,959 | 108,070 |
| Ocean Institute Students | 41,000 | 100,000 | 108,668 | 110,059 | 125,000 |
| Hotel Guests | 43,073 | 42,887 | 41,141 | 36,800 | 26,972 |
| Catalina Express Passengers | 123,688 | 123,257 | 123,257 | 120,945 | 114,176 |
| Special Events at the Harbor | 12 | 15 | 16 | 16 | 16 |
| Public Ways and Facilities | | | | | |
| OC Public Works (OCPW) | | | | | |
| Building and Home Inspections | 30,324 | 31,772 | 19,368 | 15,591 | 13,215 |
| Health and Sanitation | | | | | |
| OC Community Resources | | | | | |
| Animal Licenses | 198,358 | 192,320 | 191,098 | 200,755 | 173,570 |
| Health Care Agency | | | | | |
| 911 Emergency Medical Services Responses | 183,794 | 170,804 | 171,420 | 168,172 | 156,638 |
| Retail Food Facility Inspections Conducted | 31,397 | 32,689 | 34,953 | 35,025 | 34,962 |
| Hazardous Waste Inspections Conducted | 5,950 | 4,616 | 6,058 | 5,444 | 6,237 |
| Number of Home Visits by Public Health Nurses | 31,258 | 35,101 | 34,953 | 32,498 | 29,260 |
| Number of Low Income Children Dental Health Services | 755 | 1,225 | 1,107 | 1,344 | 1,533 |
| Number of Ocean Water Days of Closure (In Beach-Miles) | 24 | 20 | 8 | 0.93 | 61 |
| Public Assistance | | | | | |
| OC Community Resources | | | | | |
| Adult Day Care Hours of Service | 43,010 | 50,944 | 49,129 | 70,267 | 93,425 |
| Elderly Nutrition Program Meals Delivered | 1,406,526 | 1,347,251 | 1,360,601 | 1,636,379 | 1,846,571 |
| One-Way Transportation Trips Provided to Seniors | 180,899 | 187,864 | 155,003 | 184,476 | 287,611 |
| Social Service Agency | | | | | |
| Average Monthly Medi-Cal Recipients | 718,061 | 521,078 | 430,559 | 418,649 | 403,142 |
| Average Monthly Child Abuse Hotline Calls | 4,049 | 3,674 | 3,009 | 2,880 | 3,003 |
| Average Monthly CalFresh (formerly Food Stamp) Recipients | 258,676 | 247,517 | 230,964 | 213,919 | 185,489 |
| Average Monthly In-Home Supportive Services | 20,787 | 19,652 | 19,663 | 19,240 | 18,335 |
| Average Persons Receiving Cash Assistance | 55,921 | 55,225 | 55,008 | 56,847 | 58,770 |
| Average Children in Foster Care/Relative Care | 1,924 | 2,119 | 2,213 | 2,128 | 2,148 |
| Average Elder and Adult Abuse Unduplicated Reports Received | 815 | 710 | 636 | 630 | 604 |
| Education | | | | | |
| OC Community Resources | | | | | |
| Total Volumes Borrowed at Library Branches | 6,411,127 | 6,642,739 | 6,564,262 | 6,741,380 | 7,796,954 |
| Airport | | | | | |
| Passengers | 9,608,873 | 9,304,295 | 9,124,172 | 8,642,116 | 8,611,054 |
| Air Cargo Tonnage | 16,997 | 17,564 | 17,821 | 16,831 | 15,150 |
| Takeoffs & Landings | 264,726 | 252,166 | 252,506 | 251,191 | 260,466 |
| Waste Management | | | | | |
| Solid Waste Tonnage | 4,581,359 | 4,070,238 | 3,428,657 | 3,304,643 | 3,495,649 |
| Gallons of Leachate and Impacted Ground Water Collected | 5,510,821 | 3,854,530 | 3,116,108 | 3,448,964 | 3,209,725 |

(Dollar Amounts in Thousands)

| Fiscal Year 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | Function/Program |
|---|---|---|---|---|---|
| | | | | | Recreation |
| | | | | | OC Community Resources |
| 61 | 1,475 | * | 30 | 15 | Exotic Invasive Plant Removal (acres) |
| 82 | 144 | * | 13 | 0.5 | Native Vegetation Restoration (acres) |
| -- | -- | 250 | -- | -- | New Open Space Management (acres) |
| | | | | | Dana Point Harbor |
| 2,750 | 2,836 | 2,932 | 2,932 | 2,932 | Slip and Dry Storage Tenants |
| 18,759 | 19,903 | 22,247 | 22,159 | 19,719 | Boat Launches |
| 83,738 | 66,163 | 54,371 | 54,539 | 54,496 | Sailing and Event Center Participants |
| 125,060 | 126,957 | 116,218 | 149,220 | 136,926 | Ocean Institute Students |
| 25,252 | 28,650 | 26,940 | 29,580 | 28,366 | Hotel Guests |
| 106,305 | 111,648 | 114,000 | 114,708 | 114,567 | Catalina Express Passengers |
| 16 | 16 | 16 | 16 | 16 | Special Events at the Harbor |
| | | | | | Public Ways and Facilities |
| | | | | | OC Public Works (OCPW) |
| 11,222 | 24,731 | 31,363 | 32,365 | 38,945 | Building and Home Inspections |
| | | | | | Health and Sanitation |
| | | | | | OC Community Resources |
| 176,123 | 158,202 | 155,875 | 166,137 | 167,340 | Animal Licenses |
| | | | | | Health Care Agency |
| 158,863 | 160,369 | 150,545 | 147,067 | 141,850 | 911 Emergency Medical Services Responses |
| 36,445 | 33,146 | 33,451 | 31,475 | 31,216 | Retail Food Facility Inspections Conducted |
| 6,600 | 5,847 | 6,194 | 6,223 | 6,122 | Hazardous Waste Inspections Conducted |
| 30,091 | 29,505 | 30,447 | 38,245 | 42,646 | Number of Home Visits by Public Health Nurses |
| 1,520 | 979 | 660 | 1,055 | 993 | Number of Low Income Children Dental Health Services |
| 20 | 26 | 11 | 3 | 19 | Number of Ocean Water Days of Closure (In Beach-Miles) |
| | | | | | Public Assistance |
| | | | | | OC Community Resources |
| 92,964 | 101,732 | 89,584 | 76,005 | 85,116 | Adult Day Care Hours of Service |
| 1,796,596 | 1,725,058 | 1,736,877 | 1,606,272 | 1,665,392 | Elderly Nutrition Program Meals Delivered |
| 213,832 | 233,382 | 225,783 | 242,415 | 226,689 | One-Way Transportation Trips Provided to Seniors |
| | | | | | Social Service Agency |
| 376,101 | 343,222 | 326,506 | 317,771 | 316,949 | Average Monthly Medi-Cal Recipients |
| 3,165 | 3,242 | 3,427 | 3,049 | 2,782 | Average Monthly Child Abuse Hotline Calls |
| 150,141 | 109,491 | 88,284 | 82,132 | 79,487 | Average Monthly CalFresh (formerly Food Stamp) Recipients |
| 17,595 | 16,364 | 14,425 | 12,765 | 11,877 | Average Monthly In-Home Supportive Services |
| 53,214 | 44,115 | 38,840 | 38,790 | 40,886 | Average Persons Receiving Cash Assistance |
| 2,336 | 2,466 | 2,797 | 2,692 | 2,531 | Average Children in Foster Care/Relative Care |
| 598 | 531 | 549 | 509 | 444 | Average Elder and Adult Abuse Unduplicated Reports Received |
| | | | | | Education |
| | | | | | OC Community Resources |
| 7,629,378 | 7,314,615 | 6,908,477 | 6,767,502 | 6,919,627 | Total Volumes Borrowed at Library Branches |
| | | | | | Airport |
| 8,812,169 | 8,552,590 | 9,566,043 | 9,910,016 | 9,600,753 | Passengers |
| 14,870 | 15,197 | 21,084 | 22,853 | 24,246 | Air Cargo Tonnage |
| 213,404 | 215,585 | 319,791 | 343,572 | 348,993 | Takeoffs & Landings |
| | | | | | Waste Management |
| 3,502,715 | 3,876,902 | 4,207,649 | 4,706,367 | 5,063,988 | Solid Waste Tonnage |
| 3,390,965 | 3,441,343 | 3,766,898 | 3,695,743 | 3,922,890 | Gallons of Leachate and Impacted Ground Water Collected |

* means Not Available

Sources: County Departments

## Capital Asset Statistics by Function
## Last Ten Fiscal Years

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| Function/Program | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
| General Government | | | | | |
| Auditor-Controller | | | | | |
| Hall of Finance and Records | 1 | 1 | 1 | 1 | 1 |
| Clerk-Recorder | | | | | |
| OC Archives Building | 1 | 1 | 1 | 1 | 1 |
| Registrar of Voters | | | | | |
| Trailer | 1 | 1 | 1 | 1 | 1 |
| Vehicle/Truck | 4 | 3 | 3 | 3 | 3 |
| Public Protection | | | | | |
| Probation Department | | | | | |
| Juvenile Institutions | 4 | 4 | 4 | 5 | 5 |
| Vehicles/Trucks | 159 | 156 | * | * | * |
| Equipment | 16 | 12 | * | * | * |
| District Attorney | | | | | |
| Justice Center Offices | 5 | 5 | 5 | 5 | 5 |
| Sheriff-Coroner | | | | | |
| Crime/Forensic Lab | 1 | 1 | 1 | 1 | 1 |
| Jail Facilities | 3 | 3 | 3 | 3 | 3 |
| Vehicles | 916 | 911 | 918 | 838 | 844 |
| Buses | 11 | 11 | 11 | 11 | 13 |
| Helicopters | 3 | 3 | 2 | 2 | 2 |
| Boats | 10 | 10 | 9 | 9 | 5 |
| Robot Andros | 3 | 3 | 3 | 3 | 3 |
| Haz-mat Vehicles | 4 | 4 | 4 | 4 | 4 |
| K-9 units | 22 | 18 | 13 | 10 | 14 |
| Public Assistance | | | | | |
| Social Service Agency | | | | | |
| Vehicles | 5 | 5 | 6 | 10 | 10 |
| Office Locations | 20 | 19 | 20 | 20 | 19 |
| Parks and Recreation | | | | | |
| OC Community Resources | | | | | |
| Park Land (acres) | 62,900 | 60,500 | 59,318 | 57,688 | 57,688 |
| Recreational Trails (in miles) | 295 | 295 | 295 | 295 | 295 |
| Zoo | 1 | 1 | 1 | 1 | 1 |
| Urban Regional Parks | 15 | 15 | 15 | 12 | 12 |
| Wilderness Parks | 5 | 5 | 5 | 5 | 5 |
| Nature Preserves | 4 | 4 | 4 | 4 | 4 |
| Harbors | 3 | 3 | 3 | 2 | 2 |
| Beaches | 11 | 11 | 11 | 9 | 9 |
| Historical Sites | 7 | 7 | 7 | 7 | 7 |
| Boats | 7 | 7 | 9 | 21 | 15 |
| Tractors | 26 | 28 | 24 | 26 | 22 |
| Trailers | 27 | 29 | 33 | 30 | 24 |
| Vehicles/Trucks | 174 | 170 | 211 | 188 | 233 |

(Dollar Amounts in Thousands)

| Fiscal Year | | | | | |
|---|---|---|---|---|---|
| 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | Function/Program |
| | | | | | General Government |
| | | | | | Auditor-Controller |
| 1 | 1 | 1 | 1 | 1 | Hall of Finance and Records |
| | | | | | Clerk-Recorder |
| 1 | 1 | 1 | - | - | OC Archives Building |
| | | | | | Registrar of Voters |
| 1 | 1 | 1 | 1 | 1 | Trailer |
| 3 | 3 | 3 | 2 | 2 | Vehicle/Truck |
| | | | | | Public Protection |
| | | | | | Probation Department |
| 5 | 5 | 6 | 6 | 5 | Juvenile Institutions |
| * | * | * | * | * | Vehicles/Trucks |
| * | * | * | * | * | Equipment |
| | | | | | District Attorney |
| 5 | 5 | 6 | 6 | 6 | Justice Center Offices |
| | | | | | Sheriff-Coroner |
| 1 | 1 | 1 | 1 | 1 | Crime/Forensic Lab |
| 3 | 3 | 3 | 3 | 3 | Jail Facilities |
| 844 | 859 | 855 | 777 | 646 | Vehicles |
| 13 | 13 | 12 | 14 | 16 | Buses |
| 2 | 2 | 2 | 3 | 3 | Helicopters |
| 5 | 5 | 5 | 3 | 3 | Boats |
| 3 | 3 | 3 | 3 | 2 | Robot Andros |
| 4 | 4 | 4 | 4 | 4 | Haz-mat Vehicles |
| 14 | 14 | 13 | 12 | 20 | K-9 units |
| | | | | | Public Assistance |
| | | | | | Social Service Agency |
| 8 | 7 | 8 | 7 | 7 | Vehicles |
| 20 | 21 | 27 | 27 | 30 | Office Locations |
| | | | | | Parks and Recreation |
| | | | | | OC Community Resources |
| 39,490 | 39,490 | 32,000 | 32,000 | 32,000 | Park Land (acres) |
| 292 | 300 | 300 | 300 | 300 | Recreational Trails (in miles) |
| 1 | 1 | 1 | 1 | 1 | Zoo |
| 12 | 12 | 12 | 12 | 12 | Urban Regional Parks |
| 5 | 5 | 5 | 5 | 5 | Wilderness Parks |
| 4 | 3 | 3 | 3 | 3 | Nature Preserves |
| 2 | 2 | 2 | 2 | 2 | Harbors |
| 9 | 9 | 9 | 9 | 9 | Beaches |
| 7 | 7 | 7 | 7 | 7 | Historical Sites |
| 14 | 14 | 15 | 9 | 17 | Boats |
| 18 | 17 | 9 | 16 | 9 | Tractors |
| 20 | 17 | 15 | 21 | 15 | Trailers |
| 208 | 176 | 165 | 135 | 119 | Vehicles/Trucks |

* means Not Available
Source: County Departments

## Capital Asset Statistics by Function
## Last Ten Fiscal Years (Continued)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| Function/Program | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
| Parks and Recreation (Continued) | | | | | |
| Dana Point Harbor | | | | | |
| Harbor | 1 | 1 | 1 | 1 | 1 |
| Marinas | 2 | 2 | 2 | 2 | 2 |
| Public Parking Areas | 9 | 9 | 9 | 9 | 9 |
| Beaches | 1 | 1 | 1 | 1 | 1 |
| Access Points to Ocean | 6 | 6 | 6 | 6 | 6 |
| Hotel | 1 | 1 | 1 | 1 | 1 |
| Ocean Education Center | 1 | 1 | 1 | 1 | 1 |
| Sailing and Events Center | 1 | 1 | 1 | 1 | 1 |
| Shops | 23 | 23 | 23 | 25 | 25 |
| Restaurants | 16 | 16 | 16 | 16 | 15 |
| Fuel Dock | 1 | 1 | 1 | 1 | 1 |
| Shipyard | 1 | 1 | 1 | 1 | 1 |
| Boater Service Buildings | 15 | 15 | 15 | 15 | 15 |
| Parcel 11 (Former Restaurant) | * | * | * | * | 1 |
| Parcel 23 (Yacht Club) | * | * | * | * | 1 |
| Public Ways and Facilities | | | | | |
| OC Public Works | | | | | |
| Hall of Administration | 1 | 1 | 1 | 1 | 1 |
| Data Center | 1 | 1 | 1 | 1 | 1 |
| Alternate Fuel Vehicles | 51 | 60 | 60 | 59 | 59 |
| Vehicles/Trucks | 53 | 54 | 51 | 50 | 50 |
| OC Flood Control District | | | | | |
| Watersheds | 13 | 13 | 13 | 13 | 19 |
| Dams | 3 | 3 | 3 | 3 | 3 |
| Dump Trucks | 7 | 12 | 5 | 5 | 13 |
| Tractors | 14 | 19 | 5 | 5 | 10 |
| Trailers | 24 | 17 | 8 | 12 | 15 |
| Vehicles/Trucks | 156 | 156 | 156 | 165 | 161 |
| Roads | | | | | |
| Street Miles | 320 | 320 | 319 | 320 | 320 |
| Dump Trucks | 11 | 9 | 4 | 11 | 9 |
| Tractors | 18 | 9 | 6 | 3 | 4 |
| Trailers | 30 | 18 | 10 | 5 | 9 |
| Vehicles/Trucks | 146 | 165 | 151 | 146 | 151 |
| Education | | | | | |
| Library Branches | 33 | 33 | 33 | 33 | 33 |
| Library Headquarters | * | * | * | * | 1 |
| Health | | | | | |
| Clinics (1) | 4 | 3 | 3 | 3 | 2 |
| Laboratories (1) | 2 | 2 | 2 | 2 | 2 |
| Trailers (1) | 12 | 8 | 11 | 27 | 27 |
| Vehicles and Trucks (1) | 24 | 25 | 25 | 24 | 27 |
| OC Communtiy Resources | | | | | |
| Animal Care Center | 1 | 1 | 1 | 1 | 1 |
| Trailers | 3 | 3 | 3 | 3 | 3 |

(Dollar Amounts in Thousands)

| Fiscal Year | | | | | |
|---|---|---|---|---|---|
| 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | Function/Program |
| | | | | | Parks and Recreation (Continued) |
| | | | | | Dana Point Harbor |
| 1 | 1 | 1 | 1 | 1 | Harbor |
| 2 | 2 | 2 | 2 | 2 | Marinas |
| 9 | 9 | 9 | 9 | 9 | Public Parking Areas |
| 1 | 1 | 1 | 1 | 1 | Beaches |
| 6 | 6 | 6 | 6 | 6 | Access Points to Ocean |
| 1 | 1 | 1 | 1 | 1 | Hotel |
| 1 | 1 | 1 | 1 | 1 | Ocean Education Center |
| 1 | 1 | 1 | 1 | 1 | Sailing and Events Center |
| 25 | 26 | 26 | 26 | 26 | Shops |
| 16 | 15 | 15 | 15 | 15 | Restaurants |
| 1 | 1 | 1 | 1 | 1 | Fuel Dock |
| 1 | 1 | 1 | 1 | 1 | Shipyard |
| 15 | 15 | 15 | 15 | 15 | Boater Service Buildings |
| * | * | * | * | * | Parcel 11 (Former Restaurant) |
| * | * | * | * | * | Parcel 23 (Yacht Club) |
| | | | | | Public Ways and Facilities |
| | | | | | OC Public Works |
| 1 | 1 | 1 | 1 | 1 | Hall of Administration |
| 1 | 1 | 1 | 1 | 1 | Data Center |
| 59 | 59 | 59 | 50 | 31 | Alternate Fuel Vehicles |
| 50 | 47 | 47 | 48 | 34 | Vehicles/Trucks |
| | | | | | OC Flood Control District |
| 11 | 11 | 11 | 13 | 13 | Watersheds |
| 3 | 3 | 3 | 3 | 3 | Dams |
| 13 | 13 | 14 | 14 | 14 | Dump Trucks |
| 19 | 19 | 20 | 20 | 19 | Tractors |
| 14 | 14 | 13 | 13 | 13 | Trailers |
| 122 | 166 | 162 | 154 | 150 | Vehicles/Trucks |
| | | | | | Roads |
| 320 | 320 | 320 | 317 | 312 | Street Miles |
| 1 | 8 | 8 | 8 | 8 | Dump Trucks |
| 3 | 12 | 13 | 13 | 11 | Tractors |
| 11 | 14 | 14 | 14 | 12 | Trailers |
| 144 | 158 | 157 | 143 | 138 | Vehicles/Trucks |
| | | | | | Education |
| 33 | 33 | 33 | 32 | 32 | Library Branches |
| 1 | 1 | 1 | 1 | 1 | Library Headquarters |
| | | | | | Health |
| 2 | 2 | 49 | 37 | 15 | Clinics (1) |
| 2 | 1 | 2 | 2 | 2 | Laboratories (1) |
| 27 | 27 | 25 | 25 | - | Trailers (1) |
| 26 | 25 | 68 | 68 | - | Vehicles and Trucks (1) |
| | | | | | OC Communtiy Resources |
| 1 | 1 | 1 | 1 | 1 | Animal Care Center |
| 3 | 3 | 2 | 2 | * | Trailers |

Note: (1) Presentation changed in FY 2014-15 to summarize by asset

(2) * means Not Available

Source: County Departments

## Capital Asset Statistics by Function
## Last Ten Fiscal Years (Continued)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| Function/Program | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
| Airport | | | | | |
| Acres | 501 | 501 | 501 | 501 | 501 |
| Runways | 2 | 2 | 2 | 2 | 2 |
| Public Parking Structures/Lots | 5 | 5 | 5 | 5 | 5 |
| Terminals | 3 | 3 | 3 | 3 | 1 |
| Fire Trucks | 4 | 4 | 4 | 4 | 4 |
| Waste Management | | | | | |
| Active Landfills | 3 | 3 | 3 | 3 | 3 |
| Inactive Landfills | 2 | 2 | 2 | 2 | 2 |
| Household Hazardous Waste Collection Centers | 4 | 4 | 4 | 4 | 4 |
| Dozers | 7 | 7 | 7 | 8 | 8 |
| Dump Trucks | 10 | 10 | 12 | 12 | 14 |
| Loaders | 20 | 20 | 20 | 21 | 22 |
| Scrapers | 8 | 8 | 8 | 8 | 11 |
| Excavator | 2 | 2 | 2 | 2 | 2 |
| Tractors | 28 | 29 | 28 | 29 | 29 |
| Graders | 4 | 4 | 4 | 4 | 4 |
| Compactors | 8 | 8 | 8 | 8 | 8 |
| Water/Fuel Trucks | 13 | 13 | 11 | 11 | 11 |

(Dollar Amounts in Thousands)

| Fiscal Year | | | | | |
|---|---|---|---|---|---|
| 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | Function/Program |
| | | | | | Airport |
| 501 | 501 | 501 | 501 | 501 | Acres |
| 2 | 2 | 2 | 2 | 2 | Runways |
| 5 | 5 | 5 | 5 | 5 | Public Parking Structures/Lots |
| 1 | 1 | 1 | 1 | 1 | Terminals |
| 4 | 4 | 4 | 4 | 4 | Fire Trucks |
| | | | | | Waste Management |
| 3 | 3 | 3 | 3 | 3 | Active Landfills |
| 2 | 2 | 2 | 2 | 2 | Inactive Landfills |
| 4 | 4 | 4 | 4 | 4 | Household Hazardous Waste Collection Centers |
| 10 | 10 | 10 | 12 | 15 | Dozers |
| 14 | 14 | 14 | 14 | 4 | Dump Trucks |
| 21 | 21 | 21 | 21 | 12 | Loaders |
| 13 | 13 | 15 | 15 | 10 | Scrapers |
| - | - | - | - | - | Excavator |
| 29 | 28 | 27 | 26 | 34 | Tractors |
| 3 | 6 | 5 | 5 | 5 | Graders |
| 5 | 5 | 6 | 5 | 8 | Compactors |
| 12 | 13 | 12 | 12 | 12 | Water/Fuel Trucks |

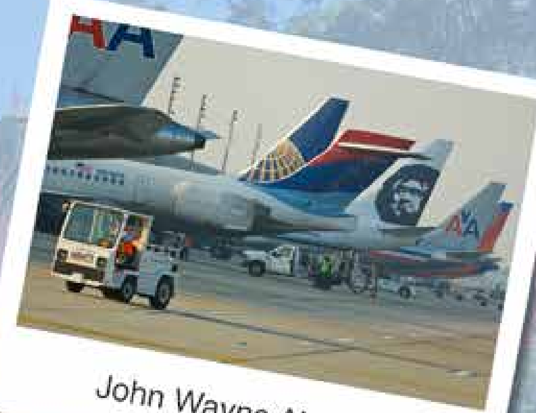
* means Not Available

Source: County Departments

# Your County Working for You

**Total County Employees: 17,151**

| | |
|---|---|
| 1st District | 8 |
| 2nd District | 8 |
| 3rd District | 7 |
| 4th District | 8 |
| 5th District | 8 |
| Assessor | 319 |
| Auditor-Controller | 404 |
| CEO | 227 |
| Child Support Services | 509 |
| Clerk of the Board | 26 |
| Clerk-Recorder | 103 |
| OC Community Resources | 1,177 |
| County Counsel | 98 |
| OC Dana Point Harbor | 12 |
| District Attorney | 808 |
| Health Care Agency | 2,403 |
| Human Resource Services | 157 |
| John Wayne Airport | 157 |
| Performance Audit | 1 |
| Probation | 1,178 |
| Public Administrator | 16 |
| Public Defender | 401 |
| Public Guardian | 36 |
| OC Public Works | 826 |
| Registrar of Voters | 56 |
| Sheriff-Coroner | 3,735 |
| Social Services Agency | 4,144 |
| Treasurer-Tax Collector | 75 |
| OC Waste & Recycling | 244 |



John Wayne Airport

OC Parks

OC Public Works

Sheriff-Coroner

## Auditor - Controller
## County of Orange

12 Civic Center Plaza
Santa Ana, CA 92702
www.ac.ocgov.com

## EXHIBIT B

## OFFICIAL STATEMENT

**NEW ISSUE—BOOK-ENTRY-ONLY** **NO RATING**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, subject to certain qualifications described in the Official Statement, under existing statutes, regulations, rules and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Official Statement, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from State of California personal income taxes. See "TAX MATTERS" herein.*

# $90,845,000
# COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)
## SERIES A OF 2015 SPECIAL TAX BONDS

**Dated: Delivery Date** **Due: August 15, as shown on the inside cover page**

This Official Statement describes bonds that are being issued by Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (the "District"). The Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) Series A of 2015 Special Tax Bonds (the "Bonds") are being issued by the District to (a) pay the costs of forming the District; (b) pay the cost and expense of acquisition and construction of certain public facilities required in connection with the development of the District; (c) fund a reserve account securing the Bonds; (d) pay costs of issuance of the Bonds and (e) make an initial deposit to the Administrative Expense Account.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to Resolution No. 15-107 and the Supplement to Resolution No. 15-107 adopted by the Board of Supervisors of the County of Orange (the "County"), acting as the legislative body of the District on September 22, 2015 (together, the "Resolution).

**The Bonds are limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within the District subject to the Special Taxes and from certain other funds pledged under the Resolution, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Supervisors of the County and the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes." The Board of Supervisors of the County is the legislative body of the District.**

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds may be made in principal amounts of $5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds will be payable semiannually on each February 15 and August 15, commencing February 15, 2016. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General Provisions" and APPENDIX H — "BOOK-ENTRY ONLY SYSTEM" herein.

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

The Bonds are subject to optional redemption, extraordinary redemption from prepaid Special Taxes and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS — Redemption" herein.

**THE BONDS ARE NOT RATED BY ANY RATING AGENCY, AND INVESTMENT IN THE BONDS INVOLVES SIGNIFICANT RISKS THAT ARE NOT APPROPRIATE FOR CERTAIN INVESTORS. CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "SPECIAL RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.**

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

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the County and the District by the Office of the County Counsel, and for the Underwriters by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriters. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about October 28, 2015.

STIFEL PiperJaffray®

Dated: October 8, 2015

**$90,845,000**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1**
**OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)**
**SERIES A OF 2015 SPECIAL TAX BONDS**

**MATURITY SCHEDULE**

**Base *CUSIP No.*†: 68423P**

**Serial Bonds**

| ***Maturity Date (August 15)*** | ***Principal Amount*** | ***Interest Rate*** | ***Yield*** | ***Price*** | ***CUSIP No.*†** |
|---|---|---|---|---|---|
| 2016 | $ 1,115,000 | 2.00% | 0.61% | 101.103 | VF4 |
| 2017 | 305,000 | 2.00 | 1.26 | 101.310 | VG2 |
| 2018 | 405,000 | 4.00 | 1.68 | 106.311 | VH0 |
| 2019 | 520,000 | 4.00 | 2.05 | 107.086 | VJ6 |
| 2020 | 635,000 | 4.00 | 2.39 | 107.253 | VK3 |
| 2021 | 760,000 | 4.00 | 2.68 | 107.040 | VL1 |
| 2022 | 895,000 | 5.00 | 2.88 | 112.998 | VM9 |
| 2023 | 1,045,000 | 5.00 | 3.02 | 113.659 | VN7 |
| 2024 | 1,200,000 | 5.00 | 3.14 | 114.196 | VP2 |
| 2025 | 1,370,000 | 5.00 | 3.30 | 114.127 | VQ0 |
| 2026 | 1,550,000 | 5.00 | 3.48 | 112.522 C | VR8 |
| 2027 | 1,740,000 | 5.00 | 3.64 | 111.117 C | VS6 |
| 2028 | 1,945,000 | 5.00 | 3.75 | 110.164 C | VT4 |
| 2029 | 2,155,000 | 5.00 | 3.84 | 109.391 C | VU1 |
| 2030 | 2,385,000 | 5.00 | 3.93 | 108.625 C | VV9 |
| 2031 | 2,625,000 | 4.00 | 4.05 | 99.415 | VW7 |
| 2032 | 2,855,000 | 4.00 | 4.11 | 98.670 | VX5 |
| 2033 | 3,095,000 | 5.00 | 4.11 | 107.112 C | VY3 |
| 2034 | 3,380,000 | 5.00 | 4.14 | 106.862 C | VZ0 |
| 2035 | 3,680,000 | 5.00 | 4.16 | 106.696 C | WA4 |

**Term Bonds**

$12,940,000 4.25% Term Bonds due August 15, 2038, Yield: 4.29% Price: 99.416 CUSIP No.† 68423P WB2
$44,245,000 5.25% Term Bonds due August 15, 2045, Yield: 4.27% Price: 107.772C CUSIP No.† 68423P WC0

C Priced to the optional redemption date of August 15, 2025, at par.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital I.Q.  CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for CGS. CUSIP® numbers are provided for convenience of reference only. Neither the District nor the Underwriters take any responsibility for the accuracy of such numbers.

**COUNTY OF ORANGE**
**STATE OF CALIFORNIA**

**BOARD OF SUPERVISORS**
**Serving as the Legislative Body of**
**Community Facilities District No. 2015-1**
**of the County of Orange (Village of Esencia)**

Todd Spitzer (Third District), Chairman
Lisa Bartlett (Fifth District), Vice Chair
Andrew Do (First District)
Shawn Nelson (Fourth District)
Michelle Steel (Second District)

**COUNTY OFFICIALS**

Frank Kim, County Executive Officer
Shari L. Freidenrich, Treasurer-Tax Collector
Eric H. Woolery, Auditor-Controller
Leon J. Page, County Counsel

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth,
a Professional Corporation,
Newport Beach, California

**FINANCIAL ADVISOR**

Fieldman, Rolapp & Associates, Inc.
Irvine, California

**SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.
Newport Beach, California

**REAL ESTATE APPRAISER**

Harris Realty Appraisal
Newport Beach, California

**MARKET ABSORPTION ANALYST**

Empire Economics, Inc.
Capistrano Beach, California

**PAYING AGENT**

U.S. Bank National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the County and the District. No dealer, broker, salesperson or other person has been authorized by the County, the District, the Paying Agent or the Underwriters to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the County, the District, the Paying Agent or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment to this Official Statement, is intended to be deposited with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement:

> The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE COUNTY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

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

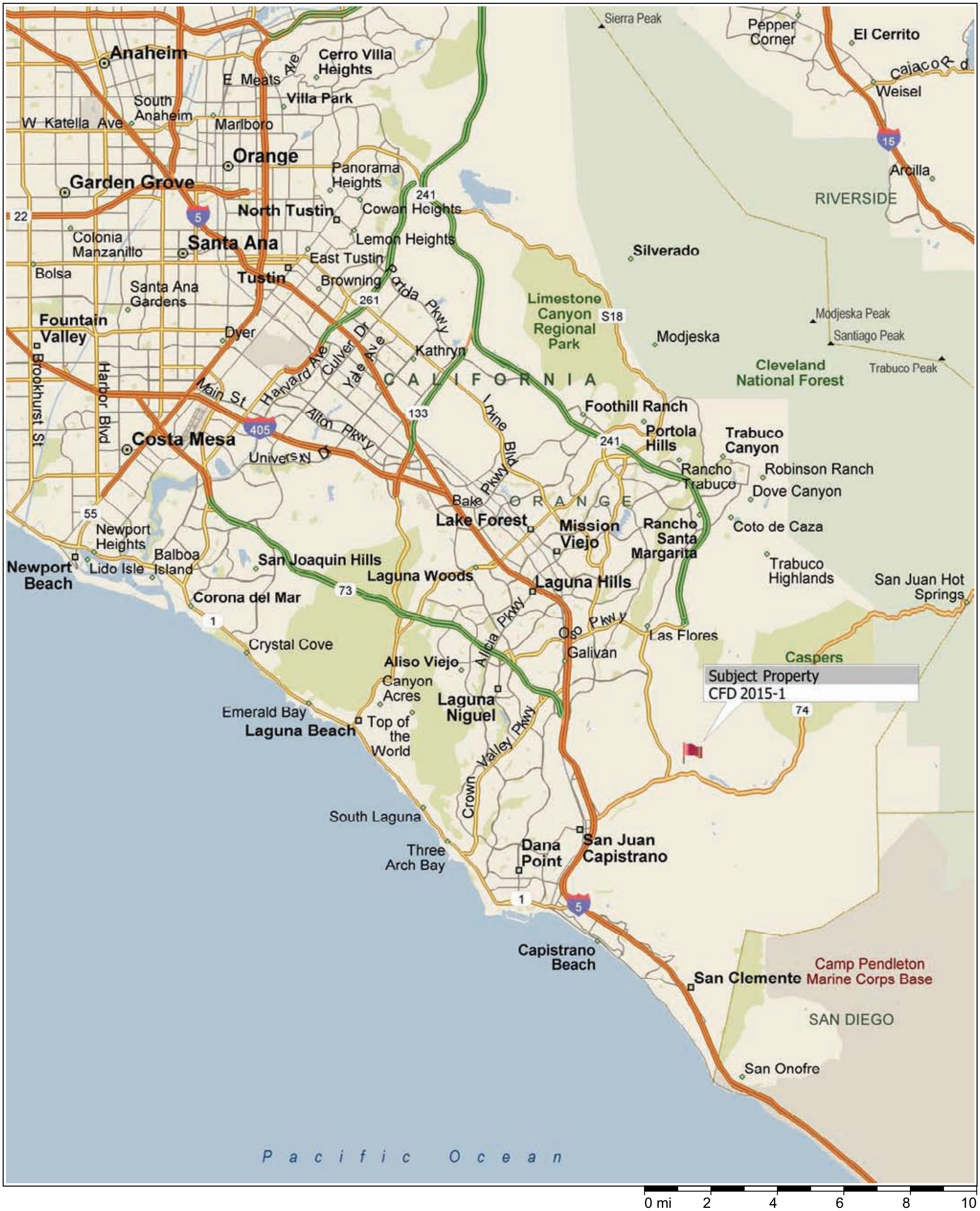
THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

***TABLE OF CONTENTS***

***Page***

**_TABLE OF CONTENTS_**
**_(continued)_**

## Regional Map




The County of Orange
Community Facilities District № 2015-1
Village of Esencia
Cow Camp Rd
Boundaries Approximate
7617_070115

**$90,845,000**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (VILLAGE OF ESENCIA)**
**OF THE COUNTY OF ORANGE**
**SERIES A OF 2015 SPECIAL TAX BONDS**

## INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the table of contents and the appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance by Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (the "District") of its Series A of 2015 Special Tax Bonds (the "Bonds") in the aggregate principal amount of $90,845,000. The proceeds of the Bonds will be used to (a) pay the costs of forming the District; (b) pay the cost and expense of acquisition and construction of certain public facilities required in connection with the development of the District; (c) fund a reserve account securing the Bonds; (d) pay costs of issuance of the Bonds and (e) make an initial deposit to the Administrative Expense Account. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq*. of the Government Code of the State of California) (the "Act"), and pursuant to Resolution No. 15-107 and the Supplement to Resolution No. 15-107 adopted by the Board of Supervisors of the County (the "Board of Supervisors"), acting as the legislative body of the District on September 22, 2015 (together, the "Resolution").

The Bonds are secured under the Resolution by a pledge of and lien upon Net Taxes (as defined herein) levied on parcels within the District and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Resolution. See "SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are being issued and delivered pursuant to the provisions of the Act and the Resolution. The Bonds are being sold pursuant to a Bond Purchase Agreement between the Underwriters and the District. For more complete information, see "THE BONDS — General Provisions" herein.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — DEFINITIONS" herein.

### Changes Since the Date of the Preliminary Official Statement and Supplement to Preliminary Official Statement

Changes have been made in this Official Statement since the Preliminary Official Statement dated September 24, 2015, as supplemented by the Supplement to Preliminary Official Statement dated October 5, 2015, to reflect the approval of the Merger Agreement (as defined herein) by the respective shareholders of The Ryland Group, Inc. (the "Ryland Group") and Standard Pacific Corp. ("Standard Pacific") on September 28, 2015. Such changes have been made under the captions "INTRODUCTION — Property Ownership and Development Status," "PROPERTY OWNERSHIP AND DEVELOPMENT STATUS — Merchant Builders in the Development," "SPECIAL RISK FACTORS — Concentration of Ownership" and in Tables 4, 5, 6 and 7 herein. In addition, Tables 3 and 5 have been updated to reflect Fiscal Year 2015-16 levy information for overlapping districts that was previously unavailable.

**The District**

***General.*** The District is located in the southern portion of the County of Orange (the "County"), in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of Ladera Ranch and east of the City of San Juan Capistrano. The District consists of approximately 417 gross acres. Approximately 98.1 acres of property in the District are expected to be subject to the Special Tax (as defined herein) at build-out. The property within the District which is not subject to the levy of the Special Tax consists primarily of open space/conservation property, property owned by the owners association and public property, including a parcel of approximately 14.1 acres planned to be conveyed by the Developer (defined below) to the Capistrano Unified School District for use as a school site. RMV PA2 Development, LLC, a Delaware limited liability company (the "Developer") is the master developer of property in the District. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT."

***Formation Proceedings.*** The District was formed by the County pursuant to the Act and constitutes a governmental entity separate and apart from the County.

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

Pursuant to the Act, on March 3, 2015, the Board of Supervisors adopted Resolution No. 15-012 (the "Resolution of Intention"), stating its intention to form the District and to authorize the levy of a special tax on the taxable property within the District. On March 3, 2015 the Board of Supervisors also adopted Resolution No. 15-013, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed $110,000,000 for the purpose of financing the acquisition, construction, expansion, improvement, or rehabilitation of certain public facilities to serve the area within the District and its neighboring areas. See "THE COMMUNITY FACILITIES DISTRICT — Description of Authorized Facilities."

Subsequent to a noticed public hearing, the Board of Supervisors adopted Resolution Nos. 15-028 and 15-029 on April 14, 2015 (the "Resolution of Formation" and the "Resolution to Incur Debt," respectively) which established the District, authorized the levy of a special tax within the District, determined the necessity to incur bonded indebtedness within the District, and called an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit within the District.

On April 16, 2015, an election was held within the District at which the landowners eligible to vote approved the issuance of bonds for the District in an amount not to exceed $110,000,000. A Notice of Special Tax Lien was recorded in the office of the County Recorder on April 30, 2015 as Document No. 2015000224778. On May 5, 2015, the Board, acting as the legislative body of the District, adopted Ordinance No. 15-007 (the "Ordinance") which authorizes the levy of a special tax pursuant to the Rate and Method of Apportionment of Special Tax within the District approved at the April 16, 2015 election and revised in accordance therewith as described below (as revised, the "Rate and Method"), a copy of which is attached hereto as APPENDIX A.

In accordance with Section H of the Rate and Method, the County caused a price point study dated August 7, 2015 and updated on August 21, 2015 (the "Price Point Study") to be prepared by Empire Economics, Inc. Capistrano Beach, California. Based on the Price Point Study, the Assigned Special Tax rates (as defined in the Rate and Method) were reduced in accordance with the Rate and Method. In accordance with the Rate and Method, upon the issuance of the Bonds, a notice of the revised Assigned

Special Tax rates will be recorded in the office of the County Recorder. The revised Assigned Special Tax rates for each zone are set forth in the Rate and Method attached hereto as APPENDIX A.

***Validation Proceedings***. On May 12, 2015, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the authorization of the issuance of bonds for the District and the levy of the special tax within the District. On July 16, 2015, the court entered a default judgment (the "Validation Judgment") to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the Special Tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State. The last day of the appeal period for the validation action was August 15, 2015. As of the date of this Official Statement, no appeal has been filed with respect to the Validation Judgment. See the section entitled "VALIDATION" herein for additional information regarding the legal effects of the Validation Judgment.

**Property Ownership and Development Status**

The District encompasses the Village of Esencia development ("Esencia"), which is a portion of the second phase of development of the Rancho Mission Viejo Ranch Plan Planned Community. The Rancho Mission Viejo Ranch Plan Planned Community is a proposed 22,815-acre master planned community, which will consist of the final build-out of Rancho Mission Viejo. Other Rancho Mission Viejo projects within the County have included the City of Rancho Santa Margarita, Ladera Ranch, Las Flores and Sendero.

The residential development within the District is planned for 12 residential projects consisting of 840 for-sale residential units, a 113-unit affordable apartment complex and a 150-unit market-rate apartment complex. In addition, an approximately one-acre parcel owned by the Developer is currently planned for use as a daycare center. The remaining nonresidential property within the District is owned by the Developer. The Developer expects to convey approximately 14.1 acres of such property to the Capistrano Unified School District to be used as a K-8 school site. The balance of the property within the District is anticipated to be used for recreational facilities, parks and open space.

All property planned for residential development in the 12 for-sale projects has been conveyed to merchant builders. Four of the developments planned for for-sale residential units totaling 318 units are designated as age-qualified for residents age 55 or older. Property planned for the age-qualified developments has been sold to CalAtlantic Group, Inc. (formerly Standard Pacific), Shea Homes and William Lyon Homes (or their homebuilding subsidiaries and divisions, as further described herein). The remaining property planned for for-sale residential developments are owned by William Lyon Homes, Shea Homes, TRI Pointe Homes, Ryland Homes of California, Inc. ("Ryland Homes") (which, pursuant to the October 1, 2015 merger between the Ryland Group and Standard Pacific as described herein, became a wholly-owned subsidiary of CalAtlantic Group, Inc.), Warmington and Meritage (or their homebuilding subsidiaries and divisions, as further described herein). The sites planned for the two apartment complexes are owned by the Developer and are expected to be developed by joint ventures between the Developer, Western National Group and Lewis Operating Company. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant Builders in the Development."

On September 28, 2015, the respective shareholders of the Ryland Group and Standard Pacific approved the Merger Agreement. On October 1, 2015, the Ryland Group (the parent company of Ryland Homes ) merged with and into Standard Pacific, with Standard Pacific continuing as the surviving corporation. At the same time, Standard Pacific changed its name to CalAtlantic Group, Inc. ("CalAtlantic"). Pursuant to such merger, Ryland Homes will remain a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic (see "PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant

Builders in the Development — Standard Pacific/Ryland Merger" for a discussion of the merger between the Ryland Group and Standard Pacific).

The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. Construction of the centrally located recreational facilities such as the community hall with coffee house and farm and associated landscaping was substantially complete as of September 18, 2015. Residential lots are expected to be finished in phases by the merchant builders and the first phase of residential lots is in finished or near finished condition. All of the merchant builders within the District have commenced vertical construction of model homes within the District. The public grand opening for the Esencia development was held on September 20, 2015 with the exception of Ryland Homes' MR-19 (Heirloom) product which is expected to open in November 2015. As of August 26, 2015, merchant builders had pulled 203 building permits within the District, including building permits for 51 planned model homes. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT" herein.

In May 2015, the Developer started pre-opening marketing efforts including advertising and creating a website for Esencia. As of August 5, 2015, the Developer represents that more than 5,000 people have visited the website and signed up to receive more information on the new homes in Esencia. Of these, more than 3,000 have chosen to become a "Pathfinder" and receive invitations to preview events. During the month of August 2015, a series of five builder fairs were held to introduce each homebuilder in Esencia to the Pathfinders.

### Forward Looking Statements

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

### Sources of Payment for the Bonds

***General***. The Bonds and any Parity Bonds are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the Bonds and any Parity Bonds are payable solely from the Special Taxes to be levied annually against the property in the District, or, to the extent necessary, from the moneys on deposit in the Reserve Account. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of the County. Although the Special Taxes will constitute a lien on the property subject to taxation in the District, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

***Limited Obligations***. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds and any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the County nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Resolution as more fully described herein

***Special Tax***. As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against certain land within the District pursuant to the Act and in accordance with the Rate and Method, but excluding penalties and interest imposed upon delinquent installments. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" and APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." Under the Resolution, the District will pledge to repay the Bonds and any Parity Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and from amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Resolution.

The Special Taxes are the primary security for the repayment of the Bonds and any Parity Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds and any Parity Bonds are amounts held by the Treasurer in the Special Tax Fund, including amounts held in the Reserve Account therein. See "SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund."

***Foreclosure Proceeds***. The District will covenant for the benefit of the owners of the Bonds and Parity Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of $25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings.

Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds. As the first installment of Special Tax payments is not due until December 10, 2015, there are no delinquent parcels within the District at this time. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*" herein and APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings." There is no assurance that the property within 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 the District. See "SPECIAL RISK FACTORS — Land Values" and APPENDIX B — "APPRAISAL REPORT" herein.

The District participates in the County's Teeter Plan (as defined herein). See "SOURCES OF PAYMENT FOR THE BONDS — Teeter Plan" and "SPECIAL RISK FACTORS — Teeter Plan Termination."

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

**FROM NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE RESOLUTION AS MORE FULLY DESCRIBED HEREIN.**

***Parity Bonds and Liens***. Under the terms of the Resolution, the District may issue additional bonds secured by the Net Taxes on a parity with the Bonds ("Parity Bonds") if certain conditions are met but only for the purpose of refunding the Bonds or Parity Bonds. See "SOURCES OF PAYMENT FOR THE BONDS — Issuance of Parity Bonds for Refunding Only." Parity Bonds may be issued by means of a supplemental resolution and without any requirement for the consent of any Bond owners. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — DEFEASANCE AND PARITY BONDS." Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within the District which could adversely affect the willingness of the landowners to pay the Special Taxes when due. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments" herein.

**Appraisal Report**

An MAI appraisal of the land and existing improvements within the District was prepared by Harris Realty Appraisal, Newport Beach, California (the "Appraiser"). The appraisal is dated July 15, 2015, and entitled "Appraisal Report County of Orange Community Facilities District No. 2015-1 (Village of Esencia)," (the "Appraisal Report"). See APPENDIX B — "APPRAISAL REPORT." The Appraisal Report provides an estimate of the approximate market value of the property in the District, assuming development of the property as currently planned. As currently planned, development in the District will consist of 840 residential units (including 318 age-qualified units), a 113-unit affordable apartment complex and a 150-unit market-rate apartment complex. In addition, a parcel of approximately one-acre is owned by the Developer and is expected to be developed into a daycare center. As of July 1, 2015, the Appraiser estimates that the market value of all of the Parcels within the District subject to the Special Tax was $290,200,000.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in APPENDIX B. The County and the District make no representations as to the accuracy of the Appraisal Report. See "THE COMMUNITY FACILITIES DISTRICT — Appraisal Report" and "— Appraised Value-to-Lien Ratios." There is no assurance that property within the District can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay the Special Tax for that parcel in the event of a default in payment of Special Taxes by the land owner. See "THE COMMUNITY FACILITIES DISTRICT," "SPECIAL RISK FACTORS — Land Values" and APPENDIX B — "APPRAISAL REPORT" herein.

**Description of the Bonds**

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

Principal of, premium, if any, and interest on the Bonds is payable by the Paying Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Paying Agent, all as described in the

Resolution. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — GENERAL AUTHORIZATION AND BOND TERMS — Transfers Outside Book-Entry System" herein.

The Bonds are subject to optional redemption, extraordinary redemption, and mandatory sinking fund redemption as described herein. See "THE BONDS — Redemption." For a more complete descriptions of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE BONDS" and APPENDIX E —" SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" herein.

**Tax Exemption**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants described in the Official Statement, is excluded from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal alternative minimum tax; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations. Set forth in APPENDIX C is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see "TAX MATTERS."

**Professionals Involved in the Offering**

U.S. Bank National Association, Los Angeles, California, will act as Paying Agent under the Resolution. Stifel, Nicolaus & Company, Incorporated and Piper Jaffray & Co., are the underwriters (together, the "Underwriters") of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds. Certain legal matters will be passed on for the District and the County by the Office of the County Counsel and for the Underwriters by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriters. Other professional services have been performed by Harris Realty Appraisal, Newport Beach, California, as the Appraiser, Empire Economics, Inc., Capistrano Beach, California as Market Absorption Consultant, Fieldman, Rolapp & Associates, Inc., Irvine, California as financial advisor to the County and David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, and initial dissemination agent under the Developer Continuing Disclosure Agreement, dated as of October 1, 2015, by and between the Special Tax Consultant and the Developer (the "Developer Continuing Disclosure Agreement").

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

**Continuing Disclosure**

The District has agreed to provide, or cause to be provided, pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission (the "Rule") certain financial information and operating data on an annual basis (the "District Reports"). The District has further agreed to provide, in a timely manner, notice of certain events with respect to the Bonds (the "Listed Events"). These covenants have been made in order to assist the Underwriters in complying with the Rule. The District Reports will be filed with the Electronic Municipal Market Access System ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB") available on the Internet at http://emma.msrb.org. Notices of Listed Events will also be filed with the MSRB. The District has not entered into any prior continuing disclosure obligations. The County will assist the

District in preparing the District Reports. Within the last five years, the County and certain related entities have failed to comply in certain respects with prior continuing disclosure undertakings.

The Underwriters do not consider the Developer to be an "obligated person" with respect to the Bonds for purposes of the Rule. However, to assist in the marketing of the Bonds, the Developer has agreed to provide, or cause to be provided on EMMA, updated information with respect to the development within the District (the "Developer Reports" and together with the District Report, the "Reports"), on a semiannual basis during the development period and notices of certain events.

See "CONTINUING DISCLOSURE" herein and APPENDIX F and APPENDIX G hereto for a description of the specific nature of the annual reports to be filed by the District and the Developer and notices of Listed Events and a copy of the continuing disclosure undertakings pursuant to which such Reports are to be made.

**Bond Owners' Risks**

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency. The purchase of the Bonds involves significant risks, and the Bonds may not be appropriate investments for certain investors. See "SPECIAL RISK FACTORS" herein.

**Other Information**

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

Brief descriptions of the Bonds and the Resolution are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Resolution, the Bonds and the constitution and laws of the State as well as the proceedings of the Board, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Resolution. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Resolution.

Copies of the Resolution, the Appraisal Report and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the Clerk of the Board of Supervisors' office at 333 West Santa Ana Boulevard, Santa Ana, California 92702.

## ESTIMATED SOURCES AND USES OF FUNDS

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

| | | |
|---|---|---|
| **Sources of Funds:** | | |
| Principal Amount of Bonds | $ | 90,845,000.00 |
| Plus Net Original Issue Premium | | 5,802,809.55 |
| Total Sources | $ | 96,647,809.55 |
| **Uses of Funds:** | | |
| Acquisition and Construction Fund(1) | $ | 87,701,058.22 |
| Administrative Expense Account | | 75,000.00 |
| Costs of Issuance(2) | | 998,943.75 |
| Reserve Account | | 7,872,807.58 |
| Total Uses | $ | 96,647,809.55 |

(1) Acquisition and Construction Fund includes the County Facilities Account, the Water Facilities Account and the Project Facilities Account.
(2) Includes Underwriters' Discount, Bond Counsel fees, Disclosure Counsel Fees, Special Tax Consultant fees, Financial Advisor fees, Paying Agent fees, printing costs and other issuance costs.
Source: The Underwriters.

## THE BONDS

### General Provisions

The Bonds will be dated as of their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each February 15 and August 15, commencing on February 15, 2016 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

As used herein, Record Date means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

Interest on any Bond will be paid to the person whose name appears in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. Such interest will be paid by check of the Paying Agent mailed by first class mail, postage prepaid, to the Bondowner at its address on the Bond Register. In addition, with respect to any Bonds owned by the District and upon a request in writing received by the Paying Agent on or before the applicable Record Date from an Owner of $1,000,000 or more in principal amount of the Bonds, payment will be made by wire transfer in immediately available funds to an account designated by such Owner.

Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Paying Agent in Los Angeles, California.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 and any integral multiple thereof. So long as DTC is the securities depository all payments of principal and interest on the Bonds will be made to DTC and will be paid to the Beneficial Owners in accordance with DTC's procedures and the procedures of DTC's Participants. See APPENDIX H — "BOOK-ENTRY-ONLY SYSTEM."

### Debt Service Schedule

The following table presents the annual debt service on the Bonds (including sinking fund redemption), assuming there are no optional or extraordinary redemptions. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE BONDS — Redemption."

| ***Date (August 15)*** | ***Principal*** | ***Interest*** | ***Total*** |
|---|---|---|---|
| 2016 | $ 1,115,000 | $ 3,535,849.97 | $ 4,650,849.97 |
| 2017 | 305,000 | 4,412,912.50 | 4,717,912.50 |
| 2018 | 405,000 | 4,406,812.50 | 4,811,812.50 |
| 2019 | 520,000 | 4,390,612.50 | 4,910,612.50 |
| 2020 | 635,000 | 4,369,812.50 | 5,004,812.50 |
| 2021 | 760,000 | 4,344,412.50 | 5,104,412.50 |
| 2022 | 895,000 | 4,314,012.50 | 5,209,012.50 |
| 2023 | 1,045,000 | 4,269,262.50 | 5,314,262.50 |
| 2024 | 1,200,000 | 4,217,012.50 | 5,417,012.50 |
| 2025 | 1,370,000 | 4,157,012.50 | 5,527,012.50 |
| 2026 | 1,550,000 | 4,088,512.50 | 5,638,512.50 |
| 2027 | 1,740,000 | 4,011,012.50 | 5,751,012.50 |
| 2028 | 1,945,000 | 3,924,012.50 | 5,869,012.50 |
| 2029 | 2,155,000 | 3,826,762.50 | 5,981,762.50 |
| 2030 | 2,385,000 | 3,719,012.50 | 6,104,012.50 |
| 2031 | 2,625,000 | 3,599,762.50 | 6,224,762.50 |
| 2032 | 2,855,000 | 3,494,762.50 | 6,349,762.50 |
| 2033 | 3,095,000 | 3,380,562.50 | 6,475,562.50 |
| 2034 | 3,380,000 | 3,225,812.50 | 6,605,812.50 |
| 2035 | 3,680,000 | 3,056,812.50 | 6,736,812.50 |
| 2036 | 4,000,000 | 2,872,812.50 | 6,872,812.50 |
| 2037 | 4,310,000 | 2,702,812.50 | 7,012,812.50 |
| 2038 | 4,630,000 | 2,519,637.50 | 7,149,637.50 |
| 2039 | 4,970,000 | 2,322,862.50 | 7,292,862.50 |
| 2040 | 5,380,000 | 2,061,937.50 | 7,441,937.50 |
| 2041 | 5,810,000 | 1,779,487.50 | 7,589,487.50 |
| 2042 | 6,265,000 | 1,474,462.50 | 7,739,462.50 |
| 2043 | 6,750,000 | 1,145,550.00 | 7,895,550.00 |
| 2044 | 7,265,000 | 791,175.00 | 8,056,175.00 |
| 2045 | 7,805,000 | 409,762.50 | 8,214,762.50 |
| Total | $90,845,000 | $96,825,237.47 | $187,670,237.47 |

Source: The Underwriters.

### Redemption

***Optional Redemption***. The Bonds maturing on or after August 15, 2026 may be redeemed, at the option of the District from any source of funds, on any date on or after August 15, 2025, in whole, or in part in the order of maturity selected by the District and by lot within a maturity, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

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

| ***Redemption Dates*** | ***Redemption Price*** |
|---|---|
| February 15, 2016 through February 15, 2023 | 103% |
| August 15, 2023 and February 15, 2024 | 102 |
| August 15, 2024 and February 15, 2025 | 101 |
| August 15, 2025 and any Interest Payment Date thereafter | 100 |

***Mandatory Sinking Fund Redemption***. The Bonds maturing on August 15, 2038 (the "2038 Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on August 15, 2036, and on each August 15 thereafter prior to maturity, and will be paid at maturity in accordance with the schedule of Sinking Fund Payments set forth below. The 2038 Term Bonds so called for redemption will be selected by the Paying Agent by lot and will be redeemed at a redemption price for each redeemed 2038 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

| ***Sinking Fund Redemption Date (August 15)*** | ***Sinking Fund Payments*** |
|---|---|
| 2036 | $ 4,000,000 |
| 2037 | 4,310,000 |
| 2038 (maturity) | 4,630,000 |

The Bonds maturing on August 15, 2045 (the "2045 Term Bonds" and together with the 2038 Term Bonds, the "Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on August 15, 2039, and on each August 15 thereafter prior to maturity, and will be paid at maturity in accordance with the schedule of Sinking Fund Payments set forth below. The 2045 Term Bonds so called for redemption will be selected by the Paying Agent by lot and will be redeemed at a redemption price for each redeemed 2045 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

| ***Sinking Fund Redemption Date (August 15)*** | ***Sinking Fund Payments*** |
|---|---|
| 2039 | $ 4,970,000 |
| 2040 | 5,380,000 |
| 2041 | 5,810,000 |
| 2042 | 6,265,000 |
| 2043 | 6,750,000 |
| 2044 | 7,265,000 |
| 2045 (maturity) | 7,805,000 |

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

***Notice of Redemption***. So long as the Bonds are held in book-entry form, the Beneficial Owners will not be mailed any notice of redemption by the Paying Agent. It is the responsibility of DTC Participants to provide such notice. See APPENDIX H — "BOOK-ENTRY ONLY SYSTEM." The Paying Agent is obligated to provide at least 30 days but not more than 60 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the respective registered owners of the Bonds at the addresses appearing on the Bond registration books; provided, however, so long as the Bonds and Parity Bonds are registered in the name of the Nominee, such notice shall be given in such manner as complies with the requirements of the Depository. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all the Bonds of one maturity, are to be redeemed, the bond numbers of such issue need not be specified; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Paying Agent. Such notice must further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable.

So long as notice of redemption has been provided as set forth in the Resolution, the actual receipt by the owner of any Bond of notice of such redemption is not a condition precedent to redemption, and neither the failure to receive such notice nor any defect therein will affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Any redemption notice for an optional redemption of the Bonds delivered in accordance with the Resolution may be conditional, and, if any condition stated in the redemption notice has not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect, (ii) the District will not be required to redeem such Bonds, (iii) the redemption will not be made, and (iv) the Paying Agent will within a reasonable time thereafter give notice to the persons to whom such conditional redemption notice was given in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

***Effect of Redemption***. When notice of redemption has been given, and when the amount necessary for redemption has been made available for that purpose and is available therefor on the date fixed for such redemption, the Bonds designated for redemption will become due and payable on the date fixed for redemption upon presentation and surrender of the Bonds at the place specified in the notice of redemption. Bonds or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds, or portions thereof, will cease to bear further interest. As of the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Resolution, 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.

***Purchase in lieu of Redemption***. The Bonds may be purchased by the District in lieu or partially in lieu of redemption of Bonds. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — CREATION OF FUNDS AND APPLICATION OF NET TAXES — Redemption Account of the Special Tax Fund."

**Registration, Transfer and Exchange**

***Registration***. The Paying Agent will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Paying Agent.

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

## SOURCES OF PAYMENT FOR THE BONDS

**Limited Obligations**

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

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Treasurer in the Special Tax Fund (other than the Administrative Expense Account therein), 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.

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

**Special Taxes**

***Authorization and Pledge***. In accordance with the provisions of the Act, the County established the District on April 14, 2015 for the purpose of financing the various public improvements required in connection with the proposed development within the District. On April 16, 2015, an election was held within the District at which the landowners eligible to vote approved the issuance of bonds for the District in an amount not to exceed $110,000,000, secured by special taxes levied on property within the District to finance the Facilities. The landowners within the District also voted to approve the Rate and Method which authorized the Special Tax to be levied to repay indebtedness of the District, including the Bonds. In accordance with Section H of the Rate and Method and the Price Point Study, certain of the Assigned Special Tax rates have been reduced. The revised Assigned Special Tax rates are included in the Rate and Method attached hereto as APPENDIX A.

The District will covenant in the Resolution that it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds, to maintain the Reserve Account at the Reserve Requirement and to pay the estimated Administrative Expenses.

The "Special Taxes" are the special taxes authorized to be levied and collected by the District in accordance with the Ordinance, the Resolution of Formation and the Act. The Special Taxes are collected in the manner and at the same time as *ad valorem* property taxes are collected and are subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The "Net Taxes" pledged by the District to the Bonds (and any Parity Bonds) is defined in the Resolution as the "Gross Taxes" minus amounts permitted to be set aside prior to the payment of the principal of and interest on the Bonds and Parity Bonds in order to pay Administrative Expenses.

"Gross Taxes" is defined in the Resolution as the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a tax defaulted parcel pursuant to the Teeter Plan (as defined herein).

The Treasurer, under the Resolution will, on each date on which the Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund. The Treasurer will transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Resolution, in the following order of priority, to:

(1) The Administrative Expense Account of the Special Tax Fund in an amount needed to pay Administrative Expenses when due (not to exceed the Administrative Expenses Cap);

(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 Special Reserve Fund.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See the caption "*Limitation on Special Tax Levy and Potential Impact on Coverage*" below and "SPECIAL RISK FACTORS — Insufficiency of Special Taxes" herein.

***Rate and Method of Apportionment of Special Tax***. The District is legally authorized and will covenant to cause the levy of the Special Taxes in an amount determined according to a methodology, i.e., the Rate and Method which the Board of Supervisors and the electors within the District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described below.

The District is comprised of eight tax zone areas (each a "Zone") (pursuant to the Rate and Method, no Special Tax shall be levied within Zone E). The Zones generally coincide with the different product types that are being developed within the District and the different merchant builders that have purchased properties in the District.

The following is a synopsis of the provisions of the Rate and Method for the District, which should be read in conjunction with the complete text of the Rate and Method which is attached as APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." The meaning of the defined terms used in this section are as set forth in APPENDIX A. This section provides only a summary of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as APPENDIX A.

***Assignment to Land Use Categories***. Each Fiscal Year, commencing Fiscal Year 2015-16, all Taxable Property within each Zone of the District shall be classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the Rate and Method determined pursuant to Sections C and D of APPENDIX A. The Assigned Special Tax for Residential Property shall be based on the Zone in which the Assessor's Parcel is located, the number of dwelling units, and the Residential Floor Area of the dwelling units located on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Zone in which the Assessor's Parcel is located and the Acreage of the Assessor's Parcel.

***Exemptions***. No Special Tax shall be levied on property that is located in Zone E. No Special Tax shall be levied on Assessor's Parcels of Conservation Property, Property Owner Association Property, Public Property and/or Religious Property, that is within a Zone; provided that an Assessor's Parcel shall not be exempt and shall be classified as Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and/or Taxable Religious Property if exempting such property would increase the sum of all property exempt from the Special Tax within the applicable Zone to greater than the corresponding Acreage amount listed Table 10 of the Rate and Method of Apportionment of Special Tax attached as APPENDIX A.

***Maximum Special Tax, Assigned Annual Special Tax and Backup Special Tax***.

*Maximum Special Tax.* The Maximum Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone shall be the greater of (i) the amount derived by application of the Assigned Special Tax for such Zone or (ii) the amount derived by application of the Backup Special Tax for such Zone. The Maximum Special Tax for an Assessor's Parcel of Undeveloped Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property within each Zone is shown in Table 9 of the Rate and Method of Apportionment of Special Tax attached as APPENDIX A and ranges from $26,663 to $89,605 per acre.

*Assigned Special Tax.* The Fiscal Year 2015-16 Assigned Special Tax for each Land Use Class within each Zone is shown in Tables 1 through 7 of the Rate and Method of Apportionment of Special Tax attached as APPENDIX A. Assigned Special Tax rates have been established for Residential Property, Non-Residential Property, Apartment Property and Affordable Property in the seven taxable Zones. The number of units projected in each of the foregoing land use classes within each Zone are as follows:

| Zone | Projected Residential Development |
|---|---|
| 1 | 94 |
| 2 | 244 |
| 3 | 184 |
| 4 | 90 |
| 5 | 158 |
| 6 | 70 |
| 7 | 263 |
| **Total Residential Units** | **1,103** |

The Assigned Special Tax levied against Developed Property that is Residential Property will generally correlate with the residential square footage of the unit in question. Units classified as Apartment Property and Affordable Property are levied on a per unit basis without regard to unit square footage. For a detailed description of Assigned Special Taxes for Developed Property in the residential zones, see the Rate and Method attached as APPENDIX A.

The Assigned Special Tax levied against Non-Residential parcels of Developed Property within each Zone will generally be determined on a per acre basis. For a detailed description of Assigned Special Taxes for Non-Residential property that is Developed Property, see the Rate and Method attached as APPENDIX A.

*Multiple Land Use Classes.* In some instances an Assessor's Parcel may contain both Undeveloped Property and Developed Property. Furthermore, Developed Property may contain more than one Land Use Class. In such cases, the Acreage of the Assessor's Parcel will be allocated between Developed Property and Undeveloped Property based on the portion of the Assessor's Parcel for which building permits had been issued prior to January 1 of the prior Fiscal Year and the portion of the Assessor's Parcel for which building permits had not been issued prior to January 1 of the prior Fiscal Year. The Acreage that is considered Developed Property will be allocated between Residential Property and Non-Residential Property based on the site plan. The Maximum Special Tax that can be levied on such Assessor's Parcel will be the sum of the Maximum Special Tax that can be levied on each type of property located on that Assessor's Parcel.

*Backup Special Tax.* The Fiscal Year 2015-16 Backup Special Taxes are detailed in Table 8 of the Rate and Method of Apportionment of Special Tax attached as APPENDIX A and range from $26,663 to $83,506 per acre.

*Annual Increases.* On each July 1, commencing on July 1, 2016, the Assigned Special Tax and the Backup Special Tax for Developed Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year. On each July 1, commencing July 1, 2016, the Maximum Special Tax for Undeveloped Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

***Method of Apportionment of Special Tax***. Commencing with Fiscal Year 2015-16 and for each following Fiscal Year, the Board of Supervisors shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

> First: The Special Tax shall be levied proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax;
>
> Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property; and

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the above, under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District. To the extent that the levy of the Special Tax on Residential Property is limited by the provision in the previous sentence, the levy of the Special Tax on all other Assessor's Parcels shall continue in equal percentages at up to 100% of the Maximum Special Tax.

***Prepayment of Annual Special Taxes***. The Annual Special Tax obligation for an Assessor's Parcel may be prepaid in full, or in part, provided that the terms set forth under the Rate and Method are satisfied. The Prepayment Amount is calculated based on the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Amount, Administrative Fees and Expenses and less a credit for the resulting reduction in the Reserve Requirement for the Bonds (if any) and less capitalized interest (if any), all as specified in Section G of the "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX attached as APPENDIX A.

***Estimated Debt Service Coverage***. The following table sets forth the estimated debt service coverage based on the actual Special Tax levy in Fiscal Year 2015-16 for the Bond Year ending August 15, 2016 and and based on the Assigned Special Taxes at projected build-out of the District for each Bond Year thereafter. Pursuant to the Rate and Method, and subject to the Maximum Special Taxes prescribed therein and permitted by the Act, the District will only levy Special Taxes in an amount sufficient to achieve the Special Tax Requirement.

**TABLE 1**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)**
**ESTIMATED BOND DEBT SERVICE COVERAGE AT BUILD-OUT**

| *Bond Year Ending August 15* | *Developed Special Tax Revenues[(2)]* | *Undeveloped Special Tax Revenues* | *Total Special Tax Revenues* | *Annual Administrative Expenses[(3)]* | *Net Special Tax Revenues* | *Series 2015 Special Tax Bonds Debt Service* | *Coverage on Bonds[(4)]* |
|---|---|---|---|---|---|---|---|
| 2016 | $ 0 | $4,689,393[(1)] | $4,689,393 | $ 35,000 | $4,654,393 | $4,650,850 | 100.08% |
| 2017 | 5,268,765 | 0 | 5,268,765 | 76,500 | 5,192,265 | 4,717,913 | 110.05 |
| 2018 | 5,374,141 | 0 | 5,374,141 | 78,030 | 5,296,111 | 4,811,813 | 110.06 |
| 2019 | 5,481,623 | 0 | 5,481,623 | 79,591 | 5,402,033 | 4,910,613 | 110.01 |
| 2020 | 5,591,256 | 0 | 5,591,256 | 81,182 | 5,510,073 | 5,004,813 | 110.10 |
| 2021 | 5,703,081 | 0 | 5,703,081 | 82,806 | 5,620,275 | 5,104,413 | 110.11 |
| 2022 | 5,817,143 | 0 | 5,817,143 | 84,462 | 5,732,680 | 5,209,013 | 110.05 |
| 2023 | 5,933,485 | 0 | 5,933,485 | 86,151 | 5,847,334 | 5,314,263 | 110.03 |
| 2024 | 6,052,155 | 0 | 6,052,155 | 87,874 | 5,964,281 | 5,417,013 | 110.10 |
| 2025 | 6,173,198 | 0 | 6,173,198 | 89,632 | 6,083,566 | 5,527,013 | 110.07 |
| 2026 | 6,296,662 | 0 | 6,296,662 | 91,425 | 6,205,238 | 5,638,513 | 110.05 |
| 2027 | 6,422,595 | 0 | 6,422,595 | 93,253 | 6,329,342 | 5,751,013 | 110.06 |
| 2028 | 6,551,047 | 0 | 6,551,047 | 95,118 | 6,455,929 | 5,869,013 | 110.00 |
| 2029 | 6,682,068 | 0 | 6,682,068 | 97,020 | 6,585,048 | 5,981,763 | 110.09 |
| 2030 | 6,815,710 | 0 | 6,815,710 | 98,961 | 6,716,749 | 6,104,013 | 110.04 |
| 2031 | 6,952,024 | 0 | 6,952,024 | 100,940 | 6,851,084 | 6,224,763 | 110.06 |
| 2032 | 7,091,064 | 0 | 7,091,064 | 102,959 | 6,988,105 | 6,349,763 | 110.05 |
| 2033 | 7,232,886 | 0 | 7,232,886 | 105,018 | 7,127,868 | 6,475,563 | 110.07 |
| 2034 | 7,377,543 | 0 | 7,377,543 | 107,118 | 7,270,425 | 6,605,813 | 110.06 |
| 2035 | 7,525,094 | 0 | 7,525,094 | 109,261 | 7,415,833 | 6,736,813 | 110.08 |
| 2036 | 7,675,596 | 0 | 7,675,596 | 111,446 | 7,564,150 | 6,872,813 | 110.06 |
| 2037 | 7,829,108 | 0 | 7,829,108 | 113,675 | 7,715,433 | 7,012,813 | 110.02 |
| 2038 | 7,985,690 | 0 | 7,985,690 | 115,948 | 7,869,742 | 7,149,638 | 110.07 |
| 2039 | 8,145,404 | 0 | 8,145,404 | 118,267 | 8,027,137 | 7,292,863 | 110.07 |
| 2040 | 8,308,312 | 0 | 8,308,312 | 120,633 | 8,187,679 | 7,441,938 | 110.02 |
| 2041 | 8,474,478 | 0 | 8,474,478 | 123,045 | 8,351,433 | 7,589,488 | 110.04 |
| 2042 | 8,643,968 | 0 | 8,643,968 | 125,506 | 8,518,462 | 7,739,463 | 110.07 |
| 2043 | 8,816,847 | 0 | 8,816,847 | 128,016 | 8,688,831 | 7,895,550 | 110.05 |
| 2044 | 8,993,184 | 0 | 8,993,184 | 130,577 | 8,862,607 | 8,056,175 | 110.01 |
| 2045 | 9,173,048 | 0 | 9,173,048 | 133,188 | 9,039,860 | 8,214,763 | 110.04 |

(1) Special Tax Revenues for Fiscal Year 2015-16 based on actual levy on Undeveloped Property. There was no Developed Property as of January 1, 2015.
(2) Special Tax Revenues for Fiscal Year 2016-17 and each year thereafter are based on 100% of the Assigned Special Tax rates and development at build-out as indicated in the Price Point Study. The Assigned Special Tax rates escalate by 2.00% per year. Assigned Special Tax rates are based on the reduced tax rates pursuant to Section H of the Rate and Method.
(3) The Administrative Expenses Cap is equal to $75,000, escalating at 2% per Fiscal Year, commencing July 1, 2016.
(4) Calculated by dividing the Net Special Tax Revenues column by the Series 2015 Special Tax Bonds Debt Service column.
Source: David Taussig & Associates, except for debt service on the Bonds, which was provided by the Underwriters.

***Limitation on Special Tax Levy and Potential Impact on Coverage***. Pursuant to Section 53321(d) of the Government Code, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the 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 Government Code, the District can levy Special Taxes on Undeveloped Property to make-up all or a portion of any shortfall in the Special Tax levy.

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

The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for the District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the County's share of such taxes (including the Special Taxes) to the County, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the County in the Orange County Investment Pool (the "Pool") which is invested by the County Treasurer. If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that District property taxes held in the Pool (including the Special Taxes), if any, could be temporarily unavailable to the County. The District participates in the County's Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan allows counties to allocate 100 percent of property taxes billed to participating taxing entities in exchange for retaining future delinquent tax payments, penalties and interest.

The District will make certain covenants in the Resolution for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District will covenant that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes below current levels unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, among other things, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant will compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

Second, the District will covenant not to permit the tender of Bonds or Parity Bonds in payment of any Special Taxes. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. In addition to the obligation to pay Special Taxes, properties in the District are subject to other assessments and special taxes as set forth under Table 3 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the County or the landowners in the District. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments" herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

***Proceeds of Foreclosure Sales***. The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within the District resulting from a landowner's failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Special Tax revenues pledged to the payment of principal and interest on the Bonds under the Resolution, except any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the Board of Supervisors of the County, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District will covenant for the benefit of the Owners of the Bonds that it will commence and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of $25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied. Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — COVENANTS AND WARRANTY" herein.

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

**Reserve Account of the Special Tax Fund**

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account an amount equal to the Reserve Requirement and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Resolution provides that the amount to be maintained in the Reserve Account as the Reserve Requirement shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the Maximum Annual Debt Service on the then Outstanding Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding Bonds and any Parity Bonds. As of the date of issuance of the Bonds the Reserve Requirement will be fully funded in the amount of $ 7,872,807.58.

Subject to the limits on the maximum annual Special Tax which may be levied within the District in accordance with the Rate and Method set forth in APPENDIX A, the District will covenant to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds and any Parity Bonds, to the extent other moneys in the Interest Account and the Principal Account are insufficient therefor; (ii) make any required transfer to the Rebate Fund pursuant to the Resolution; (iii) redeem the Bonds and any Parity Bonds in whole or in part; and (iv) pay the principal and interest due in the final year of maturity of a series of the Bonds and any Parity Bonds. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — CREATION OF FUNDS AND APPLICATION OF REVENUES AND NET TAXES — Reserve Account of the Special Tax Fund" herein.

**Special Reserve Fund**

After the deposit to the Administrative Expense Account, the payment of principal of and interest on the Bonds when due, transfers to the Redemption Account to pay principal and premium, if any, on Bonds called for redemption, transfers to replenish the Reserve Account to the Reserve Requirement and any required transfers to the Rebate Fund, as soon as practicable after each August 15, and in any event prior to each September 1, the Treasurer will transfer all remaining amounts in the Special Tax Fund to the Special Reserve Fund, other than amounts in the Special Tax Fund which the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Resolution. Moneys deposited in the Special Reserve Fund may be applied 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, to replenish the Reserve Account to the Reserve Requirement, to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses, to pay Project Costs, or for any other lawful purpose of the District.

The amounts in the Special Reserve 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.

**Issuance of Parity Bonds for Refunding Only**

The District may issue Parity Bonds, in addition to the Bonds, which shall be secured by a lien on the Special Taxes and funds pledged for the payment of the Bonds hereunder on a parity with the Outstanding Bonds as provided herein. The Parity Bonds may be issued only for the purpose of defeasing and refunding a portion of the Outstanding Bonds or other Parity Bonds, but only if such defeasance and refunding will not result in an increase in Annual Debt Service in any Bond Year. The Parity Bonds shall be issued by means of a Supplemental Resolution and without the consent of any Bondowners, upon compliance with the provisions of the Resolution. The District may issue such Parity Bonds subject to the following specific conditions:

(A) The District shall be in compliance with all covenants set forth in the Resolution and all Supplemental Resolutions.

(B) The Supplemental Resolution providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on February 15 and August 15, and principal thereof shall be payable on

August 15 in any year in which principal is payable (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(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 Paying Agent (unless the Paying Agent shall accept any of such documents bearing a prior date):

(1) A certified copy of the Supplemental Resolution 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 County Counsel to the effect that (a) the District has the right and power under the Act to adopt the Resolution and the Supplemental Resolutions relating to such Parity Bonds, and the Resolution and all such Supplemental Resolutions 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 Resolution creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; 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 Resolution and all Supplemental Resolutions thereto and entitled to the benefits of the Resolution and all such Supplemental Resolutions, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Resolution and all such Supplemental Resolutions; 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 Resolution;

(5) A certificate from one or more Independent Financial Consultants which, when taken together, certify 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.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — DEFEASANCE AND PARITY BONDS — Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness."

**Teeter Plan**

The District is included in the County's Teeter Plan and, as described below, so long as the Teeter Plan remains in effect with respect to the District, the District will be paid 100% of the amount of Special Taxes levied regardless of whether the County has actually collected the levies. To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help to protect the Owners of the Bonds from the risk of delinquencies in Special Taxes.

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Section 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. A county benefits from the Teeter Plan by retaining penalties associated with these delinquent taxes when they are paid and the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of the county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Board of Supervisors adopted the Teeter Plan on June 29, 1993 and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the District, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See "SPECIAL RISK FACTORS – Teeter Plan Termination." The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

## THE COMMUNITY FACILITIES DISTRICT

### General Description of the District

The District is located in the southern portion of Orange County, in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of the community of Ladera Ranch and east of the City of San Juan Capistrano. The District consists of approximately 417 gross acres. The land within which the District sits is part of a larger area acquired through a series of Mexican land grants from 1843-1845. The areas conveyed by these land grants included the areas of the County known as the Rancho La Paz, Mission San Juan Capistrano, Rancho Trabuco, Rancho Santa Margarita, and Las Flores (collectively, this property is referred to as the "Ranch"). In 1939, the Ranch was split in two, with representatives of the O'Neill family retaining the portion located in Orange County, and representatives of the Flood family retaining the southern portion located in San Diego County. In 1942, the United States Marine Corps acquired the entire southern portion to expand Camp Pendleton. After World War II, what remained of the historic Ranch encompassed two Orange County parcels, united under the name of Rancho Mission Viejo. These two parcels totaled 52,000 acres.

In 1966, the O'Neill family and its partners established The Mission Viejo Company and embarked on residential development of a 10,000 acre master planned community now known as the City of Mission Viejo. In 1972, The Mission Viejo Company was sold to Philip Morris Inc., which completed the master planned community. Rancho Mission Viejo, the entity established by the O'Neill family and its partners to develop the remaining Ranch land, is responsible for the creation and development of the master planned communities of Rancho Santa Margarita, Las Flores, and Ladera Ranch. Between the years 2001 and 2009, Rancho Mission Viejo secured all approvals for a comprehensive land use management/operation and open space preservation plan for the remaining 22,815 acres of the family ranch. With these approvals secured, approximately 25% of the Ranch is anticipated to be developed over the next few decades into a new community and the remaining 75% is planned to be set-aside in perpetuity as a permanent habitat reserve covered by a conservation easement to a 501c(3) non-profit corporation known as "The Reserve at Rancho Mission Viejo." The property within the District, known as the Village of Esencia, is a portion of the second phase of the final development within the Ranch. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — The Development" herein.

The District was formed in 2015 by the Board under the Act to provide for the financing of public improvements to meet the needs of new development. The Developer and the other owners of the property within the District, as the qualified electors of the District, authorized the District to incur bonded indebtedness to finance certain public facilities to meet the needs of new development within the District and approved the Rate and Method for the District and authorized the levy of the Special Tax.

Approximately 98.1 acres of property in the District are expected to be subject to the Special Tax at build-out. The remaining property within the District consists generally of open space/conservation property, property owned by an owner association, and public property. The development within the District is planned for 12 residential projects consisting of 840 for-sale residential units, a 113-unit affordable apartment complex and a 150-unit market-rate apartment complex. The 840 for-sale residential units are expected to consist of 522 market-rate residential units and 318 age-qualified residential units. The remaining nonresidential property within the District is owned by the Developer. Of such property, the Developer expects to convey a parcel of approximately one acre to another entity to be developed into a daycare center and approximately 14.1 acres to the Capistrano Unified School District to be used as a K-8 school site. The balance of the property within the District is anticipated to be used for recreation facilities, parks and open space.

Construction of the centrally located community hall with coffee house and farm and associated landscaping was substantially complete as of September 18, 2015. Merchant homebuilders have purchased all of the land available in the District for residential development of for-sale units, and have commenced construction of model homes on the initial phases of development. The sites planned for the two apartment complexes are owned by the Developer and are expected to be developed by joint ventures between the Developer, Western National Group and Lewis Operating Company. As of July 1, 2015, the sites planned for the two apartment complexes were in a mass graded state.

The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. The merchant builders are responsible to complete all in-tract improvements. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT." A detailed description of the status of the construction and ownership as of the date of the Appraisal Report is included in APPENDIX B — "APPRAISAL REPORT."

Water and sewer service to the property is provided by the Santa Margarita Water District. Electricity is supplied by San Diego Gas and Electric, natural gas is supplied by The Gas Company, police services are provided by the Orange County Sheriff's Department, and fire services are provided by the Orange County Fire Authority.

### Description of Authorized Facilities

The expected total cost of the Facilities eligible to be financed with the proceeds of the Bonds, based on the current estimated cost of the Facilities, is approximately $100,600,000. The facilities authorized to be constructed and acquired by the District with the proceeds of the Bonds, consist of roadway improvements, tunnels, regional hiking and biking trails, storm drains, water and wastewater facilities (including, without limitation, domestic and non-domestic water facilities, wells, reservoirs, pipelines, storm and sewer drains and related infrastructure and improvements), wet and dry utilities, bridges and pedestrian bridges, parks, traffic signals, school facilities and equipment, sheriff's substations and equipment and library facilities and equipment, and related infrastructure improvements, both onsite and offsite appurtenances and appurtenant work in connection with the foregoing (collectively, the "Facilities").

The estimated cost of the Facilities eligible to be financed with proceeds of the Bonds, based on the current estimated cost of the Facilities, is set forth in Table 2 below. However, the actual cost of the Facilities will depend on various factors, including product mix and the timing of construction within the undeveloped portion of the District, and such costs could be significantly higher. Given that the cost of the Facilities exceeds available proceeds of the Bonds, the costs in excess of available Bond proceeds are expected to be paid for by the Developer.

**TABLE 2**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (VILLAGE OF ESENCIA)**
**OF THE COUNTY OF ORANGE**
**FACILITIES ELIGIBLE TO BE FINANCED**
**WITH BOND PROCEEDS**

| *Facility Description* | *Estimated Amount*[(1)] | *Amount Expended as of August 15, 2015* |
|---|---|---|
| Santa Margarita Water District Facilities | $29,000,000 | $9,800,000 |
| County Roadway Facility | 8,000,000 | -- |
| Onsite and Offsite Facilities and Dry Utilities | 63,600,000 | 61,600,000 |
| **Total Facilities** | **$100,600,000** | **$71,400,000** |

(1) Based on the current estimated cost of the Facilities.
Source: The Developer.

### Direct and Overlapping Indebtedness

The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These other taxes and assessments consist of the direct and overlapping debt in the District and are set forth in Table 3 below, (the "Debt Report"). The Debt Report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or special taxes. See "SAMPLE PROPERTY TAX BILLS" in APPENDIX I for information regarding other entities levying taxes, assessments or other charges on property in the District. The Debt Report includes the principal amount of the Bonds. The Debt Report has been derived from data assembled and reported to the District by David Taussig & Associates, Inc. as of September 2, 2015. None of the District, the County, or the Underwriters have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

**TABLE 3**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (VILLAGE OF ESENCIA)**
**OF THE COUNTY OF ORANGE**
**OVERLAPPING DEBT SUMMARY**

| *Overlapping District* | *Total Levy*[(1)] | *Amount of Levy on Parcels in District*[(2)] | *Percent of Levy on Parcels in District* | *Total Debt Outstanding*[(3)] | *District Share of Total Debt Outstanding*[(5)] |
|---|---|---|---|---|---|
| Metropolitan Water District | $104,828,829 | $ 9,030 | 0.0086% | $110,420,000 | $ 9,511 |
| Capistrano Unified SFID No. 1 Series 2001B | 2,254,872 | 11,480 | 0.5091 | 9,667,521 | 49,221 |
| Capistrano Unified SFID No. 1 Series 2012 Refunding | 2,026,850 | 10,319 | 0.5091 | 23,855,000 | 121,453 |
| Santa Margarita Water District ID No. 4/4C | 1,272,336 | 1,021,098 | 80.2538 | 6,635,994[(4)] | 5,325,639 |
| Estimated Share of Overlapping Debt Allocable to the District | | | | | $ 5,505,824 |
| Plus the Bonds | | | | | $ 90,845,000 |
| Estimated Share of Direct and Overlapping Debt Allocable to the District | | | | | $ 96,350,824 |

(1) Based on actual levy for Fiscal Year 2015-16.
(2) Based on Fiscal Year 2015-16 tax rates and Fiscal Year 2015-16 assessed values.
(3) As of September 2, 2015.
(4) Allocated based on the District's share of ID No. 4 debt service, as shown in Table I of the Fiscal Year 2015-16 Santa Margarita Water District Benefit Analysis Study. The share allocated to the District is expected to decrease as development within the portion of the Rancho Mission Viejo Ranch Plan Planned Community in ID No. 4C continues.
(5) Calculated by multiplying Percent of Levy on Parcels in District column by Total Debt Outstanding column.
Source: David Taussig & Associates, Inc.

### Expected Tax Burden

For Fiscal Year 2015-16, the projected total effective tax rates for all categories of residential units in Zones 1 through 3 are 2.00% and range from approximately 1.84% to approximately 1.87% in Zones 4 through 6 of total projected base sales prices based on the Price Point Study. See APPENDIX I — "SAMPLE PROPERTY TAX BILLS" attached hereto for sample property tax bills for the average residential unit sizes of each type in the various tax Zones of the District. The actual amounts charged and the effective tax rates may vary and may increase or decrease in future years.

**Market Absorption Study**

In order to determine the projected absorption of the residential and nonresidential property within the District, the County engaged Empire Economics, Inc. (the "Market Absorption Consultant") to perform a comprehensive analysis of the product mix characteristics as well as the macroeconomic and microeconomic factors that are expected to influence the absorption of the forthcoming products within the District. In connection therewith, the Market Absorption Consultant delivered its Market Absorption Study dated May 18, 2015 as revised on July 6, 2015 (the "Market Absorption Study") in which the Market Absorption Consultant has concluded based on statistical comparison of the currently active comparable projects to the forthcoming projects in the District using their total housing prices (base price plus Special Tax liens) and their sizes of living area, that the projects in the District are competitive in the market for all five segments (all ages attached, all ages detached – smaller, all ages detached larger, and age-qualified attached and detached). Based on the assumptions and limiting conditions set forth in the Market Absorption Study, the Market Absorption Consultant has estimated the calendar year absorption schedules for the residential projects as follows:

| | |
|---|---|
| 2016 | 402 |
| 2017 | 544[(1)] |
| 2018 | 157[(2)] |
| **Total** | **1,103** |

(1) Includes 150 apartment rentals, assuming leasing commences in January 2017.
(2) Includes 113 apartment rentals and 44 for-sale homes.
Source: The Market Absorption Consultant.

Based on the assumptions and subject to the limiting conditions set forth in the Market Absorption Study, the Market Absorption Consultant expects 402 home closings in calendar year 2016, including 42 age-qualified attached homes, 97 age-qualified detached homes and 263 homes in the all-ages segment. In calendar year 2017, the Market Absorption Consultant expects 394 home closings and 150 apartment rentals, based upon projected stronger economic conditions and the fact that most of such units will have been on the market for the entire calendar year. The Market Absorption Consultant expects the final 44 home closings and 113 apartment rentals to occur by the fall of 2018. The Market Absorption Consultant identifies potential risks that could affect the estimated absorption, including a sudden spike in mortgage rates, unforeseen delays in completing the necessary infrastructure to develop the property within the District, the substantially larger sizes and prices of certain homes within the District relative to neighboring developments and the relatively high tax burden on the age-qualified units. See APPENDIX I — "SAMPLE PROPERTY TAX BILLS." The absorption schedules for the for-sale property assumes a grand opening in September 2015, which has occurred, and apartment leasing commencing in January 2017. The public grand opening took place on September 20, 2015. A complete copy of the Market Absorption Study is attached hereto as APPENDIX J.

**Appraisal Report**

The estimated assessed value of the property within the District, as shown on the County's assessment roll for Fiscal Year 2015-16, is approximately $257,983,396. However, as a result of the requirements of Article XIIIA of the California Constitution, a property's assessed value is not necessarily indicative of its market value. In order to provide information with respect to the value of the property within the District, the County engaged Harris Realty Appraisal, the Appraiser, to prepare the Appraisal Report. The Appraiser has an "MAI" designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the County and has no material relationships with the County, the District, or the owners of the land within the District other than the relationship represented by the engagement to prepare the Appraisal Report. The County instructed the Appraiser to prepare its analysis and report in conformity with County-approved guidelines and the Appraisal Standards for Land Secured Financings published in 1994 and revised in 2004 by the California Debt and Investment Advisory

Commission. A copy of the Appraisal Report is included as APPENDIX B — "APPRAISAL REPORT" to this Official Statement.

The purpose of the Appraisal Report was to estimate the aggregate market value of the "as is" condition of the property within the District subject to the Special Taxes. The estimate of market value takes into consideration and assumes the improvements to be funded with the proceeds of the Bonds have been installed and that the development costs provided to the Appraiser by the Developer include all of the costs necessary to bring the subject properties to a finished lot condition. As a result, the value conclusions are based upon a hypothetical condition that the Bonds have been sold with proceeds available for construction of improvements of approximately $82,600,000. Subject to the contingencies, assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of July 1, 2015 (the "Date of Value"), the market value of the property within the District was $290,200,000. Table 4 below shows the market value of the various parcels owned by the Developer and each of the merchant builders as set forth in the Appraisal Report as of the Date of Value.

**TABLE 4**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (VILLAGE OF ESENCIA)**
**OF THE COUNTY OF ORANGE**
**SUMMARY OF APPRAISED VALUES**

| *Owner* | *Development Area* | *No. of Units* | *Market Value*[3] |
|---|---|---|---|
| LT-MR1, LLC (Lyon Homes) | MR-1 | 94 | $ 20,216,000 |
| Shea Homes Limited Partnership | MR-22 | 60 | 22,585,501 |
| TRI Pointe Homes, Inc. | MR-15 | 87 | 29,738,312 |
| TRI Pointe Homes, Inc. | MR-24 | 66 | 33,609,352 |
| Ryland Homes of California, Inc.[1] | MR-17 | 50 | 16,026,950 |
| Ryland Homes of California, Inc.[1] | MR-19 | 45 | 16,315,000 |
| Meritage Homes of California, Inc. | MR-23 | 58 | 23,668,000 |
| Warmington MR 14 Associates, LLC | MR-14 | 62 | 15,876,128 |
| LT-AQ1, LLC (Lyon Homes) | AQ-1 | 90 | 22,138,000 |
| Shea Homes Limited Partnership | AQ-13 | 63 | 20,786,363 |
| Shea Homes Limited Partnership | AQ-21 | 70 | 31,523,952 |
| Standard Pacific Corp.[1][2] | AQ-11 | 95 | 26,014,000 |
| RMV PA2 Development, LLC[2] | -- | 263 | 11,700,000 |
| **TOTAL** | | **1,103** | **$290,200,000** |

(1) As of the date of the Appraisal, property within development area AQ-11 was owned by Standard Pacific. As a result of the merger between the Ryland Group and Standard Pacific, Standard Pacific, as the surviving corporation, changed its name to CalAtlantic Group Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and will continue to operate under the name of Ryland Homes. See PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant Builders in the Development — *Standard Pacific/Ryland Merger*."
(2) Includes the proposed 150 market-rate apartments and 113 affordable apartments.
(3) Total represents a rounded amount of the appraised values of each owner's property.
Source: The Appraiser.

In estimating the market value, the Appraiser utilized a direct comparison approach and static residual analysis for all of the property owned by the merchant builders, the apartment sites and the proposed daycare site to derive a value indication for the finalized lots within each tract adjusted by any costs to complete such finished lots. To arrive at the absorption schedule for the proposed residential developments within the District, the Appraiser used the absorption set forth in the Market Absorption Study.

Reference is made to APPENDIX B for a complete list of the assumptions and limiting conditions and a full discussion of the appraisal methodology and the basis for the Appraiser's opinions. In the event that any of the contingencies, assumptions and limiting conditions are not actually realized, the value of the property within the District may be less than the amount reported in the Appraisal Report. In any case, there can be no assurance that any portion of the property within the District would actually sell for the amount indicated by the Appraisal Report.

The Appraisal Report merely indicates the Appraiser's opinion as to the market value of the property referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the Date of Value. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future.

It is a condition precedent to the issuance of the Bonds that the Appraiser deliver to the District a certification to the effect that, while the Appraiser has not updated the Appraisal Report since the date of the Appraisal Report and has not undertaken any obligation to do so, nothing has come to the attention of the Appraiser subsequent to the date of the Appraisal Report that would cause the Appraiser to believe that the value of the property in the District is less than the value of the District reported in the Appraisal Report. However, the Appraiser notes that acts and events may have occurred since the date of the Appraisal Report which could result in both positive and negative effects on market value within the District. The Appraiser has reviewed the merchant builder base prices as of Esencia's September 20, 2015 public grand opening and concluded that those base prices do not cause it to believe that the value of property listed for any owner in Table 4 above would be reduced.

**Appraised Value-To-Lien Ratios**

Table 5 below incorporates the values assigned to parcels in the Appraisal Report, the estimated principal amount of the Bonds allocable to each category of parcels and the estimated appraised value-to-lien ratios for various categories of parcels based upon land values and property ownership in the District as of July 1, 2015 as set forth in the Appraisal Report. Based on the principal amount of the Bonds, the estimated appraised District-wide value-to-lien ratio including all Taxable Property as of the Date of Value is 3.19-to-1. This ratio does not include other overlapping debt within the District. See "— Direct and Overlapping Indebtedness" above. Taking that direct and overlapping debt into account, the ratio of the aggregate appraised value of the Taxable Property within the District to the total principal amount of all direct and overlapping general obligation debt for the District is approximately 3.01-to-1.

The share of Bonds set forth in Table 5 below is allocated based on each property's share of the Fiscal Year 2015-16 Special Tax levy. In the Annual Reports provided pursuant to the District Continuing Disclosure Certificate, Table 5 will not be updated based on appraised value, but similar information will be provided based on current assessed value.

**TABLE 5**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (VILLAGE OF ESENCIA)**
**OF THE COUNTY OF ORANGE**
**APPRAISED VALUE-TO-LIEN RATIOS**

| *Property Classification / Owner*[(1)] | *County of Orange CFD No. 2015-1 Actual Fiscal Year 2015-16 Levy*[(2)] | *County of Orange CFD No. 2015-1 Bonds Outstanding*[(3)] | *Metropolitan Water District Bonds Outstanding*[(4)] | *Capistrano Unified School District SFID Bonds Outstanding*[(4)] | *Santa Margarita Water District ID 4/4C Bonds Outstanding*[(4)] | *Total Direct and Overlapping Debt* | *Appraised Value* | *Estimated Appraised Value-to-Lien Ratios* |
|---|---|---|---|---|---|---|---|---|
| **Undeveloped Property**[(5)] | | | | | | | | |
| LT - AQ1, LLC | $ 196,815 | $ 3,812,783 | $ 689 | $ 12,356 | $ 385,567 | $ 4,211,395 | $ 22,138,000 | 5.26 |
| LT - MR1, LLC | 263,539 | 5,105,401 | 671 | 12,043 | 375,798 | 5,493,913 | 20,216,000 | 3.68 |
| Meritage Homes of California, Inc. | 405,945 | 7,864,146 | 809 | 14,517 | 452,969 | 8,332,440 | 23,668,000 | 2.84 |
| RMV PA2 Development, LLC | 215,741 | 4,179,431 | 181 | 3,247 | 101,326 | 4,284,186 | 11,700,000 | 2.73 |
| Shea Homes Limited Partnership | 1,157,952 | 22,432,366 | 2,474 | 44,391 | 1,385,168 | 23,864,400 | 74,895,366 | 3.14 |
| TRI Pointe Homes, Inc. | 1,051,768 | 20,375,325 | 2,210 | 39,661 | 1,237,568 | 21,654,764 | 63,347,664 | 2.93 |
| Warmington MR 14 Associates, LLC | 350,779 | 6,795,454 | 501 | 8,983 | 280,295 | 7,085,233 | 15,876,128 | 2.24 |
| Ryland Homes of California[(6)] | 638,660 | 12,372,406 | 1,129 | 20,257 | 632,099 | 13,025,892 | 32,341,950 | 2.48 |
| CalAtlantic Group Inc.[(6)] | 408,193 | 7,907,687 | 848 | 15,218 | 474,848 | 8,398,600 | 26,014,000 | 3.10 |
| **TOTAL** | **$4,689,393** | **$ 90,845,000** | **$ 9,511** | **$ 170,674** | **$ 5,325,639** | **$ 96,350,824** | **$290,200,000**[(7)] | **3.01** |

(1) Based on Appraisal Report as of the Date of Value, updated to reflect the October 1, 2015 merger of the Ryland Group and Standard Pacific.
(2) Based on actual Fiscal Year 2015-16 levy.
(3) Allocated based on share of Fiscal Year 2015-16 levy on Undeveloped Property.
(4) As of September 2, 2015. Allocated based on Fiscal Year 2015-16 levy.
(5) Pursuant to the Rate and Method, Undeveloped Property is any property that did not have a building permit as of January 1, 2015 for Fiscal Year 2015-16.
(6) On September 28, 2015, the respective shareholders of the Ryland Group and Standard Pacific approved the Merger Agreement. On October 1, 2015, the Ryland Group merged with and into Standard Pacific, with Standard Pacific continuing as the surviving corporation. At the same time, Standard Pacific changed its name to CalAtlantic Group, Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and will continue to operate under the name of Ryland Homes. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant Builders in the Development — *Standard Pacific/Ryland Merger*."
(7) Represents the Appraiser's opinion of individual values as of July 1, 2015 and due to rounding, does not total to the sum of the appraised values of each owner's property listed above.

Source: David Taussig & Associates, Inc.

## Largest Taxpayers

Table 6 below lists the largest taxpayers within the District measured by the percentage of Fiscal Year 2015-16 Special Tax levy. Based on the ownership status as of July 1, 2015 provided in the Appraisal Report, assuming no additional sales other than the merger of the Ryland Group and Standard Pacific, for Fiscal Year 2015-16, the largest taxpayer within the District will be Shea Homes Limited Partnership, which is responsible for 24.69% of the Fiscal Year 2015-16 Special Tax levy. See "SPECIAL RISK FACTORS — Concentration of Ownership."

**TABLE 6**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1**
**OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)**
**ESTIMATED FISCAL YEAR 2015-16 LARGEST TAXPAYERS**

| *Owner*[1] | *Parcels Taxed* | *Fiscal Year 2015-16 Taxable Acreage*[2] | *Fiscal Year 2015-16 Tax Class* | *Actual Fiscal Year 2015-16 Special Tax Levy* | *Percent of Total Levy* |
|---|---|---|---|---|---|
| Shea Homes Limited Partnership | 15 | 36.85 | Undeveloped | $1,157,952 | 24.69% |
| TRI Pointe Homes, Inc. | 10 | 23.37 | Undeveloped | 1,051,768 | 22.43 |
| Ryland Homes of California, Inc.[3] | 10 | 11.95 | Undeveloped | 638,660 | 13.62 |
| CalAtlantic Group, Inc.[3] | 4 | 13.54 | Undeveloped | 408,193 | 8.70 |
| Meritage Homes of California, Inc. | 3 | 10.10 | Undeveloped | 405,945 | 8.66 |
| Warmington MR 14 Associates, LLC | 5 | 6.56 | Undeveloped | 350,779 | 7.48 |
| LT - MR1, LLC | 3 | 5.43 | Undeveloped | 263,539 | 5.62 |
| RMV PA2 Development, LLC | 5 | 10.65 | Undeveloped | 215,741 | 4.60 |
| LT - AQ1, LLC | 6 | 12.38 | Undeveloped | 196,815 | 4.20 |
| **Total** | **61** | **130.81** | **NA** | **$4,689,393** | **100.00%** |

(1) Based on Appraisal Report as of the Date of Value, updated to reflect the October 1, 2015 merger of the Ryland Group and Standard Pacific.
(2) Approximately 98.1 acres within the District are expected to be subject to the Special Tax levy at build-out.
(3) On September 28, 2015, the respective shareholders of the Ryland Group and Standard Pacific approved the Merger Agreement. On October 1, 2015, the Ryland Group merged with and into Standard Pacific, with Standard Pacific continuing as the surviving corporation. At the same time, Standard Pacific changed its name to CalAtlantic Group, Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and will continue to operate under the name of Ryland Homes. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant Builders in the Development — *Standard Pacific/Ryland Merger*."

Source: David Taussig & Associates, Inc.

## Delinquency History

Fiscal Year 2015-16 is the first fiscal year in which Special Taxes are being levied within the District. The first installment of the Fiscal Year 2015-16 Special Taxes will become delinquent if not paid on or before December 10, 2015.

## PROPERTY OWNERSHIP AND THE DEVELOPMENT

*The following information about RMV PA2 Development, LLC and the merchant builders and their respective developments within the District has been provided by RMV PA2 Development, LLC (except information regarding estimated base sales prices of homes within the District, which has been provided by the Market Absorption Consultant, information regarding the maximum Special Tax levy on the two apartment projects described below, which has been provided by the Special Tax Consultant and information regarding the merger between Standard Pacific and the Ryland Group, which has been obtained from publicly available information). No information has been provided directly by the merchant builders to the District or the County. No assurance can be given that the proposed developments will occur as described in this Official*

*Statement or that they will be completed in a timely manner, if at all, or that the current major property owners will continue to own the property. Neither the Bonds nor the Special Taxes securing the Bonds are personal obligations of the property owners or any affiliate thereof and, in the event that a property owner defaults in the payment of its Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of such property owner or any affiliate thereof. None of the information with respect to the merchant builders (other than the building permits issued in Table 7) will be subject to future update in the Developer Continuing Disclosure Agreement. See "SPECIAL RISK FACTORS" herein and APPENDIX G—"FORM OF CONTINUING DISCLOSURE AGREEMENT OF RMV PA2 DEVELOPMENT, LLC."*

**General Description of the Development**

The District is located in the southern portion of Orange County, in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of Ladera Ranch and east of the City of San Juan Capistrano. The District consists of approximately 417 gross acres, of which approximately 98.1 acres are expected to be subject to the Special Tax at build-out. Development within the District is expected to include 840 residential units (consisting of 522 market-rate residential units and 318 age-qualified residential units), a 150-unit market rate apartment complex, a 113-unit affordable apartment complex and two parcels of nonresidential property currently planned for a 14.1 acre school site and a one-acre daycare center. In addition, there are expected to be several neighborhood recreation centers and parks, a centrally located community hall with a coffee house, a farm, a joint-use multi-purpose building, and a county regional hiking and biking trails network. Merchant homebuilders have purchased all of the land available that is currently planned for development of for-sale residential projects in the District and are in various stages of model and first phase construction. See "—Merchant Builders" herein. As of July 1, 2015, the sites for the two apartment complexes were in a mass-graded state. The Developer anticipates selling the school site to the Capistrano Unified School District in late 2016 or early 2017 for construction of a K-8 school planned to be open in fall of 2018. At this time the Developer does not have current plans to sell the non-residential property that is planned for a one-acre daycare center until the development of the residential property within the District has progressed further.

The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. Construction of the centrally located community hall with coffee house and farm and associated landscaping was substantially complete as of September 18, 2015. Residential lots are expected to be finished in phases by the merchant builders and the models were complete or substantially complete prior to the grand opening for the Esencia development in September 2015, with the exception of Ryland Homes' MR-19 (Heirloom) product which is expected to open models in November 2015. As of August 26, 2015, merchant builders had pulled 203 building permits within the District, including building permits for 51 planned model homes.

In May 2015, the Developer started pre-opening marketing efforts including advertising and creating a website for Esencia. As of August 5, 2015, the Developer represents that more than 5,000 people have visited this website and signed up to receive more information on the new homes in Esencia. Of these, more than 3,000 have chosen to become a "Pathfinder" and receive invitations to preview events. During the month of August 2015, the Developer coordinated a series of five builder fairs to introduce each homebuilder in Esencia to the Pathfinders.

The Esencia grand opening weekend occurred on September 19-20, 2015. The grand opening event on September 19, 2015 was invitation-only for approximately 2,000 potential homebuyers who either attended one of the builder fairs described above or were on the merchant builders' priority lists. The event on September 20, 2015 was the public grand opening. Attendees were transported via shuttles to The Canyon House (visitor center) and each of the merchant builder model complexes, with the exception of Ryland Homes' MR-19 (Heirloom) product which is expected to open in November 2015.

**The Developer**

RMV PA2 Development, LLC is the master developer of Esencia. The Developer is a limited liability company created under the laws of the State of Delaware, was formed on April 17, 2013 and is governed by that certain Amended and Restated Limited Liability Company Operating Agreement, dated as of June 30, 2015. The sole member of the Developer is RMV Community Development, LLC, a California limited liability company ("RMV CD"). RMV CD is the managing member of the Developer. A copy of the Developer's unaudited financial statements for the period ended July 31, 2015 and the fiscal year ended December 31, 2014, is attached hereto as Appendix K. The financial statements of the Developer are included for informational purposes only and the inclusion of such information does not mean that the Bonds are secured by any resources of the Developer, other than by the Special Taxes to be levied by the District on the property owned by the Developer within the District, as described herein.

RMV CD was formed on April 5, 2006 and is governed by that certain Limited Liability Company Operating Agreement, dated as of April 25, 2006, as amended on April 14, 2009 (the "RMV Community Development Operating Agreement"). The members of RMV CD are DMB Ladera, L.L.C., a Delaware corporation ("DMB Ladera"), and RMV Community Development Company, Inc., a California corporation ("RMV CDCI"), as the managing member of RMV CD. RMV CD is the developer of Sendero, a community that represents the first phase of the RMV Ranch Plan Planned Community. DMB Ladera is the developer of Ladera Ranch.

The members of DMB Ladera are DMB Consolidated Holdings, L.L.C., an Arizona limited liability company ("DMB"), and Ladera Development Company, L.L.C., a Delaware limited liability company ("Ladera").

DMB is a privately-held, diversified real estate investment and development firm with real estate holdings through affiliated companies that include residential communities, commercial developments and golf course properties located in Arizona, California, Hawaii, and Utah. DMB was formed in 1984 by Drew Brown, Mark Sklar and Bennett Dorrance. Since its inception, DMB has pursued large-scale real estate development. Early activities focused on commercial development, including the 1.2 million square-foot Centerpoint project in Tempe, Arizona. In the late 1980s and early 1990s, DMB focused on acquisition of both commercial properties and forming joint ventures to develop master planned communities.

Starting in 1994, DMB focused primarily on master planned community development. In most cases, a DMB managed entity partners with a landowner. Master planned communities developed or in development by DMB affiliated entities include Verrado in Buckeye, Arizona (8,800 acres), DC Ranch in Scottsdale, Arizona (8,000 acres); Marley Park in Surprise, Arizona (956 acres); One Scottsdale in Scottsdale, Arizona (120 acres); Power Ranch in Gilbert, Arizona (2,000 acres); Forest Highlands in Flagstaff, Arizona (500 acres); Ladera Ranch in Orange County, California (4,000 acres); Lahontan in North Lake Tahoe, California (720 acres), Martis Camp in North Lake Tahoe, California (2,200 acres); Santaluz in San Diego, California (4,000 acres); Kukui'ula, on Kauai, Hawaii (1,010 acres); Glenwild in Park City, Utah (950 acres) and Eastmark in Mesa, Arizona (3,200 acres).

The members of Ladera are members of the O'Neill family and key employees of Rancho Mission Viejo, L.L.C. ("RMV"), a Delaware limited liability company which is controlled and majority owned by members of the O'Neill family (with the remaining ownership held by key employees of RMV). Ladera was formed in February 1995 to acquire an option to purchase the property comprising Ladera Ranch from Santa Margarita Company ("Santa Margarita"), an affiliate of RMV, and to develop the property in Ladera Ranch.

The members of RMV CDCI are the principals of DMB and their family trusts, members of the O'Neill family and key employees of RMV. RMV CDCI was formed in September 2004 to acquire an option to purchase the property comprising the residential portions of Esencia from DMB San Juan Investment North, LLC ("DMB SJIN"), an affiliate of RMV, and to develop the properties in Sendero and Esencia.

***History of Property Tax Payments; Loan Defaults; Litigation; Bankruptcy***. The Developer has represented to the District as follows: a) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, has ever defaulted in the payment of a special tax or an assessment on property owned by it; b) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, is now in default on any loans, lines of credit or other obligation, or has been in default on any loans, lines of credit or other obligation in the past two years; c) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, has ever filed for bankruptcy or been declared a bankrupt; and d) the Developer has not been served with notice of any claim or suit, nor to the best of the Developer's knowledge is any claim or suit now threatened against the Developer with respect to the development within the District.

**The Development**

***General.*** The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. Homebuilders have purchased all of the land available that is currently planned for development of for-sale residential projects, and are in various stages of construction. Each of the merchant builders is completing construction of model homes and the majority has commenced vertical construction of the first phase of development. The Developer owns all of the land intended for nonresidential use and intends to transfer it to one or more affiliates or sell the property for further development.

***Infrastructure Requirements and Financing Plan.*** The Developer estimates that total project cost for the infrastructure improvements to be installed by the Developer, Santa Margarita Water District and the County within the District will total approximately $222 million, of which approximately $139 million has been spent as of August 15, 2015. Of this amount, approximately $100 million is identified as being eligible for reimbursement from Bond proceeds. The Developer estimates that approximately $41 million remains to be spent as of August 15, 2015 on improvements to be installed by the Developer on the Project, including: a) $2 million for streets and utilities b) $19 million for landscaping, hardscape and parks; c) $8 million for mitigation payments (sheriff, library, Transportation Corridor Agency, and school fees, each of which are paid by the Developer on behalf of the merchant builders upon submission of building permits); d) $9 million for amenities; and e) $3 million for engineering, miscellaneous processing and legal fees, and marketing. Approximately $8 million is anticipated to be spent on La Pata Avenue in satisfaction of a portion of the Developer's roadway obligation fee. In addition, approximately $34 million remains to be spent by the Santa Margarita Water District and the County on sewer, water and flood control facilities. All remaining infrastructure improvements to be installed by the Developer are anticipated to be completed by mid-2016 and are planned to be funded by the Developer with cash on hand, and available Bond proceeds.

Notwithstanding the Developer's belief that the funding sources described above are expected to be sufficient to complete the remaining backbone infrastructure to be completed by the Developer in the District, there is no assurance that amounts necessary to finance the construction of such remaining backbone infrastructure to be completed within the District will be available from the Developer or any other funding source when needed. If and to the extent the sources of financing described above are inadequate to complete the remaining backbone infrastructure to be completed by the Developer, the planned development of the property may not proceed as planned. Neither the Developer nor any of the merchant builders have any legal obligation to the Bondowners to expend funds for the development of the property within the District or the payment of *ad valorem* property taxes or the Special Taxes, though the Developer and the merchant builders have legal obligations to each other to expend certain funds relating to the development. The Developer has posted improvement bonds to guarantee completion of the backbone infrastructure. Additionally, each of the merchant builders has posted improvement bonds to guarantee completion of its in-tract improvements.

***Entitlements for the Overall Rancho Mission Viejo Ranch Plan Planned Community.*** The property in the District is a portion of Planning Area 2, which is one of ten planning areas of the Rancho Mission Viejo Ranch Plan Planned Community, a proposed 22,815-acre master planned community which is anticipated to be the final master planned community within the Ranch. The Rancho Mission Viejo Ranch Plan Planned Community application was approved by the Board of Supervisors with a General Plan Amendment, zone change, and development agreement on November 8, 2004. There were subsequently a number of entitlements and lawsuits that were settled, as noted below. A requirement by the County for the Rancho Mission Viejo Ranch Plan Planned Community, Condition of Approval No. 1, is that a Master Area Plan is required for each of the planning areas. As a result, a Master Area Plan for Planning Area 2, which includes the property in the District, was prepared and approved by the County on March 27, 2013.

On November 8, 2004, the County approved a Development Agreement with the owners of the property (the "Original Property Owners") within the Rancho Mission Viejo Ranch Plan Planned Community (the "Development Agreement"). The Development Agreement includes requirements of the County that would need to be accomplished by the Original Property Owners in return for vesting of project approvals to allow build-out of the Rancho Mission Viejo Ranch Plan Planned Community under the development standards and requirements in place at the time of the approval. The Development Agreement has a term of 30 years.

On June 22, 2012, the Original Property Owners entered into an Assignment and Assumption Agreement with the Developer (the "Assignment Agreement"). Prior to execution of the Assignment Agreement, DMB San Juan Investment North, LLC, transferred land within Planning Area 2, including land within the District, to the Developer. Pursuant to the Assignment Agreement, the Original Property Owners assigned to the Developer certain of their rights and obligations under the Development Agreement which were appurtenant and pertained to the lands transferred to the Developer, including the land within the District. These obligations included dedication of certain rights of way, funds for local improvements, funding of certain studies relating to traffic projects, and funding of certain street improvements. Each of these obligations has been fulfilled with respect to the land within the District. The assigned rights included allocation of certain development rights and associated milestones permitted under the Development Agreement, which include a number of permitted dwellings sufficient to complete build-out of properties in the District.

***Environmental Impact Report and Litigation.*** On November 8, 2004, the Board of Supervisors certified the environmental impact report for the project and granted a number of approvals that would allow the implementation of the Rancho Mission Viejo Ranch Plan Planned Community. On December 8, 2004, the Endangered Habitats League, Natural Resources Defense Council, Sea and Sage Audubon Society, Laguna Greenbelt, Inc., and Sierra Club filed suit challenging the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and related environmental impact report.

On August 16, 2005, RMV, the County, the Endangered Habitats League, Natural Resources Defense Council, Sea and Sage Audubon Society, Laguna Greenbelt, Inc., and Sierra Club reached an agreement to settle the lawsuit challenging the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and the comprehensive open space and land use management plan for the remaining 22,815 acres of Rancho Mission Viejo, including the area comprising the District. The settlement resolved all outstanding litigation of the parties regarding the Rancho Mission Viejo Ranch Plan Planned Community and expanded the protection of open space and species found in the area covered by the Ranch Plan.

As a result of the litigation settlements, the Ranch Plan and the Development Agreement, the remaining undeveloped portions of the Ranch consisting of the Rancho Mission Viejo Ranch Plan Planned Community is entitled for the development of up to 14,000 dwelling units and 5.2 million square feet of commercial, business and urban centers located on 5,873 acres within six planning areas. The remaining 16,942 acres will remain open space.

***Other Settlement Agreements.*** On December 8, 2004, RMV entered into an agreement with the City of San Clemente. RMV agreed not to enter into any agreements with any third party to transfer residential density in the Rancho Mission Viejo Ranch Plan Planned Community from the San Juan Watershed to the San

Mateo Creek Watershed over that residential density currently allocated pursuant to the Rancho Mission Viejo Ranch Plan Planned Community entitlements. The City of San Clemente agreed not to challenge any transfer of residential density from the San Juan Creek to any one or more of the planning areas in the San Mateo Watershed that is ten percent or less of the San Mateo Watershed density. The agreement also requires RMV to complete a recreational facilities study and restricts the ability of the City of San Clemente to challenge the Rancho Mission Viejo Ranch Plan Planned Community approvals.

On June 9, 2005, RMV entered into an agreement with the City of Mission Viejo in order to resolve such city's challenge to the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and related environmental impact report. The settlement agreement resolved the City's litigation and, in relevant part, provided for the reallocation of certain funds to be provided by RMV pursuant to the South County Roadway Improvement Program (the "SCRIP") so as to better address local and regional roadway improvements benefiting the City of Mission Viejo.

At this time, the Developer believes that all fees and obligations required by the Development Agreement, related litigation settlements, and the Assignment Agreement for the development of property in the District have been paid or fulfilled, with the exception of fees owed at the time of issuance of building permits. Such fees include fire, sheriff and school mitigation fees, and Transportation Corridor Agency fees, which are approximately $8,500 per apartment unit, $13,000 per single family attached unit, $20,000 per single family detached unit, and $4.75 to $5.00 per commercial or community-benefit use square foot. The Developer is responsible for such fees and intends to pay them as building permits are issued.

**Merchant Builders in the Development**

The property in the District consists of 12 for-sale residential developments, two apartment sites, and other lands retained by the Developer for nonresidential use, recreation and park space. The following table summarizes the residential developments within the District.

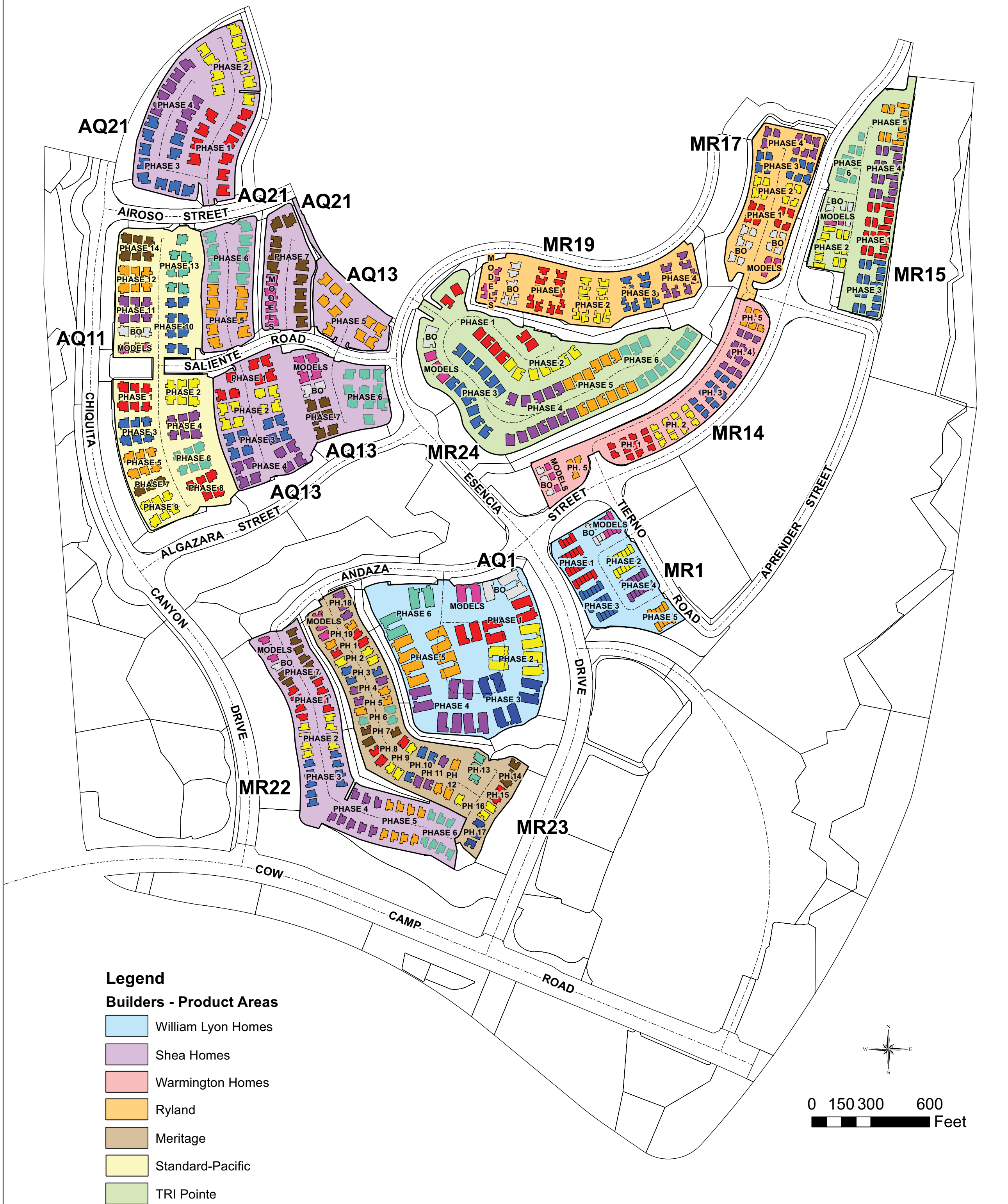
**TABLE 7**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1**
**OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)**
**SUMMARY OF MERCHANT BUILDER DEVELOPMENTS**

| *Merchant Builder* | *Project* | *Product Type*[(1)] | *Average Living Area Sq.Ft.* | *Number of Units* | *Number of Models*[(2)] | *Number of Building Permits Pulled*[(2)] | *Estimated Average Base Sales Price*[(3)] |
|---|---|---|---|---|---|---|---|
| Market-Rate | | | | | | | |
| LT-MR1, LLC (Lyon Homes) | Aurora | Townhomes | 1,557 | 94 | 12 | 40 | $503,939 |
| Shea Homes Limited Partnership | Ventana | Detached – Large | 2,457 | 60 | 3 | 11 | 802,657 |
| TRI Pointe Homes, Inc. | Aria | Detached – Small | 1,840 | 87 | 4 | 20 | 645,264 |
| TRI Pointe Homes, Inc. | Aubergine | Detached – Large | 3,399 | 66 | 3 | 3 | 1,069,591 |
| Ryland Homes of California, Inc.[(4)] | Citron | Detached – Small | 1,994 | 50 | 3 | 19 | 658,824 |
| Ryland Homes of California, Inc.[(4)] | Heirloom | Detached – Large | 2,692 | 45 | 4 | 14 | 825,846 |
| Meritage Homes of California, Inc. | Cirrus | Detached – Large | 2,953 | 58 | 3 | 7 | 893,371 |
| Warmington MR 14 Associates, LLC | Trellis | Detached – Small | 1,714 | 62 | 3 | 14 | 607,871 |
| Age-Qualified | | | | | | | |
| LT-AQ1, LLC (Lyon Homes) | Vireo | Townhomes | 1,686 | 90 | 4 | 28 | 593,500 |
| Shea Homes Limited Partnership | Cortesa | Detached | 2,005 | 63 | 4 | 11 | 753,868 |
| Shea Homes Limited Partnership | Alondra | Detached | 2,578 | 70 | 3 | 13 | 919,614 |
| CalAtlantic Group, Inc.[(4)] | Avocet | Detached | 1,805 | 95 | 5 | 23 | 668,532 |
| **TOTAL** | | | | **840** | **51** | **203** | |

(1) "Detached Small" refers to units with floor plans of 2,200 square feet or less and "Detached Large" refers to units with floor plans greater than 2,200 square feet.
(2) As of August 26, 2015.
(3) As of September 20, 2015.
(4) Property within the Citron and Heirloom projects was purchased from the Developer by Ryland Homes of California, Inc., which, at the time of such purchase was a subsidiary of the Ryland Group. Property within the Avocet project was purchased from the Developer by Standard Pacific. On September 28, 2015, the respective shareholders of the Ryland Group and Standard Pacific approved the Merger Agreement. On October 1, 2015, the Ryland Group merged with and into Standard Pacific, with Standard Pacific continuing as the surviving corporation. At the same time, Standard Pacific changed its name to CalAtlantic Group, Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and will continue to operate under the name of Ryland Homes. See "— *Standard Pacific/Ryland Merger*."

Source: The Developer, the Appraiser and the Market Absorption Consultant.

# TRACT MAP NO. 17561
# PA 2.1 MODELS AND PHASING

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The projects listed in Table 7 are in various stages of development. A general overview of each merchant builder and its development is set forth below.

*The following information about the merchant builders and their respective developments within the District has been provided by RMV PA2 Development, LLC (except information regarding estimated base sales prices of homes within the District as of September 20, 2015, which has been provided by the Market Absorption Consultant, information regarding the maximum Special Tax levy on the two apartment projects described below, which has been provided by the Special Tax Consultant and information regarding the merger between Standard Pacific and the Ryland Group, which has been obtained from publicly available information). No information has been provided directly by the merchant builders to the District or the County. The development and financing plans discussed for each of the merchant builders below are solely projections as of the date of this Official Statement. Such plans are subject to change. No assurance can be given that such plans will remain in their current state or that the plans will ultimately be carried out according to the discussion set forth below. The projected dates of occupancy and sellout of the merchant builders' projects described below may differ from those set forth in the Market Absorption Study. The websites referenced in this section are included for reference only and the information on such websites is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on such websites.*

***Proposed Development by Lyon Homes – AQ-1.*** William Lyon Homes, Inc. ("Lyon Homes") is engaged in the design, construction, and sale of single family detached and attached homes in California, Arizona and Nevada. Lyon Homes is publicly-traded on the New York Stock Exchange ("NYSE"). Lyon Homes' SEC filings are available to the public at the SEC's website at www.sec.gov. On November 26, 2014, LT-AQ1, LLC, an affiliate of Lyon Homes, purchased 14.2 acres of property in the District, where it plans to build Vireo, a project consisting of 45 buildings containing a total of 90 age-qualified townhomes. Tract map 17571 was recorded for this property on July 28, 2015. Construction of the project commenced in June 2015, first occupancy is expected in December 2015 and sellout in December 2016. As of July 1, 2015, there were four model homes under construction and 86 blue top lots within the Vireo project. Lyon Homes provided estimates to the Developer that its construction costs will be between $32 million and $33 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Vireo project range from $547,000 to $637,000 with units ranging from approximately 1,456 square feet to 1,950 square feet.

***Proposed Development by Lyon Homes – MR-1.*** On November 26, 2014, LT-MR1, LLC, an affiliate of Lyon Homes, purchased 5.4 acres of property in the District, where it plans to build Aurora, a project consisting of nine buildings containing a total of 94 townhomes. Tract map 17569 was recorded for this property on June 11, 2015. Construction of the project commenced in June 2015, first occupancy is expected in December 2015 and sellout in December 2016. As of July 1, 2015, there were 12 model homes under construction and 82 physically finished lots within the Aurora project. Lyon Homes has provided estimates to the Developer that its construction costs will be between $25 million and $26 million and that it plans to finance that cost using a combination of loans on the property and its available equity. The estimated base sales prices in the Aurora project range from $454,000 to $564,000 with units ranging from approximately 1,340 square feet to 1,785 square feet.

***Proposed Development by Shea Homes – AQ-13.*** Shea Homes, Inc. ("Shea Homes") was founded in 1968 (as part of the Shea family of companies) and has built homes since then in California, Arizona, Colorado, Florida, Nevada, North Carolina, South Carolina and Washington, including active adult communities known as Trilogy. Although Shea Homes is a privately held company, it produces quarterly disclosures similar to a publicly held company for its bondholders and other interested parties which are available at Shea Homes' website.

On November 13, 2014, Shea Homes purchased 12.8 acres of property in the District, where it plans to build Cortesa, a project consisting of 63 age-qualified detached homes. Tract map 17568 was recorded for this property on June 11, 2015. Construction of the Cortesa project commenced in May 2015, first occupancy is expected in December 2015 and sellout in December 2018. As of July 1, 2015, there were four model homes under construction and 59 physically finished lots within the Cortesa project. Shea Homes has provided estimates to the Developer that its construction costs will be between $29 million and $30 million and that it plans to finance that cost using a combination of loans on the property and its available equity. The estimated base sales prices in the Cortesa project range from $719,900 to $799,900 with units ranging from approximately 1,816 square feet to 2,362 square feet.

***Proposed Development by Shea Homes – AQ-21.*** On November 13, 2014, Shea Homes purchased 16.7 acres of property in the District, where it plans to build Alondra, a project consisting of 70 age-qualified detached homes. Tract map 17570 was recorded for this property on June 11, 2015. Construction of the project commenced in April 2015, first occupancy is expected in December 2015 and sellout in March 2018. As of July 1, 2015, there were three model homes under construction and 67 physically finished lots within the Alondra project. Shea Homes has provided estimates to the Developer that its construction costs will be between $38 million and $39 million and that it plans to finance that cost using a combination of loans on the property and its available equity. The estimated base sales prices in the Alondra project range from $899,900 to $949,900 with units ranging from approximately 2,325 square feet to 2,832 square feet.

***Proposed Development by Shea Homes – MR-22.*** On November 13, 2014, Shea Homes Limited Partnership, an affiliate of Shea Homes, purchased 9.3 acres of property in the District, where it plans to build Ventana, a project consisting of 60 single-family detached homes. Tract map 17565 was recorded for this property on June 11, 2015. Construction of the project commenced in April 2015, first occupancy is expected in December 2015 and sellout in August 2017. As of July 1, 2015, there were three model homes under construction and 57 physically finished lots within the Ventana project. Shea Homes has provided estimates to the Developer that its construction costs will be between $29 million and $30 million and that it plans to finance that cost using a combination of loans on the property and its available equity. The estimated base sales prices in the Ventana project range from $759,990 to $839,990 with units ranging from approximately 2,207 square feet to 2,669 square feet.

***Proposed Development by TRI Pointe Homes – MR-15.*** TRI Pointe Homes, Inc. ("TRI Pointe Homes") is engaged in the design, construction and sale of single-family homes in master planned communities in major metropolitan areas located throughout Southern and Northern California and in Colorado. TRI Pointe Homes is a publicly-traded on the NYSE under the symbol "TPH." TRI Pointe Homes SEC filings are available to the public at the SEC's website at www.sec.gov.

On November 18, 2014, TRI Pointe Homes purchased 8.8 acres of property in the District, where it plans to build Aria, a project consisting of 87 single-family detached homes. Tract map 17577 was recorded for this property on July 2, 2015. Construction of the project commenced in April 2015, first occupancy is expected in December 2015 and sellout in March 2017. As of July 1, 2015, there were four model homes under construction and 83 physically finished lots within the Aria project TRI Pointe Homes has provided estimates to the Developer that its construction costs will be between $28 million and $29 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Aria project range from $630,000 to $667,000 with units ranging from approximately 1,779 square feet to 1,937 square feet.

***Proposed Development by TRI Pointe Homes – MR-24.*** On November 18, 2014, TRI Pointe Homes purchased 14.9 acres of property in the District, where it plans to build Aubergine, a project consisting of 66 single-family detached homes. Tract map 17572 was recorded for this property on July 28, 2015. Construction of the project commenced in May 2015, first occupancy is expected in December 2015 and sellout in January 2017. As of July 1, 2015, there were three model homes under construction and 63 physically finished lots within the Aubergine project. TRI Pointe Homes has provided estimates to the

Developer that its construction costs will be between $36 million and $37 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Aubergine project range from $1,018,000 to $1,123,000 with units ranging from approximately 3,097 square feet to 3,751 square feet.

***Proposed Development by Ryland Homes – MR-17.*** On November 20, 2014, Ryland Homes, then a subsidiary of the Ryland Group, purchased 5.6 acres of property in the District, with plans to build Citron, a project consisting of 50 single-family detached units. The Ryland Group started homebuilding operations in 1967 and its operations were diversified throughout the United States. Prior to the merger described below, the company was publicly-owned and listed on the NYSE. On October 1, 2015, the Ryland Group was merged into Standard Pacific which then changed its name to CalAtlantic Group, Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and will continue to operate under the name of Ryland Homes. See "— *Standard Pacific/Ryland Merger*" below. Tract map 17573 was recorded for this property on June 26, 2015 and the first occupancy is expected in December 2015 and sellout in October 2016. As of July 1, 2015, there were three model homes under construction and 47 physically finished lots within the Citron project. Ryland Homes has provided estimates to the Developer that construction costs for the Citron project will be between $19 million and $20 million which Ryland Homes plans to finance using credit facilities and available equity. The estimated base sales prices in the Citron project range from $586,626 to $699,990 with units ranging from approximately 1,775 square feet to 2,205 square feet.

***Proposed Development by Ryland Homes – MR-19.*** On November 20, 2014, Ryland Homes purchased 6.3 acres of property in the District, with plans to build Heirloom, a project consisting of 45 single-family detached units. Tract map 17574 was recorded for this property on June 23, 2015. Construction of the project commenced in June 2015, first occupancy is expected in the first quarter of 2016 and sellout in September 2016. As of July 1, 2015, there were 45 blue top lots within the Heirloom project. Ryland Homes commenced construction of four model homes in August 2015. Ryland Homes has provided estimates to the Developer that construction costs for the Heirloom project will be between $19 million and $20 million which Ryland Homes, plans to finance using credit facilities and available equity. The estimated base sales prices in the Heirloom project range from $765,990 to $936,790 with units ranging from approximately 2,351 square feet to 3,202 square feet.

***Proposed Development by Meritage Homes – MR-23*** – Meritage Homes of California, Inc. ("Meritage Homes") is a subsidiary of Meritage Homes Corporation. Meritage Homes' parent company builds and sells single-family homes for various market segments across the Western, Southern and Southeastern United States. Meritage Homes' parent company is publicly traded on the NYSE and its SEC filings are available to the public at the SEC's website at www.sec.gov.

On November 13, 2014, Meritage Homes purchased 10.1 acres of property in the District, where it plans to build Cirrus, a project consisting of 58 single-family detached homes. Tract map 17566 was recorded for this property on July 28, 2015. Construction of the project commenced in July 2015, first occupancy is expected in December 2015 and sellout in December 2016. As of July 1, 2015, there were 58 physically finished lots within the Cirrus project. Meritage Homes commenced construction of three model homes in August 2015. Meritage Homes has provided estimates to the Developer that its construction costs will be between $26 million and $27 million and that it plans to finance that cost using a combination of via its available equity. The estimated base sales prices in the Cirrus project range from $819,218 to $959,990 with units ranging from approximately 2,698 square feet to 3,217 square feet.

***Proposed Development by CalAtlantic Group, Inc. – AQ-11.*** On November 12, 2014, Standard Pacific purchased 14.3 acres of property in the District, with plans to build Avocet, a project consisting of 95 age-qualified detached homes. Standard Pacific was incorporated in Delaware in 1991 and through its predecessors commenced homebuilding operations in 1965 building primarily in California, Florida, Arizona, North Carolina, Texas and Colorado. Prior to the merger described below, it was a publicly traded company with its stock listed on the NYSE under the symbol "SPF." On October 1, 2015, the Ryland Group was merged into Standard Pacific which then changed its name to CalAtlantic Group, Inc. See "— *Standard Pacific/Ryland Merger*" below. CalAtlantic is publicly traded on the NYSE under the symbol "CAA" and its SEC filings are available to the public at the SEC's website at www.sec.gov. Tract map 17567 was recorded for this property on June 25, 2014. Construction of the project commenced in May 2015, first occupancy is expected in December 2015 and sellout in May 2017. As of July 1, 2015, there were five model homes under construction, 52 blue top lots within the Avocet project. CalAtlantic has provided estimates to the Developer that construction costs for the Avocet project will be between $36 million and $37 million which CalAtlantic, plans to finance using a combination of the loans on the property and its available equity. The estimated base sales prices in the Avocet project range from $620,900 to $715,900 with units ranging from approximately 1,473 square feet to 2,110 square feet.

***Proposed Development by Warmington – MR-14.*** The Warmington group of companies is a privately held residential home building and property management group operating in approximately nine markets within California, Nevada and Arizona. Warmington MR 14 Associates, LLC is an affiliate of The Warmington group of companies. Additional information regarding The Warmington group of companies is available on its website.

On November 25, 2014, Warmington purchased 6.7 acres of property in the District, where it plans to build Trellis, a project consisting of 62 single family detached homes. Tract map 17576 was recorded for this property on July 28, 2015. Construction of the project commenced in June 2015, first occupancy is expected in December 2015 and sellout in February 2017. As of July 1, 2015, there were three model homes under construction and 59 blue top lots within the Trellis project. Warmington has provided estimates to the Developer that its construction costs will be between $23 million and $24 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Trellis project range from $580,000 to $630,000 with units ranging from approximately 1,512 square feet to 1,863 square feet.

***Affordable Apartment Property***. An affordable apartment complex called Esencia Norte Apartment Homes is planned to be developed within the District as a joint venture between affiliates of the Developer and of Western National Group (the "Affordable Apartment Developer").

In the first quarter of 2016, the Developer expects to lease lot 52 within Tentative Tract 17561 to the Affordable Apartment Developer for the purpose of developing the site. Lot 52 consists of 3.965 gross acres. Up to 113 apartment units are entitled for this property and a site plan for such apartment complex is currently under consideration. The Affordable Apartment Developer has not yet obtained a construction loan for the Esencia Norte Apartment Homes project. As of July 1, 2015, the proposed site for the Esencia Norte Apartment Homes project was in a mass-graded state. Vertical construction is planned to commence in 2016 with the first units planned to be delivered by early 2017. The project is estimated to achieve stabilized occupancy within one year of completion (see "THE COMMUNITY FACILITIES DISTRICT — Market Absorption Study"). The estimated cost of construction of the project is approximately $25 to $30 million. At full build-out, the Esencia Norte Apartment Homes property is expected to account for approximately 2.03% of the maximum Special Tax levy.

***Market Rate Apartment Property***. A market-rate apartment complex called Esencia Sur Apartment Homes is planned to be developed within the District as a joint venture between affiliates of the Developer and of Western National Group (the "Apartment Developer") and Lewis Operating Company.

In the first quarter of 2016, the Developer expects to sell Lots 53 and 54 within Tentative Tract 17561 to the Apartment Developer, consisting of 5.56 gross acres, for the purpose of developing the site. Up to 150 apartment units are entitled for this property and a site plan for 150 apartment units is currently under consideration. The Apartment Developer has not yet obtained a construction loan for the Esencia Sur Apartment Homes project but is currently in negotiations with potential lenders. As of July 1, 2015, the proposed site for the Esencia Sur Apartment Homes project was in a mass-graded state. Vertical construction is planned to commence in 2016 with the first units planned to be delivered by early 2017. The project is estimated to achieve stabilized occupancy within one year of completion (see "THE COMMUNITY FACILITIES DISTRICT — Market Absorption Study"). The estimated cost of construction of the project is approximately $35 to $45 million. At full build-out, the Esencia Sur Apartment Homes property is expected to account for approximately 4.72% of the maximum Special Tax levy.

***Remaining Developer Properties.*** The Developer currently owns the remaining land within the District, including the portion planned for nonresidential projects (consisting of a 14.1 acre school site and a one acre site planned for a day care center). The Developer expects to convey the school site to Capistrano Unified School District in 2016 or early 2017 to be used as a K-8 school site. The school site is expected to be exempt from the Special Tax levy. The Developer does not currently have plans to sell the site for the proposed day care site until residential development within the District has progressed further. As of July 1, 2015, the site for the proposed daycare center was in a mass-graded state.

***Standard Pacific/Ryland Merger***. On June 14, 2015, Standard Pacific and the Ryland Group entered into the Amended and Restated Agreement and Plan of Merger (the "Merger Agreement"). On September 28, 2015, the respective shareholders of the Ryland Group and Standard Pacific approved the Merger Agreement. Pursuant to the terms of the Merger Agreement, on October 1, 2015, the Ryland Group merged with and into Standard Pacific, with Standard Pacific continuing as the surviving corporation. At the same time, Standard Pacific changed its name to CalAtlantic Group, Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and will continue to operate under the name of Ryland Homes. More information regarding the merger is included in CalAtlantic Group Inc.'s Current Report on Form 8-K, as filed with the SEC on October 5, 2015.

## SPECIAL RISK FACTORS

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

### Risks of Real Estate Secured Investments Generally

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

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

**Concentration of Ownership**

Based on the ownership status of the property within the District as of July 1, 2015, assuming no additional sales within the District, approximately 24.69% of the Special Taxes levied in Fiscal Year 2015-16 would be payable by Shea Homes. Based on the same assumptions, approximately 4.20% to 22.43% of the Special Taxes levied in Fiscal Year 2015-16 would be payable by each of the merchant builders, other than Shea Homes. While the Ryland Group has merged with and into Standard Pacific (see "PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant Builders in the Development — *Standard Pacific/Ryland Merger*" above) Ryland Homes continues to operate as a wholly-owned subsidiary of and as a separate legal entity from CalAtlantic. Approximately 8.70% of the Special Taxes for Fiscal Year 2015-16 have been levied on property owned by Ryland Homes and 13.62% on property owned by CalAtlantic. As a separate legal entity, CalAtlantic has no legal obligation to pay Special Taxes levied on property owned by Ryland Homes.

Failure of the Developer, entities affiliated with the Developer, the merchant builders, or any successor(s), to pay the annual Special Taxes when due could result in a draw on the Reserve Account of the Special Tax Fund, and ultimately a default in payments of the principal of, and interest on, the Bonds, when due. No assurance can be given that the Developer, the merchant builders or their successors, will complete the remaining intended construction and development in the District. See "— Failure to Develop Properties."

The District has levied Special Taxes on property within the District classified as Undeveloped Property which is owned by the Developer, entities affiliated with the Developer, and the merchant builders. Undeveloped Property is defined in the Rate and Method as property not classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property. In the event that the Developer, entities affiliated with the Developer, or any of the merchant builders fail to complete the remaining intended construction and development in the District, Special Taxes will continue to be levied on Undeveloped Property owned by such entities. No assurance can be given that the Developer, its successors, its affiliated entities, or the merchant builders will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "— Bankruptcy and Foreclosure" for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

**Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the County. Except with respect to the Special Taxes, neither the faith and credit nor the taxing power of the District or the County is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Resolution, no owner of the Bonds may compel the exercise of any taxing power by the District or the County or force the forfeiture of any County or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the County's or the District's property or upon any of the County's or the District's income, receipts or revenues, except the Net Taxes and other amounts pledged under the Resolution.

**Insufficiency of Special Taxes**

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" and "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Rate and Method of Apportionment of Special Tax.*"

In order to pay debt service on the Bonds, it is necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the District will establish and fund upon the issuance of the Bonds a Reserve Account of the Special Tax Fund in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See "SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund." The District will covenant to maintain in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement subject, however, to the limitation that the District may not levy the Special Tax in the District in any fiscal year at a rate in excess of the maximum amounts permitted under the Rate and Method. As a result, if a significant number of delinquencies occurs, the District could be unable to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement due to the limitations on the maximum Special Tax. If such defaults were to continue in successive years, the Reserve Account of the Special Tax Fund could be depleted and a default on the Bonds could occur.

The District will covenant in the Resolution that, under certain conditions, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*" for provisions which apply in the event of such foreclosure and which the District is required to follow in the event of delinquencies in the payment of the Special Tax.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds (if the Reserve Account of the Special Tax Fund has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the District of the proceeds of sale. The District may adjust the future Special Tax levied on taxable parcels in the District, subject to the limitation on the maximum Special Tax, to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Account of the Special Tax Fund to an amount equal to the Reserve Requirement and to pay all current expenses. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in the District will be at all times sufficient to pay the amounts required to be paid by the Resolution, even if the Special Tax is levied at the maximum Special Tax rates. See "—Bankruptcy and Foreclosure" for a discussion of potential delays in foreclosure actions.

The Rate and Method governing the levy of the Special Tax provides that no Special Tax shall be levied on property that is not located in a Zone. No Special Tax shall be levied on Assessor's Parcels of Conservation Property, Property Owner Association Property, Public Property and/or Religious Property that is within a Zone; provided that an Assessor's Parcel shall not be exempt and shall be classified as Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and/or Taxable Religious Property if exempting such property would increase the sum of all property exempt from the Special Tax within the applicable Zone to greater than the corresponding Acreage amount listed Table 10 in Appendix A. See Section E of APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Rate and Method governing the levy of the Special Tax provides that, once a parcel is classified as Taxable Property, it will remain subject to a Special Tax levy even if it is subsequently acquired by a public agency. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

**Teeter Plan Termination**

In 1993, the County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may protect the Owners of the Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the District would eliminate such protection from delinquent Special Taxes. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Teeter Plan."

**Failure to Develop Properties**

Development of property within the District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the Developer, the merchant builders, or any property owner to pay the Special Taxes when due. Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Development of land in the District is also subject to the availability of water. Finally, development of land is subject to economic considerations.

The Developer reports that the area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. A majority of the residential lots owned by the merchant builders are in a finished lot condition. Construction of the core recreation facilities and associated landscaping has commenced and is expected to be completed by September 2015. Homebuilders have purchased all of the land planned for residential development of for-sale homes, and are in various stages of construction. Construction on the two sites planned for apartment complexes has not yet commenced. No assurance can be given that the remaining proposed development will be partially or fully completed; and for purposes of evaluating the investment quality of the Bonds, prospective purchasers should consider the possibility that such parcels will remain unimproved.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for development in the District as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within the District and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within the District to pay the Special Taxes when due.

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

Bondowners should assume that any event that significantly impacts the ability to develop land in the District would cause the property values within the District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due.

The District has levied Special Taxes on Undeveloped Property for Fiscal Year 2015-16 and expects to levy Special Taxes on Undeveloped Property in future fiscal years until the Special Taxes levied on Developed Property are sufficient to fund the Special Tax Requirement. Undeveloped Property is less valuable per unit of area than Developed Property, especially if there are no plans to develop such land or if there are severe restrictions on the development of such land. The Undeveloped Property also provides less security to the Bondowners should it be necessary for the District to foreclose on Undeveloped Property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on Undeveloped Property. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the Developer, its affiliated entities, and merchant builders to make Special Tax payments on Undeveloped Property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See "— Land Values."

**No Representation as to Merchant Builders**

No representation is made as to the experience, abilities or financial resources of the merchant builders who currently own property in the District or of any other purchaser or potential purchaser of property in the District or the likelihood that such merchant builders, purchasers or potential purchasers will be successful in developing such purchased properties within the District beyond the stage of development reached by the Developer. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — The Development." The description of expected development by merchant builders in this Official Statement is based on information provided to the District by the Developer and the Appraiser, and none of the merchant builders have provided any information to the District or the County in connection with the preparation of this Official Statement. In making an investment decision, purchasers of the Bonds should not assume that such merchant builders or such other persons or entities that purchase property within the District will develop such properties beyond the current stage of development reached by the Developer and the merchant builders.

**Natural Disasters**

The District, like all California communities, may be subject to unpredictable seismic activity, fires, floods, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, and property within the District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. According to the County, the property within the District is not located in an Alquist Priolo Earthquake Study Zone. The land within the District is adjacent to open space areas including the Cleveland National Forest which present the risk of wildfires. The District is not located in a flood plain area.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the

District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

**Endangered/Threatened Species**

During the 1990s, there was an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered or threatened species. In response to this activity, several large landowners began an effort to move away from "species by species" entitlement to multiple species entitlement, in order to minimize the risk of future species listings and maximize the certainty of development. The Original Property Owners are some of such landowners. The Original Property Owners are permittees under the Southern Subregion Habitat Conservation Plan ("SSHCP") which addresses seven (7) federally listed species and twenty-five (25) sensitive species. The Rancho Mission Viejo Ranch Plan Planned Community is permitted by the SSHCP. Accordingly, such development within the District is in compliance with this habitat conservation plan and is not anticipated to be impeded.

**Hazardous Substances**

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

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

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

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

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

## Land Values

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT — Appraised Value-to-Lien Ratios."

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal Report that as of July 1, 2015, the market value of the land and improvements within the District was approximately $290,200,000. The Appraisal Report is based on a number of assumptions and limiting conditions as stated in APPENDIX B — "APPRAISAL REPORT." The Appraisal Report does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, an economic downturn, any potential limitations on development occurring due to time delays, an inability of any landowner to obtain any needed development approval or permit, the presence of hazardous substances or other adverse soil conditions within the District, the listing of endangered species or the determination that habitat for endangered or threatened species exists within the District, or other similar situations.

Prospective purchasers of the Bonds should not assume that the land and improvements within the District could be sold for the amount stated in the Appraisal Report at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any sale will be sold in a competitive market after a reasonable exposure time, and assuming that neither the buyer or seller is under duress, which is not always present in a foreclosure sale. See APPENDIX B — "APPRAISAL REPORT" for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser's assumptions to be untrue could result in a reduction of the value of the land within the District from that estimated by the Appraiser.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings."

## Parity Taxes and Special Assessments

Property within the District is subject to taxes and assessments imposed by other public agencies also having jurisdiction over the land within the District. See "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Indebtedness."

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

**Neither the District nor the County has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes and *ad valorem* taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Indebtedness" and "— Appraised Value to Lien Ratios."**

**Disclosures to Future Purchasers**

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

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

**Special Tax Delinquencies**

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

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings" for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Resolution, in the event of delinquencies in the payment of Special Taxes. See "— Bankruptcy and Foreclosure" for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessment and limitations on the District's ability to foreclosure on the lien of the Special Taxes in certain circumstances.

**FDIC/Federal Government Interests in Properties**

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

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

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

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

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

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

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

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

**Bankruptcy and Foreclosure**

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

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

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

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

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

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

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

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

**No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Resolution or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Resolution, an owner is given the right for the equal benefit and protection of all owners of the Bonds similarly situated to pursue certain remedies described in APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION — EVENTS OF DEFAULT; REMEDIES" and "— Limitations on Remedies."

**Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Resolution with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Resolution.

**Limited Secondary Market**

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

**Proposition 218**

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIIC and Article XIIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative as they may relate to community facilities district are subject to interpretation by the courts. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article 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 that:

> "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."

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

It may be possible, however, for voters or the Board of Supervisors acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District will covenant that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District. In connection with the foregoing covenant, the Board of Supervisors has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District will also covenant that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The California Court of Appeal, Fourth Appellate District, Division One, issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997) (the "San Diego Decision"). The case involved a Convention Center Facilities District (the "CCFD") established by the City of San Diego ("San Diego"). The CCFD is a financing district much like a community facilities district established under the provisions of the Act. The CCFD is comprised of all of the real property in San Diego. However, the special tax to be levied within the CCFD was to be levied only on hotel properties located within the CCFD.

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

The facts of the San Diego Decision show that there were thousands of registered voters within the CCFD (*viz.*, all of the registered voters in San Diego). The elections held in the District had less than 12 registered voters at the time of the election to authorize the Special Tax. In the San Diego Decision, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court's holding does not apply to the Special Tax election in the District. Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax…shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds.

The County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the authorization of the issuance of bonds for the District and the levy of the special tax within the District. The Validation Judgment was entered by the court, to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the special tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State. Based on the Validation Judgment, Sections 53341 and 53359 of the Act and analysis of existing laws, regulations, rulings and court decisions, Bond Counsel is of the opinion that no successful challenge to the Special Tax being levied in accordance with the Rate and Method may now be brought.

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

**Ballot Initiatives**

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

**Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Resolution to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion and by limitations on remedies against public agencies in the State of California. The Bonds are not subject to acceleration. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners.

## CONTINUING DISCLOSURE

### District Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate (the "District Continuing Disclosure Certificate"), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning the District. The District Reports are to be filed not later than March 1 of each year, beginning March 1, 2016. The initial District Report to be filed by March 1, 2016, shall consist of this Official Statement. The District Reports will include the audited financial statements of the District, if any are prepared. The District does not currently prepare audited financial statements and does not anticipate doing so in the future. The full text of the District Continuing Disclosure Certificate is set forth in APPENDIX F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT."

Notwithstanding any provision of the Resolution, failure of the District to comply with the District Continuing Disclosure Certificate shall not be an event of default under the Resolution. However, any Owner or Beneficial Owner of the Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the District Continuing Disclosure Certificate.

The District has not entered into any prior continuing disclosure obligations. During the last five years, the County and certain of its related entities, have failed to comply in certain respects described below with continuing disclosure undertakings related to outstanding bonded indebtedness.

With respect to the County and its related entities, other than the District, the failure to comply fell into four general categories: (i) failure to provide event notices with respect to changes in the ratings of outstanding bonds, primarily related to changes in the ratings of various bond insurers insuring the bonds of the County or its related entities; (ii) omission of required financial and operating data required to be included in certain annual reports and late filing of annual reports with respect to a number of the bond issues, in some cases by only a day and in other cases by a longer period of time; (iii) failure to file audited financial statements as a part of certain annual reports; and (iv) failure to file annual reports with respect to certain bonds after they were economically (but not legally) defeased.

The County and various related entities have made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. Each of these filings may be accessed through EMMA.

The County will assist the District in preparing the District Reports. In order to ensure ongoing compliance by the District with its continuing disclosure undertaking, (i) County staff will take steps to ensure that the filing due date is correctly documented in policies and procedures and a single County staff member has been assigned primary responsibility to monitor compliance; and (ii) the County has contracted with a consultant to assist in filing accurate, complete and timely disclosure reports on behalf of the District.

### Developer Continuing Disclosure

To provide updated information with respect to the development within the District, the Developer will enter into a Continuing Disclosure Agreement of the Developer (the "Developer Continuing Disclosure Agreement") by and between the Developer and David Taussig & Associates, Inc., as dissemination agent, and will covenant to provide an Annual Report not later than June 15 of each year beginning June 15, 2016, and a Semiannual Report on each December 15, beginning December 15, 2016, until satisfaction of certain conditions set forth in the Developer Continuing Disclosure Agreement. The Annual Report provided by the Developer and the Semiannual Report will contain updates regarding the development within the District as outlined in Section 4 of the Developer Continuing Disclosure Agreement attached as Appendix G. In addition to its Annual Reports and Semiannual Reports, the Developer will agree to provide notices of certain events set forth in the Developer Continuing Disclosure Agreement.

The Developer's obligations under the Developer Continuing Disclosure Agreement will terminate upon the earliest to occur of: (a) the legal defeasance, prior redemption or payment in full of all the Bonds; (b) (1) with respect to updates of the number building permits issued, at such time that 75% of the building permits for the planned residential development within the District have been issued, and (2) with respect to the updates of information described in Section 4 of the Developer Continuing Disclosure Agreement other than the number of building permits issued, at such time that ninety percent (90%) of the public improvements to be constructed by the Developer as described under the caption "PROPERTY OWNERSHIP AND THE DEVELOPMENT—The Development" have been completed, based on costs expended.

## TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District, the County and others and is subject to the condition that the District, the County and others making such representations comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the County will covenant to comply with all such requirements.

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

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

SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

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

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

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

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

## LEGAL MATTERS

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds in substantially the form set forth as APPENDIX C hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the District and the County by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and for the Underwriters by Best Best & Krieger LLP, Riverside California, as counsel to the Underwriters. Bond Counsel expresses no opinion to the Owners of the Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds and expressly disclaims any duty to do so.

## VALIDATION

On May 12, 2015, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the authorization of the issuance of bonds for the District and the levy of the special tax within the District. On July 16, 2015, the court entered the Validation Judgment to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the special tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State. The last day of the appeal period for the validation action was August 15, 2015. As of the date of this Official Statement, no appeal has been filed with respect to the Validation Judgment. In issuing the opinion as to the validity of the Bonds and as a condition thereof, Bond Counsel will rely upon the entry of the Validation Judgment and the absence of a timely appeal therefrom. See APPENDIX C—"PROPOSED FORM OF BOND COUNSEL OPINION."

## ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the Bonds. Neither the County nor the District is aware of any litigation pending or threatened which questions the existence of the District or the County or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

## NO RATING

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

## UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated, as representative of itself and Piper Jaffray & Co. The Underwriters have agreed to purchase the Bonds at a price of $96,163,865.80, being $90,845,000.00 aggregate principal amount thereof, plus net original issue premium of $5,802,809.55 and less Underwriters' discount of $483,943.75). The purchase contract relating to the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the offering price stated on the cover page thereof. The offering price may be changed from time to time by the Underwriters.

## FINANCIAL INTERESTS

The fees being paid to the Underwriters, Bond Counsel, Disclosure Counsel, Financial Advisor to the County, the Paying Agent and Underwriters' Counsel are contingent upon the issuance and delivery of the Bonds. The fees being paid to the Appraiser, to the Market Absorption Consultant and to the Special Tax Consultant are not contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the Bonds.

## PENDING LEGISLATION

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

## ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution and delivery of this Official Statement by the County Executive Officer has been duly authorized by the Board of Supervisors of the County of Orange acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2015–1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

By: /s/ Frank Kim
County Executive Officer

## APPENDIX A

## RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

*The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes of Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (the "District"). An Annual Special Tax shall be levied on and collected in the District each Fiscal Year, in an amount determined through the application of the Rate and Method of Apportionment described below. All of the real property in the District, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided. The Special Taxes shown herein reflect the reduction in Special Taxes that occurred in 2015 pursuant to Section H below.*

## RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) ("CFD No. 2015-1") and collected each Fiscal Year commencing in Fiscal Year 2015-16, in an amount determined by the Board through the application of the Rate and Method of Apportionment as described below. All of the real property in CFD No. 2015-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

**"Acre"** or **"Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

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

**"Administrative Expenses"** means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2015-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the County, CFD No. 2015-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2015-1 or any designee thereof of complying with disclosure requirements of the County, CFD No. 2015-1 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2015-1 or any designee thereof related to an appeal of any Special Tax levy; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2015-1 for any other administrative purposes of CFD No. 2015-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure action to collect delinquent Special Taxes.

**"Affordable Property"** means, for each Fiscal Year, any Assessor's Parcel of Residential Property that is subject to a restrictive covenant, or similar covenant in a grant deed or other instrument, in satisfaction of Section IV (Provision of Site(s) for Affordable Housing) of Exhibit D of the Development Agreement that was recorded prior to January 1 of the prior Fiscal Year and that limits the use of such Assessor's Parcel for affordable housing. In order to ensure that such property is correctly classified as Affordable Property, the owner of such property shall provide the CFD Administrator with a copy of any applicable deed restrictions, resale restrictions, and/or regulatory agreements. For each Fiscal Year after the January 1 following the termination of the covenants, Assessor's Parcels previously classified as Affordable Property shall no longer be considered Affordable Property and shall be assigned to the appropriate Land Use Class based on its Residential Floor Area and/or use.

**"Apartment Property"** means any Assessor's Parcel of Residential Property, exclusive of Affordable Property, for which one or more building permits have been issued for attached residential units, all of which are made available for rental, but not purchase, by the general public.

**"Assessor's Parcel"** means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

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

**"Assigned Special Tax"** means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C below.

**"Backup Special Tax"** means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C below.

**"Board"** means the Board of Supervisors of the County of Orange, acting as the legislative body of CFD No. 2015-1.

**"Bonds"** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2015-1 under the Act.

**"CFD Administrator"** means the County Executive Officer, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

**"CFD No. 2015-1"** means Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia).

**"Conservation Property"** means, for each Fiscal Year, any property within the boundaries of CFD No. 2015-1, excluding Property Owner Association Property, Public Property and Religious Property, that is subject to a declaration of irrevocable covenant, conservation easement deed, or similar document that was recorded restricting the use of such property to open space, habitat preservation, or other conservation purposes as of January 1 of the prior Fiscal Year. In order to ensure that such property is correctly classified as Conservation Property, the owner of such property shall provide the CFD Administrator with a copy of a declaration of irrevocable covenant, conservation easement deed, or similar document.

**"County"** means the County of Orange.

**"Developed Property"** means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year. Notwithstanding the foregoing, (a) if a building permit is revoked, expired or otherwise cancelled and a new building permit is issued for the same property prior to the issuance of Bonds, then, the building square footage and building type as indicated on the new building permit shall thereafter be used for purposes of determining the Land Use Class, (b) if a building permit is revoked, expired or otherwise cancelled and a new building permit is issued for the same property after the issuance of Bonds, and the amount of Assigned Special Taxes which may be levied pursuant to the new building permit is greater than the Assigned Special Taxes which may be levied pursuant to the original building permit, then the building square footage and building type as indicated on the new building permit shall thereafter be used for purposes of determining the Land Use Class, otherwise the Land Use Class pursuant to the original building permit shall continue to be used, and (c) if a building permit is revoked, expired or otherwise cancelled and no new building permit is issued for the same property, then the property will continue to be considered Developed Property and taxed based on the original building permit.

**"Development Agreement"** means the development agreement by and between the County, DMB San Juan Investments North, LLC, RMV Middle Chiquita, LLC, RMV Ranch House, LLC, RMV Headquarters, LLC, RMV San Juan Watershed, LLC, RMV San Mateo Watershed, LLC, and RMV Blind Canyon, LLC recorded on December 6, 2004 as Instrument No.2004001082094.

**"Fiscal Year"** means the period starting July 1 and ending on the following June 30.

**"Indenture"** means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**"Land Use Class"** means any of the classes within each Zone listed in Tables 1 through 7 below.

**Maximum Special Tax"** means for each fiscal year for each Assessor's Parcel, the maximum Special Tax, determined in accordance with Section C below, that can be levied on such Assessor's Parcel in such fiscal year.

**"Non-Residential Property"** means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

**"Outstanding Bonds"** means all Bonds which are deemed to be outstanding under the Indenture.

**"Property Owner Association Property"** means, for each Fiscal Year, any property within the boundaries of CFD No. 2015-1 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association as of January 1 of the prior Fiscal Year.

**"Proportionately"** means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property within CFD No. 2015-1. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 2015-1. For Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property and Taxable Religious Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property or Taxable Religious Property, as applicable.

**"Public Property"** means, for each Fiscal Year, any property within the boundaries of CFD No. 2015-1 that is used for rights-of-way or any other purpose and is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the County or any other public agency as of January 1 of the prior Fiscal Year; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use. In order to ensure that such property is correctly classified as Public Property, the owner of such property shall provide the CFD Administrator with a copy of any applicable documents.

**"Religious Property"** means, for each Fiscal Year, all property within the boundaries of CFD No. 2015-1 which (i) is either (a) used primarily as a place of worship or (b) vacant land or land under construction that is intended to be used primarily as a place of worship as determined by the CFD Administrator; and (ii) is exempt from *ad valorem* property taxes because it is owned by a religious organization as of January 1 of the prior Fiscal Year. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

**"Residential Floor Area"** means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

**"Residential Property"** means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

**"Special Tax"** means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property to fund the Special Tax Requirement.

**"Special Tax Requirement"** means for each Fiscal Year, that amount required for CFD No. 2015-1 to pay the sum of: (i) debt service on all Outstanding Bonds or Bonds expected to be issued in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Outstanding Bonds or Bonds expected to be issued in such Fiscal Year by CFD No. 2015-1; and (v) any amounts required for construction of facilities eligible to be constructed or acquired by CFD No. 2015-1 under the Act. In arriving at the Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

**"State"** means the State of California.

**"Taxable Conservation Property"** means all Assessor's Parcels of Conservation Property that are not exempt pursuant to Section E below.

**"Taxable Property"** means all of the Assessor's Parcels within the boundaries of CFD No. 2015-1 which are not exempt from the Special Tax pursuant to law or Section E below.

**"Taxable Property Owner Association Property"** means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

**"Taxable Public Property"** means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

**"Taxable Religious Property"** means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.

**"Trustee"** means the trustee, fiscal agent, or paying agent under the Indenture.

**"Undeveloped Property"** means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

**"Zone"** means any one of the separate geographic areas within CFD No. 2015-1 designated on Exhibit A herein as: Zone 1, Zone 2, Zone 3, Zone 4, Zone 5, Zone 6, Zone 7, or Zone E.

## B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within Zones 1 through 7 of CFD No. 2015-1 shall be classified as Developed Property, Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below.

The Assigned Special Tax for Residential Property shall be based on the Zone in which the Assessor's Parcel is located, the number of dwelling units, and the Residential Floor Area of the dwelling units located on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Zone in which the Assessor's Parcel is located and the Acreage of the Assessor's Parcel.

## C. MAXIMUM SPECIAL TAX RATE

### 1. Developed Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone shall be the greater of (i) the amount derived by application of the Assigned Special Tax for such Zone or (ii) the amount derived by application of the Backup Special Tax for such Zone.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class within each Zone for Fiscal Year 2015-16 is shown below in Tables 1 through 7.

**TABLE 1**
**Zone 1**
**(All Ages - Traditional Single Family Attached)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 1,750 SF | Residential Property | $4,623.85 per unit |
| 2 | 1,601 – 1,750 SF | Residential Property | $4,251.24 per unit |
| 3 | 1,451 – 1,600 SF | Residential Property | $4,064.94 per unit |
| 4 | < 1,451 SF | Residential Property | $3,506.03 per unit |
| 5 | N/A | Non-Residential Property | $16,028.00 per Acre |
| 6 | N/A | Affordable Property | $927.00 per unit |
| 7 | N/A | Apartment Property | $1,624.00 per unit |

**<u>TABLE 2</u>**
**Zone 2**
**(All Ages – Cluster Single Family Detached)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 2,900 SF | Residential Property | $7,604.70 per unit |
| 2 | 2,701 – 2,900 SF | Residential Property | $7,152.45 per unit |
| 3 | 2,501 – 2,700 SF | Residential Property | $6,700.19 per unit |
| 4 | 2,301 – 2,500 SF | Residential Property | $6,325.54 per unit |
| 5 | 2,101 – 2,300 SF | Residential Property | $5,977.15 per unit |
| 6 | 1,901 – 2,100 SF | Residential Property | $5,335.24 per unit |
| 7 | 1,801 – 1,900 SF | Residential Property | $5,141.96 per unit |
| 8 | 1,601 – 1,800 SF | Residential Property | $4,726.75 per unit |
| 9 | < 1,601 SF | Residential Property | $4,323.46 per unit |
| 10 | N/A | Non-Residential Property | $16,028.00 per Acre |
| 11 | N/A | Affordable Property | $927.00 per unit |
| 12 | N/A | Apartment Property | $1,624.00 per unit |

**TABLE 3**
**Zone 3**
**(All Ages – Traditional Single Family Detached)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 3,700 SF | Residential Property | $9,666.31 per unit |
| 2 | 3,501 – 3,700 SF | Residential Property | $9,150.87 per unit |
| 3 | 3,301 – 3,500 SF | Residential Property | $8,635.44 per unit |
| 4 | 3,101 – 3,300 SF | Residential Property | $8,392.05 per unit |
| 5 | 2,901 – 3,100 SF | Residential Property | $8,101.00 per unit |
| 6 | 2,701 – 2,900 SF | Residential Property | $7,621.28 per unit |
| 7 | 2,501 – 2,700 SF | Residential Property | $7,084.37 per unit |
| 8 | 2,301 – 2,500 SF | Residential Property | $6,561.78 per unit |
| 9 | < 2,301 SF | Residential Property | $5,981.91 per unit |
| 10 | N/A | Non-Residential Property | $16,028.00 per Acre |
| 11 | N/A | Affordable Property | $927.00 per unit |
| 12 | N/A | Apartment Property | $1,624.00 per unit |

**TABLE 4**
**Zone 4**
**(Age Qualified – Traditional Single Family Attached)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 1,900 SF | Residential Property | $4,319 per unit |
| 2 | 1,701 – 1,900 SF | Residential Property | $4,078 per unit |
| 3 | 1,501 – 1,700 SF | Residential Property | $3,743 per unit |
| 4 | < 1,501 SF | Residential Property | $3,578 per unit |
| 5 | N/A | Non-Residential Property | $16,028 per Acre |
| 6 | N/A | Affordable Property | $927 per unit |
| 7 | N/A | Apartment Property | $1,624 per unit |

**TABLE 5**
**Zone 5**
**(Age Qualified – Cluster Single Family Detached)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 2,300 SF | Residential Property | $6,036 per unit |
| 2 | 2,201 – 2,300 SF | Residential Property | $5,800 per unit |
| 3 | 2,001 – 2,200 SF | Residential Property | $5,564 per unit |
| 4 | 1,801 – 2,000 SF | Residential Property | $5,170 per unit |
| 5 | 1,601 – 1,800 SF | Residential Property | $5,061 per unit |
| 6 | < 1,601 SF | Residential Property | $4,457 per unit |
| 7 | N/A | Non-Residential Property | $16,028 per Acre |
| 8 | N/A | Affordable Property | $927 per unit |
| 9 | N/A | Apartment Property | $1,624 per unit |

**TABLE 6**
**Zone 6**
**(Age Qualified – Traditional Single Family Detached)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 2,400 SF | Residential Property | $7,466 per unit |
| 2 | ≤ 2,400 SF | Residential Property | $6,732 per unit |
| 3 | N/A | Non-Residential Property | $16,028 per Acre |
| 4 | N/A | Affordable Property | $927 per unit |
| 5 | N/A | Apartment Property | $1,624 per unit |

**TABLE 7**
**Zone 7**
**(Other Property)**
**For Fiscal Year 2015-16**
**Assigned Special Taxes for Developed Property**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | N/A | Residential Property | $2,000 per unit |
| 2 | N/A | Affordable Property | $927 per unit |
| 3 | N/A | Apartment Property | $1,624 per unit |
| 4 | N/A | Non-Residential Property | $16,028 per Acre |

c. Multiple Land Use Classes

In some instances an Assessor's Parcel may contain both Undeveloped Property and Developed Property. Furthermore, Developed Property may contain more than one Land Use Class.

In such cases, the Acreage of the Assessor's Parcel shall be allocated between Developed Property and Undeveloped Property based on the portion of the Assessor's Parcel for which building permits had been issued prior to January 1 of the prior Fiscal Year and the portion of the Assessor's Parcel for which building permits had not been issued prior to January 1 of the prior Fiscal Year. The Acreage that is considered Developed Property shall be allocated between Residential Property and Non-Residential Property based on the site plan. The Maximum Special Tax that can be levied on such Assessor's Parcel shall be the sum of the Maximum Special Tax that can be levied on each type of property located on that Assessor's Parcel.

d. Backup Special Tax

The Backup Special Tax in CFD No. 2015-1 shall equal an amount per Acre for each Zone as shown below in Table 8.

**TABLE 8**
**All Zones**
**Fiscal Year 2015-16**
**Backup Special Tax**

| Zone | FY 2015-16 Backup Special Tax |
|---|---|
| 1 | $76,971 per Acre |
| 2 | $83,506 per Acre |
| 3 | $64,714 per Acre |
| 4 | $26,663 per Acre |
| 5 | $50,564 per Acre |
| 6 | $45,802 per Acre |
| 7 | $33,976 per Acre |

e. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2016, the Assigned Special Tax and the Backup Special Tax for Developed Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

**2. Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property**

a. Maximum Special Tax

The Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property within each Zone is shown below in Table 9.

**TABLE 9**
**All Zones**
**Fiscal Year 2015-16**
**Maximum Special Taxes for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Undeveloped Property**

| Zone | FY 2015-16 Maximum Special Tax |
|---|---|
| 1 | $81,454 per Acre |
| 2 | $89,605 per Acre |
| 3 | $67,406 per Acre |
| 4 | $26,663 per Acre |
| 5 | $50,564 per Acre |
| 6 | $45,802 per Acre |
| 7 | $33,976 per Acre |

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2016, the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property and shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

## D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2015-16 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

<u>Fourth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property.

<u>Fifth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the above, under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2015-1. To the extent that the levy of the Special Tax on Residential Property is limited by the provision in the previous sentence, the levy of the Special Tax on all other Assessor's Parcels shall continue in equal percentages at up to 100% of the Maximum Special Tax.

## E. <u>EXEMPTIONS</u>

No Special Tax shall be levied on (1) any property in Zone E and (2) Conservation Property, Property Owner Association Property, Public Property, and/or Religious Property in Zones 1 through 7 at up to the Acreage amounts shown in Table 10 below:

**TABLE 10**

| Zone | Exempt Acreage |
|---|---|
| 1 | 0.271 Acres |
| 2 | 20.473 Acres |
| 3 | 19.338 Acres |
| 4 | 0.743 Acres |
| 5 | 17.920 Acres |
| 6 | 11.018 Acres |
| 7 | 21.424 Acres |

Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property within each Zone becomes Conservation Property, Property Owner Association Property, Public Property, or Religious Property. However, should an Assessor's Parcel no longer be classified as Conservation Property, Property Owner Association Property, Public Property, or Religious Property its tax-exempt status will be revoked and it will thereafter be classified as Developed Property or Undeveloped Property in accordance with Section D above.

Conservation Property, Property Owner Association Property, Public Property, or Religious Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth or fifth steps, respectively, in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

## F. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2015-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by the Act and permitted by CFD No. 2015-1. The use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

## G. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section G:

**"CFD Public Facilities Cost"** means either $98.4 million in 2015 dollars, which shall increase by the Construction Inflation Index on July 1, 2016, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2015-1 under the authorized bonding program for CFD No. 2015-1, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

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

**"Construction Inflation Index"** means, for a Fiscal Year, the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

**"Future Facilities Costs"** means the CFD Public Facilities Cost minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance facilities costs.

**"Outstanding Bonds"** means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

**"Previously Issued Bonds"** means all Bonds that have been issued by CFD No. 2015-1 prior to the date of prepayment.

**1. Prepayment in Full**

The obligation to pay the Special Tax for an Assessor's Parcel may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only for Assessor's Parcels of Developed Property and/or Undeveloped Property for which a building permit has been issued, and only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor's Parcel. The CFD Administrator may charge a reasonable fee for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

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

| | |
|---|---|
| | Bond Redemption Amount |
| plus | Redemption Premium |
| plus | Future Facilities Amount |
| plus | Defeasance Amount |
| plus | Administrative Fees and Expenses |
| less | Reserve Fund Credit |
| <u>less</u> | <u>Capitalized Interest Credit</u> |
| equals | Prepayment Amount |

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

**<u>Paragraph No.:</u>**

1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.

2. (a) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 2015-1 based on the

Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2015-1, excluding any Assessor's Parcels which have been prepaid, and

(b) Divide the Backup Special Tax computed pursuant to paragraph 1 by the total estimated Backup Special Taxes for the entire CFD No. 2015-1 based on the Backup Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2015-1, excluding any Assessor's Parcels which have been prepaid.

3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

5. Compute the current Future Facilities Costs.

6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").

7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.

8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.

9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.

10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.

11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").

12. Verify the administrative fees and expenses of CFD No. 2015-1, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment,

or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.

14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2015-1.

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

As a result of the payment of the current Fiscal Year’s Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year’s Special Tax levy for such Assessor’s Parcel from the County tax rolls. With respect to any Assessor's Parcel for which the Special Tax is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor’s Parcel, and the obligation to pay the Special Tax for such Assessor’s Parcel shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless (i) the amount of Maximum Special Tax that may be levied on Taxable Property (based on expected development at build out), after the proposed prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and (ii) the amount of Maximum Special Tax that may be levied on non-delinquent Taxable Property (based on expected development at build out) after the proposed prepayment, less expected Administrative Expenses, shall be at least equal to the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year.

### 2. Prepayment in Part

The Special Tax for an Assessor's Parcel of Developed Property and/or Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section G.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = [(P_E\text{-}AE) \times F] + AE$$

These terms have the following meaning:

| | | |
|---|---|---|
| AE | = | the Administrative Fees and Expenses |
| PP | = | the partial prepayment amount |
| $P_E$ | = | the Prepayment Amount calculated according to Section G.1 |
| F | = | the percentage by which the owner of the Assessor's Parcel is partially prepaying the Special Tax. |

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax and the percentage by which the Special Tax shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel for which the Special Tax is partially prepaid, CFD No. 2015-1 shall (i) distribute the funds remitted to it according to Section G.1, and (ii) indicate in the records of CFD No. 2015-1 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the Assigned Special Tax and Backup Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

Notwithstanding the foregoing, no partial prepayment will be allowed unless (i) the amount of Maximum Special Tax that may be levied on Taxable Property (based on expected development at build out), after the proposed partial prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and (ii) the amount of Maximum Special Tax that may be levied on non-delinquent Taxable Property (based on expected development at build out) after the proposed partial prepayment, less expected Administrative Expenses, shall be at least equal to the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year.

## H. SPECIAL TAX REDUCTION

The following definitions apply to this Section H:

**"Issuance Date"** means the date a bond purchase contract related to the sale of the Bonds is entered into between the underwriter of the Bonds and CFD No. 2015-1.

**"Plan Type"** means a discrete residential plan type (generally consisting of residential dwelling units that share a common product type (e.g., detached, attached, cluster) and that have nearly identical amounts of living area) that is constructed or expected to be constructed within CFD No. 2015-1 as identified in the Price Point Study.

**"Price Point"** means, with respect to the residential dwelling units in each Plan Type, as of the date of the applicable Price Point Study, the base price of such residential dwelling units, estimated by the Price Point Consultant as of such date, including any incentives and concessions, but excluding potential appreciation or premiums, options or upgrades, based upon their actual or expected characteristics, such as living area, view, or lot size.

**"Price Point Consultant"** means any consultant or firm of such consultants selected by CFD No. 2015-1 that (a) has substantial experience in performing price point studies for residential units within community facilities districts or otherwise estimating or confirming pricing for residential units in community facilities districts, (b) is well versed in analyzing economic and real estate data that relates to the pricing of residential units in community facilities districts, (c) is in fact independent and not under the control of CFD No. 2015-1 or the County, (d) does not have any substantial interest, direct or indirect, with or in (i) CFD No. 2015-1, (ii) the County, (iii) any owner of real property in CFD No. 2015-1, or (iv) any real property in CFD No. 2015-1, and (e) is not connected with CFD No. 2015-1 or the County as an officer or employee thereof, but who may be regularly retained to make reports to CFD No. 2015-1 or the County.

**"Price Point Study"** means a price point study or a letter updating a previous price point study, which (a) has been prepared by the Price Point Consultant, (b) sets forth the Plan Types constructed or expected to be constructed within Zones 1 through 7 in CFD No. 2015-1, (c) sets forth the estimated number of constructed and expected residential dwelling units for each Plan Type, (d) sets forth such Price Point Consultant's estimate of the Price Point for each Plan Type and (e) uses a date for establishing such Price Points that is no earlier than 30 days prior to the date the Price Point Study is delivered to the CFD Administrator pursuant to Section H herein. The Price Point Study will only include the for-sale Residential Property in Zones 1 through 7.

**"Total Effective Tax Rate"** means, for a Plan Type, the quotient of (a) the Total Tax and Assessment Obligation for such Plan Type divided by (b) the Price Point for such Plan Type, converted to a percentage.

**"Total Tax and Assessment Obligation"** means, with respect to a Plan Type in a Zone, for the Fiscal Year for which the calculation is being performed, the quotient of (a) the sum of the Assigned Special Tax and estimated *ad valorem* property taxes, special assessments, special taxes for any overlapping community facilities districts, and any other governmental taxes, fees and charges levied or imposed on all residential dwelling units of such Plan Type in such Zone in such Fiscal Year or that would have been levied or imposed on all such residential dwelling units had such residential dwelling units been completed, sold and subject to such levies and impositions in such Fiscal Year divided by (b) the number of residential dwelling units in such Plan Type in such Zone. The Total Tax and Assessment Obligation for each Plan Type shall be calculated based on the applicable Residential Floor Area, Price Point, and number of constructed and expected residential dwelling units for such Plan Type in such Zone as identified in the Price Point Study.

Prior to the issuance of the first series of Bonds, the following steps shall be taken for each Land Use Class of for-sale Residential Property in Zones 1 through 7:

Step No.:

1. At least 30 days prior to the expected Issuance Date of the first series of Bonds, CFD No. 2015-1 shall cause a Price Point Study to be delivered to the CFD Administrator.

2. As soon as practicable after receipt of the Price Point Study, the CFD Administrator shall calculate the Total Tax and Assessment Obligation and Total Effective Tax Rate for each Plan Type in each Zone.

3. Separately, for each Land Use Class of for-sale Residential Property in each Zone, the CFD Administrator shall determine whether or not the Total Effective Tax Rate for all Plan Types in a Land Use Class is less than or equal to 2.00%.

    a. If the Total Effective Tax Rate for all Plan Types in a Land Use Class in a Zone is less than or equal to 2.00%, then there shall be no change in the Assigned Special Tax for such Land Use Class in such Zone.

    b. If the Total Effective Tax Rate for any Plan Type in a Land Use Class in a Zone is greater than 2.00%, the CFD Administrator shall calculate a revised Assigned Special Tax for such Land Use Class in such Zone, which revised Assigned Special Tax shall be the highest amount (rounded to the nearest whole dollar) that will not cause the Total Effective Tax Rate for any Plan Type in such Land Use Class in such Zone to exceed 2.00%.

4. If the Assigned Special Tax for any Land Use Class in a Zone is revised pursuant to step 3.b. above, the CFD Administrator shall calculate a revised Backup Special Tax for all property within such Zone. The revised Backup Special Tax per Acre for such Zone shall be an amount (rounded to the nearest whole dollar) equal to the Backup Special Tax per Acre for such Zone as set forth in Table 8 above, reduced by a percentage equal to the weighted average percentage reduction in the Assigned Special Taxes for all Land Use Classes of Residential Property in such Zone resulting from the calculations in steps 3.a. and 3.b. above. The weighted average percentage will be calculated by taking the sum of the products of the number of units constructed or expected to be constructed in each Land Use Class in such Zone multiplied by the percentage change in the Assigned Special Tax (pursuant to step 3.b. above) for each Land Use Class in such Zone (or 0 for Land Use Classes that are not changing). This amount is then divided by the total number of units constructed or expected to be constructed within the Zone and converted to a percentage.

5. If the Assigned Special Tax for any Land Use Class in any Zone is revised pursuant to step 3.b. above, the CFD Administrator shall prepare and execute a Certificate of Reduction in Special Taxes substantially in the form of Exhibit B hereto and shall deliver such Certificate of Reduction in Special Taxes to CFD No. 2015-1. The Certificate of Reduction in Special Taxes shall be completed for all Land Use Classes in all Zones and shall set forth, as applicable, either (i) the reduced Assigned Special Tax for a Land Use Class in a Zone as calculated pursuant to step 3.b., or (ii) the

Assigned Special Tax as identified in Tables 1 through 7 in Section C for a Land Use Class in a Zone that was not revised as determined pursuant to step 3.a.; as well as either (i) the revised Backup Special Tax for a Zone as calculated pursuant to step 4, or (ii) the Backup Special Tax as identified in Table 8 in Section C.1.(d) for a Zone that was not revised as determined pursuant to step 4.

6. If the Issuance Date of the first series of Bonds is within 120 days of the date of receipt of the Price Point Study by the CFD Administrator, CFD No. 2015-1 shall execute the acknowledgement on such Certificate of Reduction in Special Taxes, dated as of the closing date of such Bonds, and upon the closing of such first series of Bonds, the Assigned Special Tax for each Land Use Class and the Backup Special Tax shall be, for all purposes, as set forth in such Certificate of Reduction in Special Taxes. If the Issuance Date of the first series of Bonds is not within 120 days of the date of receipt of the Price Point Study by the CFD Administrator, such Certificate of Reduction in Special Taxes shall not be acknowledged by CFD No. 2015-1 and shall, as of such date, be void and of no further force and effect. In such case, if subsequently a first series of Bonds is expected to be issued, at least 30 days prior to the expected Issuance Date of such first series of Bonds, the CFD Administrator shall cause a new Price Point Study to be delivered to the CFD Administrator and, following such delivery, steps 2 through 5 of this section shall be performed based on such new Price Point Study.

7. As soon as practicable after the execution by CFD No. 2015-1 of the acknowledgement on the Certificate of Reduction in Special Taxes, CFD No. 2015-1 shall cause to be recorded in the records of the County Recorder an Amended Notice of Special Tax Lien for CFD No. 2015-1 reflecting the Assigned Special Taxes and the Backup Special Tax for each Zone set forth in such Certificate of Reduction in Special Taxes.

8. If the Assigned Special Tax is not required to be changed for any Land Use Class in any Zone based on the calculations performed under step 3 above, there shall be no reduction in the Maximum Special Tax, and no Certificate of Reduction in Special Taxes shall be required. However the CFD Administrator shall prepare and deliver to CFD No. 2015-1 a Certificate of No Reduction in Special Taxes substantially in the form of Exhibit C hereto dated as of the closing date of the first series of Bonds that states that the calculations required pursuant to this Section H have been made and that no changes to the Maximum Special Tax are necessary.

9. CFD No. 2015-1 and the CFD Administrator shall take no further actions under this Section H upon the earlier to occur of the following: (i) the execution of the acknowledgement by CFD No. 2015-1 on a Certificate of Reduction in Special Taxes pursuant to step 6; or (ii) the delivery by the CFD Administrator of a Certificate of No Reduction in Special Taxes pursuant to step 8.

## I. TERM OF SPECIAL TAX

The Special Tax shall be levied on an Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

## J. DETERMINATIONS OF CFD ADMINISTRATOR CONSIDERED FINAL

Any determinations made by CFD Administrator under terms of this Rate and Method of Apportionment shall be final.

# EXHIBIT A

## ZONE DESIGNATION

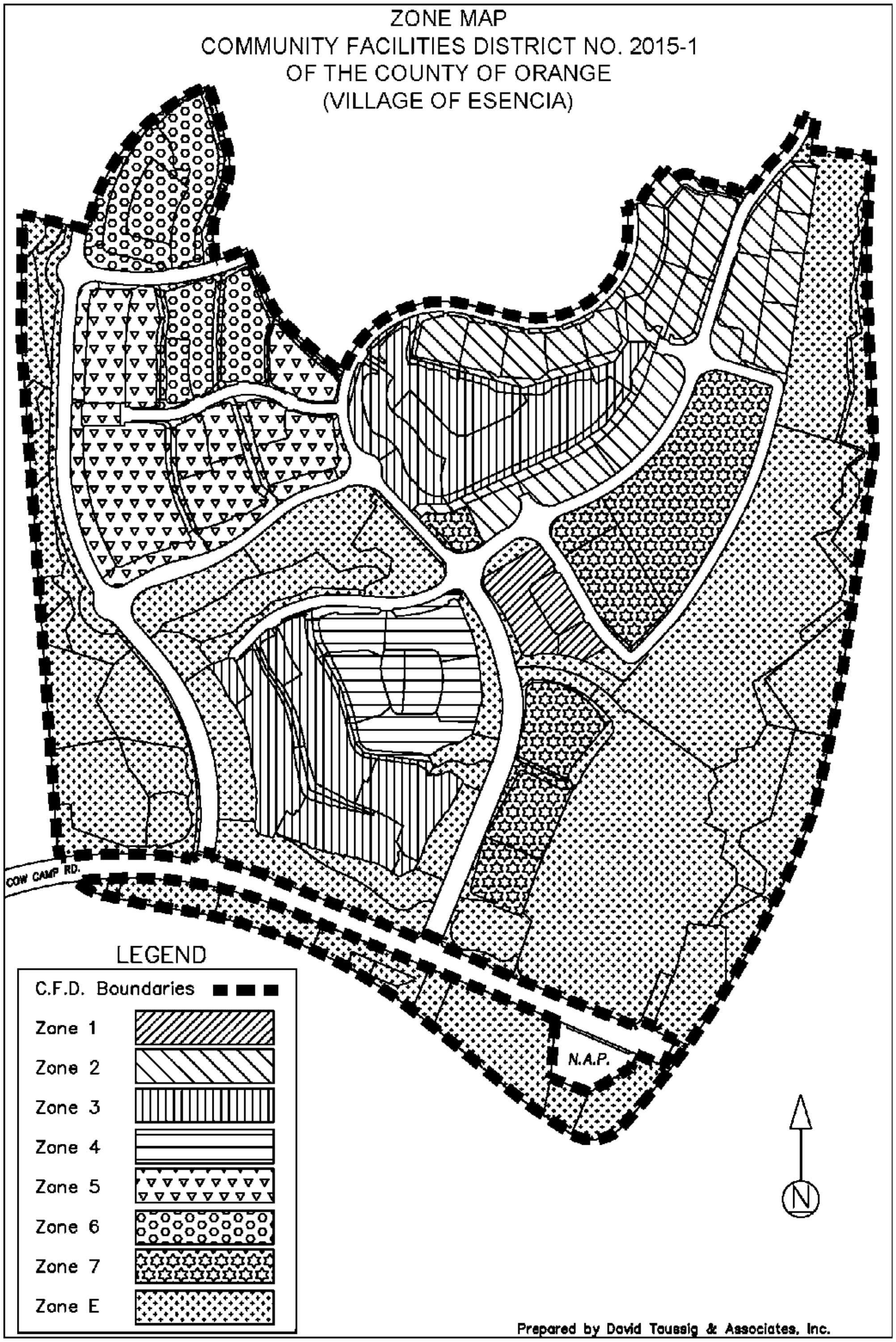
ZONE MAP
COMMUNITY FACILITIES DISTRICT NO. 2015-1
OF THE COUNTY OF ORANGE
(VILLAGE OF ESENCIA)
COW CAMP RD.
N.A.P.
LEGEND
C.F.D. Boundaries
Zone 1
Zone 2
Zone 3
Zone 4
Zone 5
Zone 6
Zone 7
Zone E
N
Prepared by David Taussig & Associates, Inc.

**EXHIBIT B**

**CERTIFICATE OF REDUCTION IN SPECIAL TAXES**

**Community Facilities District No. 2015-1 of the County of Orange**
**(Village of Esencia)**

1. Pursuant to Section H of the Rate and Method of Apportionment, the Maximum Special Tax for Developed Property for [certain or all] Land Use Classes within CFD No. 2015-1 has been reduced.

2. The calculations made pursuant to Section H were based upon a Price Point Study that was received by the CFD Administrator on _________________.

3. Tables 1A through 7A below show the Assigned Special Tax for each Land Use Class in Zones 1 through 7 after such reduction.

**Table 1A**
**Assigned Special Tax for Developed Property in Zone 1**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 1,750 SF | Residential Property | $______ per unit |
| 2 | 1,601 – 1,750 SF | Residential Property | $______ per unit |
| 3 | 1,451 – 1,600 SF | Residential Property | $______ per unit |
| 4 | < 1,451 SF | Residential Property | $______ per unit |
| 5 | N/A | Non-Residential Property | $______ per Acre |
| 6 | N/A | Affordable Property | $______ per unit |
| 7 | N/A | Apartment Property | $______ per unit |

**Table 2A**
**Assigned Special Tax for Developed Property in Zone 2**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 2,900 SF | Residential Property | $______ per unit |
| 2 | 2,701 – 2,900 SF | Residential Property | $______ per unit |
| 3 | 2,501 – 2,700 SF | Residential Property | $______ per unit |
| 4 | 2,301 – 2,500 SF | Residential Property | $______ per unit |
| 5 | 2,101 – 2,300 SF | Residential Property | $______ per unit |
| 6 | 1,901 – 2,100 SF | Residential Property | $______ per unit |
| 7 | 1,801 – 1,900 SF | Residential Property | $______ per unit |
| 8 | 1,601 – 1,800 SF | Residential Property | $______ per unit |
| 9 | < 1,601 SF | Residential Property | $______ per unit |
| 10 | N/A | Non-Residential Property | $______ per Acre |
| 11 | N/A | Affordable Property | $______ per unit |
| 12 | N/A | Apartment Property | $______ per unit |

**Table 3A**
**Assigned Special Tax for Developed Property in Zone 3**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 3,700 SF | Residential Property | $______ per unit |
| 2 | 3,501 – 3,700 SF | Residential Property | $______ per unit |
| 3 | 3,301 – 3,500 SF | Residential Property | $______ per unit |
| 4 | 3,101 – 3,300 SF | Residential Property | $______ per unit |
| 5 | 2,901 – 3,100 SF | Residential Property | $______ per unit |
| 6 | 2,701 – 2,900 SF | Residential Property | $______ per unit |
| 7 | 2,501 – 2,700 SF | Residential Property | $______ per unit |
| 8 | 2,301 – 2,500 SF | Residential Property | $______ per unit |
| 9 | < 2,301 SF | Residential Property | $______ per unit |
| 10 | N/A | Non-Residential Property | $______ per Acre |
| 11 | N/A | Affordable Property | $______ per unit |
| 12 | N/A | Apartment Property | $______ per unit |

**Table 4A**
**Assigned Special Tax for Developed Property in Zone 4**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 1,900 SF | Residential Property | $______ per unit |
| 2 | 1,701 – 1,900 SF | Residential Property | $______ per unit |
| 3 | 1,501 – 1,700 SF | Residential Property | $______ per unit |
| 4 | < 1,501 SF | Residential Property | $______ per unit |
| 5 | N/A | Non-Residential Property | $______ per Acre |
| 6 | N/A | Affordable Property | $______ per unit |
| 7 | N/A | Apartment Property | $______ per unit |



**Table 5A**
**Assigned Special Tax for Developed Property in Zone 5**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 2,300 SF | Residential Property | $______ per unit |
| 2 | 2,201 – 2,300 SF | Residential Property | $______ per unit |
| 3 | 2,001 – 2,200 SF | Residential Property | $______ per unit |
| 4 | 1,801 – 2,000 SF | Residential Property | $______ per unit |
| 5 | 1,601 – 1,800 SF | Residential Property | $______ per unit |
| 6 | < 1,601 SF | Residential Property | $______ per unit |
| 7 | N/A | Non-Residential Property | $______ per Acre |
| 8 | N/A | Affordable Property | $______ per unit |
| 9 | N/A | Apartment Property | $______ per unit |

**Table 6A**
**Assigned Special Tax for Developed Property in Zone 6**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | > 2,400 SF | Residential Property | $______ per unit |
| 2 | ≤ 2,400 SF | Residential Property | $______ per unit |
| 3 | N/A | Non-Residential Property | $______ per Acre |
| 4 | N/A | Affordable Property | $______ per unit |
| 5 | N/A | Apartment Property | $______ per unit |

**Table 7A**
**Assigned Special Tax for Developed Property in Zone 7**
**Fiscal Year 2015-16**

| Land Use Class | Residential Floor Area | Description | Assigned Special Tax |
|---|---|---|---|
| 1 | N/A | Residential Property | $______ per unit |
| 2 | N/A | Affordable Property | $______ per unit |
| 3 | N/A | Apartment Property | $______ per unit |
| 4 | N/A | Non-Residential Property | $______ per Acre |

4. The Backup Special Tax for each Assessor's Parcel of Developed Property shall equal an amount per Acre after such reduction as shown in Table 8A below.

**Table 8A**
**Backup Special Tax**
**Fiscal Year 2015-16**

| Zone | Backup Special Tax |
|---|---|
| 1 | $______ per Acre |
| 2 | $______ per Acre |
| 3 | $______ per Acre |
| 4 | $______ per Acre |
| 5 | $______ per Acre |
| 6 | $______ per Acre |
| 7 | $______ per Acre |

5. Upon execution of this certificate by CFD No. 2015-1, CFD No. 2015-1 shall cause an amended notice of Special Tax lien for CFD No. 2015-1 to be recorded reflecting the Assigned Special Tax and Backup Special Tax set forth herein.

Submitted

CFD ADMINISTRATOR

By: ___________________________________________ Date: ____________________

By execution hereof, the undersigned acknowledges, on behalf of CFD No. 2015-1, receipt of this certificate and modification of the Rate and Method of Apportionment as set forth in this certificate.

Community Facilities District No. 2015-1 of the County of Orange
(Village of Esencia)

By: ___________________________________________ Date as of: [closing date of Bonds]

**EXHIBIT C**

**CERTIFICATE OF NO REDUCTION IN SPECIAL TAXES**

**Community Facilities District No. 2015-1 of the County of Orange**
**(Village of Esencia)**

1. All calculations required pursuant to Section H of the Rate and Method of Apportionment have been made based upon a Price Point Study that was received by the CFD Administrator on __________________.

2. Total Effective Tax Rate for all Plan Types in all Land Use Classes in all Zones is less than or equal to 2.00%

3. The Maximum Special Tax for Developed Property within CFD No. 2015-1, including the Assigned Special Taxes set forth in Sections C.1.(b) and the Backup Special Tax set forth in Section C.1.(d) of the Rate and Method of Apportionment, shall remain in effect and not be reduced.

Submitted

CFD ADMINISTRATOR

By: __________________________________________ Date as of: [closing date of Bonds]

# APPENDIX B

# APPRAISAL REPORT

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# APPRAISAL REPORT

***COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)***

Prepared for:

COUNTY OF ORANGE
333 W. Santa Ana Blvd.
Santa Ana, CA 92701

James B. Harris, MAI
Berri Cannon Harris
**Harris Realty Appraisal**
5100 Birch Street, Suite 200
Newport Beach, CA 92660

July 2015

**Harris Realty Appraisal**

**5100 Birch Street, Suite 200**
**Newport Beach, California 92660**
**949-851-1227** FAX 949-851-2055
www.harris-appraisal.com

July 15, 2015

Ms. Suzanne Luster
Public Finance Manager
COUNTY OF ORANGE
333 W. Santa Ana Blvd.
Santa Ana, CA 92701

Re: Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia)

Dear Ms. Luster:

In response to your authorization, we have prepared a self-contained appraisal report which addresses the property within the boundaries of the Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) ("the District" or "CFD No. 2015-1"). This appraisal includes an estimate of Market Value for all the land and improvements subject to a special tax levy. CFD No. 2015-1 is proposed for 522 for-sale market rate dwelling units and 318 for-sale age-restricted units. In addition to the 840 proposed dwelling units within CFD No. 2015-1, there are two proposed apartment developments; a market rate project proposed for 150 units and an affordable project proposed for 113 units. Also within the District are a 14 acre school site and a 1.1 acre day care site. The school site is not subject to Special Tax and is therefore not a part of this appraisal assignment. The land is in various stages of site construction from blue-top lots to finished lots. Ten of the 12 for-sale products have model homes under construction as of the date of value. Based on information provided by the developer, the developer required improvements include grading, storm drains, sewer and water which are 100% complete. Additional developer improvements include dry utilities which are under construction and estimated to be 90% complete, street improvements which are under construction and estimated to be 85% complete, and the common area irrigation, landscape and hardscape improvements which are also under construction and estimated to be 20% complete. The 12 proposed for-sale products are built by seven merchant builders. The grand opening of all products is scheduled in September 2015.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), CFD No. 2015-1 is valued in bulk, representing a discounted value to each ownership as of July 1, 2015, the date of value. The aggregate of the values, represents the Market Value of the entire property within CFD No. 2015-1, subject to a special tax levy.

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of July 1, 2015.

**CFD NO. 2015-1 (VILLAGE OF ESENCIA)**

**TWO HUNDRED NINETY MILLION TWO HUNDRED THOUSAND DOLLARS**

**$290,200,000**

The District is under construction with site and dwelling improvements. Approximately $48,500,000 in backbone infrastructure and impact fees are required from the master developer. The construction fund proceeds from CFD No. 2015-1 are estimated to be $82,600,000. The developer is expected to receive approximately $52,000,000 from this bond issue.

The self-contained appraisal report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This appraisal report has been prepared for the County of Orange for use in the sale of Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) Special Tax Bonds, Series 2015. The intended users of this appraisal report are the County of Orange, its underwriters, legal counsel, consultants, and potential bond investors. This appraisal has been prepared in accordance with and is 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.

We meet the requirements of the Competency Provision of the *Uniform Standards of Professional Appraisal Practice*. A statement of our qualifications appears in the Addenda.

Respectfully submitted,

Berri Cannon Harris

Berri Cannon Harris
Principal
AG009147

James B Harris

James B. Harris, MAI
Principal
AG001846


The County of Orange
Community Facilities District № 2015-1
Village of Esencia
Cow Camp Rd
Boundaries Approximate
7617_070115

## SUMMARY OF FACTS AND CONCLUSIONS

| | |
|---|---|
| **EFFECTIVE DATE OF APPRAISAL** | July 1, 2015 |
| **DATE OF REPORT** | July 15, 2015 |
| **DISTRICT NAME** | Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) referred to herein as the "District" or "CFD No. 2015-1". |
| **INTEREST APPRAISED** | Fee Simple Estate, subject to special tax |

**PROJECT NAMES, OWNERSHIP, LEGAL DESCRIPTIONS AND SITE CONDITION**

| **Product Name**<br>**Ownership**<br>**Tract, Product Type** | **Site & Unit Condition** |
|---|---|
| **Aurora**<br>William Lyon<br>Tr 17569<br>MR1 | *94 total proposed units*<br>12 Models u/c<br>82 Physically Finished Sites |
| **Trellis**<br>Warmington<br>Tr 17576<br>MR14 | *62 total proposed units*<br>3 Models u/c<br>59 Blue-top Lots w/ undergrounds |
| **Aria**<br>TRI Pointe<br>Tr 17577<br>MR15 | *87 total proposed units*<br>4 Models u/c<br>83 Blue-top Lots w/ undergrounds |
| **Citron**<br>Ryland<br>Tr 17573<br>MR17 | *50 total proposed units*<br>3 Models u/c<br>47 Physically Finished Lots |
| **Heirloom**<br>Ryland<br>Tr 17574<br>MR19 | *45 total proposed units*<br>0 Models u/c<br>45 Blue-top Lots w/ Undergrounds |
| **Ventana**<br>Shea Homes<br>Tr 17565<br>MR22 | *60 total proposed units*<br>3 Models u/c<br>57 Physically Finished Lots |
| **Cirrus**<br>Meritage<br>Tr 17566<br>MR23 | *58 total proposed units*<br>0 Models u/c<br>58 Physically Finished Lots |

## SUMMARY OF FACTS AND CONCLUSIONS

| PROJECT NAMES, OWNERSHIP, LEGAL DESCRIPTIONS AND SITE CONDITION CONT. | **Product Name**<br>**Ownership**<br>**Tract, Product Type** | **Site & Unit Condition** |
|---|---|---|
| | **Aubergine**<br>TRI Pointe<br>Tr 17572<br>MR24 | *66 total proposed units*<br>3 Models u/c<br>63 Physically Finished Lots |
| | **Vireo**<br>William Lyon<br>Tr 17571<br>AQ1 | *90 total proposed units*<br>4 Models u/c<br>86 Blue-top Sites w/ undergrounds |
| | **Avocet**<br>Standard Pacific<br>Tr 17567<br>AQ11 | *95 total proposed units*<br>5 Models u/c<br>52 Blue-top Lots w/ undergrounds<br>38 Physically Finished Lots |
| | **Contesa**<br>Shea Homes<br>Tr 17568<br>AQ13 | *63 total proposed units*<br>4 Models u/c<br>59 Physically Finished Lots |
| | **Alondra**<br>Shea Homes<br>Tr 17570<br>AQ21 | *70 total proposed units*<br>3 Models u/c<br>67 Physically Finished Lots |
| | **RMV PA2 Development, LLC** | |
| | Market Rate Apt. Site<br>RMV PA2 Development, LLC<br>Lots 53 & 54, TR 17561 | 150 proposed Units<br>5.559 acre mass-graded site |
| | Affordable Apt. Site<br>RMV PA2 Development, LLC<br>Lot 52, TR 17561 | 113 proposed Units<br>3.965 acre mass-graded site |
| | Day Care Site<br>RMV PA2 Development, LLC<br>Lot 62, Tr 17561 | 1.123 acre mass-graded site |

**HIGHEST AND BEST USE**

Continued development of 12 residential for-sale products proposed for 840± dwellings, two apartment projects and support uses.

# SUMMARY OF FACTS AND CONCLUSIONS

**VALUATION CONCLUSIONS**

**CFD No. 2015-1 (Village of Esencia)**
**Market Value- $290,200,000**

**RMV PA2 Development, LLC: $11,700,000**

**Merchant Builder Ownerships: $278,500,000**

| | |
|---|---|
| LT - MR1, LLC (Product MR1): | $20,216,000 |
| LT - AQ1, LLC (Product AQ1): | $22,138,000 |
| Warmington MR 14 Associates, LLC (Product MR14): | $15,876,128 |
| TRI Pointe Homes, Inc. (Product MR15): | $29,738,312 |
| TRI Pointe Homes, Inc. (Product MR24): | $33,609,352 |
| Ryland Homes of California, Inc. (Product MR17): | $16,026,950 |
| Ryland Homes of California, Inc. (Product MR19): | $16,315,000 |
| Shea Homes Limited Partnership (Product MR22): | $22,585,051 |
| Shea Homes Limited Partnership (Product AQ13): | $20,786,363 |
| Shea Homes Limited Partnership (Product AQ21): | $31,523,952 |
| Meritage Homes of California, Inc. (Product MR23): | $23,668,000 |
| Standard Pacific Corp. (Product AQ11): | $26,014,000 |

# TABLE OF CONTENTS

## INTRODUCTION

### Purpose of the Report

The purpose of this appraisal is to estimate the "as is" Market Value for the *fee simple estate, subject to special tax liens* for all the taxable property within the Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) referred to herein as the "District" or "CFD No. 2015-1. CFD No. 2015-1 is proposed for 522 for-sale market rate dwelling units and 318 age-restricted units. In addition to the 840 proposed dwelling units within CFD No. 2015-1, there are two proposed apartment developments; a market rate project proposed for 150 units and an affordable project proposed for 113 units. Also within the District are a 14 acre school site and a 1.1 acre day care site. The school site is not subject to Special Tax and is therefore not a part of this appraisal assignment.

The for-sale residential properties subject to Special Tax are under the ownerships of the seven merchant builders: LT - MR1, LLC and LT - AQ1, LLC (both are William Lyon Homes' ownerships), Warmington MR 14 Associates, LLC, TRI Pointe Homes, Inc., Ryland Homes of California, Inc., Shea Homes Limited Partnership, Meritage Homes of California, Inc. and Standard Pacific Corp. The remaining land, which includes the two apartment sites, day care site, school site and common area sites are under the ownership of the developer: RMV PA2 Development, LLC.

The opinions set forth are subject to the assumptions and limiting conditions set forth herein and the specific appraisal guidelines as set forth by the County of Orange.

### Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for CFD No. 2015-1 bond financing purposes only. The subject property is described within this report. The bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The maximum authorized bond indebtedness for the District is $110,000,000.

**Client and Intended Users of the Report**

This report was prepared for our client, the County of Orange. The intended users of the report include the County of Orange, its underwriters, legal counsel, consultants, and potential bond investors.

**Scope of the Assignment**

According to specific instructions from the County and the CDIAC guidelines, the total value conclusion includes the "as is" estimate of Market Value under the ownerships of the seven merchant builders and the ownership of the developer, RMV PA2 Development, LLC for the two apartment sites and day care site that are subject to Special Tax. The estimated values of the land and units under construction, for each merchant builder ownership, will represent the "as is" bulk value to each ownership. Any lands designated for park, open space or civic uses within the District and not subject to tax are not included in this assignment.

According to the Engineer's Report for CFD No. 2015-1 prepared by VA Consulting, Inc., the subject property consists of 417.36 gross acres. The subject property is the second community to be improved within the master planned community known as "Rancho Mission Viejo". The development within CFD No. 2015-1 is known as "Esencia". The subject CFD includes 12 final tract maps proposed for 12 for sale products, all of which are scheduled to open for home sales in September 2015. The non for-sale residential land subject to Special Tax includes a 3.965 acre site proposed for 113 affordable apartment units, a 5.559 acre site proposed for 150 market rate apartment units and a 1.123 acre day care site. According to the developer, the day care site is expected to be sold in June 2016. The apartment sites are scheduled to be sold in 2017. Builders of the day care site and apartment sites are not known at the time of this appraisal report.

We have analyzed the subject property based upon the proposed uses and our opinion of its highest and best use. The following paragraphs summarize the process of collecting, confirming and reporting of data used in the analysis.

1. Gathered and analyzed demographic data from sources including the California Department of Finance (population data), Employment Development Department of the State of California (employment data), County of Orange (zoning information, building permit trends), South Orange County Chamber of Commerce (local demographic trends), Metrostudy (housing sales, inventory levels, and absorption), and sales personnel of comparable projects (market trends of individual home sales). Subject information was gathered from the District's Special Tax Consultant, the Developer, merchant builders and interviews.
2. Inspected the subject, the subject's neighborhood and the general market area. Inspected similar for-sale products and apartment projects for consideration of Highest and Best Use of the proposed lots/sites.
3. Gathered and analyzed comparably zoned residential and multi-family land sales within the subject market areas, for use in valuing the merchant builder sites and apartment sites. Data was gathered from sources including Comps.com, brokers and appraisers within the Southern California area. Where feasible, data were confirmed with both the buyer and seller.
4. Residential attached and detached dwelling unit sales, within the subject's primary and secondary market areas were analyzed. Data was gathered from sources including, but not limited to, RealQuest, appraisers and builders active in the area.

## Date of Value and Report

The opinion of Market Value expressed in this report is stated as of July 1, 2015. The date of the appraisal report is July 15, 2015.

## Date of Inspection

The subject property was inspected on several occasions, with the most recent on June 13, 2015, June 19, 2015 and July 1, 2015.

## Property Rights Appraised

The property rights appraised are those of the *fee simple estate subject to special tax liens* of the real estate described herein.

**Property Identification**

CFD No. 2015-1 is a part of the developing Rancho Mission Viejo planned community proposed for 14,000± dwelling units, urban activity center uses, neighborhood retail centers, business park uses and support uses on 5,873 developable acres. Over 75% of the original land ownership (22,815 acres) within Rancho Mission Viejo has been retained as permanent open space/conservation land. The community of Rancho Mission Viejo is located to the south and east of the cities of Rancho Santa Margarita, Mission Viejo, San Juan Capistrano and northeast of San Clemente. Also within the vicinity of Rancho Mission Viejo are the built-out communities of Las Flores, Coto de Caza and Ladera Ranch. To the northeast of the planned community is the Cleveland National Forest. To the south of Rancho Mission Viejo is Camp Pendleton and open space within unincorporated Orange County and San Diego County.

CFD No. 2015-1 is the second phase of development within Rancho Mission Viejo and can be identified within the "Ranch Plan Specific Plan" as a portion of Planning Area 2, referred to as PA 2.1 consisting of 390 gross acres. Residential uses are proposed on 380 acres plus a 10 acre park site. The first phase of Rancho Mission Viejo, Sendero, is nearing completion, with the last two neighborhoods. Sendero includes the market rate dwellings that have been built by seven merchant builders. Gavilan is the age-restricted neighborhood which was built by four merchant builders. In total, 971 dwellings have been built within the first phase of development. The subject, CFD No. 2015-1, is located to the east of Sendero, in the logical path of development. In general, the subject CFD No. 2015-1 is surrounded by undeveloped land.

**Property History**

The developer, RMV PA2 Development, LLC or their affiliated owners have owned the property for over 100 years. The 12 merchant builder sites sold to the seven builders between November 12, 2014 and November 26, 2014. The sites were sold in a blue-top lot condition. Please refer to the Product Area Site Information section that lists each transaction, beginning on page 41.

## Legal Description and Ownership

| Ownership | Product | Legal (at time of land sale) |
|---|---|---|
| LT - MR1, LLC (William Lyon Homes) | MR1 | Lots 49 thru 51 Tract 17561 |
| LT - AQ1, LLC (William Lyon Homes) | AQ1 | Lots 43 thru 48, 55, FO, FT & FU Tract 17561 |
| Warmington MR 14 Associates, LLC | MR14 | Lots 34 thru 36 Tract 17561 |
| TRI Pointe Homes, Inc. | MR15 | Lots 37 thru 42 & AW Tract 17561 |
| TRI Pointe Homes, Inc. | MR24 | Lots 22 thru 24 Tract 17561 |
| Ryland Homes of California, Inc. | MR17 | Lots 30 thru 33 Tract 17561 |
| Ryland Homes of California, Inc. | MR19 | Lots 25 thru 29 Tract 17561 |
| Shea Homes Limited Partnership | MR22 | Lots 25 thru 29 Tract 17561 |
| Shea Homes Limited Partnership | Q13 | Lots 1 thru 3 Tract 17561 |
| Shea Homes Limited Partnership | AQ21 | Lots 10 thru 15, CT, DN, DV, DU & DX Tract 17561 |
| Meritage Homes of California, Inc. | MR23 | Lots 16 thru 21 & DG Tract 17561 |
| Standard Pacific Corp. | AQ11 | Lots 4 thru 6 Tract 17561 |
| RMV PA2 Development, LLC | Balance of District | Lots 7 thru 9, 52-54, 62, DH, DI, DL & DY Tract 17561 |

## Definitions

### Market Value[1]

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

(a) Buyer and seller are typically motivated.

(b) Both parties are well informed or well advised, and each acting in what he considers his own best interest.

(c) A reasonable time is allowed for exposure in the open market.

(d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.

(e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

[1] Part 563, subsection 563.17-1a(b)(2), Subchapter D, Chapter V, Title 12, Code of Federal Regulations.

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SHEET 1 OF 1

# PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA) COUNTY OF ORANGE, STATE OF CALIFORNIA

ACCEPTED AND FILED AT THE REQUEST OF
Clerk of the Board of Supervisors
DATE MARCH 10, 2015
TIME 12:46PM FEE $EXEMPT
INSTRUMENT # 2015000122466
BOOK 100 PAGE 43
In the book of Maps of Assessment and Community Facilities Districts

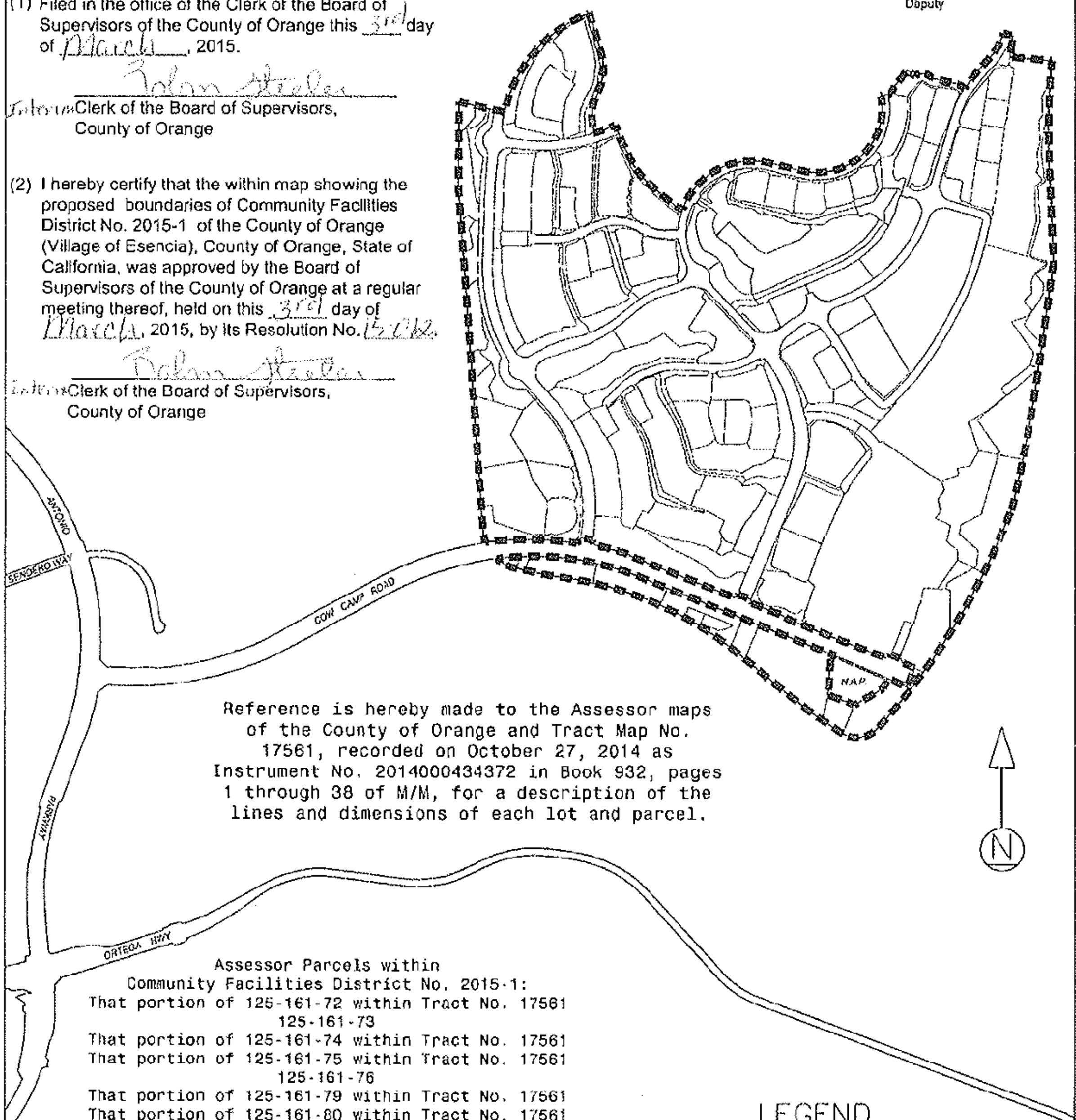
Hugh Nguyen
County Clerk-Recorder of County of Orange
By ____________
Deputy

(1) Filed in the office of the Clerk of the Board of Supervisors of the County of Orange this 3rd day of March, 2015.

____________
Interim Clerk of the Board of Supervisors,
County of Orange

(2) I hereby certify that the within map showing the proposed boundaries of Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia), County of Orange, State of California, was approved by the Board of Supervisors of the County of Orange at a regular meeting thereof, held on this 3rd day of March, 2015, by its Resolution No. 15-012.

____________
Interim Clerk of the Board of Supervisors,
County of Orange




Reference is hereby made to the Assessor maps of the County of Orange and Tract Map No. 17561, recorded on October 27, 2014 as Instrument No. 2014000434372 in Book 932, pages 1 through 38 of M/M, for a description of the lines and dimensions of each lot and parcel.

Assessor Parcels within
Community Facilities District No. 2015-1:
That portion of 125-161-72 within Tract No. 17561
125-161-73
That portion of 125-161-74 within Tract No. 17561
That portion of 125-161-75 within Tract No. 17561
125-161-76
That portion of 125-161-79 within Tract No. 17561
That portion of 125-161-80 within Tract No. 17561
That portion of 125-161-81 within Tract No. 17561
125-161-82
125-161-87
125-161-88
125-191-20
125-191-22
125-191-23
125-191-24
125-191-28
125-191-29
125-191-30

LEGEND

| | |
|---|---|
| ▪▪▪▪▪▪ | Proposed Boundaries of Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) |
| ——— | Tract / Lot Line |

Prepared by David Taussig & Associates, Inc.

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### Assessed Value[2]

The value of a property according to the tax rolls in ad valorem taxation. May be higher or lower than market value, or based on an assessment ratio that is a percentage of market value.

### Retail Value

Retail value should be estimated for all fully improved and occupied properties. Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale.

### Bulk Sale Value[3]

Bulk sale value should be estimated for all vacant properties--both unimproved properties and improved or partially improved but unoccupied properties. Bulk sale value is derived by discounting retail values to present value by an appropriate discount rate, through a procedure called *Discounted Cash Flow Analysis*. A second method is to use bulk land sales. These are sales of numerous individual parcels sold to one buyer. Bulk sale value is defined as follows:

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

### Fee Simple Estate[4]

Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government.

### Fee Simple Estate Subject to Special Tax and Special Assessment Liens[5]

Empirical evidence (and common sense) suggests that the selling prices of properties encumbered by such liens are discounted compared to properties free and clear of such liens. In new development projects, annual Mello-Roos special tax and/or special assessment payments can be substantial, and prospective buyers take this added tax burden into account when formulating their bid prices.

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[2] *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 22

[3] *Appraisals Standard for Land-Secured Financings*, published by CDIAC, 2004, Page 10

[4] *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 140

[5] California Debt and Investment Advisory Commission, Page 9

**Finished Lot**

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include graded lot, streets to the lot boundary, utilities to the lot boundary, and all fees required to pull a building permit paid.)

**Physically Finished Lot**

Physically finished lot requiring development impact fees and possibly minor site work before a building permit is issued and development can proceed.

**Blue-top Lot**

Graded parcel which includes streets cut and padded lots with utilities stubbed to the site and perimeter streets in. The lot has been rough graded to within 0.1 feet of the grade as described in the approved rough grading plans. All slopes relating to the lot shall be graded within 0.5 feet of the grades stated in the rough grading plan. In addition, the recommendations set forth in the soils and environmental reports that have been prepared are complete. All water, sewer, and street improvement plans have been approved and a civil engineer has certified that the lots meet the above conditions.

**Hypothetical Condition**

The term Hypothetical Condition is defined by USPAP as: "A condition directly related to a specific assignment, which is contrary to what is known by the appraiser exists on the effective date of the assignment results, but is used for the purpose of analysis."

**Extraordinary Assumption**

The term Extraordinary Assumption is defined by USPAP as: "An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions."

## Extraordinary Assumptions, Assumptions and Limiting Conditions

The analyses and opinions set forth in this report are subject to the following assumptions and limiting conditions:

Standards Rule ("S.R.") 2-1(c) of the "Standards of Professional Appraisal Practice" of the Appraisal Institute requires the appraiser to "clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects an appraisal analysis, opinion, or conclusion." In compliance with S.R. 2-1(c) and to assist the reader in interpreting the report, the following contingencies, assumptions and limiting conditions are set forth as follows:

### Extraordinary Assumption

The site development costs, which include major infrastructure improvements, land development improvements and merchant builder improvements, have been provided by the Rancho Mission Viejo Company and the merchant builders. The timing of the costs has also been provided by the Rancho Mission Viejo Company and the merchant builders. ***It is a specific assumption and contingency of this appraisal and its estimated values that the reported costs are all the costs associated with development of the subject properties to a finished lot ready to build condition.*** If any of the costs, reimbursements and/or timing of the costs or reimbursements change, the value conclusions reached in this report would likely be different.

### Hypothetical Condition

This appraisal is contingent upon the successful issuance and funding of bonds for Community Facilities District No. 2015-1 through the County of Orange. A list of the estimated eligible facilities totaling $109,881,000 was prepared on behalf of the County of Orange by VA Consulting, Inc., the District Engineer.

The Market Value estimate reported in this report reflects the funding for a portion of the infrastructure improvements and fees from the proceeds of Community Facilities District No. 2015-1. If the CFD is not funded and/or the amount of the reimbursements should change, the value opinion stated herein could change. Please refer to the Valuation section for further detail of the reimbursements and timeline for reimbursement.

### Assumptions and Limiting Conditions of the Appraisal

The date of value, for which the opinions of Market Value are expressed in this report, is July 1, 2015. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

Maps, plats, and exhibits included herein are for illustration only, as an aid for the reader in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.

Oil, gas, mineral rights and subsurface rights were not considered in making this appraisal unless otherwise stated and are not a part of the appraisal, if any exist.

The appraisers have not been provided with soils or geotechnical reports for review. CFD No. 2015-1 has been improved to at least a blue-top lot condition. Of the total 840 lots, 44 lots are improved with model home construction, from framing to color coat stucco. *For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of highest and best use.*

The appraisers have been provided with the original and a supplemental environmental reports prepared for the property within the CFD. *For purposes of this appraisal, it is assumed that there are no environmental issues and the build-out of CFD No. 2015-1 can be completed as currently planned.*

The appraisers have been provided with numerous preliminary title reports for the District. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely affect the value of the subject property.

Information contained in this report has been gathered from sources which are believed to be reliable, and, where feasible, has been verified. No responsibility is assumed for the accuracy of information supplied by others.

Since earthquakes are common in the area, no responsibility is assumed for their possible impact on individual properties, unless detailed geologic reports are made available.

Your appraisers inspected as far as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representations are made as to these matters unless specifically considered in the report.

The appraisers assume no responsibility for economic or physical factors which may occur after the date of this appraisal. The appraisers, in rendering these opinions, assume no responsibility for subsequent changes in management, tax laws, environmental regulations, economic, or physical factors which may or may not affect said conclusions or opinions.

No engineering survey, legal, or engineering analysis has been made by us of this property. It is assumed that the legal description and area computations furnished are reasonably accurate. However, it is recommended that such an analysis be made for exact verification through appropriate professionals before demising, hypothecating, purchasing or lending occurs.

Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraisers become aware of such during the appraisers' inspection. The appraisers have no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraisers, however, are not qualified to test for such substances or conditions.

The presence of such substances such as asbestos, urea formaldehyde, foam insulation, or other hazardous substances or environmental conditions may affect the value of the property. The value estimated herein is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in the field of environmental impacts upon real estate if so desired.

The cost and availability of financing help determine the demand for and supply of real estate and therefore affect real estate values and prices. The transaction price of one property may differ from that of an identical property because financing arrangements vary.

Our forecasts of future events which influence the valuation process are predicated on the continuation of historic and current trends in the market.

The property appraised is assumed to be in full compliance with all applicable federal, state, and local environmental regulations and laws, and the property is in conformance with all applicable zoning and use ordinances/restrictions, unless otherwise stated.

We shall not be required, by reason of this appraisal, to give testimony or to be in attendance in court or any governmental or other hearing with reference to the property without prior arrangements having first been made with the appraisers relative to such additional employment.

In the event the appraisers are subpoenaed for a deposition, judicial, or administrative proceeding, and are ordered to produce their appraisal report and files, the appraisers will immediately notify the client.

The appraisers will appear at the deposition, judicial, or administrative hearing with their appraisal report and files and will answer all questions unless the client provides the appraisers with legal counsel who then instructs them not to appear, instructs them not to produce certain documents, or instructs them not to answer certain questions. These instructions will be overridden by a court order, which the appraisers will follow if legally required to do so. It shall be the responsibility of the client to obtain a protective order.

The appraisers have personally inspected the exterior of the subject properties; however, no opinion as to structural soundness of proposed or existing improvements or conformity to City, County, or any other agency building code is made. No responsibility for undisclosed structural deficiencies or conditions is assumed by the appraisers. No consideration has been given in this appraisal to personal property located on the premises; only the real estate has been considered unless otherwise specified.

James B. Harris is a Member of the Appraisal Institute. The Bylaws and Regulations of the Institute require each Member and Associates to control the uses and distribution of each appraisal report signed by such Member or Associates. Except as hereinafter provided, possession of this report, or a copy of it, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser and in any event only with properly written qualification and only in its entirety.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media, public relations, news media or any other public means of communication without the prior consent and approval of the undersigned. **The County of Orange, its underwriters and legal counsel may publish this report in the Preliminary and Final Official Statements for this Community Facilities District.**

The acceptance of and/or use of this appraisal report by the client or any third party constitutes acceptance of the following conditions:

> **The liability of Harris Realty Appraisal and the appraisers responsible for this report is limited to the client only and to the fee actually received by the appraisers. Further, there is no accountability, obligation or liability to any third party. If the appraisal report is placed in the hands of anyone other than the client for whom this report was prepared, the client shall make such party and/or parties aware of all limiting conditions and assumptions of this assignment and related discussions. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at his own risk.**
>
> **If the client or any third party brings legal action against Harris Realty Appraisal or the signer of this report and the appraisers prevail, the party initiating such legal action shall reimburse Harris Realty Appraisal and/or the appraisers for any and all costs of any nature, including attorneys' fees, incurred in their defense.**

## AREA DESCRIPTION

The following section of this report will summarize the major demographic and economic characteristics such as population, employment, income and other pertinent characteristics for Orange County, Rancho Santa Margarita and the subject market area.

### Orange County

Orange County consists of 34 individual cities and numerous unincorporated communities. Orange County is bounded by the Pacific Ocean to the west, Los Angeles County to the north, Riverside County to the east, San Bernardino County to the northeast and San Diego County to the south. Orange County offers a wide variety of terrain from the Pacific Ocean beaches to foothill landscapes.

A strategic location and quality of life are the primary factors for Orange County's evolution from a rural, agricultural dominated economy into a premier urbanized commercial center. Prior to 1959, the County was considered to be a bedroom community of Los Angeles County. During the 1950's and 1960's, improvements in the transportation network and economic growth in Los Angeles County gave rise to the suburbanization of Orange County. By the 1970's, the commercial and industrial development transformed Orange County into an urbanized commercial center. Today, despite the severe economic downturn of 1991-1996, the filing by the County of Orange for bankruptcy in December 1994, the 2001-2002 recession, and the recent national economic crash, Orange County remains one of the most economically vibrant and diverse components of the Southern California region.

#### Population

Orange County has added almost 1,215,000 new residents since 1980 as illustrated in the following table. The most recently released population data indicates that as of January 2015, the countywide population stood at 3,147,700 residents. Annual population gains and losses from natural increase and immigration have ranged from a gain of 19,668 persons to a gain of 33,700 persons annually, over the last five years. The

# Regional Map

population changes represent annual changes of 0.6% to 1.1%. The County population experienced a negative 4.1% adjustment in the year 2010. This was due to the population count in the U.S. Census and not from an actual out-migration from the County. The U.S. Census actual counts were significantly less than the prior State of California projections. The County's population increased 4.5% from 2010 to 2015. The 2015 population has finally exceeded the prior record high population of 3,139,000, which occurred in 2009.

**Population Trends**
**1980-2015**[1]

| | | Average Annual Change | |
|---|---|---|---|
| Year | Population | Number | Percent |
| 1980 | 1,932,921 | -- | -- |
| 1990 | 2,410,668 | 47,775 | 2.5% |
| 2000 | 2,846,289 | 43,562 | 1.8% |
| 2001 | 2,880,200 | 33,911 | 1.2% |
| 2002 | 2,930,500 | 50,300 | 1.7% |
| 2003 | 2,978,800 | 48,300 | 1.6% |
| 2004 | 3,017,300 | 38,500 | 1.4% |
| 2005 | 3,047,000 | 29,700 | 1.0% |
| 2006 | 3,072,300 | 25,300 | 0.8% |
| 2007 | 3,098,100 | 25,800 | 0.8% |
| 2008 | 3,107,500 | 9,400 | 0.3% |
| 2009 | 3,139,000 | 31,500 | 1.0% |
| 2010 | 3,010,232 | (128,768) | (4.1%) |
| 2011 | 3,029,900 | 19,668 | 0.6% |
| 2012 | 3,055,800 | 25,900 | 0.9% |
| 2013 | 3,081,800 | 26,000 | 0.9% |
| 2014 | 3,114,000 | 32,200 | 1.0% |
| 2015 | 3,147,700 | 33,700 | 1.1% |

[1] April 1, 1980, 1990, 2000, and 2010 all other years January 1.
Source: California Department of Finance, U.S. Census 5/15

The high cost of housing in Orange County compared to other areas has slowed the number of people relocating to Orange County. The recent decline in the Orange County economy began in 2007 and continued until mid-2012. This weakness was led by the decline in the residential real estate market. Both the number of sales and median dwelling prices declined over 40% from the peak of June 2007 to early 2009. As of April 2015, the median price increased over 63% from the lows of early 2009, but is still about 7% below the peak. After having declining sales for over 12± months, sales have increased for the last three months. Median prices have generally fluctuated between $595,000 and $605,000 over the last 12 months.

**Employment**

As of May 2015, Orange County had an unemployment rate of 4.2%, compared to the California rate of 6.2%. One year ago, in May 2014, the unemployment rate was 5.2%. The annual average rate for 2013 was 6.2%. This indicates a 19.6% decrease in the unemployment rate in one year and a 33.9% decrease in two years. From 1980 to 2000, the Orange County employment base expanded rapidly as the area became a financial and service center in the Southern California region. The following table illustrates the area's unemployment compared to California as of May 2015.

| | Labor Force | Unemployment |
|---|---|---|
| California | 19,061,500 | 6.2% |
| Orange County | 1,601,700 | 4.2% |

The most common measure of employment growth is the increase in nonagricultural wage and salary employment. Job growth in 2003 increased 25,300 jobs. During 2004, the total non-farm employment was 1,456,700, an increase of 1.9% or 27,700 jobs. In 2005, the increase in job growth was reported at 2.4% or an increase of 34,300 jobs. Job growth slowed to 1.9% in 2006 or 27,900 new jobs, for a record total of 1,518,900 jobs. In 2007, job growth declined 3,400 jobs to 1,515,500, or a negative 0.2%. In 2008, there was a decline of 34,000 jobs, or a negative 2.2% job growth. In 2009, job growth declined 109,500 jobs, or a negative 7.4% to 1,372,100 jobs. This was the largest annual decline in Orange County history. Job declines continued into 2010 when 5,400 jobs were lost, a negative 0.4%. The four year decline ended in 2011, when 15,700 jobs were added, an increase of 1.1% to 1,366,700 jobs. In 2012, 37,200 new jobs were added, a 2.7% increase to a total of 1,419,600 jobs. In 2013, 39,800 jobs were added, an increase of 2.8% to 1,459,400 jobs. During 2014 36,500 jobs were added, an increase of 2.5% to 1,495,900 jobs. The job losses between 2007 and 2010 wiped out about 11 years of job growth. The current employment level is about the same as the 2005 level.

**Employment Trends 1983-2014**

| Year | Employment | Average Annual Change Number | Percent |
|---|---|---|---|
| 1983 | 869,200 | -- | -- |
| 1990 | 1,172,400 | 43,314 | 5.0% |
| 2000 | 1,388,900 | 21,600 | 1.8% |
| 2001 | 1,413,700 | 24,800 | 1.8% |
| 2002 | 1,403,700 | (10,000) | (0.7%) |
| 2003 | 1,429,000 | 25,300 | 1.8% |
| 2004 | 1,456,700 | 27,700 | 1.9% |
| 2005 | 1,491,000 | 34,300 | 2.4% |
| 2006 | 1,518,900 | 27,900 | 1.9% |
| 2007 | 1,515,500 | (3,400) | (0.2%) |
| 2008 | 1,481,600 | (34,000) | (2.2%) |
| 2009 | 1,372,100 | (109,500) | (7.4%) |
| 2010 | 1,366,700 | (5,400) | (0.4%) |
| 2011 | 1,382,400 | 15,700 | 1.1% |
| 2012 | 1,419,600 | 37,200 | 2.7% |
| 2013 | 1,459,400 | 39,800 | 2.8% |
| 2014 | 1,495,900 | 36,500 | 2.5% |

[1] 2014 benchmark
Source: Employment Development Department – 6/15

The ten largest employers in Orange County are shown below.

**Orange County Ten Largest Employers**

| Company/Institution | No. of Employees |
|---|---|
| Walt Disney Co. | 27,000 |
| University of California, Irvine (UCI) | 22,385 |
| County of Orange | 18,035 |
| St. Joseph Health System (St. Joseph) | 12,227 |
| Kaiser Permanente | 7,000 |
| Boeing Co. | 6,890 |
| Wal-Mart | 6,000 |
| Memorial Care Health System | 5,650 |
| Bank of America | 5,500 |
| Target | 5,400 |

Source: Orange County Facts & Figures, 2014

### Income

The 2015 median household income in Orange County is estimated to be $72,856. These figures are significantly above the Southern California region average. The higher income level is due to the higher percentage of financial, insurance, real estate, and business service employment which typically has higher wage scales.

**Orange County**
**Household Income Distribution**
**2015**

| Income Range | Households | Percent 1/ |
|---|---|---|
| Less than $15,000 | 84,578 | 8.12% |
| $15,000 - $24,999 | 80,075 | 7.68% |
| $25,000 - $34,999 | 79,657 | 7.64% |
| $35,000 - $49,999 | 116,553 | 11.18% |
| $50,000 - $74,999 | 175,287 | 16.82% |
| $75,000 - $99,999 | 134,665 | 12.92% |
| $100,000 - $124,999 | 107,659 | 10.33% |
| $125,000 - $149,999 | 75,044 | 7.20% |
| $150,000 - $199,999 | 88,575 | 8.50% |
| $200,000 - $249,999 | 31,376 | 3.01% |
| $250,000 - $499,999 | 48,492 | 4.65% |
| $500,000 or more | 20,264 | 1.94% |
| Total | 1,042,220 | 100.0% |
| Median Household Income | | $72,856 |
| Average Household Income | | $99,514 |
| 1/ Percent of total distribution | | |

Source: Claritas 6/15

Approximately 48% of the county's households have annual income over $75,000. This high income level, in part, provides the financial means to support the continued demand in the residential market.

**Retail Sales**

For Orange County, taxable retail sales increased from $8.5 billion in 1980 to an estimated $39± billion in 2006, when the recent decline began. Sales for 1999 and 2000 increased 10.4% and 10.9%, respectively, to $27.49 billion. In 2001 the sales growth moderated to 3.8% or $28.52 billion. For 2002, sales increased 4.0%, up to $29.65 billion. During 2003, taxable retail sales totaled $32.28 billion; this was an 8.9% increase. This increase continued through 2004 with retail sales at $35.44 billion, which is a 9.8% increase. In 2005 the growth moderated to 6.3%, with sales at $37.67 billion. In 2006 the growth further moderated to 3.7%, with sales at $39.07 billion. In 2007, there was an actual decline to $38.99 billion, a 0.2% decline. In 2008, sales again declined to $35.77 billion, or a negative 8.3%. Declining sales worsened in 2009, declining 12.9% to $31.16 billion. This was a bottom for retail sales in Orange County. In 2010 sales increased to $32.55 billion or a 4.5% gain. In 2011, retail sales increased 9.3% to $35,587,795,000.

The 2012 retail sales increased 7.8% to $38,372,456. The 2013 sales increased 4.3% to $40,024,929,000. The 2013 retail sales were at a record high level, finally exceeding the previous record high in 2006. Quarterly retail sales for 2014 have not been released.

**Retail Sales Trends[1]**
**1985-2013**

| Year | Taxable Retail Sales (000's) | Average Annual Change Number (000's) | Percent |
|---|---|---|---|
| 1985 | $13,007,407 | -- | -- |
| 1990 | $17,486,433 | $ 895,805 | 6.9% |
| 2000 | $27,485,000 | $ 999,857 | 5.7% |
| 2001 | $28,519,000 | $1,034,000 | 3.8% |
| 2002 | $29,646,818 | $1,127,848 | 4.0% |
| 2003 | $32,287,697 | $2,640,879 | 8.9% |
| 2004 | $35,441,953 | $3,163,256 | 9.8% |
| 2005 | $37,672,834 | $2,230,881 | 6.3% |
| 2006 | $39,074,451 | $1,401,617 | 3.7% |
| 2007 | $38,988,227 | ($ 86,224) | (0.2%) |
| 2008 | $35,768,595 | ($3,219,632) | (8.3%) |
| 2009 | $31,162,619 | ($4,605,976) | (12.9%) |
| 2010 | $32,552,107 | $1,384,488 | 4.5% |
| 2011 | $35,587,795 | $3,035,688 | 9.3% |
| 2012 | $38,372,456 | $2,784,661 | 7.8% |
| 2013 | $40,025,929 | $1,653,473 | 4.3% |

[1] Retail stores, taxable retail sales total
Source: State Board of Equalization 6/15

**Real Estate**

The following table shows Orange County in relation to the remaining Southern California counties for median price and number of dwellings sold.

**Southern California Home Sales**

| | No. Sold – All Homes | | | Median Price – All Homes | | |
|---|---|---|---|---|---|---|
| County | May 2014 | May 2015 | Pct. Chg. | May 2014 | May 2015 | Pct. Chg. |
| Los Angeles | 7,051 | 7,153 | 1.4% | $460,000 | $485,000 | 5.4% |
| **Orange County** | **3,219** | **3,458** | **7.4%** | **$595,000** | **$610,000** | **2.5%** |
| Riverside | 3,400 | 3,737 | 9.9% | $295,000 | $310,000 | 5.1% |
| San Bernardino | 2,414 | 2,494 | 3.3% | $242,000 | $255,000 | 5.4% |
| San Diego | 3,694 | 3,825 | 3.5% | $445,000 | $459,000 | 3.1% |
| Ventura | 849 | 977 | 15.1% | $460,000 | $500,000 | 8.7% |
| Southern California | 20,627 | 21,644 | 4.9% | $417,000 | $426,000 | 2.2% |

Source: CoreLogic 6/15

During the period from 1988 through 1989, housing values appreciated at rates approaching an average of 15% per annum throughout much of Orange County and Southern California. During the period from 1990 through 1993 as the economic recession influenced all segments of potential homebuyers, the rate of house price changes fell dramatically with decreases of approximately 4% to 6% per annum. During 1996 home prices stabilized, and most new subdivisions experienced significant price increases from 1997 to mid-2005 with annual double digit appreciation. Over the subsequent 6± years sales prices significantly decreased. However, over the last 3± years, sales prices have increased on a year over year basis in almost every month. The April 2015 sales were the second highest April sales 2006. The change in sales was up 9.9% from March 2015 and up 8.5% since April 2014. The region's median sale price has changed little over the last five months, following 22 months of double-digit increases. Southern California's April median sale price was 15.0% below the peak median price of $505,000 reached in July 2007.

In all, 3,458 homes in the County sold in May 2015, which is an increase of 7.4% from May 2014 (Southern California had an increase in sales of 4.9%). The County's May 2015 median price of $610,000 is up 1.7% over April 2015. Over the past year, the median sales price increased 2.5%, according to CoreLogic. This is a vast improvement from the 20% to 25% annual declines on a monthly basis in 2007 and 2008. The May 2015 median price of $610,000 was 5.4% below the peak price of $645,000 in June 2007, but almost 65% higher than the January 2009 cyclical low median price of $370,000. Due to the strength in the new home market, the issuance of new home building permits in the County in 2012 was 70%± higher than the average number of permits issued over the previous five years. During 2013, single-family building permits increased to 3,783 from the 2012 total of 2,846 permits, about 33%. During 2014, single-family building declined 7.0% to 3,519 permits.

In Southern California, as a whole, May home sales were 14% below the May averages for the last 27 years.

**City of Rancho Santa Margarita**

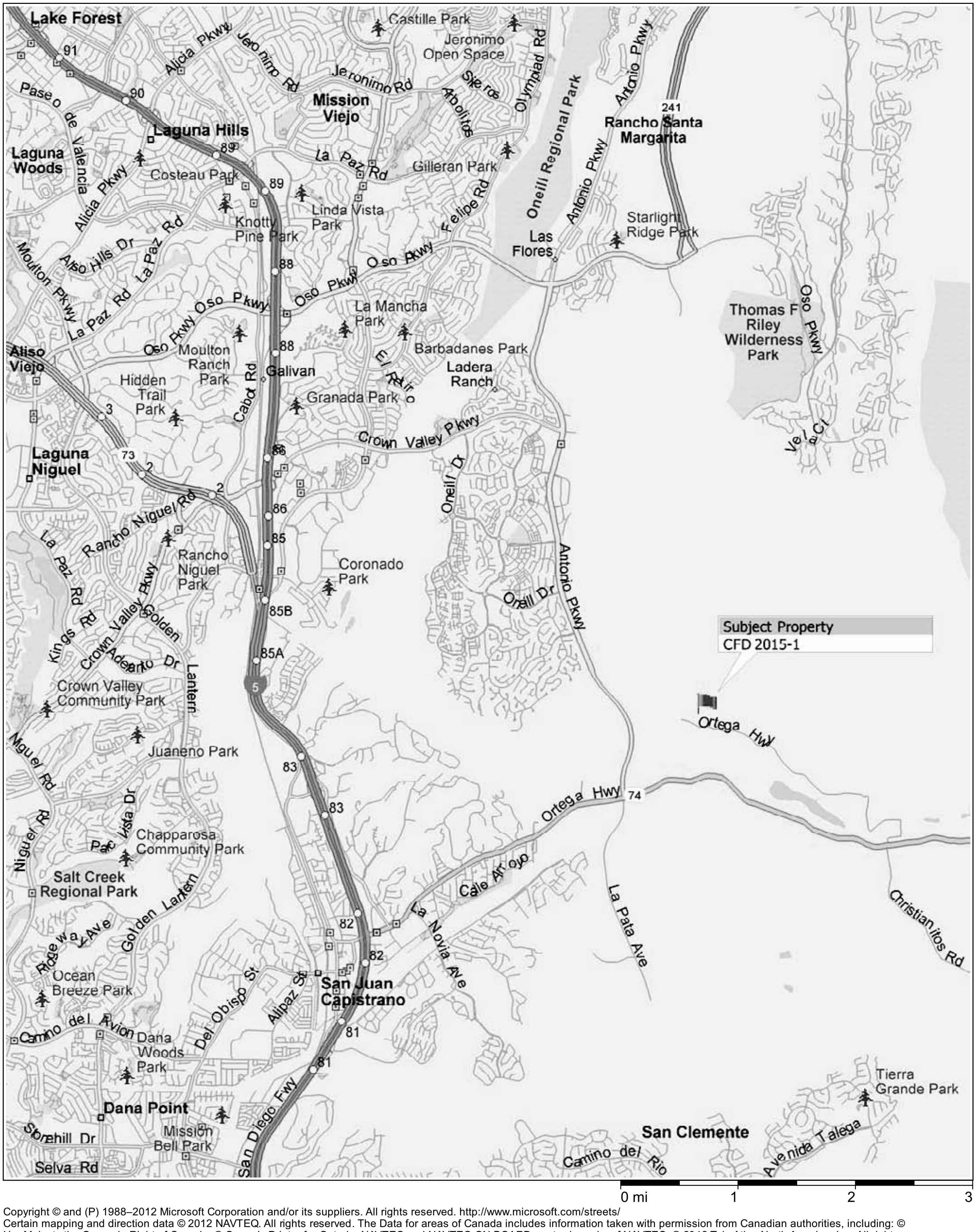
The City of Rancho Santa Margarita is located in south Orange County. It was incorporated on January 1, 2000. It is adjacent to Mission Viejo to the west and the unincorporated areas of Orange County to the north, south and east. The more rural unincorporated areas of Orange County are located south and east of the City limits. Rancho Santa Margarita is accessible from the Santa Ana Freeway (I-5), via several surface streets, while the S-241 toll road bisects the City. Please refer to the next page for a neighborhood map.

In 1882, Richard O'Neill and James Flood purchased a large ranch, which covered over 200,000 acres from Oceanside to Lake Forest. In 1941, the ranch was divided into three family ownerships. Richard O'Neill, Jr. took title to the 52,000 acres in Orange County. This ranch was known as Rancho Mission Viejo. In the mid-1960s a 10,000 acre planned community (now city) of Mission Viejo was developed. In the mid-1980's the family developed its second planned community (now city) of Rancho Santa Margarita. Subsequently, the planned communities of Las Flores and Ladera Ranch were developed. Through the years, the company's land holdings have diminished as homes have been sold and as land deemed sensitive for environmental or public recreational uses have been conveyed to governmental agencies to ensure preservation and public access. Today, approximately 22,000 acres remain under the company's stewardship.

Rancho Santa Margarita has a population as of January 1, 2015 of 49,100 persons. The City's most prominent business center is Rancho Santa Margarita Business Park, one of the County's major business, research and technology centers. The adjacent communities of Robinson Ranch and Dove Canyon were also included in the incorporation of Rancho Santa Margarita.

Rancho Santa Margarita has shared in the rapid growth of the region, particularly during the 1980s and 1990s. Nearly all of this population growth has been the result of people moving to the newer job markets in Orange County. The City has a 2015 population of about 49,100 persons according to the California Department of Finance.

## Neighborhood Map



**Population**

As of the 2000 Census, the City had a population of 47,214 persons, a huge increase from its first residents in 1985. In 2010 the census reported a population of 47,853 persons. The State of California estimated the January 1, 2015 population at 49,100 persons. The City has nearly reached its maximum population.

**Income Levels**

The City has an income distribution substantially higher than the countywide distribution. The median household income for Rancho Santa Margarita is $102,732, which is significantly higher than the countywide figure. Sixty-five percent of all households earn over $75,000, as compared to 48% for the County as a whole.

**City of Rancho Santa Margarita**
**Household Income Distribution 2015**

| Income Range | Households | Percent |
|---|---|---|
| Less than $15,000 | 694 | 4.02% |
| $15,000 - $24,999 | 803 | 4.65% |
| $25,000 - $34,999 | 799 | 4.62% |
| $35,000 - $49,999 | 1,257 | 7.28% |
| $50,000 - $74,999 | 2,501 | 14.48% |
| $75,000 - $99,999 | 2,321 | 13.43% |
| $100,000 - $149,999 | 4,423 | 25.60% |
| $150,000 - $199,999 | 2,237 | 12.95% |
| $200,000 or more | 2,242 | 12.98% |
| Total | 17,277 | 100.00% |
| Median Household Income | | $102,732 |
| Average Household Income | | $122,544 |

Source: Claritas 1/15

**Retail Sales**

In 2013, the City generated retail sales of $442,228,000 or 1.1% of the County's total retail sales. The retail sales increased 39.2% from the City's 2001 level, while the County increased 40.3% during the same period. Annual and quarterly sales for 2014 have not been reported.

### Employment

As of December 2014, the City had an employment level of 27,500 persons. The unemployment rate for the City was 2.5%, which was 1.7% lower than the County as of May 2015. The top ten private employers in this area are shown on the following table. The information is from the City of Rancho Santa Margarita.

| City of Rancho Santa Margarita Principal Employers 2014 | |
|---|---|
| Employer | No. of Employees |
| Applied Medical Resources | 2,500 |
| Cox Communications | 1,200 |
| O'Connell Landscape | 980 |
| Saddleback Valley School District | 606 |
| Lucas & Mercier Construction | 553 |
| Control Components Inc. (CCI) | 370 |
| Target Corporation | 247 |
| Capistrano Unified School District | 215 |
| Car Sound Exhaust Systems, Inc. | 207 |
| PADI | 200 |

### Transportation

Rancho Santa Margarita has average freeway access provided by Interstate 5 (San Diego Freeway), the major north/south freeway in California, via Oso Parkway. The freeway merges with Interstate 405 at a major interchange situated about six miles north of the City. Both freeways intersect with State Highway 55 (Costa Mesa Freeway) to the west and northwest. From there, the Costa Mesa Freeway extends north to State Highway 91 (Riverside Freeway) providing access into Riverside and San Bernardino counties and west into Los Angeles County. The Costa Mesa Freeway continues southwest to Costa Mesa and Newport Beach. The San Diego Freeway (I-5) extends northwest to Los Angeles and further to Ventura County and central California. To the south, it provides access to San Clemente and ultimately to San Diego and the international border with Mexico.

Also available are the toll roads (the Eastern Transportation Corridor and the Foothill Transportation Corridor) that run from the Riverside Freeway near Anaheim to Oso Parkway at the south City limits.

Access to the subject neighborhood is primarily via the I-5, by way of Ortega Highway. Additional access is via the Foothill Transportation Corridor (S-241), by way of on/off ramps at Oso Parkway, then via Antonio Parkway to the subject neighborhood. The John Wayne Orange County Airport is about 15 miles northwest. The S-73 toll road is located 6.0 miles south.

**Saddleback Valley**

The subject property is located within an unincorporated area of Orange County. More specifically, this area is referred to as the "Saddleback Valley" which includes the unincorporated communities of Ladera Ranch, Foothill Ranch, Coto de Caza, and Wagon Wheel, and the cities of Aliso Viejo, Rancho Santa Margarita, Lake Forest, Laguna Hills, Laguna Niguel, and Mission Viejo. The Saddleback Valley is located approximately 50 miles south of Los Angeles, and 75 miles north of San Diego.

The communities within the Saddleback Valley are primarily unincorporated and governed by the Orange County Board of Supervisors. Police services are provided by the Orange County Sheriff's Department. The fire department is provided by Orange County as well.

The Saddleback Valley labor market area includes Rancho Santa Margarita, Foothill Ranch, Coto de Caza, Aliso Viejo, Lake Forest, Mission Viejo, Laguna Hills, and Laguna Niguel. Within this labor market area, over 95% of the labor pool are employed, with over 50%± of all households having two or more family members employed.

There are numerous employment opportunities in the existing and currently developing business parks which include: Santa Margarita Center (Rancho Santa Margarita), Pacific Commercentre (Lake Forest), Baker Ranch (Lake Forest), Foothill Ranch (County), Crown Business Center (Mission Viejo), and Pacific Park (Aliso Viejo).

The Irvine Spectrum consists of 5,000 acres and is approximately half completed. The development includes 3,400 companies including 25 of the Fortune 500 with a total of 77,000 employees. Major companies such as Verizon Wireless, WATC, Billabong, and

The Capital Group are located within the Spectrum. The concept is to attract a diverse economic headquarters that would attract commerce and technology world-wide, plus an environment for entrepreneurs.

Traffic congestion has been a severe problem not only in established areas such as North Orange County, but in rapidly developing areas within South Orange County. In an attempt to mitigate the South County traffic problems, an area-wide coordinated effort, between the California Department of Transportation "Caltrans," the County of Orange, local cities and the development community, was completed to expand existing roadways and to build new freeways. Included in these projects was the widening of the I-5 Freeway from a six-lane to a 12-lane freeway. The completion of the expansion has significantly improved the flow of traffic, particularly in South and Central Orange County.

The project that will have the most profound traffic impact on South Orange County is the proposed extension of the Foothill Transportation Corridor, "FTC." The FTC, when completed, is proposed to extend from the Eastern Corridor in Anaheim Hills to San Clemente. However, the proposed route for the remaining south leg has been rejected by both state and federal agencies. At this time, no route has been approved.

**Community of Ladera Ranch**

Ladera Ranch is the closest Planned Community to the community of Rancho Mission Viejo, of which the subject parcels are a part. The Ladera Ranch Planned Community was approved by a General Plan Amendment and Planned Community zoning as granted by the County in October 1995. Ladera Ranch contains a total of 4,000± acres of which 2,400± acres are zoned for development, with 1,600± acres to remain as open space. The County approved permits up to 8,100 dwelling units, 25± acres of retail development and 75± acres of mixed uses including commercial and limited residential uses for the urban activity center. The current build-out of Ladera Ranch is projected at 8,061 dwelling units.

Phase 1 of Ladera Ranch opened for sales to homeowners in August 1999. In total, over 6,500 production dwelling units have been sold to individual homeowners.

The custom lot development within the Ladera Ranch began sales on May 1, 2004. As of June 2015, 189 of the 232 lots were released for sale and 184 were reported as sold. An additional 15 lots are current options to a merchant builder. Two major home builders purchased 57 lots, in phased-take downs, for semi-custom home projects. The community of Ladera Ranch has met with very good acceptance from the market place.

In addition to the residential and commercial developments within Ladera Ranch, there are sites for community facilities (i.e. church, daycare, etc.), three K-5 school sites, one 6-8 school site, many neighborhoods and community park sites, and a 24-acre Sports Park site. The Sports Park is located on the north side of Crown Valley Parkway at the west side of the community, and includes 23± acres devoted to youth sports, with multiple softball-Little League fields, soccer fields, tot lot, picnic area, and concession building. The Sports Park was completed and dedicated to the County of Orange in March 2001.

The 1,600± acres of open space include surrounding ridgelines and arroyo areas that are protected through a conservation easement. This area includes diverse habitats such as coastal sage scrub, coastal live oak woodlands, native grasslands and riparian ecosystems.

**Conclusions of Area Analysis**

The strength of the economy for Orange County is evident in the relatively stable employment and, correspondingly, population of the County. While the employment and population figures have shown continued growth, local unemployment has consistently been below the national and state averages. The rebound from the past recession has shown continued gain in population and employment numbers. Most economists predict a continuation of expansion since the recent recession is over.

The local economy previously experienced economic decline from 2008 into 2012, due largely to the national and state recessions. However, beginning in mid-2012 the markets stabilized and home prices have increased. Inflation is reported to remain low, which should keep mortgage rates from rising too steeply while the economy gains strength. Nationally, the economy has rebounded from the recent recession lows. As of July 1, 2015 the Dow Jones Industrial Average (DJIA) was near historical highs of 17,800. The S&P 500 was near historical highs of near 2,100. Home buyer demand in South and Central Orange County and all of Southern California currently exceeds the supply of homes on the market.

Orange County has experienced an increase of 2.5%± in median home price from a year ago. The median home price in Orange County was $610,000 in May 2015. Home prices continue to increase, on a year-over-year basis although at a slowing rate. The year over year change in the sales rate have increased since February after declining for several months.

The surrounding area also provides good schools and community amenities, which are desirable characteristics for families as well as young and established professionals. Local growth provides an economic and employment base for retail and service businesses that will be supplemented by jobs resulting from the development of the surrounding business parks. As the economy and the housing market improves from the moderate market of 2014, a return to more normal growth should continue.

## SITE ANALYSIS

**Phase I of Rancho Mission Viejo**

The first phase (Planning Area 1) of Rancho Mission Viejo is nearing completion of home construction. Originally this Planning Area was approved for 1,170 dwelling units and other non-residential uses. Approximately 130 acres (Subareas 1.3, 1.4 and 1.5) were sold to the City of San Juan Capistrano for open space uses. Subarea 1.1 is currently developed with 941 dwellings in two neighborhoods.

Sendero, a market rate neighborhood has homes built by seven homebuilders. Gavilan is an age restricted 55-plus neighborhood with homes built by four home builders. Sendero has three townhome communities and four detached communities. Home sizes range from 1,000± square feet up to 3,000± square feet. Gavilan has duplex bungalows up to detached dwellings in four communities. Dwellings range from 1,275± square feet up to 2,325± square feet. Prices range from the low $300,000's to the high $800,000's in Sendero and is near sell-out. Gavilan prices range from the mid-$400,000's to the high-$900,000's and is sold out. All but 14 dwellings are sold.

Future development in the Village of Esencia (Planning Area 2.1) is expected to be similar to current development in Sendero (Planning Area 1).

**Subject Site Condition**

Planning Area 2 contains a gross area of 1,680 acres. Approximately 785 gross acres are in open space. The remaining 895 gross acres are divided into: 820 gross acres for residential uses, 20 acres for parkland, 50 gross acres for an Urban Activity Center and 5 gross acres for neighborhood retail. In total, development of up to 3,291 dwelling units, 500,000 square feet of non-residential uses and 25,000 square feet of neighborhood retail uses are allowed. Planning Area 2 is approved for 3,291 residential units.

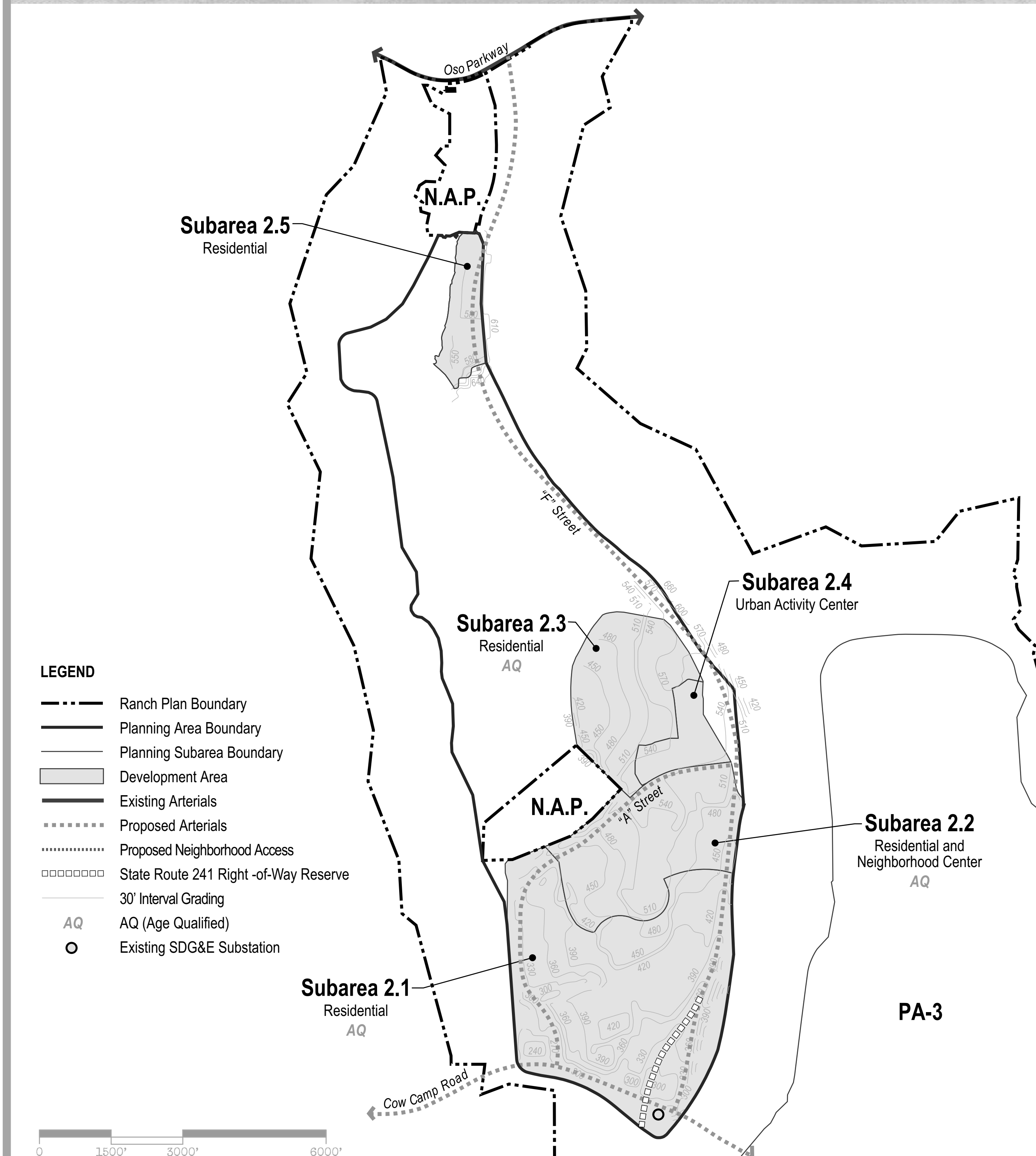
CFD No. 2015-1, the subject of this appraisal, is comprised of Planning Area 2.1 (PA 2.1), the first development phase of Planning Area 2. According to the March 27, 2013 Revision to The Ranch Plan Planning Area 2 document, PA 2.1 contains a total of 390 gross acres, of which residential uses total 380 gross acres, plus a 10 acre park site. The residential uses contain 270 net acres. At this time, PA 2.1 is approved for 840 for-sale dwellings, 150 market-rate apartment units, 113 affordable apartment units and a day care site and a school site, which is not subject to special tax and not a part of this appraisal assignment. As of the date of value of this appraisal, July 1, 2015, all of PA 2.1 has been graded into lots or sites that range from a blue-top lot condition to a physically finished lot condition. Model home complexes are under construction and range from the framing stage to the color coat stucco stage of construction. According to the developer, as of the date of value, the backbone infrastructure has the following completion status: Grading 100%; Storm Drain 100%; Sewer 100%; Domestic Water 100%; Reclaimed Water 100%; Dry Utilities 90%; Street Improvements 85%; Irrigation/ Landscape/Hardscape 20%. All backbone roads are paved except for Aprender Street.

According to the developer the cost to complete the balance of the backbone infrastructure and impact fees required by the developer, as of the date of value, is approximately $48,500,000. (Please refer to the summary of costs included in the Addenda of this report.) Based on information provided by the District's Underwriter, approximately $82,600,000 of construction funds will be available from CFD No. 2015-1. Of those funds, the developer is expected to receive approximately $52,000,000 from this bond issue.

## Regional and Local Setting

Substantial portions of the 22,815-acre Rancho Mission Viejo have been used for ranching and agricultural uses for the past 120± years. These uses continue today. Commercial nursery operations, research and development uses, and natural resource extractions are ongoing activities within Rancho Mission Viejo through lease agreements. Previous extractions of mineral resources within Rancho Mission Viejo included rock aggregate, silica sand, clay, and expanded aggregate. CFD No. 2015-1 (PA 2.1) is located in the central portion of Rancho Mission Viejo, north of Ortega Highway (S-74) and east of Antonio Parkway. Please review the map of Planning Area 2 on the next page.

# Planning Area 2




**MASTER AREA PLAN**
LAND USE PLAN
Ranch Plan Planned Community

Exhibit: 4

N

Circulation facilities within Rancho Mission Viejo boundaries include Ortega Highway, which runs in an east-west direction through the subject properties and connects with I-5 to the west. Ortega Highway continues east of CFD No. 2015-1 to Riverside County. Antonio Parkway/La Pata Avenue is a north-south arterial highway that extends through the western portion of Rancho Mission Viejo. Antonio Parkway begins north of the subject properties in the City of Rancho Santa Margarita, extends through the Las Flores and Ladera Ranch communities to Ortega Highway. At Ortega Highway, Antonio Parkway turns into La Pata Avenue where it currently terminates at the Prima Deshecha Landfill. An extension of La Pata Avenue to San Clemente is currently under construction. Other private and ranch roads exist within Rancho Mission Viejo.

To the north and west of Rancho Mission Viejo are the cities of Rancho Santa Margarita, Mission Viejo and San Juan Capistrano with San Clemente to the southwest. Other large land developments in unincorporated Orange County and in the vicinity of Rancho Mission Viejo include the built out communities of Las Flores, Coto de Caza and Ladera Ranch. Existing land uses within Rancho Mission Viejo include the Rancho Mission Viejo headquarters adjacent to Sendero, (PA-1) located on Ortega Highway, west of Antonio Parkway. Also in this area, south of Ortega Highway, is the Oaks/Blenheim/ Rancho Mission Viejo Riding Park. Further east along Ortega Highway and San Juan Creek are a variety of commercial nursery operations, the Solag Disposal Materials Recovery Facility (MRF), a concrete batch plant and a company that manufactures paving stones. Proximate to the Prima Deshecha Landfill is the BFI Greenwaste commercial composting site. The Northrop Grumman TRW Capistrano Test Site was previously located on an approximately 2,700-acre leased site in Planning Area 8 of the Ranch Plan, adjacent to the City of San Clemente, the Talega Planned Community and MCB Camp Pendleton.

Within Rancho Mission Viejo are several existing major public facilities and utilities, including the Santa Margarita Water District (SMWD) Chiquita Water Reclamation Plant, located in Chiquita Canyon. This facility, located in Planning Area 2, north of the District, is identified as not a part (NAP) of the Ranch Plan. Other major utilities include a 66-inch domestic water line and smaller non-domestic water and sewer lines in the vicinity of

Cristianitos Road. In addition, there are several large overhead electric distribution lines owned by San Diego Gas and Electric (SDG&E) and Southern California Edison (SCE) that extend from the closed San Onofre Nuclear Generating Station (SONGS) located south of San Clemente. Facilities near the subject include the County's Prima Deshecha Landfill, located at the western boundary of Rancho Mission Viejo and two SDG&E substations also located just west of the southern boundary of Rancho Mission Viejo.

Several creeks are located within the boundaries of Rancho Mission Viejo, found in the area's designated for permanent open space. In total, approximately 16,942 acres within Rancho Mission Viejo are designated as permanent open space. When the Orange County Board of Supervisors approved the Orange County General Plan Amendment on November 8, 2004 for the 22,815 acre planned community, the Board of Supervisors selected a blueprint for the long-term conservation, management and development of the land. This plan allowed for construction of up to 14,000 dwelling units, 3,480,000 square feet of urban activity center uses on 251 acres, 500,000 square feet of neighborhood center uses on 50 acres and 1,220,000 square feet of business park uses on 80 acres, all of which were proposed to occur on approximately 7,683 acres of the planned community. The balance of approximately 15,132 acres of 66.32% were identified as permanent open space uses.

Subsequent to the approval of the FEIR 589, a coalition of environmental groups and the City of Mission Viejo filed legal actions questioning the potential local and regional transportation impacts associated with implementation of the Ranch Plan project. A settlement agreement was reached on August 16, 2005 with the dismissal of the individual lawsuits. This settlement is known as the Resource Organizations Settlement Agreement, (ROSA). The agreement reached resulted in certain refinements to the Development Agreement that increased the amount of open space that will be permanently protected and managed from 15,132± acres to 16,942± acres and reduced the maximum developable area from 7,683± acres to 5,873± acres. The allocated permanent open space is approximately 75% of the total planned community area.

## Planning Area 2 Entitlement Summary

### Existing Approvals – Local Agencies

#### County of Orange Ranch Wide

General Plan: Orange County General Plan Amendment, Approved November 8, 2004

Zoning: Approved November 2004

Development Agreement: Approved November 8, 2004

Final Environmental Impact Report 589 Certified final November 8, 2004

### Settlement Agreements

City of San Clemente, effective December 8, 2004

City of Mission Viejo, effective June 9, 2005

National Resources Defense Council et al, effective August 16, 2005

### Maximum Development Thresholds

14,000 dwelling units, including a range of densities and 6,000 age-restricted units

5.2 million square feet of employment uses, commercial, business, urban center, etc.

5,768 acres of total development area within six development Planning Areas

16,915 acres of total open space; permanent open space, for conservation purposes and orchards

### Open Space Agreement effective July 25, 2006

Affordable Housing Implementation Agreement effective July 18, 2006

Ranch Plan Fire Protection Program approved July 31, 2007; revised March 25, 2013

Ranch Plan Local Park Implementation Program approved March 14, 2007; revised June 12, 2012

Ranch Plan Master Trail and Bikeways Implementation Plan approved July 18, 2006; revised September 11, 2011

Ranch Plan Solid Waste Management Plan approved July 19, 2006

Ranch Plan Alternative Development Standards approved March 14, 2007, amended August 12, 2008

Orange County Sheriff Agreement for Impact Mitigation effective February 14, 2007

**County Planning Area 2 Approval Actions:**

Planning Area 2 Master Area Plan approved on March 31, 2013

Subarea Planning Areas 2.1, 2.2, 2.3 and 2.4 approved on March 31, 2013.

Rough Grading Permit, approved, grading complete

Vesting Tentative Maps 17561, 17652 and 17563 recorded

Tract No. 17561 recorded

Addendum to FEIR 589 for Planning Area 2

**County Infrastructure Approvals**

Ortega Highway Widening

Cow Camp Road from Antonio Parkway to eastern boundary of PA-2

Antonio Parkways and Bridge Widening

**Santa Margarita Water District**

Plans of Works, approved August 2006

**State Agencies**

California Department of Fish and Wildlife

Ranch Wide Master Streambed and Alteration Agreement (MSAA)

CEQA Environmental Impact Report for Southern Subregion Natural Communities Conservation Plan/Master Streambed Alteration Agreement (FEIR 584)

Planning Area 1 Streambed Alteration Agreement

Cow Camp Road MSAA Sub-Notification

Planning Area 2 MSAA Sub-Notification

San Diego Regional Water Quality Control Board

San Diego Regional Water Quality Control Board

Caltrans – Ortega Highway agreements for construction and implementation (see County Infrastructure Approvals – Ortega Highway, above)

**Federal Agencies**

U.S. Fish and Wildlife Service

Ranch wide Section Permit/Habitat Conservation Plan

Environmental Impact Statement for Southern Subregion Habitat Conservation Plan (SSHCP EIS)

U.S. Army Corps of Engineers

Ranch wide Long Term Individual 404 Permit

NEPA Environmental Impact Statement for Special Area Management Plan (SAMP EIS)

Planning Area 1 NWP 404 Permit

Key Project Conditions

South County Road Improvement Program (SCRIP)

Transportation Corridor Agency (TCA) Fees

Agreement for Foothill Transportation Corridor – South (FTC-S)

San Juan Creek Watershed Study

Run-off Management Plan (ROMP) and Master Plan of Drainage (MPD)

**Access**

Regional access to the District is via Interstate 5 (I-5), which is located west of Rancho Mission Viejo and State Route 241 (SR-241) (also known as the Foothill Transportation Corridor), which currently terminates at Oso Parkway, just north of the PA-2. Cow Camp Road and Ortega Highway (State Route 74) runs east-west through Rancho Mission Viejo. Antonio Parkway provides the subject properties with north-south arterial highway access. Avenida Pico, in the City of San Clemente, runs east-west and terminates near the southwestern boundary of Rancho Mission Viejo.

**Topography & Size**

Rancho Mission Viejo, of which the subject property is a part, is very irregular in shape. The subject property is generally rolling to steep hillside similar to the surrounding properties. Rancho Mission Viejo contains 22,815 acres, of which 390± acres are included in this appraisal. Please refer to the following table which shows the Sub-Planning Area Developable acreage for PA-2.

| **Development Use – PA-2** | PA 2.1 | PA 2.2 | PA 2.3 | PA 2.4 | PA 2.5 |
|---|---|---|---|---|---|
| Residential | 380 | 220 | 170 | 0 | 50 |
| Urban Activity Center (UAC) | 0 | 0 | 0 | 50 | 0 |
| Neighborhood Retail | 0 | 5 | 0 | 0 | 0 |
| Business Park | 0 | 0 | 0 | 0 | 0 |
| Park Land | 10 | 0 | 10 | 0 | 0 |
| ***Total Developable Acres – PA-2*** | ***895*** | | | | |

**Soil Conditions & Geology**

Rancho Mission Viejo ranges from rugged topography to a wide, meandering creek channel. North-south trending ridges and valleys dominate the topography north of San Juan Creek, and east-west ridges and valleys dominate to the south of San Juan Creek. San Juan Creek, trending west, bisects these ridges across the middle of the Ranch Plan area. Major named valleys located within Rancho Mission Viejo include Cañada Chiquita, Cañada Gobernadora, Trampas Canyon, Cristianitos Canyon, Gabino Canyon, Verdugo Canyon, Talega Canyon, and Blind Canyon. Gentle to moderate topography bounds Cañada Chiquita, Cañada Gobernadora, and Trampas Canyon. East of Cañada Gobernadora and Cristianitos Canyon, terrain is moderately steep to rugged.

Fluvial terrace deposits, creating wide, nearly flat mesas stepping down to the creek channel overly the flanks of the ridges north of San Juan Creek, east of Cristianitos Creek, south of Gabino Canyon, and north of Talega Canyon.

Rancho Mission Viejo lies to the southwestern flank of the Santa Ana Mountains, within the Peninsular Ranges geomorphic province of California. The geologic units within the area are laterally transitional between the units of the Los Angeles basin and San Diego County. These units form a generally homoclinal sequence of marine and non-marine sedimentary rocks ranging in age from late Cretaceous to early Miocene, offset by regional faulting. Region structure shows these units dipping gently westward, with local folding observed predominantly near faults. The sequence is overlain in some areas by Quaternary sediments.

Surficial units are found overlying bedrock formations across much of the development area. These Quarternary-age units consist of sediments placed by wind, water, or mass movements. Bedrock units within Rancho Mission Viejo, in general, increase in age towards the east. These units comprise the ridges and slopes, and underlie surficial units on flanks and canyon bottoms.

**General Plan and Zoning**

The District, referred to as a portion of Planning Area 2 of Rancho Mission Viejo, is approved for the proposed uses under the General Plan, Planned Community Zoning, Open Space Agreement and Development Agreement with the County of Orange. The "Ranch Plan" Final Program Environmental Impact Report No. 589 (FEIR 589) was certified by the Orange County Board of Supervisors on November 8, 2004 as adequately addressing the potential environmental impacts associated with the development of Rancho Mission Viejo, a 22,815 acre Planned Community allowing for development of up to 14,000 dwelling units and 5,200,000 square feet of employment uses. Planning Areas 1 and 2 of Rancho Mission Viejo had Final Area Plans prepared in 2012 and 2013. The subject properties appraised in this report are a part of the Ranch Plan Planning Area 2 Master Area Plan, approved on March 27 2013. The Master Area Plan allows up to 3,291 dwelling units, 500,000 square feet of U.A.C. Development and 25,000 square feet of neighborhood retail development.

Specifically, CFD No. 2015-1 encompasses all of Subarea 2.1 of Planning Area 2. Subarea 2.1 is zoned for residential uses only. Up to 240 units are zoned conventional single-family detached dwellings. Under this zoning, the minimum lot size is 3,000 square feet and the net density must be less than 9.0 dwelling units per net acre. Up to 330 dwelling units are zoned Planned Concept Detached Dwellings. Under this zoning there is no minimum lot size. Density is greater than 8 dwelling units per net acre with lot sizes less than 3,000 square feet. Up to 280 dwelling units are zoned Multiple-Family Dwellings. Under this zoning, the minimum site area is 5,000 square feet. The maximum density is 40 dwellings per net acre. Age-qualified dwellings can be located in all three of the zoning areas.

**Flood Hazard/Seismic Zones**

Flood insurance rate maps published by the Federal Emergency Management Agency (FEMA) indicate the District to be in Zone X, an area outside of 500-year flooding; flood insurance is not required in this zone. The applicable map for the District is numbered 06059C-0465J with an effective date of December 3, 2009.

According to the California Division of Mines and Geology, the subject property is not located in an Alquist-Priolo Earthquake Fault Zone; however, all of Southern California is impacted by earthquakes. Known active fault corridors within the Orange County area include the San Joaquin Hills Blind Thrust Fault that is about 6 miles northwest, the Newport-Inglewood-Offshore Fault that is approximately 10 miles westerly, the Elsinore Faults, the Whittier Fault and the Chino Fault located to the northeast.

**Environmental Issues/Toxic Hazards**

No site assessment reports were submitted for our review. Our physical inspection of the subject property did not indicate evidence of hazardous materials and/or toxic waste. However, past land uses and current ground leases have the potential for soil contamination. Your appraisers are not considered an expert in the field and are not qualified to detect such materials. *A specific assumption of the report and values is that the soil is suitable for the development as proposed and no evidence of hazardous materials (including underground tanks) or toxic waste exists.*

**Utilities**

As of the date of this appraisal, all utilities are available to the District. The utilities are provided by the following companies/agencies:

| | |
|---|---|
| Electricity: | San Diego Gas & Electric |
| Natural Gas: | The Gas Company |
| Telephone: | AT&T/Cox Communications |
| Fire: | Orange County Fire Authority |
| Police: | Orange County Sheriff |
| Transit: | Orange County Transit Authority |
| Water: | Santa Margarita Water District |
| Sewer: | Santa Margarita Water District |
| Cable | Cox Communications/AT&T |

**Transportation**

Vital to an area's growth and economic expansion are its transportation facilities for both business and residents. The following is a summary of the existing transportation facilities available in the area.

| | |
|---|---|
| Rail: | Amtrak stops in Irvine and San Juan Capistrano |
| Truck: | 11 major trucking lines serve Orange County |
| Air: | John Wayne Airport (13 miles), Los Angeles International Airport (60 miles) |
| Bus: | Orange County Transit Authority, Dial-A-Ride, Park-N-Ride |
| Water: | Long Beach Harbor/Port of Los Angeles (40 miles) |
| Highways: | San Diego Freeway (Interstate 5)<br>Foothill Transportation Corridor (S-241)<br>San Joaquin Transportation Corridor (S-73) |

**Easements/Restrictions**

The appraisers were provided with 12 preliminary title reports covering the 12 merchant builder parcels in the District. The reports were prepared by First American Title Insurance Company and were dated November 13, 2014, May 10, 2015, May 11, 2015, May 13, 2015 and May 20, 2015. Each report contained numerous exceptions. The exceptions included easements, right of ways, various Deeds of Trust, public utilities and incidental purposes, water and common use agreements, a second fire protection agreement, option agreements, joint use agreements, various other agreements, C.C. & R's, Development Agreement and the ROSA. A Notice of Special Tax Lien for CFD No. 2015-1 is reported. *For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the District.*

**Assessed Value and Taxes**

Generally, the real estate tax laws of the State of California limit tax assessment increases to a maximum of 2% per year until the property is resold, at which time it is reassessed at Market Value, or until major improvements are added, at which time it is also reassessed. Real estate taxes are currently based upon 1% of the assessed valuation plus any bonded indebtedness applied by the local taxing jurisdiction. Local assessments include mosquito and fire ant assessments, vector control fees, MWD water standby charge, Capistrano USD-Bonds and Santa Margarita Water District Bonds. The subject's tax rate is normal for the area. The District is a portion of numerous assessor parcels. The assessor parcels are listed in the Addenda of this report. The total Assessed Value for the subject ownerships in 2014-15 is $60,287,516.

The total 2014-15 tax is $771,587. The total Assessed Value and total taxes are for all of the assessor parcels under the prior RMV PA2 Development LLC ownerships included in this appraisal, which includes land for future development. The Assessed Values and taxes to be established for tax year 2015-2016 will reflect the new merchant builder ownerships. The overall tax rate is estimated to range between 1.8% and 2.0% of value.

**Product Area Site Information**

CFD No. 2015-1 includes all of Subarea 2.1 of Planning Area 2 of Rancho Mission Viejo. There are 12 residential for-sale projects, an affordable apartment site, a market-rate apartment site and a day-care site in Subarea 2.1. These properties have been graded into sites ranging from blue-top lots to physically finished lots. Model homes are under construction at 10 of the 12 for-sale residential projects. A map showing the 12 projects can be found on the next page. Specific product information for the 12 proposed for-sale developments, apartment sites and day care site is summarized below. The sales price, date of sale and costs to complete, as of the date of sale, have been verified by both the buyers and the seller.

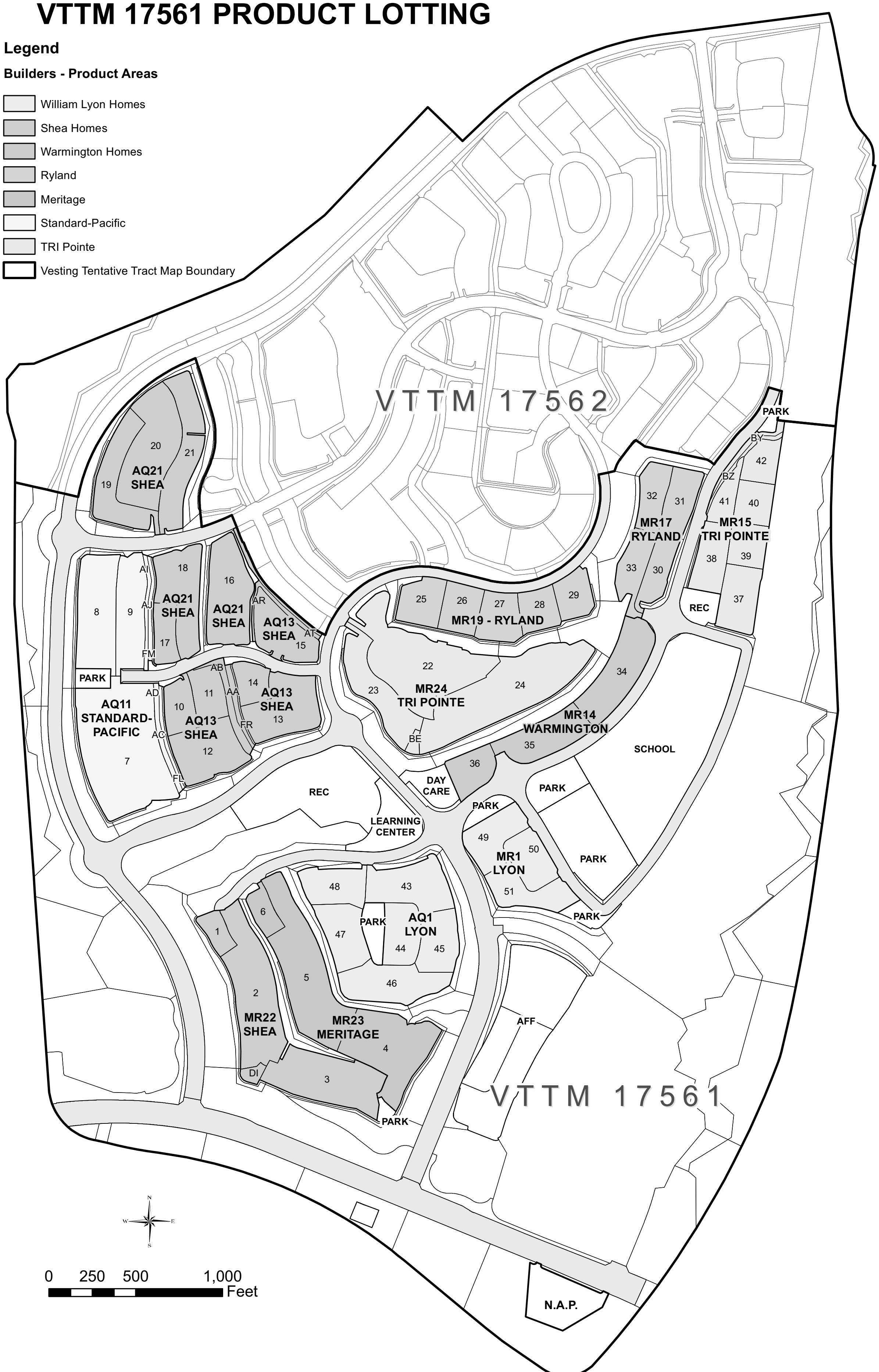
| | |
|---|---|
| Product Area: | MR-1, High Density Attached |
| Location: | Southwest corner of Andaza Street and Tierno Road |
| Owner/Builder | LT-MR-1, LLC (William Lyon Homes) |
| Project Name: | Aurora |
| Legal Description: | Tract No. 17569, recorded 6/11/15 |
| Shape/Size: | Generally rectangular, 5.424 acres |
| Number of Units: | 94 dwelling units |
| Density: | 17.33 units per acre |
| Site Condition: | Blue-top/mass graded |
| Cost to Complete: | $4,126,412 ($43,898/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 26, 2014 with Grant Deed No. 512318 for $18,204,322 or $193,663 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4789922. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

# VTTM 17561 PRODUCT LOTTING

**Legend**

**Builders - Product Areas**

- William Lyon Homes
- Shea Homes
- Warmington Homes
- Ryland
- Meritage
- Standard-Pacific
- TRI Pointe
- Vesting Tentative Tract Map Boundary

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HUITT~ZOLLARS

| | |
|---|---|
| Product Area: | MR-14, High Density SFD |
| Location: | West side Andaza Street, north of Tierno Road |
| Owner/Builder | Warmington MR14 Associates, LLC |
| Project Name: | Trellis |
| Legal Description: | Proposed Tract No. 17576, anticipated to record by 8/1/15 |
| Shape/Size: | Generally rectangular, 6.67 acres |
| Number of Dwelling Units: | 62 dwelling units |
| Density: | 9.30 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $7,161,496 ($115,508/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 25, 2014 with Grant Deed No. 508799 for $13,578,000 or $219,000 per DU. |
| Title Report: | Prepared by First American Title Company dated May 13, 2015. No. NHSC-4751246. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | MR-15, High Density SFD |
| Location: | East side Andaza Street, north of "P" Street |
| Owner/Builder | TRI Pointe Homes, Inc. |
| Project Name: | Aria |
| Legal Description: | Tract No. 17577, recorded 7/6/2015 |
| Shape/Size: | Irregular, 8.78 acres |
| Number of Dwelling Units: | 87 dwelling units |
| Density: | 9.90 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $5,169,888 ($59,424/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 18, 2014 with Grant Deed No. 496381 for $27,800,000 or $319,540 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4747727. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | MR-17, High Density SFD |
| Location: | West side of Andaza Street north of "P" Street |
| Owner/Builder | Ryland Homes of California, Inc. |
| Project Name: | Citron |
| Legal Description: | Tract No. 17573, recorded 6/26/15 |
| Shape/Size: | Generally rectangular, 5.65 acres |
| Number of Dwelling Units: | 50 dwelling units |
| Density: | 8.85 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $4,080,700 ($81,614/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 20, 2014 with Grant Deed No. 501106 for $14,825,000 or $296,500 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4777155. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | MR-19 High Density SFD 8-plex |
| Location: | Southside Esencia Drive, north of Saliente Road |
| Owner/Builder | Ryland Homes of California, Inc. |
| Project Name: | Heirloom |
| Legal Description: | Tract No. 17574, recorded 6/23/15 |
| Shape/Size: | Generally rectangular, 6.30 acres |
| Number of Dwelling Units: | 45 dwelling units |
| Density: | 7.14 units per acre |
| Site Condition: | Blue-top/mass graded |
| Cost to Complete: | $3,418,065 ($75,957/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 20, 2014 with Grant Deed No. 501110 for $15,795,000 or $351,000 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4777156. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | MR-22, 45' x 90' lots |
| Location: | South end of Andaza Street at Ventada Street |
| Owner/Builder | Shea Homes Limited Partnership |
| Project Name: | Ventana |
| Legal Description: | Tract No. 17565, recorded 6/11/15 |
| Shape/Size: | Irregular, 9.28 acres |
| Number of Dwelling Units: | 60 dwelling units |
| Density: | 6.46 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $4,137,660 ($68,961/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 13, 2014 with Grant Deed No. 489645 for $20,700,000 or $345,000 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4729741. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | MR-23, 50' x 95' lots |
| Location: | South side Andaza Street, at Baliza Road |
| Owner/Builder | Meritage Homes of California, Inc. |
| Project Name: | Cirrus |
| Legal Description: | Proposed Tract No. 17566, anticipated to record by 8/1/15 |
| Shape/Size: | Irregular, 10.10 acres |
| Number of Dwelling Units: | 58 dwelling units |
| Density: | 5.74 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $3,732,474 ($64,352/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 13, 2014 with Grant Deed No. 489210 for $21,942,600 or $378,321 per DU. |
| Title Report: | Prepared by First American Title Company dated May 13, 2015. No. NHSC-4729779. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | MR-24, 55' x 100' lots |
| Location: | East side Esencia Drive at Lugado Street |
| Owner/Builder | TRI Pointe Homes, Inc. |
| Project Name: | Aubergine |
| Legal Description: | Proposed Tract No. 17572, anticipated to record by 8/1/15 |
| Shape/Size: | Irregular, 14.88 acres |
| Number of Dwelling Units: | 66 dwelling units |
| Density: | 4.44 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $4,966,698 ($75,253/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 18, 2014 with Grant Deed No. 496377 for $32,150,000 or $487,121 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4747761. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | AQ-1, High Density Attached (Age Qualified) |
| Location: | Southwest corner Esencia Drive and Andaza Street |
| Owner/Builder | LT-AQ-1, LLC (William Lyon Homes) |
| Project Name: | Vireo |
| Legal Description: | Proposed Tract No. 17571, anticipated to record by 8/1/15 |
| Shape/Size: | Irregular, 14.22 acres |
| Number of Dwelling Units: | 90 dwelling units |
| Density: | 6.33 units per acre |
| Site Condition: | Blue-top/mass graded |
| Cost to Complete: | $8,431,110 ($93,679/DU), at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 26, 2014 with Grant Deed No. 512325 for $19,776,240 or $219,736 per DU. |
| Title Report: | Prepared by First American Title Company dated May 13, 2015. No. NHSC-4794897. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | AQ-11, High Density SFD (Age Qualified) |
| Location: | East side Chiquita Canyon Drive, Btwn Airoso & Algazara Streets |
| Owner/Builder | Standard Pacific Corp. |
| Project Name: | Avocet |
| Legal Description: | Tract No. 17567, recorded 6/25/15 |
| Shape/Size: | Rectangular, 14.34 acres |
| Number of Dwelling Units: | 95 dwelling units |
| Density: | 6.62 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $7,703,455 ($81,089/DU) at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 12, 2014 with Grant Deed No. 487629 for $23,002,492 or $242,131 per DU. |
| Title Report: | Prepared by First American Title Company dated May 11, 2015. No. NHSC-4749653. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | AQ-13, High Density Detached (Age Qualified) |
| Location: | Both sides Saliente Road, West of Esencia Drive |
| Owner/Builder | Shea Homes Limited Partnership |
| Project Name: | Cortesa |
| Legal Description: | Tract No. 17568, recorded 6/11/15 |
| Shape/Size: | Very Irregular, 12.84 acres |
| Number of Dwelling Units: | 63 dwelling units |
| Density: | 4.91 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $5,825,862 ($92,474/DU) at time of sale |
| Purchase Information: | RMV PA2. Development, LLC sold this property November 13, 2014 with Grant Deed No. 489794 for $18,000,000 or $285,714 per DU. |
| Title Report: | Prepared by First American Title Company dated May 20, 2015. No. NHSC-4729722. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | AQ-21, 65' x 87' lots (Age qualified) |
| Location: | Both sides Airoso Street east of Chiquita Canyon Drive |
| Owner/Builder | Shea Homes Limited Partnership, Inc. |
| Project Name: | Alondra |
| Legal Description: | Tract No. 17570, recorded 6/11/15 |
| Shape/Size: | Very Irregular, 16.72 acres |
| Number of Units: | 70 dwelling units |
| Density: | 4.19 units per acre |
| Site Condition: | Blue-top lots |
| Cost to Complete: | $5,545,000 ($79,214/DU) at time of sale |
| Purchase Information: | RMV PA2 Development, LLC sold this property November 13, 2014 with Grant Deed No. 489664 for $28,400,000 or $405,714 per DU. |
| Title Report: | Prepared by First American Title Company dated November 13, 2014. No. NHSC-4478174. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development. |

| | |
|---|---|
| Product Area: | Day care site, affordable apartment and market rate apartment sites |
| Location: | Apartments – East side of Esencia Drive N/O Cow Camp Road<br>Day Care – Northeast Corner Esencia Drive and Andaza Street |
| Owner/Builder | RMV PA2 Development, LLC / N/A |
| Legal Description: | Affordable Apartments – Lot 52, TR 17561<br>Market Rate Apartments – Lots 53 & 54 TR 17561<br>Day Care Site – Lot 62, TR 17561 |
| Shape/Size: | Apartments – Generally rectangular<br>Affordable – 3.965 acres<br>Market Rate – 5.559 acres<br>Day Care – generally rectangular 1.1123 acres |
| Site Condition: | Blue-top/mass graded |

## PROPOSED IMPROVEMENT DESCRIPTION

### General

CFD No. 2015-1 is proposed for a total development of 840 dwellings within 12 products. There are eight "market rate" (MR) products and four "age-qualified" (AQ) products. Seven merchant builders are building within the District. Within the market rate projects there is one townhome product, four detached condominium products and three traditional detached products on lots ranging from 4,095 square feet to 5,500 square feet. The four age-qualified products include one townhome product, two detached condominium products and one traditional detached product on lots with a minimum size of 5,655 square feet. All of the products are scheduled for their grand opening in September 2015. Ten of 12 model complexes are under construction and the land consists of lots from a blue-top condition to a physically finished lot condition.

The appraisers have not been provided with specifications for the proposed residential improvements within CFD No. 2015-1. The appraisers have information from the developer's web site for the Esencia project. The table on the following page summarizes the various products, merchant builders, floor plans and base sales prices as of the date of value. Base sales prices are those provided by the merchant builders

The following list is of some of the general construction specifications for the attached and detached single-family homes in the District. For purposes of this appraisal, we have assumed that the quality of construction, functional utility, amenities and features are similar to currently selling new home projects and meet market demand for product in the subject's market area.

**Construction**
Units are of Class "D" construction; wood frame and stucco siding with several elevation choices.

**Foundations**
Foundations are poured concrete. Particle board over wood floor joists for the second floor.

Proposed Improvement Description
Esencia

| Product No./ Product Name/ Builder | Total Units | Lot Size (SF) | Bdrm/ Bath | Stories/ Garage | Base Sales Price | Unit Size | $/Sq.Ft. |
|---|---|---|---|---|---|---|---|
| MR-1 | | | 2/2.5 | 3/2 | $452,000 | 1,340 | $337.31 |
| Aurora | 94 | Attached | 2/2.5 | 3/2 | $460,000 | 1,389 | $331.17 |
| William Lyon | | Townhomes | 3/2.5 | 2/2 | $507,000 | 1,681 | $301.61 |
| | | | 3/2.5 | 2/2 | $517,000 | 1,561 | $331.20 |
| | | | 3/2.5 | 2/2 | $562,000 | 1,785 | $314.85 |
| MR-14 | 62 | 1,750 | 3/2.5 | 2/2 | $595,000 | 1,512 | $393.52 |
| Trellis | | | 3/2.5 | 2/2 | $629,000 | 1,684 | $373.52 |
| Warmington | | | 3/2.5 | 3/2 | $619,000 | 1,681 | $368.23 |
| | | | 3/2.5 | 3/2 | $645,000 | 1,863 | $346.22 |
| MR-15 | 87 | 2,130 | 3/2.5 | 2/2 | $645,000 | 1,779 | $362.56 |
| Aria | | | 3/2.5 | 2/2 | $665,000 | 1,855 | $358.49 |
| TRI Pointe | | | 3/2.5 | 2/2 | $680,000 | 1,937 | $351.06 |
| MR-17 | 50 | 2,250 | 3/2.5 | 2/2 | $617,000 | 1,775 | $347.60 |
| Citron | | | 3/2.5 | 2/2 | $621,000 | 1,797 | $345.58 |
| Ryland | | | 3/2.5 | 2/2 | $645,000 | 1,936 | $333.16 |
| | | | 4/3.0 | 2/2 | $690,000 | 2,205 | $312.93 |
| MR-19 | 45 | 3,900 | 3/2.5 | 2/2 | $725,000 | 2,351 | $308.38 |
| Heirloom | | | 3/2.5 | 2/2 | $759,000 | 2,508 | $302.63 |
| Ryland | | | 3/3.5 | 2/2 | $785,000 | 2,665 | $294.56 |
| | | | 3/3.5 | 2/2 | $851,000 | 3,094 | $275.05 |
| | | | 3/3.5 | 2/2 | $863,000 | 3,091 | $297.20 |
| | | | 4/4.5 | 2.2 | $873,000 | 3,202 | $272.64 |
| MR-22 | 60 | 4,050 | 4/3 | 2/2 | $714,420 | 2,207 | $323.71 |
| Ventana | | | 4/3 | 2/2 | $758,520 | 2,450 | $309.60 |
| Shea | | | 4/4 | 2/2 | $797,720 | 2,669 | $298.88 |
| MR-23 | 58 | 4,750 | 4/3 | 2/2 | $837,000 | 2,698 | $310.23 |
| Cirrus | | | 4/3 | 2/2 | $898,000 | 2,894 | $310.30 |
| Meritage | | | 4/3 | 2/3 | $970,000 | 3,217 | $301.52 |
| MR-24 | 66 | 5,500 | 3/4.5 | 2/3 | $995,000 | 3,097 | $321.28 |
| Aubergine | | | 4/4.5 | 2/3 | $1,025,000 | 3,374 | $303.79 |
| TRI Pointe | | | 4/4.5 | 2/3 | $1,050,000 | 3,319 | $316.36 |
| | | | 4/5.5 | 2/3 | $1,105,000 | 3,751 | $294.59 |
| AQ-1 | 90 | Attached | 2/2.5 | 1/2 | $543,000 | 1,456 | $372.94 |
| Viero | | Townhomes | 2/2.5 | 1/2 | $610,000 | 1,546 | $394.57 |
| William Lyon | | | 2/2.5 | 1/2 | $608,000 | 1,936 | $314.05 |
| | | | 2/2.5 | 1/2 | $608,000 | 1,707 | $356.18 |
| | | | 2/2.5 | 1/2 | $633,000 | 1,950 | $324.62 |
| AQ-11 | 95 | 3,400 | 2/2 | 1/2 | $595,000 | 1,473 | $403.94 |
| Avocet | | | 2/2 | 1/2 | $640,000 | 1,697 | $377.14 |
| Standard Pacific | | | 2/2 | 1/2 | $670,000 | 1,778 | $376.83 |
| | | | 3/2 | 2/2 | $650,000 | 1,937 | $335.57 |
| | | | 3/2 | 2/2 | $695,000 | 2,110 | $329.38 |
| AQ-13 | 63 | 4,500 | 2/2 | 1/2 | $730,100 | 1,816 | $402.04 |
| Cortesa | | | 2/2 | 1/2 | $735,980 | 1,831 | $401.96 |
| Shea | | | 2/2 | 1/2 | $786,940 | 2,116 | $371.90 |
| | | | 2/2 | 2/2.5 | $818,300 | 2,362 | $346.44 |
| AQ-21 | 70 | 5,655 | 2/2.5 | 1/2 | $940,800 | 2,325 | $404.64 |
| Alondra | | | 2/2.5 | 2/2 | $1,019,200 | 2,832 | $359.89 |
| Shea | | | 2/2.5 | 2/2 | $980,000 | 2,589 | $378.52 |

**Structural Frame**
Consists of 2" x 4" and 2" x 6" wood framing.

**Roofs**
Roofs are of concrete tile and composition shingle.

**Windows**
Vinyl dual glazed windows.

**Floor Covering**
Floor coverings are wall-to-wall carpet in all living areas. Entries are of ceramic tile.

**Interior Finish**
Custom trowelled ceiling and painted drywall.

**Heating/HVAC**
Central air conditioning and gas forced air heating.

**Kitchens**
Kitchens will be equipped with natural maple or birch wood Euro-styled frameless cabinetry, and granite countertops. Each kitchen will include appliances in stainless steel that include professional range, electric self-cleaning double oven, dishwasher, built-in microwave and stainless steel sink.

**Bathrooms**
Bathrooms will have double sinks with ceramic tile countertops, and tile surround in shower and tub.

**Garage**
Garage doors are two and three car sectional steel roll-up with concrete driveways.

**Laundry Facilities**
Interior laundry areas.

**Exterior**
Side and rear yard fencing. Detached condominiums include front yard landscape and irrigation.

**Options**
Numerous options and upgrades are available including flooring, cabinet, appliance package and countertop upgrades. Most options and upgrades provided at competing, similar quality developments were offered.

**Functional Utility**

It is an assumption of this appraisal that all of the floor plans are functional, and competitive with current design standards.

**Remaining Economic Life**

The total/remaining economic life, according to the Marshall Valuation Service, is considered to be 50 years from date of completion.

**Homeowners Association**

The homeowner's association dues are reported to range between $209.00 and $329.00 per month, depending on floor plan size. The HOA will be responsible for maintaining all of the common areas within the Master Association including all recreation facilities, alleys, landscaping and open space lots.

**Conclusion of the Improvements**

Based on the review of the product information and physical inspection of the ten currently selling products within the District, we are of the opinion that the quality of the products is good and will generally meet buyer expectations for the subject's marketplace.

## HIGHEST AND BEST USE

The term *highest and best use* is an appraisal concept that has been defined as follows:

> The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.[6]

The determination of highest and best use, therefore, requires a separate analysis for the land as legally permitted, as if vacant. Next, the highest and best use of the property with its improvements must be analyzed to consider any deviation of the existing improvements from the ideal. "The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be: legally permissible, physically possible, financially feasible, and maximally productive. These criteria are often considered sequentially."[7] The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

### Legal Considerations

The legal factors influencing the highest and best use of the subject property are primarily governmental regulations such as zoning and building codes.

All of the land subject to special tax included in CFD No. 2015-1 is within Final Tract Map No. 17561. The subject of this appraisal includes 417.36± gross acres of land proposed for 840 attached and detached for-sale dwelling units, 150 market rate apartment units and 113 affordable apartment units. Final Tract Map No. 17561 is being further subdivided into 12 individual tract maps for the 12 for-sale products that have

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[6] *The Dictionary of Real Estate Appraisal*, 4th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 135.

[7] *The Appraisal of Real Estate*, 10th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 280.

been sold to individual merchant builders. Eight of the tract maps are recorded as of the date of value, while the remaining four tract maps are expected to record within 30 days. The District ranges from a blue-top lot condition to a physically finished lot condition. As of the date of value, ten of the merchant builder products are under construction, with a total of 44 model homes. The two remaining merchant builder products are expected to begin construction by July 15, 2015. Eleven production dwellings are under construction with slabs and foundations completed. As previously discussed, all of CFD No. 2015-1 is entitled for the proposed uses. The average net developable density for all of the merchant builder products is 9.6 dwellings per acre. The apartments have a density of 24.8 units per acre. The proposed improvements are legal and conforming uses.

**Physical and Locational Considerations**

The physical and locational characteristics of the subject property are considered good for the proposed uses. The proposed uses conform to the various zoning specifications as approved by the County of Orange. The subject properties are a natural extension of existing residential developments located in the City of San Juan Capistrano, Rancho Mission Viejo and Ladera Ranch. The South Orange County area is established and offers a large employment base near CFD No. 2015-1. Prior to the recent recession and deterioration in the residential market, there was strong demand for similar developments as evidenced by sales of merchant builder land and dwelling units in the adjacent planned communities. Since the end of the last recession and more particularly from 2012 to the present time, the strong demand for residential dwelling units has returned to the Orange County and Rancho Mission Viejo markets.

All necessary utilities are reported to be available to the District with capacity to service the proposed developments. The site's access and configuration are good. Topography is rolling hillsides. The subject sites do not appear to present any development constraints. This appraisal report and the values included herein assume there are no soil problems or hazardous conditions that would have an adverse impact to development of CFD No. 2015-1.

Based on the physical analysis, the site's location and topography would suggest the land has a primary use of residential development due to the adjacent developments, Final Tract Map approval and current on-site construction.

**Market Conditions and Feasibility**

The financial feasibility of the development of CFD No. 2015-1 is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation sections of this report, which give support to the financial feasibility of CFD No. 2015-1.

The attractiveness of residential development anywhere in Orange County is evidenced by market activity which has taken place over the last 30 years. The current condition of the housing market is that there has been a significant increase in demand over the past 36± months, which has positively impacted price. The decline in sales and prices between the end of 2005 through 2011 has ended. There was a slight increase in the median Orange County home price between July 2011 and July 2012 of almost 3%. However, the following 12 month period to mid-2013 showed the median price increased almost 20%. From July 2013 to July 2014, the price increase moderated to 8.4%. It appears pricing has generally stabilized as of the date of value. The current median price of $610,000 is reportedly 5.4%± below the June 2007 peak of $645,000. It appears that the upward pressure on price due to demand outpacing supply could be over. Over the past 12 months, sales increased by 7.4%, from 3,219 sales in May 2014 to 3,458 sales in May 2015. Median home price increased 2.5% from $595,000 to $610,000 over the 12 month time frame. This was the fourth straight month of year-over-year increases following falling prices in 11 of the 12 previous months. The median price is at its highest level in seven years.

As of May 2014, there were 8,793 existing and new homes for sale in Orange County. More recently, Orange County had 6,534 homes for sale on June 18, 2015, a decrease of over 25%. Absorption of all homes currently on the market is estimated at 63 days, much lower than the typical four month absorption going back to 2004. The current inventory, albeit still a third of the average between 2009 and 2013, supports a much more sustainable market than what was seen one year ago. The decrease in sales activity is reflective of the decrease in inventory for existing homes.

According to the Metrostudy report dated first quarter of 2015, homebuilders sold 916 new homes in the Orange County market, which represents a 5.3% decrease from the new home sales one year ago. This represents a 3.1% increase for detached homes, while the attached new home closings decreased by 24.7%. On an annual rolling 12-month basis, new detached home closings in Orange County are up 23.2% from the same period last year.

The median sale price of all new homes closed during the first quarter of 2015 was at $830,100, an increase of 7.4%± from the previous year. The median detached sale price increased 10.1% to $959,200, while the median attached sale price decreased 11.1% to $541,900 over the past 12 months.

According to Metrostudy, at the end of Q1 2015 there were 97 active detached subdivisions in the Orange County market, representing an increase of 8 subdivisions from one year ago. At the end of Q1 2015, there were 1,484 available detached units, which include model homes and dwellings in various stages of construction. Based on the most recent closing data, this represents a 5.7 month supply of inventory of dwellings. According to Metrostudy there are 2,527 finished lots in the County which represents a 11.2 month supply of finished lots.

Metrostudy locates Rancho Mission Viejo within the South Inland submarket of Orange County. This area also includes the communities of Coto de Caza, Foothill Ranch, Ladera Ranch, Lake Forest, Las Flores, Mission Viejo, Rancho Santa Margarita and Trabuco Canyon. The South Inland submarket region accounted for 71 detached sales during the first quarter of 2015, or a 10% market share of the Orange County market. This sales rate is down 26.8% from the first quarter 2014 sales rate. Another indication of the market is that for the first quarter of 2015, the South Inland submarket had average quarterly sales per project of 5.9 units. One year ago, the sales rate was similar at 6.9 units per month. Over the last 12 months, the South Inland submarket reported 467 closings compared to 255 for the 12 months ending March 2014, an 83.1% increase. The annual (12-month) closing rate per subdivision increased from 18.2 units per year in Q1 2014 to 29.2 units per year in Q1 2015, representing a 60.2% increase.

The median detached sales price in the South Inland submarket was stable at $871,400 in Q1 2014 and $871,400 in Q1 2015. The attached sales price increased 0.6% from $500,000 one year ago to $503,100 in Q1 2015. The median detached unit size increased 13.9%± from 2,029 square feet to 2,313 square feet. The attached median size remained stable at 1,500 square feet. The median price per square foot for a detached dwelling increased from $383 to $418 over the past 12 months. This is the median price per square foot of the five submarkets in Orange County. The attached dwelling units increased in median price per square foot from $286 to $344 in Q1 2015, a 20.3% increase in price per square foot.

During the first quarter of 2015, the subject's submarket sold 54 detached homes priced between $500,000 and $599,999; 83 detached homes priced between $600,000 and $699,999; 100 detached homes priced between $700,000 and $799,999 and 460 homes priced over $800,000 were sold. There were 39 attached units that sold in the subject's submarket in the first quarter of 2015. Of those, 3 units were priced under $400,000; 20 were priced between $400,000 and $499,999; 16 were priced between $500,000 and $599,999, and none were priced over $600,000.

Within the South Inland submarket there were 12 active detached projects and 5 active attached products at the end of Q1 2015. This is 2 less than the end of Q1 2014 for detached products and the same for attached products. The subject's submarket area reports 29 detached units as built but unsold inventory units and 122 unsold units under construction. This is a 3.8± month absorption time for the completed dwellings and units under construction. Total inventory which includes units built, under construction and model homes totals 171 units which equates to a 4.4 month supply at the current sales rate. One year ago total detached inventory was at 319 units, and the absorption time based on last year's sales rate was 15.0 months. While total inventory decreased 46.4%, absorption time decreased 36.7% or 3.3 months.

According to an interest rate survey published weekly in the Los Angeles Times, the typical 30-year, fixed rate conforming loan is around 4.0% as of the date of this report. Mortgage rates have been in the 3.9% to 4.1%± range over the past month. Six months previously, rates were in the 3.7% to 4.0% range. While a slight increase in rates may impact demand, we do not anticipate a significant drop in demand, due to the interest rate increases, as long as rates remain near the current level. The current level of interest rates, along with stable to moderately increases in sales prices, should continue to sustain sales activity, for qualified buyers.

The table on the following two pages illustrates the currently selling comparable attached and detached projects within the subject's market area. The detached projects are generally selling around 4± to 6± units per month. The four new detached projects that recently opened for sales in Tustin are experiencing very good market demand with sales rates between 11.9 and 23.0 units per month over the 1 1/2 months they have been open for sales. This rate will likely moderate over time. The attached products are generally selling between 5± to 7± units per month. The subject projects will open for sales in September 2015.

**Feasibility**

*It is not in the scope of this appraisal assignment for the appraisers to conduct an extensive independent market study/absorption analysis, but it is the appraisers' responsibility to address the reasonableness of the conclusions of any market study which has been prepared by outside firms for the subject property.* Unforeseen national and regional economic and/or social changes will affect the time-frame of real estate development.

In an attempt to arrive at a reasonable and supportable absorption schedules for the proposed dwellings within CFD No. 2015-1, the appraisers reviewed an

## Comparable Residential Project Summary
## Attached and Detached Single Family Homes
## July 10, 2015

| No. | Project, Builder & City | Units | Product Type | Price Range | Size Range | $/Sq. Ft. Range | No. Released | No. Sold Start Dt. | Overall Mo. Abs. |
|---|---|---|---|---|---|---|---|---|---|
| | ***Greenwood in Tustin Legacy*** Lowest prices currently offered | | | | | | | | |
| 1 | **Sheldon** | 103 | 2,400 | N/A | 1,860 | N/A | 31 | 31 | 23.0 |
| | Standard Pacific Homes | | average | $784,900 | 2,171 | $361.54 | | May-15 | |
| | Tustin | | | $780,900 | 2,122 | $368.00 | | | |
| | | | | $851,900 | 2,343 | $363.59 | | | |
| 2 | **Crawford** | 99 | 5,000 | $1,118,900 | 3,012 | $371.48 | 24 | 17 | 12.6 |
| | Standard Pacific Homes | | | $1,115,900 | 3,412 | $327.05 | | May-15 | |
| | Tustin | | | $1,187,900 | 3,612 | $328.88 | | | |
| 3 | **Stafford** | 96 | 5,250 | $1,269,900 | 3,880 | $327.29 | 21 | 16 | 11.9 |
| | Standard Pacific Homes | | | $1,219,900 | 3,711 | $328.73 | | May-15 | |
| | Tustin | | | $1,245,900 | 3,831 | $325.22 | | | |
| 4 | **Huntley** | 77 | 5,250 | $914,900 | 2,597 | $352.29 | 20 | 16 | 11.9 |
| | Brookfield Homes | | | $950,900 | 2,839 | $334.94 | | May-15 | |
| | Tustin | | | $979,000 | 3,008 | $325.47 | | | |
| | ***Portola Springs*** | | | | | | | | |
| 5 | **Sage II** | 125 | Detached | $729,880 | 1,697 | $430.10 | 66 | 58 | 5.0 |
| | KB Home | | Condo | $799,880 | 1,975 | $405.00 | | Jul-14 | |
| | Irvine | | | $796,880 | 1,959 | $406.78 | | | |
| 6 | **Cariz** | 112 | TH | $485,900 | 1,235 | $393.44 | 94 | 94 | 9.2 |
| | TRI Pointe Homes | | | $516,900 | 1,409 | $366.86 | | Sep-14 | |
| | Irvine | | | $536,900 | 1,778 | $301.97 | | | |
| | | | | $561,900 | 1,887 | $297.77 | | | |
| | | | | $616,900 | 2,114 | $291.82 | | | |
| | | | | $575,900 | 1,908 | $301.83 | | | |
| | | | | $601,900 | 1,929 | $312.03 | | | |
| 7 | **Willow** | 156 | TH | Temp. S/O | 1,263 | N/A | 38 | 26 | 4.2 |
| | KB Home | | | $484,990 | 1,258 | $385.52 | | Jan-15 | |
| | Irvine | | | $534,990 | 1,614 | $331.47 | | | |
| | | | | Temp. S/O | 1,868 | N/A | | | |
| | ***Cypress Village*** | | | | | | | | |
| 8 | **Acacia** | 98 | TH | $507,720 | 1,122 | $452.51 | 98 | 96 | 5.0 |
| | Ryland Homes | | | $515,100 | 1,299 | $396.54 | | Dec-13 | |
| | Irvine | | | S/O | 1,306 | N/A | | | |
| | | | | S/O | 1,478 | N/A | | | |

## Comparable Residential Project Summary
## Attached and Detached Single Family Homes
## July 10, 2015

| No. | Project, Builder & City | Units | Product Type | Price Range | Size Range | $/Sq. Ft. Range | No. Released | No. Sold Start Dt. | Overall Mo. Abs. |
|---|---|---|---|---|---|---|---|---|---|
| | ***Cypress Village con't.*** | | | | | | | | |
| 9 | **Zinnia** | 148 | TH | $485,000 | 1,163 | $417.02 | 88 | 74 | 7.5 |
| | California Pacific Homes | | | $578,000 | 1,520 | $380.26 | | Sep-14 | |
| | Irvine | | | $595,000 | 1,436 | $414.35 | | | |
| | | | | $628,000 | 1,531 | $410.19 | | | |
| 10 | **Caserta** | 197 | TH | $502,000 | 1,165 | $430.90 | 197 | 185 | 8.3 |
| | California Pacific Homes | | | $640,000 | 1,559 | $410.52 | | Sep-13 | |
| | Irvine | | | $702,000 | 1,810 | $387.85 | | | |
| 11 | **Jasmine** | 228 | Detached | $764,800 | 1,627 | $470.07 | 175 | 161 | 10.5 |
| | Irvine Pacific | | Condo | $781,000 | 1,654 | $472.19 | | Apr-14 | |
| | Irvine | | | $806,800 | 1,804 | $447.23 | | | |
| 12 | **Laurel** | 120 | 3,300 | $974,500 | 2,170 | $449.08 | 99 | 92 | 6.4 |
| | Irvine Pacific | | | $1,024,500 | 2,295 | $446.41 | | May-14 | |
| | Irvine | | | $1,079,500 | 2,493 | $433.01 | | | |
| 13 | **Marigold** | 242 | Detached | $495,550 | 1,840 | $269.32 | 230 | 219 | 8.3 |
| | Irvine Pacific | | Condo | $820,650 | 1,919 | $427.64 | | May-13 | |
| | Irvine | | | $830,950 | 1,979 | $419.88 | | | |
| | | | | $830,950 | 1,993 | $416.93 | | | |
| | ***Baker Ranch*** | | | | | | | | |
| 14 | **The Peake** | 102 | TH | $634,900 | 1,578 | $402.34 | 24 | 24 | 4.6 |
| | Shea Homes | | | $654,900 | 1,631 | $401.53 | | Feb-15 | |
| | Lake Forest | | | $674,900 | 1,671 | $403.89 | | | |
| 15 | **Ridgewood** | 85 | 4,000 | $840,000 | 2,124 | $395.48 | 75 | 74 | 4.3 |
| | Shea Homes | | | $850,000 | 2,202 | $386.01 | | Feb-14 | |
| | Lake Forest | | | $869,000 | 2,390 | $363.60 | | | |
| 16 | **Parkview** | 111 | 3,300 | $809,995 | 1,874 | $432.23 | 99 | 93 | 5.4 |
| | Toll Brothers | | | $842,995 | 2,010 | $419.40 | | Feb-14 | |
| | Lake Forest | | | $867,995 | 2,123 | $408.85 | | | |
| | | | | $864,995 | 2,196 | $393.90 | | | |
| 17 | **Highlands** | 83 | 4,500 | $1,175,950 | 2,991 | $393.16 | 83 | 71 | 4.1 |
| | Toll Brothers | | | $1,156,475 | 2,966 | $389.91 | | Feb-14 | |
| | Lake Forest | | | $1,224,995 | 3,015 | $406.30 | | | |

independently prepared absorption analysis that relates to the entire build-out of the District. This independent study is titled Community Facilities District No. 2015-1 (Village of Esencia) Market Absorption Study, prepared for the County of Orange and prepared by Empire Economics, Inc., dated May 18, 2015, and revised July 6, 2015.

The study analyzes the 12 proposed products within CFD No. 2015-1. The report reflects no closed sales until 2016. The report forecasts future closings of 402 dwellings during 2016, 394 dwellings during 2017 and 44 dwellings in 2018. Based on the absorption analysis prepared by Empire Economics, the estimated average monthly absorption per project is from 2.0± to 4.0± units, with an overall absorption of 2.3± units per month per project.

It is our opinion, after surveying the competitive projects and analyzing the pricing, design, location and other pertinent factors that the subject properties should experience good absorption, similar to that estimated by Empire Economics, Inc., assuming market conditions continue as currently predicted.

**Maximally Productive**

In considering what uses would be maximally productive for the subject property, we must consider the previously stated legal considerations. We are assuming the land uses allowed under the zoning specifications of CFD 2015-1 in Rancho Mission Viejo are the most productive uses that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time.

As discussed, all of the subject products will open for sale in September 2015. Products that entered the market during 2011/2012 are generally sold out due to the explosion of sales activity during 2012 and 2013. The return to an active residential market after the housing crash and economic recession has created significant merchant builder activity, over the past 36± months.

Based on current market conditions, it appears that the proposed products meet current market demand. It is our opinion that development of detached products between 1,500 and 3,700 square feet, and the attached products between 1,300 and 2,000 square feet, provides the highest land value and is, therefore, maximally productive.

**Conclusion**

Legal, physical, and market considerations have been analyzed to evaluate the highest and best use of the property. This analysis is presented to evaluate the type of uses which will generate the greatest level of future benefits possible from the land. After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the subject property, as vacant and as improved, is for residential development of attached and detached dwellings similar to what is currently proposed in CFD No. 2015-1. In general, the proposed projects appear to have the location and features to obtain an acceptable sales rate under normal financing and market conditions.

**As Vacant**

After reviewing the alternatives available and considering this and other information, it is these appraisers' opinion that ultimate development of single-family attached and detached for-sale products is considered the highest and best use of the property. The market has improved significantly and continually over the past 36± months. The forecast for continued economic growth is better than what we have seen in several years.

**As Proposed**

The proposed uses are a legal use of the properties and the value of the properties as proposed far exceed the value of the sites if vacant. This means that the proposed improvements contribute substantial value to the sites. Based on these considerations, it is our opinion that the proposed residential improvements constitute the highest and best use of the subject property.

# VALUATION METHODOLOGY

## Basis of Valuation

Valuation is based upon general and specific background experience, opinions of qualified informed persons, consideration of all data gathered during the investigative phase of the appraisal, and analysis of all market data available to the appraiser.

## Valuation Approaches

Three basic approaches to value are available to the appraiser:

### Cost Approach

This approach entails the preparation of a replacement or reproduction cost estimate of the subject property improvements new (maintaining comparable quality and utility) and then deducting for losses in value sustained through age, wear and tear, functionally obsolescent features, and economic factors affecting the property. This is then added to the estimated land value to provide a value estimate.

### Income Approach

This approach is based upon the theory that the value of the property tends to be set by the expected net income therefrom to the owner. It is, in effect, the capitalization of expected future income into present worth. This approach requires an estimate of net income, an analysis of all expense items, the selection of a capitalization rate, and the processing of the net income stream into a value estimate.

### Direct Comparison Approach

This approach is based upon the principle that the value of a property tends to be set by the price at which comparable properties have recently been sold or for which they can be acquired. This approach requires a detailed comparison of sales of comparable properties with the subject property. One of the main requisites, therefore, is that sufficient transactions of comparable properties be available to provide an accurate indicator of value and that accurate information regarding price, terms, property description, and proposed use be obtained through interview and observation.

> *Static Residual Analysis* is used to estimate the merchant builder finished lot value. From the estimated base retail home price, all costs associated with the home construction including direct construction costs, indirect construction costs, financing and profit are deducted. Following the deduction of costs, the residual figure is an estimate of the merchant builder finished lot value or blue-top lot value.

The purpose of this appraisal assignment is to estimate Market Value for the taxable property within CFD No. 2015-1. As summarized in the Site Analysis and Proposed Improvement Description sections of this report, there will be 12 products in an active sales program beginning September 2015. Currently ten of the 12 model complexes are under construction. Within CFD No. 2015-1, 840 dwelling units will be built in the 12 products. Currently the land ranges from a blue-top lot condition to a physically finished lot condition. Forty-four model homes are under construction.

As discussed, there are 44 model homes in various states of unit construction as of the date of value. The units under construction are valued based on our inspection of the property. An estimate of completion (stated as a percent) for each model is estimated as of the date of value. As illustrated in the highest and best use section of this report, demand and acceptance for the subject products should be good. Given current market conditions and demand for the subject products, additional value is considered warranted for the models under construction. The estimated completion is applied to the average size model for the specific product.

The Direct Comparison Approach is used for the valuation of land when sufficient comparable sales are available. Their sales prices would be considered the best indicators of value, assuming the sales are current and in a similar land condition. The Income Approach is typically used when appraising income producing properties. This approach is not applicable in the valuation of land as land is not typically held to generate monthly income, but rather purchased to construct an end product that may or may not generate income. The Cost Approach is not an appropriate tool in the valuation of land.

The balance of CFD No. 2015-1 consists of 796 blue-top to physically finished lots. All of the lots are within tracts of currently developing subdivisions. The 12 products will begin an active sales program in September 2015. The merchant builder land within CFD No. 2015-1 is valued by the Direct Comparison Approach with similar recent merchant builder land sales and the Static Residual Analysis. The Static Residual Analysis closely reflects current market conditions in a dynamic market. Due to the dramatic changes in the residential market over the past two years, the Static Residual Analysis is considered a reliable method for estimating finished lot value based on existing or proposed product.

## VALUATION OF MODEL HOMES

### Valuation of Model Homes Under Construction

There are 44 model homes in various stages of unit construction within the 12 products of CFD No. 2015-1. As of the date of value, there were 22 models in the framing stage, 15 models in the wrapped stage, one model with siding, 3 models with brown coat stucco and 3 models with color coat stucco. For purposes of this appraisal, the appraisers have estimated the percent complete, 65% for the dwellings improved to color coat, 65% for the dwellings improved to brown coat, 60% for the dwellings wrapped or with siding and 55% for the dwellings framed.

The table on the following page summarizes the estimated Market Value for the 44 model homes under construction for each merchant builder ownership. As indicated the total estimated Market Value for the 44 models is $17,300,000, rounded.

## MODEL HOMES UNDER CONSTRUCTION
### Merchant Builder Ownerships

| Product Ownership No. of Units | Condition of Units | Estimated % Complete | Avg. Base S/P Per Project | Estimated Value |
|---|---|---|---|---|
| *MR-1 - Aurora - William Lyon Homes* | | | | |
| 12 | Models - Framed | 55% | $500,000 | $3,300,000 |
| | | | | |
| *MR-14 - Trellis - Warmington Homes* | | | | |
| 2 | Models - Wrapped | 60% | $622,000 | $746,400 |
| 1 | Model - W/Siding | 60% | $622,000 | $373,200 |
| | | | | |
| *MR-15 - Aria - Tri Pointe Homes* | | | | |
| 4 | Models - Wrapped | 60% | $663,000 | $1,591,200 |
| | | | | |
| *MR-17 - Citron - Ryland Homes* | | | | |
| 3 | Models - Framed | 55% | $643,000 | $1,060,950 |
| | | | | |
| *MR-19 - Heirloom - Ryland Homes* | | | | |
| 0 | Models | 0% | $809,000 | $0 |
| | | | | |
| *MR-22 - Ventana - Shea Homes* | | | | |
| 3 | Models - Color coat, roofs complete | 65% | $757,000 | $1,476,150 |
| | | | | |
| *MR-23 - Cirrus - Meritage Homes* | | | | |
| 0 | Models | 0% | $902,000 | $0 |
| | | | | |
| *MR-24 - Aubergine - TRI Pointe Homes* | | | | |
| 3 | Models - Framed | 55% | $1,044,000 | $1,722,600 |
| | | | | |
| *AQ-1 - Viero - William Lyon Homes* | | | | |
| 4 | Models - Framed | 55% | $600,000 | $1,320,000 |
| | | | | |
| *AQ-11 - Avocet - Standard Pacific Homes* | | | | |
| 5 | Models - Wrapped | 60% | $650,000 | $1,950,000 |
| | | | | |
| *AQ-13 - Cortesa - Shea Homes* | | | | |
| 4 | Models - Wrapped | 60% | $768,000 | $1,843,200 |
| | | | | |
| *AQ-21 - Alondra - Shea Homes* | | | | |
| 3 | Models -Brown coat stucco | 65% | $980,000 | $1,911,000 |
| | | | | |
| ***44*** | ***Total Models Homes Under Construction*** | | | ***$17,294,700*** |
| | ***7 Merchant Builder Ownerships*** | | | |
| | | | ***Rounded to:*** | ***$17,300,000*** |
| | | | | |
| | | | | |

## VALUATION OF FINISHED LOTS

### General Information

CFD No. 2015-1 is a developed parcel with lots ranging from a blue-top condition to a physically finished lot condition. Final Tract Map No. 17561 is approved for development of 840 single family attached and detached units. Twelve products are proposed that include eight market rate (MR) for–sale products and four age-qualified (AQ) products. The eight MR products include one attached townhome product, four detached courtyard products and three traditional detached products. The attached product has a density of 17.33 units per acre and the detached products are on lots ranging 1,750 square feet to 5,500 square feet. The four AQ products include one attached townhome product, with a density of 6.33 units per acre and the detached products are on lots ranging from 3,400 square feet to 5,655 square feet. This section of the appraisal report will value the land as if in a physically finished lot condition. Deductions will be made for the costs to bring the land from its "as is" condition, as of the date of value, to finished lots.

The actual sales price of a particular parcel is always considered the best indication of value, assuming the transaction is arm's length, current and meets the definition of Market Value. The first set of sales used in the analysis are located within the subject CFD, the Esencia Village master planned community located in Rancho Mission Viejo. The second set of sales are in the Pavilion Park community in the City of Irvine. A discussion of the market data will precede the valuation of the finished lots.

Due to the changing market conditions, the Static Residual Analysis is also used to estimate finished lot values. The proposed products of CFD No. 2015-1 are analyzed. The results of both the Direct Comparison Approach and the Static Residual Analysis are considered in estimating finished lot values for the 796 remaining lots within CFD No. 2015-1.

## Direct Sales Comparison Approach

The Direct Sales Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties, when available. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. For the purpose of this report, the unit of comparison utilized is the price per lot for the residential land. Please refer to the following pages that summarize the sales considered most similar to the subject lots.

We have surveyed residential sales in the central and south Orange County market area. We have reviewed and inspected all of the data items. The data includes the finished lot prices for merchant builder parcels. The comparable land sales have generally sold in a blue-top lot condition. Costs to bring the land from the condition at the time of sale to finished lot condition were made available by the sellers to analyze the data. Therefore, the analysis will conclude at an indication of the finished lot value for the subject lots.

Between the date of the Pavilion Park land sales and the date of value, market conditions have improved. As discussed throughout this report, over the past 36± months, the residential market throughout California and specifically Orange County has experienced significant increases in sales activity and sales prices. As the demand for the dwelling units increases, and related home prices increase, the value of the land or lots increase.

HRA

| Data No./ Project | Buyer/ Seller | Sale Date | Average Lot Sz | No. of Lots | Sales Price | Sale Price Per Lot | Finished Price/Lot | Land Condition at Time of Sale |
|---|---|---|---|---|---|---|---|---|
| **Land Sales Summary** | | | | | | | | |
| Rancho Mission Viejo | | | | | | | | |
| No. 1 Aurora Product MR-1 Esencia | LT-MR-1, LLC RMV PA2 Development, LLC | 11/2014 | Attached 17.33 U/Ac | 94 | $18,204,322 | $193,663 | $237,560 | Blue-top lots 1,553 SF Avg. Home Size |
| No. 2 Terrellis Product MR-14 Esencia | Warmington MR14 Assoc., LLC RMV PA2 Development, LLC | 11/2014 | Det. Condo 9.30 U/Ac | 62 | $13,578,000 | $219,000 | $334,508 | Blue-top Lots 1,711 SF Avg. Home Size |
| No. 3 Aria Product MR-15 Esencia | TRI Pointe Homes, Inc. RMV PA2 Development, LLC | 11/2014 | Det. Condo 9.90 U/Ac | 87 | $27,800,000 | $319,540 | $378,964 | Blue-top Lots 1,857 SF Avg. Home Size |
| No. 4 Citron Product MR-17 Escenia | Ryland Homes of Calif., Inc. RMV PA2 Development, LLC | 11/2014 | Det. Condo 8.85 U/Ac | 50 | $14,825,000 | $296,500 | $378,114 | Blue-top Lots 1,928 SF Avg. Home Size |
| No. 5 Heirloom Product MR-19 Esencia | Ryland Homes of Calif., Inc RMV PA2 Development, LLC | 11/2014 | Det. Condo 7.14 U/Ac | 45 | $15,795,000 | $351,000 | $426,957 | Blue-top Lots 2,824 SF Avg. Home Size |
| No. 6 Ventana Product MR-22 Esencia | Shea Homes L.P. RMV PA2 Development, LLC | 11/2014 | 4,050 6.46 U/Ac | 60 | $20,700,000 | $345,000 | $413,961 | Blue-top Lots 2,442 SF Avg. Home Size |
| No. 7 Cirrus Product MR-23 Esencia | Meritage Homes of Calif., Inc. RMV PA2 Development, LLC | 11/2014 | 4,750 5.74 U/Ac | 58 | $21,942,600 | $378,321 | $442,672 | Blue-top Lots 2,934 SF Avg. Home Size |
| No. 8 Aubergine Product MR-24 Esencia | TRI Pointe Homes, Inc. RMV PA2 Development, LLC | 11/2014 | 5,500 4.44 U/Ac | 66 | $32,150,000 | $487,121 | $562,374 | Blue-top Lots 3,385 SF Avg. Home Size |
| No. 9 Viero Product AQ-1 Esencia | LT-AQ-1, LLC RMV PA2 Development, LLC | 11/2014 | Attached 6.33 U/Ac | 90 | $19,776,240 | $219,736 | $313,415 | Blue-top Lots 1,710 SF Avg. Home Size |
| No. 10 Avocet Product AQ-11 Esencia | Standard Pacific Corp. RMV PA2 Development, LLC | 11/2014 | Det. Condo 6.62 U/Ac | 95 | $23,002,492 | $242,131 | $323,220 | Blue-top Lots 1,814 SF Avg. Home Size |
| No. 11 Cortesa Product AQ-13 Esencia | Shea Homes L.P. RMV PA2 Development, LLC | 11/2014 | Det. Condo 4.91 U/Ac | 63 | $18,000,000 | $285,714 | $378,188 | Blue-top Lots 2,031 SF Avg. Home Size |
| No. 12 Alondra Product AQ-21 Esencia | Shea Homes L.P. RMV PA2 Development, LLC | 11/2014 | 5,655 4.19 U/Ac | 70 | $28,400,000 | $405,714 | $484,930 | Blue-top Lots 2,415 SF Avg. Home Size |
| City of Irvine | | | | | | | | |
| No. 13 Birchtrail Builder Area 870 Pavilion Park | Richmond American Homes Heritage Fields El Toro, LLC Tract 17474 | 5/2013 | Det. Condo 10.9 U/Ac | 88 | $33,665,322 | $382,560 | $430,914 | Blue-top Lots 2,096 SF Avg. Home Size |
| No. 14 Springhouse Builder Area 801 Pavilion Park | Taylor Morrison of California Heritage Fields El Toro, LLC Tract 17479 | 5/2013 | Det. Condo 7.1 U/Ac | 83 | $32,977,464 | $397,319 | $447,653 | Blue-top Lots 2,330 SF Avg. Home Size |

# HRA

**Land Sales Summary**

| Data No./ Project | Buyer/ Seller | Sale Date | Average Lot Sz | No. of Lots | Sales Price | Sale Price Per Lot | Finished Price/Lot | Land Condition at Time of Sale |
|---|---|---|---|---|---|---|---|---|
| No. 15<br>Roundtree<br>Builder Area 810<br>Pavilion Park | Lennar Homes of California<br>Heritage Fields El Toro, LLC<br>Tract 17469 | 5/2013 | Det. Condo<br>7.1 U/Ac | 75 | $28,211,460 | $376,153 | $434,764 | Blue-top Lots<br>2,264 SF Avg.<br>Home Size |
| No. 16<br>Beachwood<br>Builder Area 803/804<br>Pavilion Park | Lennar Homes of California<br>Heritage Fields El Toro, LLC<br>Tract 17476/17477 | 5/2013 | 4,500<br>6.0 U/Ac | 90 | $41,143,661 | $457,152 | $508,409 | Blue-top Lots<br>2,312 SF Avg.<br>Home Size |
| No. 17<br>Whistler<br>Builder Area 806<br>Pavilion Park | Lyon Whistler, LLC<br>Heritage Fields El Toro, LLC<br>Tract 17473 | 4/2013 | 4,200<br>5.3 U/Ac | 83 | $36,172,182 | $435,809 | $491,796 | Blue-top Lots<br>2,474 SF Avg.<br>Home Size |
| No. 18<br>Sagewood<br>Builder Area 802/809<br>Pavilion Park | Shea Homes Limited Ptshp.<br>Heritage Fields El Toro, LLC<br>Tract 17478/17470 | 4/2013 | 4,800<br>5.2 U/Ac | 103 | $46,096,474 | $447,539 | $506,586 | Blue-top Lots<br>2,701 SF Avg.<br>Home Size |
| No. 19<br>Rosemist<br>Builder Area 800<br>Pavilion Park | Lennar Homes of California<br>Heritage Fields El Toro, LLC<br>Tract 17364 | 5/2013 | 5,500<br>5.2 U/Ac | 52 | $27,958,311 | $537,660 | $588,278 | Blue-top Lots<br>3,143 SF Avg.<br>Home Size |
| No. 20<br>Hawthorn<br>Builder Area 808<br>Pavillion Park | Pulte Home Corporation<br>Heritage Fields El Toro, LLC<br>Tract 17471 | 4/2013 | 6,000<br>3.9 U/Ac | 46 | $25,382,373 | $551,791 | $618,621 | Blue-top Lots<br>3,026 SF Avg.<br>Home Size |
| No. 21<br>Harmony<br>Builder Area 805<br>Pavilion Park | K. Hovnanian at Pavilion Park<br>Heritage Fields El Toro, LLC<br>Tract 17475 | 5/2013 | 6,000<br>5.2 U/Ac | 45 | $25,915,149 | $575,892 | $643,560 | Blue-top Lots<br>3,517 SF Avg.<br>Home Size |
| No. 22<br>Melrose<br>Builder Area 807<br>Pavilion Park | Ryland Homes of California<br>Heritage Fields El Toro, LLC<br>Tract 17472 | 4/2013 | 6,000<br>4.6 U/Ac | 61 | $40,143,355 | $658,088 | $712,284 | Blue-top Lots<br>4,071 SF Avg.<br>Home Size |

**Analysis**

*Financing*

All of the comparable sales were all cash transactions or financing considered to be cash, therefore, no adjustments for financing were warranted.

*Property Rights Conveyed*

All of the comparables involved the transfer of the fee simple interest. The subject fee simple interest is appraised in this report, and therefore, no adjustment is warranted.

*Time of Sale*

Since the time of the land sales, the residential market in the subject's area has continued to be strong. During the most recent recession, home prices were severely negatively impacted. During 2012, the market appeared to begin to stabilize. Since mid-2012, home sales have significantly increased, along with sales prices. Interviews with sales personnel indicated that their base pricing was being increased with each phase of development between mid- 2012 and mid-2014. Over the past year, prices have generally stabilized or increased at a much more moderate rate than the preceding two years of recovery. Sales that occurred in mid-2013 have been adjusted upward by 10%.

*Conditions of Sale*

Typically, adjustments for conditions of sale reflect the motivations of the buyer and the seller in the transfer of real property. The conditions of sale adjustment reflects the difference between the actual sales price of the comparable and its probable sales price if it were sold in an arms-length transaction with typical motivations. Some circumstances of comparable sales that will need adjustment include sales made under duress, eminent domain transactions and sales that were not arm's length. All of the transactions were reported to be arm's length in nature. Accordingly, no adjustment is indicated.

*Location*

The location adjustment is based on proximity to existing infrastructure, amenities and employment. The sales in Pavilion Park, in Irvine, are considered superior in overall location and a downward adjustment of 25% is estimated.

*Entitlement/Map Status*

All of the sales are entitled. No adjustment is required.

*Tax Rate*

The subject property is expected to have an average overall tax rate between 1.8% to 2.0% of base sales price. This rate is consistent with the sales in Irvine. No adjustment is required.

*Lot Size*

The comparables and the subject properties have varying minimum lot sizes that range from attached townhomes, courtyard lots ranging from 2,000± square feet to 4,000± square feet, and traditional detached lots ranging from 4,000± square feet to 5,500± square feet. No adjustment is required.

*Condition of Lots*

All of the data included information to estimate a finished lot price for each comparable. According to the Merchant Builders, there are costs associated with the blue-top and physically finished lots within CFD No. 2015-1, other than impact fees due at building permit which reportedly, will be paid by the developer, RMV PA2 Development, LLC. Based on the information received from the merchant builders, the cost to complete for each of the 12 products ranges from $25,000 per lot to $80,000 per lot.

Please refer to the following pages for the adjustment grid of the comparable land sales.

As previously discussed, the residential market started to stabilize at the beginning of 2012, after the lengthy downturn in the market over the previous six years. By mid-2012, the positive impact on the residential market started with increased sales that have continued to the present time. The impact of the sales activity and minimal supply to meet demand resulted in significant increases in sales prices during 2012 and 2013.

# HRA

Land Sales Adjustment Grid

| Data No./ Project | Sale Date | Average Lot Sz | No. of Lots | Finished Price/Lot | Time | Adjusted $/DU | Location | Adjusted $/DU |
|---|---|---|---|---|---|---|---|---|
| Rancho Mission Viejo | | | | | | | | |
| No. 1 Aurora Product MR-1 Esencia | 11/2014 | Attached 17.33 U/Ac | 94 | $237,560 | 0% | $237,560 | 0% | $237,560 |
| No. 2 Terrellis Product MR-14 Esencia | 11/2014 | Det. Condc 9.30 U/Ac | 62 | $334,508 | 0% | $334,508 | 0% | $334,508 |
| No. 3 Aria Product MR-15 Esencia | 11/2014 | Det. Condc 9.90 U/Ac | 87 | $378,964 | 0% | $378,964 | 0% | $378,964 |
| No. 4 Citron Product MR-17 Escenia | 11/2014 | Det. Condc 8.85 U/Ac | 50 | $378,114 | 0% | $378,114 | 0% | $378,114 |
| No. 5 Heirloom Product MR-19 Esencia | 11/2014 | Det. Condc 7.14 U/Ac | 45 | $426,957 | 0% | $426,957 | 0% | $426,957 |
| No. 6 Ventana Product MR-22 Esencia | 11/2014 | 4,050 6.46 U/Ac | 60 | $413,961 | 0% | $413,961 | 0% | $413,961 |
| No. 7 Cirrus Product MR-23 Esencia | 11/2014 | 4,750 5.74 U/Ac | 58 | $442,672 | 0% | $442,672 | 0% | $442,672 |
| No. 8 Aubergine Product MR-24 Esencia | 11/2014 | 5,500 4.44 U/Ac | 66 | $562,374 | 0% | $562,374 | 0% | $562,374 |
| No. 9 Viero Product AQ-1 Esencia | 11/2014 | Attached 6.33 U/Ac | 90 | $313,415 | 0% | $313,415 | 0% | $313,415 |
| No. 10 Avocet Product AQ-11 Esencia | 11/2014 | Det. Condc 6.62 U/Ac | 95 | $323,220 | 0% | $323,220 | 0% | $323,220 |
| No. 11 Cortesa Product AQ-13 Esencia | 11/2014 | Det. Condc 4.91 U/Ac | 63 | $378,188 | 0% | $378,188 | 0% | $378,188 |
| No. 12 Alondra Product AQ-21 Esencia | 11/2014 | 5,655 4.19 U/Ac | 70 | $484,930 | 0% | $484,930 | 0% | $484,930 |

**Land Sales Adjustment Grid**

| Data No./ Project | Sale Date | Average Lot Sz | No. of Lots | Finished Price/Lot | Time | Adjusted $/DU | Location | Adjusted $/DU |
|---|---|---|---|---|---|---|---|---|
| City of Irvine<br>No. 13<br>Birchtrail<br>Builder Area 870<br>Pavilion Park | 5/2013 | Det. Condc<br>10.9 U/Ac | 88 | $430,914 | 10% | $474,005 | -25% | $355,504 |
| No. 14<br>Springhouse<br>Builder Area 801<br>Pavilion Park | 5/2013 | Det. Condc<br>7.1 U/Ac | 83 | $447,653 | 10% | $492,418 | -25% | $369,314 |
| No. 15<br>Roundtree<br>Builder Area 810<br>Pavilion Park | 5/2013 | Det. Condc<br>7.1 U/Ac | 75 | $434,764 | 10% | $478,240 | -25% | $358,680 |
| No. 16<br>Beachwood<br>Builder Area 803/804<br>Pavilion Park | 5/2013 | 4,500<br>6.0 U/Ac | 90 | $508,409 | 10% | $559,250 | -25% | $419,437 |
| No. 17<br>Whistler<br>Builder Area 806<br>Pavilion Park | 4/2013 | 4,200<br>5.3 U/Ac | 83 | $491,786 | 10% | $540,965 | -25% | $405,723 |
| No. 18<br>Sagewood<br>Builder Area 802/809<br>Pavilion Park | 4/2013 | 4,800<br>5.2 U/Ac | 103 | $506,586 | 10% | $557,245 | -25% | $417,933 |
| No. 19<br>Rosemist<br>Builder Area 800<br>Pavilion Park | 5/2013 | 5,500<br>5.2 U/Ac | 52 | $588,278 | 10% | $647,106 | -25% | $485,329 |
| No. 20<br>Hawthorn<br>Builder Area 808<br>Pavillion Park | 4/2013 | 6,000<br>3.9 U/Ac | 46 | $618,621 | 10% | $680,483 | -25% | $510,362 |
| No. 21<br>Harmony<br>Builder Area 805<br>Pavilion Park | 5/2013 | 6,000<br>5.2 U/Ac | 45 | $643,560 | 10% | $707,916 | -25% | $530,937 |
| No. 22<br>Melrose<br>Builder Area 807<br>Pavilion Park | 4/2013 | 6,000<br>4.6 U/Ac | 61 | $712,284 | 10% | $783,512 | -25% | $587,634 |

In a rapidly changing market the better indication of land value can be estimated by the Static Residual Analysis which reflects current dwelling sales prices and market conditions. The following paragraphs begin the discussion of the Static Residual Analysis for the subject's currently selling products.

**Static Residual Analysis to Finished Lot Value**

The purpose of this analysis is to estimate a value for the land assuming no direct construction has taken place. This method is particularly helpful when development for a subdivision represents the highest and best use and when competitive house sales are available. Reportedly, this analysis is by far the most commonly used by merchant builders when determining price for land.

This analysis is useful for projects that will have a typical holding period of one to two years which represents the typical holding period anticipated by merchant builders. The Static Residual Analysis best replicates the investor's analysis when determining what can be paid for the land based on proposed product. Purchase of the land is simply treated as one of the components necessary to build the houses to sell to the homeowner. When all the components of the end-product can be identified and reasonable estimates of costs and profit can be allocated, the Static Residual Analysis becomes the best indicator of value to a merchant builder for a specific product. Specific product information is available, which makes this analysis particularly meaningful.

The analysis uses an estimated average base sales price, for a specific product, then deducts the various costs including direct and indirect costs of construction, marketing, taxes and overhead, as well as the required profit margin to attract an investor in light of the risks and uncertainties of the project and residential market. This analysis is most helpful when significant lot and or view premiums are not present. When negotiating land price, builders typically will consider the value of lot premiums when they are significant, but typically do not give the premiums full consideration. When a downturn in the market occurs or a slight stall in a sales program, premiums are typically the first to be negotiated away.

*End-product Sales Prices*

The analysis uses the average base sales price without lot premiums.

*Direct Development Costs*

The land developer has provided direct construction costs to build the 12 products. We have interviewed local builders in the Orange County market area for estimates of direct construction costs for similar products. Based on our understanding of the proposed quality of construction, home size and functional utility, conservative estimates of direct construction costs are used in this analysis.

Indirect construction costs, such as insurance, real estate taxes, architecture and engineering costs, loan fees and permits have been estimated at 3% of sales price, which is found to be an industry standard for use in this analysis.

*General and Administrative*

General and administrative costs are estimated at 3% of sales price. This category covers such expenses as administrative, professional fees, real estate taxes, HOA dues, and miscellaneous costs. This estimate is typical and consistent with the market.

*Marketing and Warranty*

Marketing and sales expenses plus warranty costs are estimated at 7% of sales price. This category covers such expenses as advertising and sales commissions and home warranties. This estimate is typical and consistent with the market for product in master planned communities.

*Developer Profit*

The line item for profit reflects the required margin to attract an investor in light of the risk and uncertainties of the specific project. This analysis assumes a finished lot and no on-site construction. Therefore, additional risk of development is unknown. Given the current residential market, demand for the proposed projects and timing for sales to begin, the risk of development is generally limited to risk associated with sales over the next 2± years. In general, sales activity is projected to continue in Orange County, inventory is still low based on the current sales rate. Interest rates, while increasing slightly in recent months is still very enticing to homebuyers. Most economists are not projecting interest rates to be over 6% for three to five years. Assuming economic growth continues at a slow and steady rate, interest rates are relatively stable and job growth and wage increases continue to gradually firm-up, sales for the subject properties are considered to be in a healthy residential market. .

Based on surveys of builders, current profit requirements are typically between 8% and 12% of revenues, with occasional responses as high as 15%. These profit estimates are for projects that can be constructed and sold out in a two-year period. Higher profits can be required for longer construction/sellout periods and riskier projects. Lower profits can be accepted in inexpensive land cost areas where homes sell quickly. Lower profits are usually found in planned community environments where the master developer plans for different market segments and thus avoids direct competition between builders, and this is the case in Rancho Mission Viejo. Based on a review of the projected absorption for the subject products and competing subdivisions, a sales rate of 2± to 4± units per month for the products appears supportable.

The line item for profit is based on a typical holding period sought by merchant builders; that of 1 to 2 years. Based on current market conditions and the outlook for the next 12 to 24 months, a 7% line item for profit, would seem appropriate for a 2-year holding period for the detached products. Due to the additional risk of development for attached products, an 8% line item for profit appears appropriate. For the four products with anticipated holding periods over 2 years, an 8% line item for profit is used.

*Interest During Holding Period*

A typical allowance for financing during the holding period has been between 5% and 7%. Based on recent interviews with builders in the subject market area, we have chosen a 6% deduction for financing during the holding period.

*Site Costs*

Because this analysis residuals to a finished lot condition, deductions for costs to bring to a finished lot condition are not required. Please refer to the following pages for copies of the Static Residual Analysis for each product in CFD No. 2015-1.

## AURORA MR-1
## William Lyon Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,340 | $452,000 |
| 2 | 1,389 | $460,000 |
| 3 | 1,681 | $507,000 |
| 4 | 1,561 | $517,000 |
| 5 | 1,785 | $562,000 |
| **Average** | 1,551 | $499,600 |
| **Net Base S/P** | | $499,600 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Single Family Attached** | | | | |
| *Townhome* | | | | |
| *94 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $499,600 | $322.07 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 1,551 | | | |
| Direct Building Cost Per Sq. Ft. | $80.00 | $124,096 | | |
| Indirect Construction Costs | 3.00% | $14,988 | | |
| General & Administrative Costs | 3.00% | $14,988 | | |
| Marketing and Warranty Costs | 7.00% | $34,972 | | |
| Builder's Profit | 8.00% | $39,968 | | |
| Interest During Holding Period | 6.00% | $29,976 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$240,612** | | |
| | **Rounded to:** | **$240,000** | | |
| | | | **Finished Lot** | **0.48** |

## TRELLIS MR-14
## Warmington Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,512 | $595,000 |
| 2 | 1,684 | $629,000 |
| 3 | 1,681 | $619,000 |
| 4 | 1,863 | $645,000 |
| **Average** | 1,685 | $622,000 |
| **Net Base S/P** | | $622,000 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Detached Condominium** | | | | |
| *1,750 SF Minimum Lots - alley loaded* | | | | |
| *62 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $622,000 | $369.14 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 1,685 | | | |
| Direct Building Cost Per Sq. Ft. | $75.00 | $126,375 | | |
| Indirect Construction Costs | 3.00% | $18,660 | | |
| General & Administrative Costs | 3.00% | $18,660 | | |
| Marketing and Warranty Costs | 7.00% | $43,540 | | |
| Builder's Profit | 7.00% | $43,540 | | |
| Interest During Holding Period | 6.00% | $37,320 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$333,905** | | |
| **Rounded to:** | | **$334,000** | | |
| | | | **Finished Lot** | **0.54** |

## ARIA MR-15
## TRI Pointe Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,779 | $645,000 |
| 2 | 1,855 | $665,000 |
| 3 | 1,937 | $680,000 |
| **Average** | 1,857 | $663,333 |
| **Net Base S/P** | | $663,333 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Detached Condominium** | | | | |
| *2,130 SF Minimum Lots - alley loaded* | | | | |
| *87 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $663,333 | $357.21 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 1,857 | | | |
| Direct Building Cost Per Sq. Ft. | $70.00 | $129,990 | | |
| Indirect Construction Costs | 3.00% | $19,900 | | |
| General & Administrative Costs | 3.00% | $19,900 | | |
| Marketing and Warranty Costs | 7.00% | $46,433 | | |
| Builder's Profit | 8.00% | $53,067 | | |
| Interest During Holding Period | 6.00% | $39,800 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$354,243** | | |
| **Rounded to:** | | **$354,000** | | |
| | | | **Finished Lot** | **0.53** |

## CITRON MR-17
## Ryland Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,775 | $617,000 |
| 2 | 1,797 | $621,000 |
| 3 | 1,936 | $645,000 |
| 4 | 2,205 | $690,000 |
| **Average** | 1,928 | $643,250 |
| **Net Base S/P** | | $643,250 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Detached Condominium** | | | | |
| *2,250 SF Minimum Lots-alley loaded* | | | | |
| *50 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $643,250 | $333.59 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 1,928 | | | |
| Direct Building Cost Per Sq. Ft. | $70.00 | $134,978 | | |
| Indirect Construction Costs | 3.00% | $19,298 | | |
| General & Administrative Costs | 3.00% | $19,298 | | |
| Marketing and Warranty Costs | 7.00% | $45,028 | | |
| Builder's Profit | 7.00% | $45,028 | | |
| Interest During Holding Period | 6.00% | $38,595 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$341,028** | | |
| **Rounded to:** | | **$341,000** | | |
| | | | **Finished Lot** | **0.53** |

## HEIRLOOM MR-19
## Ryland Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 2,351 | $725,000 |
| 2 | 2,508 | $759,000 |
| 3 | 2,665 | $785,000 |
| 4 | 3,094 | $851,000 |
| 5 | 3,091 | $863,000 |
| 6 | 3,202 | $873,000 |
| **Average** | 2,819 | $809,333 |
| **Net Base S/P** | | $809,333 |

**Detached Condominium**
*3,900 SF Minimum Lots-alley loaded*
*45 Proposed Units*

| | | | | Land Ratios |
|---|---|---|---|---|
| Average Retail Value of Improvements | | $809,333 | $287.15 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 2,819 | | | |
| Direct Building Cost Per Sq. Ft. | $68.00 | $191,658 | | |
| Indirect Construction Costs | 3.00% | $24,280 | | |
| General & Administrative Costs | 3.00% | $24,280 | | |
| Marketing and Warranty Costs | 7.00% | $56,653 | | |
| Builder's Profit | 7.00% | $56,653 | | |
| Interest During Holding Period | 6.00% | $48,560 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$407,249** | | |
| | **Rounded to:** | **$407,000** | | |
| | | | **Finished Lot** | **0.50** |

## VENTANA MR-22
## Shea Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 2,207 | $714,420 |
| 2 | 2,450 | $758,520 |
| 3 | 2,669 | $797,720 |
| **Average** | 2,442 | $756,887 |
| **Net Base S/P** | | $756,887 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Single Family Detached** | | | | |
| *4,050 SF Minimum Lots* | | | | |
| *60 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $756,887 | $309.95 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 2,442 | | | |
| Direct Building Cost Per Sq. Ft. | $70.00 | $170,940 | | |
| Indirect Construction Costs | 3.00% | $22,707 | | |
| General & Administrative Costs | 3.00% | $22,707 | | |
| Marketing and Warranty Costs | 7.00% | $52,982 | | |
| Builder's Profit | 7.00% | $52,982 | | |
| Interest During Holding Period | 6.00% | $45,413 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$389,156** | | |
| **Rounded to:** | | **$389,000** | | |
| | | | **Finished Lot** | **0.51** |

## CIRRUS MR-23
## Meritage Homes
## Estimated Finished Lot Value

| | Plan No. | Size | Base Price | |
|---|---|---|---|---|
| | 1 | 2,698 | $837,000 | |
| | 2 | 2,894 | $898,000 | |
| | 3 | 3,217 | $970,000 | |
| | **Average** | 2,936 | $901,667 | |
| | **Net Base S/P** | | $901,667 | |
| **Single Family Detached** | | | | Land Ratios |
| *4,750 SF Minimum Lots* | | | | |
| *58 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $901,667 | $307.07 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 2,936 | | | |
| Direct Building Cost Per Sq. Ft. | $75.00 | $220,225 | | |
| Indirect Construction Costs | 3.00% | $27,050 | | |
| General & Administrative Costs | 3.00% | $27,050 | | |
| Marketing and Warranty Costs | 7.00% | $63,117 | | |
| Builder's Profit | 7.00% | $63,117 | | |
| Interest During Holding Period | 6.00% | $54,100 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$447,008** | | |
| | **Rounded to:** | **$447,000** | | |
| | | | **Finished Lot** | **0.50** |

## AUBERGINE MR-24
## TRI Pointe Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 3,097 | $995,000 |
| 2 | 3,374 | $1,025,000 |
| 3 | 3,319 | $1,050,000 |
| 4 | 3,751 | $1,105,000 |
| **Average** | 3,385 | $1,043,750 |

**Net Base S/P** $1,043,750

| | | | | Land Ratios |
|---|---|---|---|---|
| **Single Family Detached** | | | | |
| *5,500 SF Minimum Lots* | | | | |
| *66 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $1,043,750 | $308.32 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 3,385 | | | |
| Direct Building Cost Per Sq. Ft. | $70.00 | $236,968 | | |
| Indirect Construction Costs | 3.00% | $31,313 | | |
| General & Administrative Costs | 3.00% | $31,313 | | |
| Marketing and Warranty Costs | 7.00% | $73,063 | | |
| Builder's Profit | 8.00% | $83,500 | | |
| Interest During Holding Period | 6.00% | $62,625 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$524,970** | | |
| **Rounded to:** | | **$525,000** | | |
| | | | **Finished Lot** | **0.50** |

## VIERO AQ-1
## William Lyon Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,456 | $543,000 |
| 2 | 1,546 | $610,000 |
| 3 | 1,936 | $608,000 |
| 4 | 1,707 | $608,000 |
| 5 | 1,950 | $633,000 |
| **Average** | 1,719 | $600,400 |
| **Net Base S/P** | | $600,400 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Single Family Attached** | | | | |
| *Townhomes* | | | | |
| *90 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $600,400 | $349.27 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 1,719 | | | |
| Direct Building Cost Per Sq. Ft. | $75.00 | $128,925 | | |
| Indirect Construction Costs | 3.00% | $18,012 | | |
| General & Administrative Costs | 3.00% | $18,012 | | |
| Marketing and Warranty Costs | 7.00% | $42,028 | | |
| Builder's Profit | 8.00% | $48,032 | | |
| Interest During Holding Period | 6.00% | $36,024 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$309,367** | | |
| | **Rounded to:** | **$309,000** | | |
| | | | **Finished Lot** | **0.51** |

## AVOCET AQ-11
## Standard Pacific Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,473 | $595,000 |
| 2 | 1,697 | $640,000 |
| 3 | 1,778 | $670,000 |
| 4 | 1,937 | $650,000 |
| 5 | 2,110 | $695,000 |
| **Average** | 1,799 | $650,000 |
| **Net Base S/P** | | $650,000 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Detached Condominium** | | | | |
| *3,400 SF Minimum Lots* | | | | |
| *95 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $650,000 | $361.31 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 1,799 | | | |
| Direct Building Cost Per Sq. Ft. | $80.00 | $143,920 | | |
| Indirect Construction Costs | 3.00% | $19,500 | | |
| General & Administrative Costs | 3.00% | $19,500 | | |
| Marketing and Warranty Costs | 7.00% | $45,500 | | |
| Builder's Profit | 8.00% | $52,000 | | |
| Interest During Holding Period | 6.00% | $39,000 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$330,580** | | |
| **Rounded to:** | | **$330,000** | | |
| | | | **Finished Lot** | **0.51** |

**CORTESA AQ-13**
**Shea Homes**
**Estimated Finished Lot Value**

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 1,816 | $730,100 |
| 2 | 1,831 | $735,980 |
| 3 | 2,116 | $786,940 |
| 4 | 2,362 | $818,300 |
| **Average** | 2,031 | $767,830 |
| **Net Base S/P** | | $767,830 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Detached Condominium** | | | | |
| *4,500 SF Minimum Lots - alley loaded* | | | | |
| *63 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $767,830 | $378.01 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 2,031 | | | |
| Direct Building Cost Per Sq. Ft. | $80.00 | $162,500 | | |
| Indirect Construction Costs | 3.00% | $23,035 | | |
| General & Administrative Costs | 3.00% | $23,035 | | |
| Marketing and Warranty Costs | 7.00% | $53,748 | | |
| Builder's Profit | 7.00% | $53,748 | | |
| Interest During Holding Period | 6.00% | $46,070 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$405,694** | | |
| **Rounded to:** | | **$405,000** | | |
| | | | **Finished Lot** | **0.53** |

## ALONDRA AQ-21
## Shea Homes
## Estimated Finished Lot Value

| Plan No. | Size | Base Price |
|---|---|---|
| 1 | 2,325 | $940,800 |
| 2 | 2,832 | $1,019,200 |
| 3 | 2,589 | $980,000 |
| **Average** | 2,582 | $980,000 |
| | | |
| **Net Base S/P** | | $980,000 |

| | | | | Land Ratios |
|---|---|---|---|---|
| **Single Family Detached** | | | | |
| *5,655 SF Minimum Lots* | | | | |
| *70 Proposed Units* | | | | |
| Average Retail Value of Improvements | | $980,000 | $379.55 (Per sq. ft.) | |
| Average Dwelling Size (Sq. Feet) | 2,582 | | | |
| Direct Building Cost Per Sq. Ft. | $80.00 | $206,560 | | |
| Indirect Construction Costs | 3.00% | $29,400 | | |
| General & Administrative Costs | 3.00% | $29,400 | | |
| Marketing and Warranty Costs | 7.00% | $68,600 | | |
| Builder's Profit | 8.00% | $78,400 | | |
| Interest During Holding Period | 6.00% | $58,800 | | |
| Costs to bring to Finished Lot | | None | | |
| **Finished Lot Value Estimate** | | **$508,840** | | |
| **Rounded to:** | | **$509,000** | | |
| | | | **Finished Lot** | **0.52** |

## Conclusion of Finished Lot Values

The following table summarizes the conclusions of finished lot values by the Direct Comparison Approach, the Static Residual Analysis and the concluded lot value. The best comparables are sales that require the fewest adjustments. We have the benefit of the subject merchant builder sales which occurred in November 2014, over a relatively stable residential market. The sales prices and finished lot costs have been verified by both the buyers and seller. The Static Residual Analysis reasonably supports the actual sales for the 12 products. Therefore, we have concluded with the actual sales prices for the merchant builder land.

**Finished Lot Value Conclusions**

| Product/Builder | Direct Comparison Approach | Minimum Lot Size | Static Residual Analysis | Finished Lot Ratio | Concluded Lot Value |
|---|---|---|---|---|---|
| Aurora/Wm. Lyon | $237,560 | Attached | $240,000 | 48% | $238,000 |
| Trellis/Warmington | $334,508 | 1,750 SF | $334,000 | 54% | $334,500 |
| Aria/TRI Pointe | $378,964 | 2,130 SF | $354,000 | 53% | $379,000 |
| Citron/Ryland | $378,114 | 2,250 SF | $341,000 | 53% | $378,000 |
| Heirloom/Ryland | $426,957 | 3,900 SF | $407,000 | 50% | $427,000 |
| Ventana/Shea | $413,961 | 4,050 SF | $389,000 | 51% | $414,000 |
| Cirrus/Meritage | $442,672 | 4,750 SF | $447,000 | 50% | $443,000 |
| Aubergine/TRI Pointe | $562,374 | 5,500 SF | $525,000 | 50% | $562,000 |
| Viero/Wm. Lyon | $313,415 | Attached | $309,000 | 51% | $313,000 |
| Avocet/Standard Pacific | $323,220 | 3,400 SF | $330,000 | 51% | $323,000 |
| Cortesa/Shea | $378,188 | 4,500 SF | $405,000 | 53% | $378,000 |
| Alondra/Shea | $484,930 | 5,655 SF | $509,000 | 52% | $485,000 |

The following page calculates each merchant builder's "as is" values, including the estimated value for the 44 model homes under construction The builders have provided the costs to complete site construction as of the date of value. The total estimated value for the 796 merchant builder lots is $261,200,000, rounded. In addition, the values of the model homes under construction have been included to arrive at a total estimated Market Value for each merchant builder ownership in CFD No. 2015-1.

FOR-SALE RESIDENTIAL
SUMMARY OF VALUE CONCLUSIONS

| Product/ Ownership No. of Units | Condition of Lots/Units | | Avg. S/P/Unit Per Project | Finished Lot $ | Estimated Value |
|---|---|---|---|---|---|
| *MR-1 - Aurora - William Lyon Homes* | | | | | |
| 12 | Models - Framed | 55% | $500,000 | | $3,300,000 |
| 82 | Physically Finished Lots | | | $238,000 | $19,516,000 |
| | Costs to Complete MB Site Improvements | | | | -$2,600,000 |
| | | | | | **$20,216,000** |
| *MR-14 - Trellis - Warmington Homes* | | | | | |
| 2 | Models - Wrapped | 60% | $622,000 | | $746,400 |
| 1 | Model - W/Siding | 60% | $622,000 | | $373,200 |
| 59 | Blue-top Lots with underground utilities | | | $334,500 | $19,735,500 |
| | Costs to Complete MB Site Improvements | | | | -$4,978,972 |
| | | | | | **$15,876,128** |
| *MR-15 - Aria - Tri Pointe Homes* | | | | | |
| 4 | Models - Wrapped | 60% | $663,000 | | $1,591,200 |
| 83 | Blue-top Lots with underground utilities | | | $379,000 | $31,457,000 |
| | Costs to Complete MB Site Improvements | | | | -$3,309,888 |
| | | | | | **$29,738,312** |
| *MR-17 - Citron - Ryland Homes* | | | | | |
| 3 | Models - Framed | 55% | $643,000 | | $1,060,950 |
| 47 | Physically Finished Lots | | | $378,000 | $17,766,000 |
| | Costs to Complete MB Site Improvements | | | | -$2,800,000 |
| | | | | | **$16,026,950** |
| *MR-19 - Heirloom - Ryland Homes* | | | | | |
| 0 | Models | 0% | $809,000 | | $0 |
| 45 | Blue-top Lots with underground utilities | | | $427,000 | $19,215,000 |
| | Costs to Complete MB Site Improvements | | | | -$2,900,000 |
| | | | | | **$16,315,000** |
| *MR-22 - Ventana - Shea Homes* | | | | | |
| 3 | Models - Color coat | 65% | $757,000 | | $1,476,150 |
| 57 | Physically Finished Lots | | | $414,000 | $23,598,000 |
| | Costs to Complete MB Site Improvements | | | | -$2,489,099 |
| | | | | | **$22,585,051** |
| *MR-23 - Cirrus - Meritage Homes* | | | | | |
| 0 | Models | 0% | $902,000 | | $0 |
| 58 | Physically Finished Lots | | | $443,000 | $25,694,000 |
| | Costs to Complete MB Site Improvements | | | | -$2,026,000 |
| | | | | | **$23,668,000** |
| *MR-24 - Aubergine - TRI Pointe Homes* | | | | | |
| 3 | Models - Framed | 55% | $1,044,000 | | $1,722,600 |
| 63 | Physically Finished Lots | | | $562,000 | $35,406,000 |
| | Costs to Complete MB Site Improvements | | | | -$3,519,248 |
| | | | | | **$33,609,352** |
| *AQ-1 - Viero - William Lyon Homes* | | | | | |
| 4 | Models - Framed | 55% | $600,000 | | $1,320,000 |
| 86 | Blue-top Lots with underground utilities | | | $313,000 | $26,918,000 |
| | Costs to Complete MB Site Improvements | | | | -$6,100,000 |
| | | | | | **$22,138,000** |
| *AQ-11 - Avocet - Standard Pacific Homes* | | | | | |
| 5 | Models - Wrapped | 60% | $650,000 | | $1,950,000 |
| 38 | Physically Finished Lots | | | $323,000 | $12,274,000 |
| 52 | Blue-top Lots with underground utilities | | | $323,000 | $16,796,000 |
| | Costs to Complete MB Site Improvements | | | | -$5,006,000 |
| | | | | | **$26,014,000** |
| *AQ-13 - Cortesa - Shea Homes* | | | | | |
| 4 | Models - Wrapped | 60% | $768,000 | | $1,843,200 |
| 59 | Physically Finished Lots | | | $378,000 | $22,302,000 |
| | Costs to Complete MB Site Improvements | | | | -$3,358,837 |
| | | | | | **$20,786,363** |
| *AQ-21 - Alondra - Shea Homes* | | | | | |
| 3 | Models -Brown coat stucco | 65% | $980,000 | | $1,911,000 |
| 67 | Physically Finished Lots | | | $485,000 | $32,495,000 |
| | Costs to Complete MB Site Improvements | | | | -$2,882,048 |
| | | | | | **$31,523,952** |
| | | | | | |
| **796** | **Lots** | | | | **$261,202,408** |
| **44** | **Models Under Construction** | | | | **$17,294,700** |
| | | | | | |
| | ***Total Estimated Market Value of 840 Proposed For-Sale Residential Units*** | | | | ***$278,497,108*** |
| | ***Rounded to:*** | | | | ***$278,500,000*** |

# VALUATION APARTMENT SITES

## General

For CFD No. 2015-1 (Village of Esencia), there are a total of 150 market rate apartment units proposed. The apartment project is expected to be three story frame-stucco construction with densities around 25+ dwelling units per acre. They are expected to be similar to the existing apartment project in Sendero.

## Land Value by Direct Comparison

In our search for comparable land sales, we were able to uncover sales of parcels in similar physical condition. After adjusting for the differences between the comparables and the subject property, we arrived at a per unit and per acre site value. The adjustments made were derived from our market survey of these sales and other information relating to market conditions. All sales listed were considered to be cash transactions to the seller; therefore, no adjustments were required for financing. Please refer to the following page for a summary table of the comparables.

## Discussion/Analysis of Land Sales

**Data No. 1** is located in Sendero, the first phase of Rancho Mission Viejo, southwesterly of the subject apartment site. It is located at the southeast corner of Ortega Highway and Antonio Parkway on a 12.6 net acre parcel. This sale was mass graded with all utilities available as of the sale date. The site was approved for a 286 unit market rate apartments. The density is 22.70 dwellings per acre. All development fees were paid by the seller, similar to the subject site. This property sold on March 13, 2013 for $18,000,000 from RMV Sendero Investors, LLC to Ranch Plan Apartments I, LLC. The buyer is a partnership of Western National Investments and RMV Sendero Investors, LLC.

This site is considered very similar to the subject in terms of location and surrounding developments. Both are in the master planned community of Rancho Mission Viejo. Both properties are subject to CFD Special Taxes. The development density is similar to the subject's 26.98 dwellings per acre. Probable rent levels would be very similar. This sale requires adjustment for the date of sale.

## Land Sale Summary

July-2015

| Data No. & Location | Sale Date | Dwelling Units | Density | Sales Price | Price / DU |
|---|---|---|---|---|---|
| Apartment Data No. 1<br>SEC Antonio Pky. & Ortega Hwy.<br>Rancho Santa Margarita | 3/15/2013 | 286 | 22.7 | $18,000,000 | $62,937 |
| Apartment Data No. 2<br>1331 Katella Ave.<br>Anaheim | 3/26/2014 | 244 | 86.2 | $10,000,000 | $40,984 |
| Apartment Data No. 3<br>2201 East Orangewood Ave.<br>Anaheim | 6/12/2014 | 340 | 89.2 | $17,000,000 | $50,000 |
| Apartment Data No. 4<br>27742 Forbes Rd.<br>Laguna Niguel | 4/1/2014 | 351 | 70.6 | $24,110,500 | $68,691 |
| Apartment Data No.5<br>16000 Legacy Rd.<br>Tustin | 7/15/2013 | 533 | 24.5 | $45,448,000 | $85,268 |

**Data No. 2** is located in the Platinum Triangle area of Anaheim, adjacent to Angel Stadium. It is located on the north side of Katella Avenue, west of State College Boulevard, on a 2.83 acre site. The site was mass graded and all utilities were available. The site was approved for 244 units or a site density of 86.23 dwellings per acre. This site sold on March 26, 2014 for $10,000,000 or $40,984 per dwelling unit. The seller was AP Urban, Anaheim, LLC and the buyer was Vivere Residential II, LLC. This site is subject to CFD Special Taxes.

This site is considered inferior due to location, density and infrastructure cost. It is considered superior in terms of no HOA fees, and a lower special tax rate.

**Data No. 3** is located on the north side of Orangewood Avenue, east of State College Boulevard, in Anaheim. The site was previously improved with an industrial building which has been demolished. The seller purchased the property from Cathay Bank in March 2011 for $8.25M. This comparable has entitlements for 340 units. This property was purchased by Lyon-Integral Anaheim, LK on June 12, 2014 for $17,000,000 for 340 future units. This sale reflects a price of $50,000 per unit. The site was entitled for 340 unit apartments which equates to a density of 89.24 units per acre. There are CFD Special Taxes covering the site.

This site is considered inferior in location warranting upward adjustment. The allowable density is substantially higher and upward adjustment is applied. The site is not subject to master community HOA fees and downward adjustment is made. The CFD assessment is lower than the subject's and requires downward adjustment.

**Data No. 4** is a multifamily land sale located at 27742 Forbes Road, just west of the I-5 Freeway, in Laguna Niguel, California. The property consists of a total of 4.97 acres. The development density is 70.63 units per acre. This property sold on April 1, 2014 for a price of $24,110,500 or $68,691 per unit. The seller is Forbes Investment Partners and the buyer is Broadstone Laguna Nigel. The buyer proposes to construct 351 multifamily units. It is located within a mixed-use zoned area and is mostly developed with office and industrial uses.

## Land Sale Adjustment Grid

July-2015

| | Data | | | Adjustments | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Data No. & Location | Sale Date | Dwelling Units | Price / DU | Financing | Time | Time Adj. Price | Location | Development Potential | CFD Tax | Density | Size | Adjusted Price/Acre |
| Apartment Data No. 1<br>SEC Antonio Pky. & Ortega Hwy.<br>Rancho Santa Margarita | 3/15/2013 | 286 | $62,937 | 0% | 10% | $69,231 | 0% | 0% | 0% | 0% | 0% | $69,231 |
| Apartment Data No. 2<br>1331 Katella Ave.<br>Anaheim | 3/26/2014 | 244 | $40,984 | 0% | 5% | $43,033 | 5% | 0% | -5% | 20% | 0% | $51,640 |
| Apartment Data No. 3<br>2201 East Orangewood Ave.<br>Anaheim | 6/12/2014 | 340 | $50,000 | 0% | 5% | $52,500 | 5% | 0% | -5% | 20% | 0% | $63,000 |
| Apartment Data No. 4<br>27742 Forbes Rd.<br>Laguna Niguel | 4/1/2014 | 351 | $68,691 | 0% | 5% | $72,126 | -10% | 0% | -5% | 10% | 0% | $68,519 |
| Apartment Data No.5<br>16000 Legacy Rd.<br>Tustin | 7/15/2013 | 533 | $85,268 | 0% | 10% | $93,795 | -20% | 0% | 0% | 0% | 0% | $75,036 |

The location is considered superior due to the close freeway access and proximity to employment. The site density is higher and upward adjustment is required. There are no community HOA dues or CFD Special Taxes and downward adjustments are applied.

**Data No. 5** is the June 7, 2013 sale of a 21.735 acre apartment site in the master planned community of Tustin Legacy. The property is located at the southwest corner of Tustin Ranch Road and Warner Avenue. The site was mass graded and all utilities were adjacent and available to serve the site. The site was entitled for 533 market rate dwelling units. The density was 24.52 units per acre, slightly less than the subject property. The seller was the City of Tustin. The buyer was responsible for $15,300,000 of master community infrastructure cost. The property sold for $30,148,000 or $56,563 per unit. With the infrastructure cost, the total price was $85,268 per dwelling unit. This property is adjacent to a newer 1,000,000 square foot retail center.

This site is considered superior in terms of location and HOA dues. It also required adjustment for date of sale. Please review the summary of adjustments on the next page.

**Conclusion of Analysis**

After adjustments, the adjusted apartment land sales range from $51,640 to $75,036 per unit. All of the data items have been given equal consideration due to location, size and date of sale. We have concluded with the adjusted per unit value of $70,000. This value assumes a mass graded parcel with all development fees satisfied by the seller with either fee credits or actual payment.

| | |
|---|---|
| 150 units x $70,000 = | $10,500,000 |
| Say: | $10,500,000 |

**Affordable Apartment Site Valuation**

The affordable apartment site will be improved with 113 apartment units on 3.965 acres. The Master Planned Community of Rancho Mission Viejo has been entitled for 14,000 dwelling units, 3,180,000 square feet of Urban Activity Center, 500,000 square feet of neighborhood retail center and 1,220,000 square feet of business Parks by the County of Orange. One of the conditions of approval for Rancho Mission Viejo was the requirement that land for affordable apartments be donated by the developer.

It is our understanding that all of the 113 proposed apartment units will be subject to below market rent based on very low income and low income households. Surveys conducted in Orange and Los Angeles Counties indicate that restrictions on rent levels have a direct and significant negative impact on the land value. Interviews with numerous apartment developers and brokers indicate that the residual land value for the restricted rental units is zero. Most participants indicated that the residual effect carries a negative value for a property heavily restricted. Therefore we have assigned no value to the affordable apartment site.

## VALUATION DAY CARE SITE

The Direct Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject properties by comparison of actual sales of similar properties. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and site characteristics. For the purpose of this report, the unit of comparison utilized is the price per square foot of net usable area for the day care land.

An investigation and analysis of recent sales in the subject market area was undertaken for the purpose of arriving at an estimate of the market land value of the subject based on a Direct Sales Comparison Approach. The subject property total site area is approximately 1± acre. The highest and best use of the site is for development to its proposed use. The table on the following page summarizes the sales considered most helpful in valuing the subject site. Data No. 1 is for a day care use and Data No. 2 is for a preschool. Because only Data Nos. 1 and 2 are for day care/school use, we have included two additional commercial land sales.

### Day Care/Commercial Land Analysis

As previously described, a set of land sale data was necessary to value the day care land uses. The following is an analysis of each of the sales. Only two day care/school land sale was discovered during our investigation. We expanded our search to include two commercial land sales in the general south county area.

The previous comparable sales are analyzed in light of their various characteristics which include, but are not limited to, financing, the conditions of sale, market conditions at sale (time), location and physical site characteristics.

## Land Sale Summary

July-2015

| Data No. & Location | Sale Date | Intended Use | Sq. Ft. | Sales Price | Price / Sq. Ft. |
|---|---|---|---|---|---|
| Commercial Data No. 1<br>8171 Commonwealth Ave.<br>Buena Park | 1/23/2014 | Day-Care | 22,216 | $699,000 | $31.46 |
| Commercial Data No. 2<br>20602 Prisim Pl.<br>Lake Forest | 3/7/2014 | Pre-School | 54,450 | $1,364,500 | $25.06 |
| Commercial Data No. 3<br>26871 Ortega Highway<br>San Juan Capistrano | 3/27/2015 | Commercial | 139,392 | $6,550,000 | $46.99 |
| Commercial Data No. 4<br>SWC Green Lantern &<br>Pacific Coasst Hwy.<br>Dana Point | 3/28/2014 | Commercial | 65,731 | $5,000,000 | $76.07 |

**Land Sales Data Base**

The data was reviewed in the field for purposes of assessing comparability to the subject. Verification interviews were also conducted, when possible, with principals or broker representatives involved in the transactions. A final data selection was then made for purposes of comparison to the subject in the valuation analysis. Of the sales investigated, one day care land sale, one pre-school land sale and two commercial land sales were selected as most comparable for use in the analysis. The data were summarized in the prior table.

**Elements of Comparison**

*Property Right Conveyed*

The assumption for the subject is the sale of the fee simple interest. All items reflect transfers of the fee simple interest in the real property.

*Financing/Cash Equivalency*

Sale assumptions for the subject are in terms of cash or cash equivalent institutional financing. All items were considered to be cash equivalent.

*Conditions of Sale*

Sale conditions for the subject assume an "arms length" transfer, without duress, and both parties acting in a prudent manner. This is consistent with the sale terms for each of the transactions.

*Property Expenditures at Sale*

Each of the sales was considered generally similar to the subject in property offsite infrastructure and amenities.

*Market Conditions/Time*

The date of value for the subject is July 1, 2015; the selected sales data were recorded during a time period of January 2014 to March 2015. Information extrapolated from an analysis of market information reviewed indicates that there had been a long-term

## Land Sale Adjustment Grid

July-2015

| Data | | | | Adjustments | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Data No. & Location | Sale Date | Sq. Ft. | Price / Sq. Ft. | Financing | Time | Time Adj. Price | Location | Development Potential | Size | Adjusted Price/Acre |
| Commercial Data No. 1<br>8171 Commonwealth Ave.<br>Buena Park | 1/23/2014 | 22,216 | $31.46 | 0% | 10% | $34.61 | -20% | 0% | 0% | $27.68 |
| Commercial Data No. 2<br>20602 Prisim Pl.<br>Lake Forest | 3/7/2014 | 54,450 | $25.06 | 0% | 10% | $27.57 | -20% | 0% | 0% | $22.05 |
| Commercial Data No. 3<br>26871 Ortega Highway<br>San Juan Capistrano | 3/27/2015 | 139,392 | $46.99 | 0% | 0% | $46.99 | -20% | -25% | 0% | $25.84 |
| Commercial Data No. 4<br>SWC Green Lantern &<br>Pacific Coasst Hwy.<br>Dana Point | 3/28/2014 | 65,731 | $76.07 | 0% | 10% | $83.68 | -30% | -30% | 0% | $33.47 |

upward trend in pricing from approximately 2012. The three sales that occurred in 2014 required upward adjustment.

*Location*

The subject site will be located in a planned community development, which is currently in a secondary location. The sales were each considered superior in location.

*Physical Characteristics*

Relevant physical characteristics for the subject parcel includes a site area of 1.1± acre. The land sales range from 0.5 to 3.2 acres. Data items 2, 3 and 4 all enjoy superior highest and best use prospects in allowed intensity of development.

*Development Potential*

Data No. 1 is a land parcel in Buena Park in a built-out community, on a commercial street. The potential use is for a day care center, similar to the subject's proposed use. No adjustment is necessary. Data No. 2 was purchased for a Montessori School. This site is in an existing business park-retail area. No adjustment is needed. Data No. 3 is a parcel in near-by San Juan Capistrano, proposed to be developed with a hotel. This is a much superior use compared to the subject's proposed use. Downward adjustment is required. Data No. 4 is proposed for a shopping center/hotel use near the Pacific Ocean along the very busy Pacific Coast Highway. This use is considered much superior to the subject's proposed use. Downward adjustment is required

**Conclusions of Value**

The four comparable sales are for a day care/school use and hotel or retail commercial uses. The sales range in size from 0.5± acres to 3± acres. Their price per square foot ranges from \$25.00± to \$76.00±. After adjustments, the indicated price per square foot ranges from \$22.05 to \$33.47. We have concluded at \$25.00 per square foot for the day care site, which assumes support and demand for development.

48,918 sq. ft. X \$25.00/SF = \$1,222,950, rounded to \$1,200,000

**Valuation Conclusion for RMV PA2 Development, LLC Ownership**

The total Market Value for the three sites subject to Special Tax within CFD No. 2015-1, under the ownership of the developer, RMV PA2 Development, LLC is:

| | |
|---|---|
| 150 Unit Market Rate Apartment Site: | $10,500,000 |
| 113 Unit Affordable Apartment Site: | No Value |
| Day Care Site: | $ 1,200,000 |
| | |
| Less Remaining Developer Site Costs: | -$48,500,000 |
| Plus Estimated CFD Reimbursements: | $48,500,000 |
| | $11,700,000 |

## VALUATION CONCLUSION

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value has been formed as of July 1, 2015.

**CFD NO. 2015-1 (VILLAGE OF ESENCIA)**

**TWO HUNDRED NINETY MILLION TWO HUNDRED THOUSAND DOLLARS**

**$290,200,000**

*The table on the following page summarizes the individual values by Ownership.*

### Exposure Time

Considering the sizes, quality, condition and location of the subject properties, we have estimated an exposure time of approximately 6± to 9± months would have been required to sell the finished lots.

## Summary of Values by Ownership

**RMV PA2 Development, LLC: $11,700,000**

**Merchant Builder Ownerships: $278,500,000**

| | |
|---|---|
| LT - MR1, LLC (Product MR1): | $20,216,000 |
| LT - AQ1, LLC (Product AQ1): | $22,138,000 |
| Warmington MR 14 Associates, LLC (Product MR14): | $15,876,128 |
| TRI Pointe Homes, Inc. (Product MR15): | $29,738,312 |
| TRI Pointe Homes, Inc. (Product MR24): | $33,609,352 |
| Ryland Homes of California, Inc. (Product MR17): | $16,026,950 |
| Ryland Homes of California, Inc. (Product MR19): | $16,315,000 |
| Shea Homes Limited Partnership (Product MR22): | $22,585,051 |
| Shea Homes Limited Partnership (Product AQ13): | $20,786,363 |
| Shea Homes Limited Partnership (Product AQ21): | $31,523,952 |
| Meritage Homes of California, Inc. (Product MR23): | $23,668,000 |
| Standard Pacific Corp. (Product AQ11): | $26,014,000 |

## CERTIFICATION

We hereby certify that during the completion of this assignment, we personally inspected the property that is the subject of this appraisal and that, except as specifically noted:

We have no present or contemplated future interest in the real estate or personal interest or bias with respect to the subject matter or the parties involved in this appraisal.

We have not provided appraisal services regarding the subject property within the last three years to our client, the County of Orange.

To the best of our knowledge and belief, the statements of fact contained in this appraisal report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

As of the date of this report, James B. Harris has completed the requirements of the continuing education program of the Appraisal Institute.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

No one provided significant real property appraisal assistance to the persons signing this certificate.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,

Berri Cannon Harris

Berri Cannon Harris
Principal
AG009147

James B. Harris

James B. Harris, MAI
Principal
AG001846

# ADDENDA

# QUALIFICATIONS
# OF
# JAMES B. HARRIS, MAI

## *PROFESSIONAL BACKGROUND*

Actively engaged as a real estate analyst and consulting appraiser since 1971. Principal of **Harris Realty Appraisal,** with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before forming Harris Realty Appraisal, in 1982, was employed with Real Estate Analysts of Newport, Inc. (REAN) as a Principal and Vice President. Prior to employment with REAN was employed with the Bank of America as the Assistant Urban Appraisal Supervisor. Previously, was employed by the Verne Cox Company as a real estate appraiser.

### *PROFESSIONAL ORGANIZATIONS*

Member of the Appraisal Institute, with MAI designation No. 6508
- Director, Southern California Chapter – 1998, 1999
- Chair, Orange County Branch, Southern California Chapter -1997
- Vice-Chair, Orange County Branch, Southern California Chapter - 1996
- Member, Region VII Regional Governing Committee - 1991 to 1995, 1997, 1998
- Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999
- Chairman, Southern California Chapter Seminar Committee - 1991
- Chairman, Southern California Chapter Workshop Committee - 1990
- Member, Southern California Chapter Admissions Committee - 1983 to 1989
- Member, Regional Standards of Professional Practice Committee -1985 - 1997

Member of the International Right-of-Way Association, Orange County Chapter 67.

California State Certified Appraiser, Number AG001846

### *EDUCATIONAL ACTIVITIES*

B.S., California State Polytechnic University, Pomona

Successfully completed the following courses sponsored by the Appraisal Institute and the Right-of-Way Association:

| | |
|---|---|
| Course I-A | Principles of Real Estate Appraisal |
| Course I-B | Capitalization Theory |
| Course II | Urban Properties |
| Course IV | Litigation Valuation |
| Course VI | Investment Analysis |
| Course VIII | Single-Family Residential Appraisal |
| Course SPP | Standards of Professional Practice |
| Course 401 | Appraisal of Partial Acquisitions |

Has attended numerous seminars sponsored by the Appraisal Institute and the International Right-of-Way Association.

### *TEACHING AND LECTURING ACTIVITIES*

Seminars and lectures presented to the Appraisal Institute, the University of California-Irvine, UCLA, California Debt and Investment Advisory Commission, Stone & Youngberg and the National Federation of Municipal Analysts.

### *MISCELLANEOUS*

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

### *LEGAL EXPERIENCE*

Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of Eminent Domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 175 Land Secured Municipal Bond Financing appraisals over the last five years.

### *SCOPE OF EXPERIENCE*

***Feasibility and Consultive Studies***

Feasibility and market analyses, including the use of computer-based economic models for both land developments and investment properties such as shopping centers, industrial parks, mobile home parks, condominium projects, hotels, and residential projects.

***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

***Commercial***

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

***Vacant Land***

Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.

**QUALIFICATIONS**
**OF**
**BERRI CANNON HARRIS**

## *PROFESSIONAL BACKGROUND*

Actively engaged as a real estate appraiser since 1982. Principal of ***Harris Realty Appraisal***, with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before joining Harris Realty Appraisal was employed with Interstate Appraisal Corporation as Assistant Vice President. Prior to employment with Interstate Appraisal was employed with Real Estate Analysts of Newport Beach as a Research Assistant.

## *PROFESSIONAL ORGANIZATIONS*

Appraisal Institute
Co-Chair, Southern California Chapter Hospitality Committee - 1994 - 1998
Chair, Southern California Chapter Research Committee - 1992, 1993

Commercial Real Estate Women, Orange County Chapter
Chair, Special Events – 1998, 1999, 2000, 2001, 2002, 2003
Second Vice-President - 1996, 1997
Treasurer - 1993, 1994, 1995
Chair, Network Luncheon Committee - 1991, 1992

California State Certified Appraiser, Number AG009147

## *EDUCATIONAL ACTIVITIES*

B.S., University of Redlands, Redlands, California

Successfully completed the following courses sponsored by the Appraisal Institute:

Principles of Real Estate Appraisal
Basic Valuation Procedures
Capitalization Theory and Techniques - A
Capitalization Theory and Techniques - B
Report Writing and Valuation Analyses
Standards of Professional Practice
Case Studies in Real Estate Valuation

Has attended numerous seminars sponsored by the Appraisal Institute. Has also attended real estate related courses through University of California-Irvine.

## *LECTURING ACTIVITIES*

Seminars and lectures presented to UCLA, California Debt and Investment Advisory Commission, and Stone & Youngberg.

## *MISCELLANEOUS*

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

## *SCOPE OF EXPERIENCE*

### *Appraisal Projects*

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

#### *Residential*

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

#### *Commercial*

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

#### *Industrial*

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

#### *Vacant Land*

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

## *PARTIAL LIST OF CLIENTS*

### *Lending Institutions*

Bank of America
Bank One
Commerce Bank
Downey S&L Assoc.
Fremont Investment and Loan
Institutional Housing Partners
NationsBank
Preferred Bank
Santa Monica Bank
Tokai Bank
Union Bank
Wells Fargo Bank

### *Public Agencies*

Army Corps of Engineers
California State University
Caltrans
City of Adelanto
City of Aliso Viejo
City of Beaumont
City of Camarillo
City of Corona
City of Costa Mesa
City of Encinitas
City of Fontana
City of Fullerton
City of Hesperia
City of Honolulu
City of Huntington Beach
City of Indian Wells
City of Indio
City of Irvine
City of Lake Elsinore
City of Loma Linda
City of Los Angeles
City of Moreno Valley
City of Newport Beach
City of Oceanside
City of Ontario
City of Palm Springs
City of Perris
City of Rialto
City of Riverside
City of San Marcos
City of Tustin
City of Victorville
City of Yucaipa
County of Hawaii
County of Orange
County of Riverside
County of San Bernardino
Eastern Municipal Water District
Orange County Sheriff's Department
Ramona Municipal Water District
Rancho Santa Fe Comm. Services District
Capistrano Unified School District
Hemet Unified School District
Hesperia Unified School District
Romoland School District
Saddleback Valley Unified School District
Santa Ana Unified School District
Sulphur Springs School District
Val Verde Unified School District
Yucaipa-Calimesa Joint Unified School Dist.

### *Law Firms*

Arter & Hadden
Bronson, Bronson & McKinnon
Bryan, Cave, McPheeters & McRoberts
Richard Clements
Cox, Castle, Nicholson
Gibson, Dunn & Crutcher
Hill, Farrer & Burrill
McClintock, Weston, Benshoof, Rochefort & MacCuish
Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Sonnenschein Nath & Rosenthal
Strauss & Troy
Wyman, Bautzer, Rothman, Kuchel & Silbert

# SUMMARY OF DEVELOPER'S SITE COST

Rancho Mission Viejo
Planning Area 2.1
Costs To Complete

| | Jul-15 | Aug-15 | Sep-15 | Oct-15 | Nov-15 | Dec-15 | 2015 Total | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | 2016 Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Streets/Utilities | 975,200 | 975,200 | 975,200 | 0 | 0 | 0 | 2,925,600 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,925,600 |
| Landscape/Hardscape | 1,860,414 | 1,860,414 | 1,860,414 | 1,860,414 | 1,860,414 | 1,860,414 | 11,162,486 | 1,860,414 | 1,860,414 | 1,860,414 | 1,860,414 | 1,860,414 | 1,860,414 | 11,162,486 | 22,324,971 |
| Amenities | 912,179 | 912,179 | 912,179 | 912,179 | 912,179 | 912,179 | 5,473,075 | 912,179 | 912,179 | 912,179 | 912,179 | 912,179 | 912,179 | 5,473,075 | 10,946,149 |
| Indirects and Other | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 1,500,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 1,500,000 | 3,000,000 |
| Impact Fees | | | | | | | | | | | | | | | |
| School | 461,167 | 461,167 | 461,167 | 461,167 | 461,167 | 461,167 | 2,767,000 | 461,167 | 461,167 | 461,167 | 461,167 | 461,167 | 461,167 | 2,767,000 | 5,534,000 |
| Corridor | 269,167 | 269,167 | 269,167 | 269,167 | 269,167 | 269,167 | 1,615,000 | 269,167 | 269,167 | 269,167 | 269,167 | 269,167 | 269,167 | 1,615,000 | 3,230,000 |
| Library | | 0 | 0 | | 0 | 210,000 | 210,000 | | | | | | | 0 | 210,000 |
| Sheriff | 0 | 0 | 288,960 | 0 | 0 | 0 | 288,960 | | | | | | | 0 | 288,960 |
| | 4,728,127 | 4,728,127 | 5,017,087 | 3,752,927 | 3,752,927 | 3,962,927 | 25,942,120 | 3,752,927 | 3,752,927 | 3,752,927 | 3,752,927 | 3,752,927 | 3,752,927 | 22,517,560 | 48,459,681 |

## APPENDIX C

## FORM OF OPINION OF BOND COUNSEL

Bond Counsel will deliver an opinion for the Bonds substantially in the form set forth below:

[Closing Date]

Community Facilities District No. 2015-1
of the County of Orange (Village of Esencia)
Santa Ana, California

*Re:* *$90,845,000 Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) Series A of 2015 Special Tax Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the County of Orange taken in connection with the authorization and issuance by the Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (the "District") of its Series A of 2015 Special Tax Bonds in the aggregate principal amount of $90,845,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 15-107, adopted by the Board of Supervisors of the County of Orange, acting in its capacity as the legislative body of the District (the "Board") on September 22, 2015, and the Supplement to Resolution No. 15-107 executed pursuant to the terms thereof (the foregoing resolution and supplement being collectively referred to herein as the "Resolution"). All capitalized terms not defined herein shall have the meaning set forth in the Resolution.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Resolution. The Bonds bear interest payable semiannually on each February 15 and August 15, commencing on February 15, 2016, at the rates per annum set forth in the Resolution. The Bonds are registered bonds in the form set forth in the Resolution, redeemable in the amounts, at the times and in the manner provided for in the Resolution.

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

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Resolution, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the County of Orange, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for

the Special Taxes, neither the faith and credit nor the taxing power of the County of Orange, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Resolution has been duly authorized by the District, and the Resolution is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Resolution to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Resolution creates a valid pledge of that which the Resolution purports to pledge, subject to the provisions of the Resolution, except to the extent that enforceability of the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

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

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues for the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

(7) The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinion expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Resolution may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Resolution, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Resolution.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions, including the default judgment entered on July 16, 2015, by the Superior Court of the State of California for the County of Orange in the action entitled County of Orange v. All Persons Interested in the Matter etc., Case No. 30-2015-00787206-CU-MC-CJC, and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

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

Respectfully submitted,

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## APPENDIX D

## GENERAL ECONOMIC AND DEMOGRAPHIC DATA FOR THE COUNTY OF ORANGE

*The following economic data for the County of Orange (the "County"), the City of Rancho Santa Margarita and the City of Mission Viejo are presented for information purposes only. The Bonds are not a debt or obligation of the County or the City.*

### General

The County is third largest county in California and is located adjacent to the Pacific Ocean and the Counties of Los Angeles, San Bernardino, Riverside and San Diego. The County is located in the most heavily populated region of California, necessitating easy access to road, rail, air and sea transportation. The County is also a major Southern California tourist center with a large number of amusement parks and recreational and entertainment activities. The County's Pacific Coast shoreline includes five state beaches and parks, five Municipal beaches and five County beaches.

The County is a general law county and governed by a five-member Board of Supervisors, each of whom serves for four-year terms. The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial institutions (including support programs), airport service, roads, solid waste management, harbors, beaches and parks, life guard services and a variety of public assistance programs.

### Population

The following table summarizes population estimates for the City of Mission Viejo, the City of Rancho Santa Margarita, County and State from 2011 through 2015.

**POPULATION ESTIMATES**
**The City of Mission Viejo, the City of Rancho Santa Margarita,**
**County of Orange and the State of California**
**2011-2015**[(1)]

| *Year* | *City of Mission Viejo* | *City of Rancho Santa Margarita* | *County of Orange* | *California* |
|---|---|---|---|---|
| 2011 | 93,340 | 47,940 | 3,028,846 | 37,427,946 |
| 2012 | 94,108 | 48,298 | 3,057,233 | 37,680,593 |
| 2013 | 94,870 | 48,640 | 3,087,715 | 38,030,609 |
| 2014 | 95,320 | 48,823 | 3,114,209 | 38,357,121 |
| 2015 | 96,652 | 49,125 | 3,147,655 | 38,714,725 |

(1) January 1 data.
Source: California State Department of Finance, Demographic Research Unit.

**Income**

The following tables show the personal income and per capita income for the County, State of California and United States from 2010 through 2014.

**PERSONAL INCOME**
**County of Orange, State of California, and United States**
**2010-2014**

| *Year* | *County of Orange* | *California* | *United States* |
|---|---|---|---|
| 2010 | $147,358,664 | $1,578,553,439 | $12,417,659,000 |
| 2011 | 155,259,397 | 1,685,635,498 | 13,189,935,000 |
| 2012 | 166,634,101 | 1,805,193,769 | 13,873,161,000 |
| 2013 | 169,792,810 | 1,856,614,186 | 14,151,427,000 |
| 2014[1] | N/A | 1,944,369,223 | 14,708,582,165 |

Note: Dollars in Thousands.
(1) County data not yet available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**PER CAPITA PERSONAL INCOME[1]**
**County of Orange, State of California, and United States**
**2010-2014**

| *Year* | *County of Orange* | *California* | *United States* |
|---|---|---|---|
| 2010 | $48,826 | $42,282 | $40,144 |
| 2011 | 50,839 | 44,749 | 42,332 |
| 2012 | 54,008 | 47,505 | 44,200 |
| 2013 | 54,519 | 48,434 | 44,765 |
| 2014[2] | N/A | 50,109 | 46,129 |

(1) Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
(2) County data not yet available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Employment

The following table summarizes the labor force, employment and unemployment figures from 2010 to 2014 for the City of Mission Viejo, the City of Rancho Santa Margarita, the County and the State of California.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**
**City of Mission Viejo, County of Orange, State of California and the United States**
**2010-2014[(1)]**

| | *Area* | *Labor Force* | *Employment[(2)]* | *Unemployment[(3)]* | *Unemployment Rate[(4)]* |
|---|---|---|---|---|---|
| 2010 | City of Mission Viejo | 48,600 | 44,100 | 4,400 | 9.1 |
| | City of Rancho Santa Margarita | 26,500 | 24,900 | 1,500 | 5.8 |
| | Orange County | 1,538,600 | 1,388,900 | 149,700 | 9.7 |
| | State of California | 18,336,300 | 16,068,400 | 2,267,900 | 12.4 |
| | United States | 153,889,000 | 139,064,000 | 14,825,000 | 9.6 |
| 2011 | City of Mission Viejo | 48,900 | 44,700 | 4,100 | 8.5 |
| | City of Rancho Santa Margarita | 26,700 | 25,300 | 1,400 | 5.3 |
| | Orange County | 1,548,100 | 1,408,300 | 139,800 | 9.0 |
| | State of California | 18,417,900 | 16,249,600 | 2,168,300 | 11.8 |
| | United States | 153,617,000 | 139,869,000 | 13,747,000 | 8.9 |
| 2012 | City of Mission Viejo | 49,500 | 45,900 | 3,600 | 7.3 |
| | City of Rancho Santa Margarita | 27,200 | 25,900 | 1,300 | 4.6 |
| | Orange County | 1,566,100 | 1,443,400 | 122,700 | 7.8 |
| | State of California | 18,519,000 | 16,589,700 | 1,929,300 | 10.4 |
| | United States | 154,975,000 | 142,469,000 | 140,283,000 | 8.1 |
| 2013 | City of Mission Viejo | 49,600 | 46,500 | 3,000 | 6.1 |
| | City of Rancho Santa Margarita | 27,300 | 26,300 | 1,000 | 3.8 |
| | Orange County | 1,566,800 | 1,464,900 | 101,900 | 6.5 |
| | State of California | 18,596,800 | 16,933,300 | 1,663,500 | 8.9 |
| | United States | 155,389,000 | 143,929,000 | 11,460,000 | 7.4 |
| 2014 | City of Mission Viejo | 49,900 | 47,300 | 2,600 | 5.1 |
| | City of Rancho Santa Margarita | 27,600 | 26,700 | 900 | 3.2 |
| | Orange County | 1,575,600 | 1,489,200 | 86,400 | 5.5 |
| | State of California | 18,811,400 | 17,397,100 | 1,414,300 | 7.5 |
| | United States | 155,922,000 | 146,305,000 | 9,617,000 | 6.2 |

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
(2) Includes persons involved in labor-management trade disputes.
(3) Includes all persons without jobs who are actively seeking work.
(4) The unemployment rate is computed from un-rounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2014 Benchmark.

## Industry

The following table summarizes employment figures by industry for the Anaheim-Santa Ana-Irvine Metropolitan Division ("MD"), which is located entirely within the County.

**INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES**
**Santa Ana-Anaheim-Irvine MD**
**(County of Orange)**
**2010-2014**

| | *2010* | *2011* | *2012* | *2013* | *2014* |
|---|---|---|---|---|---|
| Farming | 3,700 | 3,200 | 2,800 | 2,900 | 2,800 |
| Mining and Logging | 600 | 600 | 600 | 600 | 700 |
| Construction | 68,000 | 69,200 | 71,300 | 76,800 | 82,000 |
| Manufacturing | 150,500 | 154,300 | 158,300 | 158,000 | 158,800 |
| Wholesale Trade | 77,800 | 77,300 | 77,200 | 79,400 | 81,700 |
| Retail Trade | 141,300 | 142,600 | 144,000 | 145,500 | 148,700 |
| Transportation, Warehousing and Utilities | 26,700 | 27,500 | 28,000 | 27,500 | 26,600 |
| Information | 24,800 | 23,800 | 24,300 | 25,000 | 24,200 |
| Financial Activities | 103,500 | 104,800 | 108,300 | 113,100 | 114,100 |
| Professional and Business Services | 244,900 | 247,700 | 260,600 | 267,300 | 275,800 |
| Education and Health Services | 165,500 | 168,000 | 173,800 | 184,200 | 190,300 |
| Leisure and Hospitality | 168,600 | 174,000 | 180,600 | 187,800 | 193,500 |
| Other Services | 42,200 | 43,200 | 44,600 | 45,600 | 47,700 |
| Government | 152,300 | 149,300 | 147,900 | 148,700 | 151,900 |
| Total: | 1,370,400 | 1,385,600 | 1,422,400 | 1,462,400 | 1,498,700 |

Note: Items may not add to total due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division. March 2014 Benchmark.

## Largest Employers

The following table presents the largest employers in the County as of June 30, 2014.

**LARGEST EMPLOYERS**
**County of Orange**
**2014**

| *Name of Business* | *Number of Employees* | *Type of Business* |
|---|---|---|
| Walt Disney Co. | 25,000 | Entertainment |
| University of California, Irvine | 22,253 | Education |
| County of Orange | 18,035 | County Government |
| St. Joseph Health System | 12,062 | Healthcare |
| Boeing Co. | 6,890 | Aerospace Industries |
| Kaiser Permanente | 6,040 | Healthcare |
| Bank of America Corporation | 6,000 | Financial Services |
| Walmart | 6,000 | Retail |
| Memorial Care Health System | 5,635 | Healthcare |
| Target Corporation | 5,400 | Retail |

Source: County of Orange Comprehensive Annual Financial Report, Year Ended June 30, 2014.

**Building Activity**

The following tables summarize building permits and valuations for the County and City during calendar years 2010 through 2014.

**BUILDING PERMITS AND VALUATIONS**
**County of Orange**
**2010-2014**

| | *2010* | *2011* | *2012* | *2013* | *2014* |
|---|---|---|---|---|---|
| Valuation (In $000's) | | | | | |
| Residential | $1,029,406 | $1,236,970 | $1,554,904 | $2,596,543 | $2,633,471 |
| Nonresidential | 1,115,928 | 1,300,022 | 1,271,034 | 1,578,466 | 2,000,168 |
| Total Valuation[1] | $2,181,334 | $2,536,992 | $2,825,938 | $4,175,009 | $4,633,639 |
| New Dwelling Units (#) | | | | | |
| Single-Family | 1,553 | 1,898 | 2,438 | 3,889 | 3,646 |
| Multi-Family | 1,538 | 2,909 | 3,725 | 6,564 | 6,990 |
| Total: | 3,091 | 4,807 | 6,163 | 10,453 | 10,636 |

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

**BUILDING PERMITS AND VALUATIONS**
**City of Mission Viejo**
**2010-2014**

| | *2010* | *2011* | *2012* | *2013* | *2014* |
|---|---|---|---|---|---|
| Valuation (In $000's) | | | | | |
| Residential | $ 9,058 | $20,670 | $62,926 | $58,373 | $17,120 |
| Nonresidential | 18,173 | 24,799 | 18,805 | 6,190 | 23,183 |
| Total Valuation[1] | $27,230 | $45,469 | $81,731 | $64,563 | $40,303 |
| New Dwelling Units (#) | | | | | |
| Single-Family | 1 | 38 | 40 | 5 | 2 |
| Multi-Family | 0 | 4 | 334 | 251 | 0 |
| Total: | 1 | 42 | 374 | 256 | 2 |

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

**BUILDING PERMITS AND VALUATIONS**
**City of Rancho Santa Margarita**
**2010-2014**

| | *2010* | *2011* | *2012* | *2013* | *2014* |
|---|---|---|---|---|---|
| Valuation (In $000's) | | | | | |
| Residential | $ 1,561 | $ 1,798 | $15,510 | $24,258 | $ 5,648 |
| Nonresidential | 8,870 | 5,118 | 11,096 | 11,236 | 5,430 |
| Total Valuation[1] | $10,431 | $6,916 | $26,606 | $35,494 | $11,078 |
| New Dwelling Units (#) | | | | | |
| Single-Family | 0 | 0 | 34 | 17 | 0 |
| Multi-Family | 0 | 0 | 0 | 44 | 0 |
| Total: | 0 | 0 | 34 | 61 | 0 |

[1] Total may not add up due to rounding.
Source: Construction Industry Research Board.

**Taxable Sales**

The history of taxable transactions in the County and the Cities from 2010 through the first quarter of 2014 is shown in the following tables.

**TAXABLE SALES**
**County of Orange**
**2010-2014[1]**

| *Year* | *Retail Permits* | *Retail and Food Taxable Transactions* | *Total Permits* | *Total Outlets Taxable Transactions* |
|---|---|---|---|---|
| 2010 | 58,076 | 32,552,107 | 92,047 | 47,667,179 |
| 2011 | 58,795 | 35,587,795 | 92,207 | 51,731,139 |
| 2012 | 60,273 | 38,372,456 | 93,183 | 55,230,612 |
| 2013 | 62,208 | 40,025,929 | 94,862 | 57,591,217 |
| 2014 | 63,132 | 9,605,261 | 95,659 | 13,899,436 |

[1] Through first quarter of 2014.
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**TAXABLE SALES**
**City of Mission Viejo**
**2010-2014[1]**

| *Year* | *Retail Permits* | *Retail and Food Taxable Transactions* | *Total Permits* | *Total Outlets Taxable Transactions* |
|---|---|---|---|---|
| 2010 | 1,723 | 1,095,922 | 2,550 | 1,296,304 |
| 2011 | 1,727 | 1,155,130 | 2,542 | 1,380,815 |
| 2012 | 1,719 | 1,218,596 | 2,511 | 1,445,932 |
| 2013 | 1,694 | 1,260,548 | 2,452 | 1,467,087 |
| 2014 | 1,707 | 301,371 | 2,450 | 350,063 |

[1] Through first quarter of 2014.
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**TAXABLE SALES**
**City of Rancho Santa Margarita**
**2010-2014[1]**

| *Year* | *Retail Permits* | *Retail and Food Taxable Transactions* | *Total Permits* | *Total Outlets Taxable Transactions* |
|---|---|---|---|---|
| 2010 | 741 | 353,076 | 1,167 | 437,044 |
| 2011 | 766 | 393,866 | 1,176 | 484,007 |
| 2012 | 790 | 431,529 | 1,187 | 525,714 |
| 2013 | 730 | 442,228 | 1,098 | 536,028 |
| 2014 | 695 | 101,982 | 1,049 | 125,172 |

(1) Through first quarter of 2014.
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

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## APPENDIX E

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

*The following is a summary of certain definitions and provisions of the Resolution which is not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Resolution for a full and complete statement of its provisions.*

### DEFINITIONS

**Definitions**. Unless the context otherwise requires, the following terms shall have the following meanings for purposes of the Supplement to Resolution:

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

"Acquisition Agreement" means that certain Acquisition, Funding and Disclosure Agreement, dated as of October 28, 2015 by and among the District, the County and RMV PA2 Development, LLC setting forth the conditions to the construction and acquisition of the Project and the expenditure of the proceeds of the Bonds, together with any amendments thereto.

"Acquisition and Construction Fund" means the fund by that name established pursuant to the Resolution.

"Administrative Expense Account" means the account by that name established pursuant to the Resolution.

"Administrative Expenses" means the administrative costs with respect to the calculation and collection of the Special Taxes, or costs otherwise incurred by the County staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation, the fees and expenses of the Paying Agent and any fees for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance.

"Administrative Expenses Cap" means $75,000 for Fiscal Year 2015-2016, increasing on July 1 of each year thereafter, commencing July 1, 2016, by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.

"Alternative Penalty Account" means the account by that name established pursuant to the Resolution.

"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 the Orange County Investment Fund, any investment authorized pursuant to Government Code Sections 16429.1, 53601 and 53635, any investment in the Orange County Investment Policy Statement then in effect or any investment included in the Resolution.

"Authorized Representative of the County" means the County Executive Officer, or his or her written designee, or any other person or persons designated by the Board of Supervisors of the County and authorized to act on behalf of the County by a written certificate signed on behalf of the County by the Chairman of the Board of Supervisors 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 Paying Agent 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 District's Series A of 2015 Special Tax Bonds issued on October 28, 2015 in the aggregate principal amount of $90,845,000.

"Bond Year" means the twelve month period commencing on August 16 of each year and ending on August 15 of the following year, except that the first Bond Year shall begin on the Delivery Date and end on the next August 15.

"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 Principal Corporate Trust Office of the Paying Agent is located, are not required or authorized to remain closed.

"Certificate of the County Executive Officer" means a written certificate or warrant request executed by the County Executive Officer, or another Authorized Representative of the County.

"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.

"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 Paying Agent, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and any Parity Bonds and fees of financial consultants and other fees and expenses set forth in a Certificate of the County Executive Officer.

"County" means the County of Orange, California.

"County Executive Officer" means the individual acting as the County Executive Officer or Interim County Executive Officer of the County.

"County Facilities Account" means the account by that name established pursuant to the Resolution.

"Defeasance Securities" means Authorized Investments of the type described in paragraphs (1) and (2) of the definition thereof.

"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" shall mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under the Resolution.

"District" means Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) established pursuant to the Act and the Resolution of Formation.

"EMMA" means the Electronic Municipal Market Access website of the Municipal Securities Rulemaking Board or any other electronic filing site designated by the Securities and Exchange Commission to receive filings pursuant to Rule 15c2-12.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

"Fitch" means Fitch Ratings, Inc.

"Gross Taxes" means the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County pursuant to California Revenue and Taxation Code Sections 4701 *et seq.*

"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;

(2) does not have any substantial interest, direct or indirect, in the District; and

(3) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

"Interest Account" means the account by that name established pursuant to the Resolution.

"Interest Payment Date" means each February 15 and August 15, commencing February 15, 2016; 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 preceding 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 (9) of the definition of Authorized Investments in the Resolution.

"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 permitted to be set aside prior to the payment of the principal of and interest on the Bonds and Parity Bonds in order to pay Administrative Expenses.

"Nominee" shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Resolution.

"Ordinance" means Ordinance No. 15-007 adopted by the legislative body of the District on May 5, 2015, providing for the levying of the Special Tax.

"Outstanding" or "Outstanding Bonds and Parity Bonds" means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Resolution;

(2) Bonds and Parity Bonds for payment or redemption of which monies 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 the Resolution or any applicable Supplemental Resolution for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Paying Agent for transfer or exchange pursuant to the Resolution or for which a replacement has been issued pursuant to the Resolution.

"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 the Resolution or any Supplemental Resolution, 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 Certificates as securities depository.

"Paying Agent" means U.S. Bank National Association or any financial institution appointed by the District pursuant to the Resolution, or, if no such financial institution is appointed, the Treasurer.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Principal Account" means the account by that name established pursuant to the Resolution.

"Principal Corporate Trust Office" shall mean the office of the Paying Agent at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071; provided, however, for transfer, registration, exchange, payment and surrender of Bonds and Parity Bonds means care of the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota, or such other location as is designated by the Paying Agent from time to time for such purposes.

"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, Paying Agent 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.

"Project Facilities Account means the account by that name established pursuant to the Resolution.

"Rating Agency" means Moody's Investors Service, Inc. and Standard & Poor's Corporation, or both, as the context requires.

"Rebate Account" means the account by that name established pursuant to the Resolution.

"Rebate Fund" means the fund by that name established pursuant to the Resolution.

"Rebate Regulations" means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

"Record Date" means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

"Redemption Account" means the account by that name established pursuant to the Resolution.

"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 and the Paying Agent to the Depository as described in the Resolution.

"Reserve Account" means the account by that name established pursuant to the Resolution.

"Reserve Requirement" means that amount as of any date of calculation equal to the least of (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the Outstanding Bonds and Parity Bonds, if any.

"Resolution" means the Supplement to Resolution, together with Resolution No. 15-107 adopted by the Board of Supervisors of the County, acting as the legislative body of the District, approving the Supplement to Resolution, and any Supplemental Resolution approved pursuant to the Resolution.

"Resolution of Formation" means Resolution No. 15-028 adopted by the Board of Supervisors of the County on April 14, 2015, pursuant to which the County formed the District.

"Sinking Fund Payment" means the annual payment to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Resolution and any annual sinking fund payment to retire any Parity Bonds.

"Six-Month Period" means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

"Special Reserve Fund" means the fund by that name established pursuant to the Resolution.

"Special Tax Fund" means the fund by that name established pursuant to the Resolution.

"Special Tax Prepayments" means any amounts received 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 of Apportionment.

"Special Taxes" means the taxes authorized to be levied by the District in accordance with the Ordinance, the Resolution of Formation and the Act.

"Standard & Poor's" means Standard & Poor's Corporation, its successors and assigns.

"Supplemental Resolution" means any resolution authorizing the issuance of any Parity Bonds.

"Tax Certificate" means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

"Term Bonds" means the Bonds maturing on August 15, 2038 and August 15, 2045, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Resolution.

"Treasurer" means the Treasurer-Tax Collector of the County acting on behalf of the District, or his written designee.

"Underwriter" means collectively Stifel, Nicolaus & Company, Incorporated and Piper Jaffray & Co. with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

"Water Facilities Account" means the account by that name established pursuant to the Resolution.

## GENERAL AUTHORIZATION AND BOND TERMS

**Type and Nature of Bonds and Parity Bonds**. Neither the faith and credit nor the taxing power of the County, 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 County 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 Expense Account), as more fully described in the Resolution. 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 Expense 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 County 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 County, the State of California or any of its political subdivisions within the meaning 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 Expense Account) which are, under the terms of the Resolution and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Supervisors of the County 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 the Resolution, 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 in the Resolution. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

**Description of Bonds; Interest Rates.** The Bonds shall be issued in fully registered form in denominations of $5,000 or any integral multiple thereof within a single maturity and any Parity Bonds shall be issued in the authorized denominations set forth in the Supplemental Resolution authorizing the issuance thereof. The Bonds and any Parity Bonds of each issue shall be numbered as desired by the Paying Agent.

Interest shall be payable on each Bond and Parity Bond from the date established in accordance with the Resolution 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 the Resolution, 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.

**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 office of the Paying Agent in Los Angeles, California, or at the designated office of any successor Paying Agent. 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 Paying Agent mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, with respect to any Bonds owned by the District and upon a request in writing received by the Paying Agent 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.

**Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds**. If any Bond or Parity Bond shall become mutilated, the District shall execute, and the Paying Agent 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 Paying Agent of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Paying Agent shall be cancelled by the Paying Agent pursuant to the Resolution. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Paying Agent and, if such evidence is satisfactory to the Paying Agent and, if any indemnity satisfactory to the District and the Paying Agent shall be given, the District shall execute and the Paying Agent shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Paying Agent 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 of the Resolution with all other Bonds and Parity Bonds issued under the Resolution. The Paying Agent 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 under the Resolution or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding under the Resolution, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of the Resolution, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Paying Agent may make payment with respect to such Bonds or Parity Bonds.

**Book Entry System; Limited Obligation of County**. 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 Paying Agent in the name of the Nominee as nominee of the Depository. Except as provided in the Resolution, all of the Outstanding Bonds shall be registered in the registration books kept by the Paying Agent in the name of the Nominee.

With respect to Bonds registered in the registration books kept by the Paying Agent in the name of the Nominee, the District and the Paying Agent shall have no responsibility or obligation to any such Participant or to any Person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Paying Agent shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Paying Agent, 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 Paying Agent, of any amount with respect to principal of, premium, if any, or interest due with respect to the Bonds. The District and the Paying Agent may treat and consider the Person in whose name each Bond is registered in the registration books kept by the Paying Agent 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 Paying Agent 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 Paying Agent, 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 Paying Agent, shall receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to the Resolution. Upon delivery by the Depository to the Paying Agent 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 in the Resolution with respect to Record Dates, the word Nominee in the Resolution shall refer to such new nominee of the Depository.

**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 Paying Agent 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 the Resolution.

## CREATION OF FUNDS AND APPLICATION OF REVENUES AND NET TAXES

**Creation of Funds; Application of Proceeds.** There are created and established under the Resolution the following funds and accounts maintained by the Treasurer of the District:

(1) The Community Facilities District No. 2015-1 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 Expense Account).

(2) The Community Facilities District No. 2015-1 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(3) The Community Facilities District No. 2015-1 Special Reserve Fund (the "Special Reserve Fund").

(4) The Community Facilities District No. 2015-1 Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a County Facilities Account, a Water Facilities Account and a Project Facilities Account).

The proceeds of the sale of the Bonds will be applied as set forth in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

**Deposits to and Disbursements from Special Tax Fund**. Except for Special Tax Prepayments, which shall be deposited to the Redemption Account, the Treasurer shall, on each date on which the Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund to be held in trust. The Treasurer shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Resolution, in the following order of priority, to:

(1) The Administrative Expense Account of the Special Tax Fund in an amount needed to pay the Administrative Expenses when due;

(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 Special Reserve Fund.

**Administrative Expense Account of the Special Tax Fund**. The Treasurer shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses; provided, however, that the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account, the Principal Account and the Redemption Account an amount that, together with any amounts already on deposit in such Accounts, is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and the amount on deposit in the Reserve Account is at least equal to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes on Undeveloped Property. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by the Treasurer.

**Interest Account and Principal Account of the Special Tax Fund**. The principal of (including Sinking Fund Payments) and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon optional or extraordinary redemption, shall be paid by the Treasurer 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, after making the transfer required by the Resolution, at least five Business Days prior to each February 15 and August 15, the Treasurer 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 are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account five 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 Business Days prior to August 15 of each year, commencing August 15, 2016, shall equal the principal payment due on the Bonds and any Parity Bonds on such August 15 at maturity or by Sinking Fund Payment and any principal payment due on a previous August 15 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.

In the event that the amounts in the Interest Account or the Principal Account are inadequate to pay the amounts due, then the amounts in the Interest Account shall be applied to pay a pro rata portion of the interest due on all Bonds and Parity Bonds and the amounts in the Principal Account shall be applied to pay a pro rata portion of the principal due on the Bonds and the Parity Bonds.

**Redemption Account of the Special Tax Fund**.

(a) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Resolution, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Resolution, or to call Parity Bonds for optional redemption as set forth in any Supplemental Resolution for Parity Bonds, the Treasurer 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 Expense 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.

(b) Special Tax Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Resolution for the use of such Special Tax Prepayments to the payment of the principal of, premium, if any, and interest on the Bonds and Parity Bonds to be redeemed with such Special Tax Prepayments.

(c) 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; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Resolution. 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 the premium applicable at the next following call date according to the premium schedule established pursuant to the Resolution, or in the case of Parity Bonds the premium established in any Supplemental Resolution. 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.

**Reserve Account of the Special Tax Fund**. After making the deposits required by the Resolution, the Treasurer shall next transfer to the Reserve Account the amount, if any, necessary to cause the amount in the Reserve Account, taking into account the amounts then on deposit in the Reserve Account, to be equal to the Reserve Requirement. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement which shall be applied as follows:

(a) 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 and for the purpose of making any required transfer to the Rebate Fund pursuant to the Resolution upon written direction from the District. If the amounts in the Interest Account or the Principal Account of the Special Tax Fund are insufficient to pay the principal of (including Sinking Fund Payments) or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Treasurer shall withdraw from the Reserve Account for deposit in the Interest Account or the Principal Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Resolution, the Treasurer 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 Treasurer determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account or the Principal Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the 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.

(c) In connection with an optional or extraordinary redemption of Bonds or of Parity Bonds in accordance with any Supplemental Resolution, or a partial defeasance of Bonds or Parity Bonds in accordance with the Resolution, 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. 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 the Resolution to partially defease Bonds or Parity Bonds, and the Treasurer shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence. 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 or 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 an issue of Parity Bonds in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each February 15 and August 15 and transferred to the Interest Account of the Special Tax Fund.

**Rebate Fund**. (a) The Treasurer shall establish and maintain a fund separate from any other fund established and maintained under the Resolution designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Treasurer in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the Bonds and each issue of Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund shall be governed by the Resolution and the applicable 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 any Parity Bonds will not be adversely affected if such requirements are not satisfied.

(i) Rebate Account. The following requirements shall be satisfied with respect to each subaccount of the Rebate Account:

(A) Annual Computation. Within 55 days of the end of each Bond Year, the District shall calculate or cause to be calculated the amount of rebatable arbitrage for each issue of Bonds and Parity Bonds to which such requirement under the Resolution is applicable, in accordance with Section 148(f)(2) of the Code and Section 1.148 3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (e.g., the temporary investments exception of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148 3(e) of the Rebate Regulations (the "Rebatable Arbitrage"). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Resolution.

(B) Annual Transfer. Within 55 days of the end of each Bond Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate for each issue, upon the written direction of an Authorized Representative of the District, an amount shall be deposited to each subaccount of the Rebate Account by the Treasurer from any funds so designated by the District if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated by or on behalf of the District in accordance with this Subsection (i)(A) with respect to each issue of Bonds and Parity Bonds to which this requirement under the Resolution is applicable. In the event that immediately following any transfer required by the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit to the credit of the applicable subaccount of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative of the District, the Treasurer shall withdraw the excess from the appropriate subaccount of the Rebate Account and then credit the excess to the Special Tax Fund.

(C) Payment to the Treasury. The Treasurer shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account, (X) Not later than 60 days after the end of (A) the fifth Bond Year for each issue of Bonds and Parity Bonds to which requirement under the Resolution is applicable, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year for each issue of Bonds and Parity Bonds, as applicable; and (Y) Not later than 60 days after the payment or redemption of all of an issue of Bonds and Parity Bonds, as applicable, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(i) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

(ii) Alternative Penalty Account.

(A) Six Month Computation. If the 1½% Penalty has been elected for the Bonds or an issue of Parity Bonds, within 85 days of each particular Six Month Period, the District shall determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six Month Period. The District shall obtain expert advice in making such determinations.

(B) Six Month Transfer. Within 85 days of the close of each Six Month Period, the Treasurer, at the written direction of an Authorized Representative of the District, shall deposit an amount in the appropriate subaccounts of the Alternative Penalty Account from any source of funds held by the Treasurer pursuant to the Resolution and designated by the District in such written directions or provided to it by the District, if and to the extent required, so that the balance in each subaccount of the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in Subsection (a)(ii)(A) above. In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by Subsection (C) below, the Treasurer, at the written direction of an Authorized Representative of the District, may withdraw the excess from the applicable subaccount of the Alternative Penalty Account and credit the excess to the Special Tax Fund.

(C) Payment to the Treasury. The Treasurer shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in a subaccount of the Alternative Penalty Account, not later than 90 days after the close of each Six Month Period the 1½% Penalty, if applicable and payable, computed with respect to the Bonds and any issue of Parity Bonds in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from a subaccount of the Alternative Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District shall calculate the amount of such deficiency and direct the Treasurer, in writing, to deposit an amount equal to such deficiency into such subaccount of the Alternative Penalty Account from any funds held by the Treasurer pursuant to the Resolution and designated by the District in such written directions prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(ii) shall be made to the Internal Revenue Service, Ogden, Utah, 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to an issue of Bonds or Parity Bonds after redemption and payment of such issue and after making the payments described in Subsection (a)(i)(C) or (a)(ii)(C) (whichever is applicable), may be withdrawn by the Treasurer 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 the Resolution to the contrary, the obligation to comply with the requirements the section under the caption "Rebate Fund" under the Resolution 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. The section of the Resolution captioned "Rebate Fund" 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

**Special Reserve Fund**. After making the transfers required by the Resolution, as soon as practicable after each August 15, and in any event prior to each September 1, the Treasurer shall transfer all remaining amounts in the Special Tax Fund to the Special Reserve Fund, other than amounts in the Special Tax Fund which the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Resolution. Moneys deposited in the Special Reserve Fund may be transferred by the Treasurer (i) to the Interest Account or the Principal 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 Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses, (iv) to the Acquisition and Construction Fund to pay Project Costs, or (v) for any other lawful purpose of the District.

The amounts in the Special Reserve Fund are not pledged to the repayment of the Bonds or the 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 Special Reserve Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the Treasurer will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Special Reserve Fund shall be invested 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.

**Acquisition and Construction Fund**.

(a) The District may deposit amounts to the Acquisition and Construction Fund from time to time. The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance.

(b) Upon receipt of a Certificate of the County Executive Officer stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is to be transferred (which certificate shall not be given without complying with the Acquisition Agreement), the Treasurer shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Special Tax Fund, or to the Special Reserve Fund as requested in the Certificate; provided, however, if the amount is to be transferred to the Special Reserve Fund, there shall have been delivered to the Treasurer with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Special Reserve 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.

**Investments**. Moneys held in any of the Funds, Accounts and Subaccounts under the Resolution shall be invested at the direction of the Treasurer pursuant to law and the limitations set forth below 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 Acquisition and Construction Fund, the Special Reserve Fund and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, and (ii) all other investment earnings shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Resolution may be invested by the Treasurer, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal 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 Acquisition and Construction Fund. Notwithstanding anything to the contrary in the Resolution, amounts in the Acquisition and Construction Fund three 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 Acquisition and Construction Fund on the date which is three years following the date of issuance of such issue of Parity Bonds shall be invested by the District 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 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.

(b) 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.

(c) One half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Treasurer or the Paying Agent, as applicable, and one half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase by the Treasurer or the Paying Agent, as applicable; 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 the Resolution; 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 to which such Subaccount relates.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clauses (1) or (2) 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 the Resolution or in Authorized Investments of the type described in clause (7) of the definition thereof.

(e) In the absence of written investment directions from the Treasurer, the Paying Agent shall invest solely in Authorized Investments specified in the Resolution.

(f) Authorized investments include: (1) Cash (insured at all times by the Federal Deposit Certificate Insurance Corporation or collateralized as per California law); (2) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest, when such obligations have a remaining maturity of five years or less; (3) Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise, which have a remaining maturity of five years or less; (4) U.S. dollar denominated deposit accounts, including time deposits, trust funds, trust accounts, interest-bearing deposits, overnight bank deposits, interest-bearing money market accounts, federal funds and bankers' acceptances with domestic commercial banks, which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase or are FDIC insured. (Ratings on holding companies are not considered as the rating of the bank); (5) Eligible commercial paper shall be of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a Nationally Recognized Statistical Rating Organization (NRSRO) and shall not exceed 270 days to maturity. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (i) or paragraph (ii): (i) Has total assets in excess of five hundred million dollars

($500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO. (ii) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond, has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO. (6) Negotiable certificates of deposit issued by a U.S. national or state-chartered bank, savings bank, savings and loan association, or credit union in this state or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank. Issuing banks must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from at least two NRSROs, if any; (7) Shares of beneficial interest issued by diversified management companies that are mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq), which only invest in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agencies and repurchase agreements and must have a minimum of $500 million in assets under management. Such funds should have attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs; (8) Repurchase agreements with financial institutions insured by the FDIC; or a bank or other financial institution rating in the top two rating categories by one or more NRSRO's; provided that (i) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of U.S. Treasury securities or direct obligations of FNMA, FHLMC, FFCB, and FHLB, (ii) a third party custodian shall have possession of such obligations; (iii) the Trustee shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral; (9) Shares of beneficial interest issued by diversified management companies, or a joint powers authority organized pursuant to Government Code Section 6509.7 that invest in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630 in which the District is statutorily permitted or required to invest; (10) Investment agreements with providers rated not lower than the second highest category (without regard to gradations within such category) by at least two NRSROs, provided that if the investment agreement is guaranteed by a third party, then such rating requirement shall apply to the guarantor only, and provided further that if the provider is downgraded by one or more nationally recognized rating agencies to below the second highest category, the agreement shall (i) be fully collateralized at 105% by Treasuries or at 106% by Federal Agencies or (ii) be terminated; and (11) The credit ratings referred to above must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's, Moody's and Fitch.

The Treasurer and the Paying Agent, at the direction of the Treasurer, shall sell at the best price obtainable, 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. Notwithstanding anything in the Resolution to the contrary, the Treasurer and the Paying Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Resolution.

## REDEMPTION OF BONDS AND PARITY BONDS

**Selection of Bonds and Parity Bonds for Redemption.** If less than all of the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than $5,000 to be redeemed shall be in the principal amount of $5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Paying Agent shall treat such Bonds as representing that number of Bonds of $5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by $5,000. Selection of Parity Bonds for redemption shall be as set forth in the Supplemental Resolution for such Parity Bonds. The Paying Agent shall promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

**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 Paying Agent 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.

## COVENANTS AND WARRANTY

**Warranty.** The District shall preserve and protect the security pledged under the Resolution to the Bonds and any Parity Bonds against all claims and demands of all persons.

**Covenants**. So long as any of the Bonds or Parity Bonds issued under the Resolution are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Resolution (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 receive all Special Taxes in trust and will immediately deposit such amounts with the Treasurer, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Resolution. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Resolution, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

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 under the Resolution, 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 the Resolution to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Resolution will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Resolution, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and all Supplemental Resolutions and of the Bonds and any Parity Bonds issued under the Resolution.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Resolution, 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. Nothing in the Resolution 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 2015-16, so long as any Bonds or Parity Bonds issued under the Resolution are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund 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 maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement (the "Special Tax Requirement").

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of $25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit any Gross Taxes received in connection with a 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.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided that nothing contained in the Resolution shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

(e) 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 portion of the Project financed by the District, 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 Paying Agent 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.

(f) Federal Tax Covenants. Notwithstanding any other provision of the Resolution, 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) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code;

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal

income tax purposes to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds;

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Resolution; and

(7) Subsequent Opinions. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation ("SYCR"), where such opinion is required in connection with a change or amendment to the Resolution or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes

(g) Reduction of Maximum Special Taxes. The District 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 determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Resolution 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 does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant shall compute the Administrative Expenses for the then-current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

Notwithstanding the foregoing, the District may modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds and Parity Bonds Outstanding as of the date of such amendment.

(h) Covenant 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 the Resolution or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Resolution, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Limitation on Right to Tender Bonds. The District covenants that it will not adopt any policy pursuant to Section 53344.1 of the Act permitting the tender of Bonds or Parity Bonds to the Treasurer in full payment or partial payment of any Special Taxes.

(j) Continuing Disclosure and Other Reports. The District covenants to comply with the terms of the Continuing Disclosure Certificate executed with respect to the Bonds and with the terms of any agreement executed by the District with respect to any Parity Bonds to assist the Underwriter in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission; provided, however, that a failure to comply shall not be considered an event of default under the Resolution and the Owners shall be limited to enforcing the terms thereof in accordance with the terms of the Continuing Disclosure Certificate. The District further covenants to file all annual reports required under the Act and Government Code Section 53410 et seq. to be filed with offices or departments of the State.

(k) 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 the Resolution and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Resolution.

## AMENDMENTS TO RESOLUTION

**Supplemental Resolutions or Orders Not Requiring Bondowner Consent**. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt resolutions or orders supplemental to the Resolution for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Resolution which may be inconsistent with any other provision in the Resolution, or to make any other provision with respect to matters or questions arising under the Resolution 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 the Resolution, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution 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 the Resolution;

(d) to modify, amend or supplement the Resolution in such manner as to permit the qualification of the Resolution 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; or

(e) to modify, alter, amend or supplement the Resolution in any other respect which is not materially adverse to the Bondownerss.

**Supplemental Resolutions or Orders Requiring Bondowner Consent**. Exclusive of the resolutions or orders supplemental to the Resolution as set forth in the Resolution, 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 resolutions or orders supplemental thereto 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 the Resolution; provided, however, that nothing in the Resolution 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 resolution or order, 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 resolution or order supplemental thereto, which pursuant to the terms of the Resolution shall require the consent of the Bondowners, the District shall so notify the Paying Agent and shall deliver to the Paying Agent a copy of the proposed resolution or order. The Paying Agent shall, at the expense of the District, cause notice of the proposed resolution or order 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 resolution or order and shall state that a copy thereof is on file at the office of the Treasurer for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such resolution or order 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 the Resolution. Whenever at any time within one year after the date of the first mailing of such notice, the Paying Agent shall receive an instrument or instruments purporting to be executed by the Owners of not less than 50% in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed resolution or order 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 Treasurer, such proposed resolution or order, 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 resolution or order, 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 (excluding the County), 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 resolution or order supplemental to the Resolution and the receipt of consent to any such resolution or order 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 the Resolution shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced under the Resolution, subject in all respects to such modifications and amendments.

## PAYING AGENT

**Paying Agent**. U.S. Bank National Association shall be the Paying Agent for the Bonds and any Parity Bonds unless and until another Paying Agent is appointed by the District under the Resolution. The District may, at any time, appoint a successor Paying Agent satisfying the requirements of the Resolution for the purpose of receiving all money which the District is required to deposit with the Paying Agent under the Resolution and to allocate, use and apply the same as provided in the Resolution. In the event that the District fails to deposit with a Paying Agent appointed by the District any amount due under the Resolution when due, such Paying Agent shall provide immediate telephonic notice to the Treasurer's office and shall confirm the amount of such shortfall in writing.

The Paying Agent is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Resolution, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Paying Agent is 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 the Resolution, 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 the Resolution. The Paying Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Paying Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Paying Agent shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Resolution.

The District shall from time to time, subject to any agreement between the District and the Paying Agent then in force, pay to the Paying Agent compensation for its services, reimburse the Paying Agent 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 under the Resolution, and indemnify and save the Paying Agent harmless against expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Resolution. The foregoing obligation of the District to indemnify the Paying Agent shall survive the removal or resignation of the Paying Agent or the discharge of the Bonds.

**Removal of Paying Agent**. The District may at any time at its sole discretion remove the Paying Agent initially appointed, and any successor thereto, by delivering to the Paying Agent a written notice of its decision to remove the Paying Agent and may appoint a successor or successors thereto; provided that any such successor, other than the Treasurer, shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least $50,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Paying Agent. If any bank 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 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.

**Resignation of Paying Agent**. The Paying Agent 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 Paying Agent. Upon receiving such notice of resignation, the District shall promptly appoint a successor Paying Agent satisfying the criteria in the Resolution by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying Agent shall become effective only upon acceptance of appointment by the successor Paying Agent.

**Liability of Paying Agent**. The recitals of fact and all promises, covenants and agreements contained in the Resolution and in the Bonds and any Parity Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Paying Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Resolution, 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 in the Resolution, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Paying Agent. The Paying Agent shall be under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Paying Agent shall not be liable in connection with the performance of its duties under the Resolution, except for its own negligence or willful misconduct.

The Paying Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond 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 Paying Agent 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 under the Resolution in good faith and in accordance therewith.

The Paying Agent 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 the Resolution the Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be specifically prescribed in the Resolution) may, in the absence of bad faith on the part of the Paying Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Paying Agent for any action taken or suffered under the provisions of the Resolution upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

**Merger or Consolidation**. Any company into which the Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Paying Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Paying Agent without the execution or filing of any paper or further act, anything in the Resolution to the contrary notwithstanding.

## EVENTS OF DEFAULT; REMEDIES

**Events of Default**. Any one or more of the following events shall constitute 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 the Resolution, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Paying Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

**Remedies of Owners**. Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(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 the Resolution;

(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.

Nothing in the Resolution, the Bonds or any 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 any Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Resolution, out of the Net Taxes and other amounts pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds or any Parity Bonds and in the Resolution.

A waiver of any default or breach of duty or contract by any Owner 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 by any Owner 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 Owners by the Act or by the Resolution may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy conferred in the Resolution upon or reserved 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 under the Resolution 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.

In case the moneys held by the Paying Agent after an event of default pursuant to the Resolution shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity Bonds, then all legally available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

## DEFEASANCE AND PARITY BONDS

**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 the Resolution or any Supplemental Resolution, 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 the Resolution and any Supplemental Resolution 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 the Resolution, the Treasurer shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Treasurer shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Resolution 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 Resolution 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 an escrow bank appointed by the Treasurer or with the Treasurer, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense 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 an escrow bank appointed by the Treasurer, in trust, cash to be held uninvested and/or noncallable Defeasance 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 Expense 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;

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 the Resolution and any Supplemental Resolution with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Paying Agent 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 the Resolution or any covenants in a Supplemental Resolution relating to compliance with the Code. Notice of such election shall be filed with the Paying Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Paying Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the District 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 Paying Agent 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 the Resolution, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) addressed to the District to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Resolution and any applicable Supplemental Resolution.

**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 under the Resolution issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Resolution or under any Supplemental Resolution; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then Outstanding and only if the issuance of such Parity Bonds does not result in an increase in the Annual Debt Service due in any Bond Year. Parity Bonds may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Resolution and any Supplemental Resolution then in effect and a certificate of the District to that effect shall have been filed with the Treasurer; 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 Resolution 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 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 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 an August 15, (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 Resolution.

(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 Paying Agent (unless the Paying Agent shall accept any of such documents bearing a prior date):

(1) A certified copy of the Supplemental Resolution 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 County Counsel to the effect that (a) the District has the right and power under the Act to adopt the Resolution and the Supplemental Resolutions relating to such Parity Bonds, and the Resolution and all such Supplemental Resolutions 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 Resolution creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; 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 Resolution and all Supplemental Resolutions thereto and entitled to the benefits of the Resolution and all such Supplemental Resolutions, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Resolution and all such Supplemental Resolutions; 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 Resolution;

(5) A certificate from one or more Independent Financial Consultants which, when taken together, certify 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; and

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

## MISCELLANEOUS

**Cancellation of Bonds and Parity Bonds.** All Bonds and Parity Bonds surrendered to the Paying Agent for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Resolution and delivered to the Paying Agent for such purpose shall be, cancelled forthwith and shall not be reissued. The Paying Agent shall destroy such Bonds and Parity Bonds, as provided by law, and, upon request of the District, furnish to the District a certificate of such destruction.

**Unclaimed Moneys.** Anything in the Resolution to the contrary notwithstanding, any money held by the Paying Agent or the Treasurer in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for one year after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Paying Agent or the Treasurer at such date, or for one year after the date of deposit of such money if deposited with the Paying Agent or the Treasurer after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Paying Agent or the Treasurer to the District, as its absolute property and free from trust, and the Paying Agent or the Treasurer 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 Paying Agent at the written request of the District or the Treasurer shall, at the expense of the District, 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 Paying Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

**Provisions Constitute Contract**. The provisions of the Resolution shall constitute a contract between the District and the Bondowners and the provisions of the Resolution 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 Paying Agent, then the District, the Paying Agent 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 the Resolution shall be irrepealable, but shall be subject to modifications to the extent and in the manner provided in the Resolution, but to no greater extent and in no other manner.

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## APPENDIX F

## FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated as of October 1, 2015 (the "Disclosure Certificate") is executed and delivered by Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (the "Issuer") in connection with the issuance and delivery by the Issuer of its $90,845,000 Series A of 2015 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 15-107 adopted on September 22, 2015, by the Board of Supervisors of the County of Orange, acting as the legislative body of Issuer, and the Supplement to Resolution No. 15-107 (together, the "Resolution"). The Issuer covenants as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Section 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

"County" means the County of Orange, California.

"Disclosure Representative" shall mean the Public Finance Manager of the Issuer, or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Issuer" shall mean Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia).

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Official Statement" shall mean that certain Official Statement for the Bonds dated October 8, 2015.

"Owners" shall mean the registered owners of the Bonds as set forth in the registration books maintained by the Paying Agent.

"Paying Agent" means U.S. Bank National Association or such entity appointed by the District pursuant to the Resolution.

"Repository" shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at *http://emma.msrb.org*.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"Tax-Exempt" shall mean the interest on the Bonds 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 any other tax liability, including any alternative minimum tax or environmental tax.

"Underwriter" shall mean any underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or, if the Dissemination Agent is other than the Issuer, upon written direction shall cause the Dissemination Agent to, not later than March 1 after the end of the Issuer's Fiscal Year (June 30) commencing with the report due by March 1, 2016, which initial Annual Report shall consist solely of the Official Statement and audited financial statements of the Issuer, if any, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer, if any exist, 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 they are not available by that date. If the Issuer's fiscal year changes, the Issuer shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send, in a timely manner, a notice to EMMA, in the form required by EMMA.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the repository if other than the MSRB through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to EMMA and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

Section 4. Content of Annual Reports. The first Annual Report due by March 1, 2016 shall consist of the Official Statement and audited financial statements of the Issuer, if any. Thereafter, the Issuer's Annual Report shall contain or include by reference the following:

(a) Financial Statements. The audited financial statements of the Issuer for the prior fiscal year, if any have been prepared and which, if prepared, shall be 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; provided, however, that the Issuer may, from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8 below regarding such modification. If the Issuer is preparing audited financial statements and such 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.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following:

(i) the principal amount of the Bonds outstanding as of the August 16 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Resolution and the Reserve Requirement as of the August 16 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(iv) an update of the estimated assessed value-to-lien ratio for the District substantially in the form of Table 5 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for the current fiscal year;

(v) the percentage of the maximum Special Taxes levied by the District with respect to the Bonds;

(vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;

(vii) a statement was to whether the District participates in the Teeter Plan (as defined in the Official Statement) and in the event that the Teeter Plan is terminated with respect to the District, a table showing the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that, as of December 31, remain unpaid for each prior fiscal year in which Special Taxes were levied and the number of delinquent parcels in the District;

(viii) a statement as to whether the Teeter Plan remains in effect with regard to the District;

(ix) if Special Taxes are levied on Undeveloped Property, the amount of Special Taxes levied on Undeveloped Property and the amount of Special Taxes levied on Developed Property (as such terms are defined in the Rate and Method of Apportionment of the Special Taxes); and

(x) any information not already included under (i) through (ix) above that the Issuer is required to file in its annual report pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, with the California Debt and Investment Advisory Commission.

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 Issuer or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The Issuer shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice filed with the Repository of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;

2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);

6. tender offers;

7. defeasances;

8. ratings changes; and

9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

3. appointment of a successor or additional paying agent or the change of the name of a paying agent;

4. nonpayment related defaults;

5. modifications to the rights of Owners of the Bonds;

6. notices of redemption; and

7. release, substitution or sale of property securing repayment of the Bonds.

(c) Upon the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent, if other than the Issuer, shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent, if other than the Issuer, shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Paying Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Paying Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver related to the provisions of Sections 3(a), 4, or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking hereunder, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment related to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the formed accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this 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 Issuer to comply with any provision of this Disclosure Certificate, the Paying Agent at the written direction of any Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Paying Agent whatsoever, including, without limitation, fees and expenses of its attorney. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

| | |
|---|---|
| Issuer: | Community Facilities District No. 2015-1<br>of the County of Orange (Village of Esencia)<br>County Executive Office<br>333 West Santa Ana Boulevard, 3rd Floor<br>Santa Ana, CA 92701<br>Attention: Public Finance Manager |
| Underwriters: | Stifel, Nicolaus & Company, Incorporated<br>One Montgomery Street, 35th Floor<br>San Francisco, CA 94104<br>Attn: Public Finance Department |
| | Piper Jaffray & Co.<br>1100 South Coast Highway, Suite 300A<br>Laguna Beach, CA 92651<br>Attn: Public Finance |

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notice or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Paying Agent, the Dissemination Agent, the Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

This Disclosure Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

By: ______________________________
Disclosure Representative

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## APPENDIX G

## FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This Developer Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of October 1, 2015 is executed and delivered by the RMV PA2 Development, LLC (the "Landowner"), and David Taussig & Associates, as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery by Community Facilities District No. 2015-1 (Village of Esencia) of the County of Orange of its $90,845,000 Community Facilities District No. 2015-1 (Village of Esencia) of the County of Orange Series A of 2015 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 15-107 and the Supplement to Resolution No. 15-107 (collectively, the "Resolution") adopted by the Board of Supervisors of the County, acting as the legislative body of the District on September 22, 2015. The Landowner covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Landowner to assist the Underwriter in the marketing of the Bonds.

SECTION 2. Definitions. Unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person's executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Landowner for purposes of this Disclosure Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise. Affiliates of the Landowner include, but are not limited to, RMV Community Development, LLC.

"Annual Report" shall mean any Annual Report provided by the Landowner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Chief Financial Officer or his designee acting on behalf of the Landowner, or such other officer or employee as the Landowner shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean David Taussig & Associates, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Landowner and which has filed with the Landowner and the District a written acceptance of such designation.

"District" shall mean Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia).

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Equity Securities" of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

"Fiscal Year" shall mean the period beginning on January 1 of each year and ending on the next succeeding December 31.

"Government Authority" shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Listed Event" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement, dated October 8, 2015, relating to the Bonds.

"Parity Bonds" shall mean bonds of the District that are secured on a parity with the Bonds.

"Person" shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

"Repository" shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Semiannual Report" shall mean any report to be provided by the Landowner on or prior to December 15 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"State" shall mean the State of California.

"Underwriter" shall mean the original underwriters of the Bonds, which are Stifel, Nicolaus & Company, Incorporated and Piper Jaffray & Co.

SECTION 3. Provision of Annual Reports.

(a) The Landowner shall, or upon receipt of the Annual Report the Dissemination Agent shall, not later than June 15 of each year, commencing June 15, 2016, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If, in any year, June 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent's offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent's offices are open for business. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement, provided that the audited financial statements, if any, of the Landowner may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, until such time as the Landowner's reporting requirements terminate pursuant to Section 6 below, the Landowner shall, or upon receipt of the Semiannual Report the Dissemination Agent shall, not later than December 15 of each year, commencing December 15, 2016, provide to the Repository a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If, in any year, December 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent's offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent's offices are open for business.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to the Repository, the Landowner shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Landowner is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall notify the Landowner of such failure to receive the report.

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to the Repository by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the form required by the Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of the Repository; and

(ii) promptly after receipt of the Annual Report, file a report with the Landowner and the District certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Landowner's Annual Report and Semiannual Report shall contain or include by reference the information which is updated, except with respect to the financial statements of the Developer required under 4(a)(4), through a date which shall not be more than 60 days prior to the date of the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

1. An update (if any) to the information relating to the Landowner and its Affiliates under the captions in the Official Statement entitled "PROPERTY OWNERSHIP AND THE DEVELOPMENT—General Description of the Development," "The Developer," "The Development," "Affordable Apartment Property," "Market Rate Apartment Property" and "Remaining Developer Properties." Such updates shall include, but not be limited to, the estimated remaining cost of the Landowner and its Affiliates to complete any of the public improvements in the District, status of construction and financing plans for the apartment projects described under the captions "Affordable Apartment Property" and "Market Rate Apartment Property" and for the nonresidential property currently owned by the Landowner (to the extent the same remains owned by the Landowner or an Affiliate) (collectively, the Landowner Improvements").

2. Any significant amendments to land use entitlements with respect to parcels owned by the Landowner or its Affiliates within the District, or that are otherwise known to the Landowner,

including an update of the total acres subject to the levy of Special Taxes if the amendment affects the total number of acres subject to the levy of the Special Taxes.

3. Status of Special Tax payments on all parcels owned by the Landowner and its Affiliates.

4. In the Annual Report only, the financial statements of the Landowner for its most recently completed Fiscal Year (which currently ends on each December 31).

5. An update of the number of building permits pulled by each merchant builder as set forth in Table 7 of the Official Statement.

(b) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Landowner 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 Landowner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material under clauses (b) and (c) as soon as practicable after the occurrence of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied within the District on a parcel owned by the Landowner or any Affiliate;

2. Material default by the Landowner or any Affiliate on any loan with respect to the construction or permanent financing of the Landowner Improvements to which the Landowner or any Affiliate has been provided a notice of default;

3. Material default by the Landowner or any Affiliate on any loan secured by property within the District owned by the Landowner or any Affiliate to which the Landowner or any Affiliate has been provided a notice of default;

4. Payment default by the Landowner or any Affiliate on any loan of the Landowner or any Affiliate (whether or not such loan is secured by property within the District) which is beyond any applicable cure period in such loan;

5. The filing of any proceedings with respect to the Landowner or any Affiliate, in which the Landowner or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts; and

6. The filing of any lawsuit against the Landowner or any of its Affiliates which, in the reasonable judgment of the Landowner, will adversely affect the completion of the development of parcels owned by the Landowner or its Affiliates within the District, or litigation which if decided against the Landowner, or any of its Affiliates, in the reasonable judgment of the Landowner, would materially adversely affect the financial condition of the Landowner or its Affiliates or their respective ability to pay special taxes levied within the District.

(b) Whenever the Landowner obtains knowledge of the occurrence of a Listed Event, the Landowner shall as soon as possible determine if such event would be material under applicable federal securities laws. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) If the Landowner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Landowner shall promptly file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Repository, with a copy to the District.

SECTION 6. Termination of Reporting Obligation. The Landowner's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the following events:

(a) the legal defeasance, prior redemption or payment in full of all of the Bonds, or

(b) as of the date of the filing for the Semiannual Report or Annual Report (1) with respect to the obligation of the Landowner to update the information pursuant to Section 4(a)(1) – (4) above, ninety percent (90%) of the public improvements to be constructed by the Landowner as described under the caption "PROPERTY OWNERSHIP AND THE DEVELOPMENT—The Development" have been completed based on costs expended and (2) with respect to the obligation of the Landowner to update the information pursuant to Section 4(a)(5) above, 75% of the building permits for the planned residential development within the District have been issued.

If such termination occurs prior to the final maturity of the Bonds, the Landowner shall give notice of such termination in the same manner as for an Annual Report hereunder.

SECTION 7. Dissemination Agent. The Landowner may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Landowner, the Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Landowner pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing (i) thirty days written notice to the Landowner and the Dissemination Agent and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Landowner 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, 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 the type of business conducted;

[(b) The amendment or waiver either (i) is approved by the owners of the Bonds in the same manner as provided in the Resolution with the consent of owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the District and the Dissemination Agent, materially impair the interests of the owners or Beneficial Owners of the Bonds; and]

(c) The Landowner, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) above to the District and the Trustee.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Landowner shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Landowner.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Landowner 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 Landowner 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 Landowner 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.

The Landowner acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Landowner, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Landowner under such laws.

SECTION 10. Default. In the event of a failure of the Landowner or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Underwriter or any owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Landowner or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the Landowner 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. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Landowner, the Underwriter, owners of the Bonds or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Landowner or an opinion of nationally recognized bond counsel. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the Landowner as constituting the Annual Report required of the Landowner in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Landowner in a timely manner in a form suitable for filing with the Repositories. 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 will not, without the Landowner's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Landowner and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Landowner or if there is a final judgment (other than a stipulated final judgment without the approval of the Landowner) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Landowner, the Landowner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 12. Landowner as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Landowner is an independent contractor and not an agent of the District.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

| | |
|---|---|
| Landowner: | RMV PA2 Development, LLC<br>28811 Ortega Highway<br>San Juan Capistrano, CA 92675<br>Attn: Chief Financial Officer |
| Dissemination Agent: | David Taussig & Associates<br>5000 Birch Street, Suite 6000<br>Newport Beach, California 92660<br>Attn: Andrea Roess |
| Underwriters: | Stifel, Nicolaus & Company, Incorporated<br>One Montgomery Street, 35th Floor<br>San Francisco, CA 94104<br>Attn: Municipal Research |
| | Piper Jaffray & Co.<br>1100 South Coast Highway, Suite 300A<br>Laguna Beach, CA 92651<br>Attn: Public Finance |

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Landowner, the District, the Dissemination Agent, the Dissemination Agent, the Underwriter and owners of the Bonds and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. 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.

RMV PA2 DEVELOPMENT, LLC

By: ____________________________________________

DAVID TAUSSIG & ASSOCIATES, as Dissemination Agent

By: ____________________________________________
Authorized Officer

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## APPENDIX H

## BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC to the District which the District believes to be reliable, but the District and the Underwriters do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE PAYING AGENT, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## APPENDIX I

## SAMPLE PROPERTY TAX BILLS

## COUNTY OF ORANGE
## COMMUNITY FACILITIES DISTRICT NO. 2015-1 (ESENCIA)
## ESTIMATED FISCAL YEAR 2015-16 SAMPLE TAX BILL
## DEVELOPED PROPERTY - SFA - MARKET RATE
## ZONE 1 - TAX CLASS 4 (< 1,451 SF)

| *Assessed Value and Property Taxes* | | *Percent of Total AV* | *Expected Amount* | *Maximum Amount* |
|---|---|---|---|---|
| Total Assessed Value[1] | $380,988 | | | |
| Net Assessed Value[1] | $373,988 | | | |
| Land Assessed Value[2] | $167,547 | | | |
| Unit Size[3] | 1,389 Square Feet | | | |
| Lot Size[4] | 2,388 Square Feet | | | |
| AD VALOREM PROPERTY TAXES[5] | | | | |
| Basic Levy | | 1.00000% | $3,809.88 | |
| Metropolitan Water District GO Bonds | | 0.00350% | 13.33 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2012 | | 0.00430% | 16.38 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2001 | | 0.00470% | 17.91 | |
| Santa Margarita Water District ID No. 4/4C[6] | | 0.05840% | 222.50 | |
| Total General Property Taxes and Overrides | | 1.07090% | $4,080.01 | |
| ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES | | | | |
| Mosquito & Fire Ant Assessment[7] | | | $5.02 | |
| Vector Control Charge [8] | | | $1.92 | |
| Metropolitan Water District West Standby Charge[9] | | | $10.08 | |
| Santa Margarita Water District ID No. 4 D/S Charge[10] | | | $16.71 | |
| County of Orange CFD No. 2015-1[11] | | | $3,506.03 | $4,220.30 |
| Total Assessments, Special Taxes and Parcel Charges | | | $3,539.76 | $4,254.03 |
| PROJECTED TOTAL PROPERTY TAXES | | | $7,619.77 | $8,334.04 |
| Projected Total Effective Tax Rate (as percentage of Total Price) | | | **2.0000%** | **2.1875%** |

(1) Based on base sales price for 14 units in Tax Class 4 of Zone 1 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of Land Assessed Value to Total Assessed Value is assumed to be 0.448 based on the Price Point Study.
(3) Based on expected unit size for 14 units in Tax Class 4 of Zone 1.
(4) Based on the average lot size for all 94 units in Zone 1.
(5) Based on the actual Fiscal Year 2014-15 *ad valorem* rate unless otherwise noted.
(6) Percent of land value of 0.13036% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.448 based on the Price Point Study.
(7) Based on the Fiscal Year 2014-15 rate of $5.02 per benefit unit. Residential parcels are assessed at one benefit unit.
(8) Based on the Fiscal Year 2014-15 rate of $1.92 per benefit unit. Residential parcels are assessed at one benefit unit.
(9) Based on the Fiscal Year 2014-15 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Based on the Fiscal Year 2014-15 rate of $16.71 per parcel.
(11) Projected Special Tax is based on the Fiscal Year 2015-16 Assigned Special Tax of $3,506.03 per unit. Maximum Special Tax is based on the greater of the Fiscal Year 2015-16 Assigned Special Tax of $3,506.03 per unit or the Backup Special Tax of $76,971.00 per acre.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

**COUNTY OF ORANGE**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (ESENCIA)**
**ESTIMATED FY 2015-16 SAMPLE TAX BILL**
**DEVELOPED PROPERTY – SINGLE FAMILY DETACHED - MARKET RATE**
**ZONE 3 - TAX CLASS 9 (< 2,301 SF)**

| ***Assessed Value and Property Taxes*** | | ***Percent of Total AV*** | ***Expected Amount*** | ***Maximum Amount*** |
|---|---|---|---|---|
| Total Assessed Value[(1)] | $647,470 | | | |
| Net Assessed Value[(1)] | $640,470 | | | |
| Land Assessed Value[(2)] | $286,931 | | | |
| Unit Size[(3)] | 2,207 Square Feet | | | |
| Lot Size[(4)] | 5,570 Square Feet | | | |
| AD VALOREM PROPERTY TAXES[(5)] | | | | |
| Basic Levy | | 1.00000% | $6,474.70 | |
| Metropolitan Water District GO Bonds | | 0.00350% | 22.66 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2012 | | 0.00430% | 27.84 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2001 | | 0.00470% | 30.43 | |
| Santa Margarita Water District ID No. 4/4C[(6)] | | 0.05840% | 378.13 | |
| Total General Property Taxes and Overrides | | 1.07090% | $6,933.76 | |
| ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES | | | | |
| Mosquito & Fire Ant Assessment[(7)] | | | $5.02 | |
| Vector Control Charge [(8)] | | | $1.92 | |
| Metropolitan Water District West Standby Charge[(9)] | | | $10.08 | |
| Santa Margarita Water District ID No. 4 D/S Charge[(10)] | | | $16.71 | |
| County of Orange CFD No. 2015-1[(11)] | | | $5,981.91 | $8,274.60 |
| Total Assessments, Special Taxes and Parcel Charges | | | $6,015.64 | $8,308.33 |
| PROJECTED TOTAL PROPERTY TAXES | | | $12,949.40 | $15,242.09 |
| Projected Total Effective Tax Rate (as percentage of Total Price) | | | **2.0000%** | **2.3541%** |

(1) Based on base sales price for 18 units in Tax Class 9 of Zone 3 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of Land Assessed Value to Total Assessed Value is assumed to be 0.448 based on the Price Point Study.
(3) Based on expected unit size for 18 units in Tax Class 9 of Zone 3.
(4) Based on the average lot size for 184 units in Zone 3.
(5) Based on the actual Fiscal Year 2014-15 *ad valorem* rate unless otherwise noted.
(6) Percent of land value of 0.13036% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.448 based on the Price Point Study.
(7) Based on the Fiscal Year 2014-15 rate of $5.02 per benefit unit. Residential parcels are assessed at one benefit unit.
(8) Based on the Fiscal Year 2014-15 rate of $1.92 per benefit unit. Residential parcels are assessed at one benefit unit.
(9) Based on the Fiscal Year 2014-15 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Based on the Fiscal Year 2014-15 rate of $16.71 per parcel.
(11) Projected Special Tax is based on the Fiscal Year 2015-16 Assigned Special Tax of $5,981.91 per unit. Maximum Special Tax is based on the greater of the Fiscal Year 2015-16 Assigned Special Tax of $5,981.91 per unit or the Backup Special Tax of $64,714 per acre.
Sources: David Taussig and Associates, Inc.

**COUNTY OF ORANGE**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (ESENCIA)**
**ESTIMATED FY 2015-2016 SAMPLE TAX BILL**
**DEVELOPED PROPERTY - SFA - AGE-QUALIFIED**
**ZONE 4 - TAX CLASS 4 (< 1,501 SF)**

| *Assessed Value and Property Taxes* | *Percent of Total AV* | *Expected Amount* | *Maximum Amount* |
|---|---|---|---|
| Total Assessed Value[1] $466,031 | | | |
| Net Assessed Value[1] $459,031 | | | |
| Land Assessed Value[2] $205,646 | | | |
| Unit Size[3] 1,456 Square Feet | | | |
| Lot Size[4] 6,834 Square Feet | | | |
| AD VALOREM PROPERTY TAXES[5] | | | |
| Basic Levy | 1.00000% | $4,660.31 | |
| Metropolitan Water District GO Bonds | 0.00350% | 16.31 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2012 | 0.00430% | 20.04 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2001 | 0.00470% | 21.90 | |
| Santa Margarita Water District ID No. 4/4C[6] | 0.05840% | 272.17 | |
| Total General Property Taxes and Overrides | 1.07090% | $4,990.73 | |
| ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES | | | |
| Mosquito & Fire Ant Assessment[7] | | $5.02 | |
| Vector Control Charge[8] | | $1.92 | |
| Metropolitan Water District West Standby Charge[9] | | $10.08 | |
| Santa Margarita Water District ID No. 4 D/S Charge[10] | | $16.71 | |
| County of Orange CFD No. 2015-1[11] | | $3,578.00 | $4,182.83 |
| Total Assessments, Special Taxes and Parcel Charges | | $3,611.73 | $4,216.56 |
| PROJECTED TOTAL PROPERTY TAXES | | $8,602.46 | $9,207.29 |
| Projected Total Effective Tax Rate (as percentage of Total Price) | | **1.8459%** | **1.9757%** |

(1) Based on base sales price for 23 units in Tax Class 4 of Zone 4 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of Land Assessed Value to Total Assessed Value is assumed to be 0.448 based on the Price Point Study.
(3) Based on expected unit size for 23 units in Tax Class 4 of Zone 4.
(4) Based on the average lot size for all 90 units in Zone 4.
(5) Based on the actual Fiscal Year 2014-15 *ad valorem* rate unless otherwise noted.
(6) Percent of land value of 0.13036% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.448 based on the Price Point Study.
(7) Based on the Fiscal Year 2014-15 rate of $5.02 per benefit unit. Residential parcels are assessed at one benefit unit.
(8) Based on the Fiscal Year 2014-15 rate of $1.92 per benefit unit. Residential parcels are assessed at one benefit unit.
(9) Based on the Fiscal Year 2014-15 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Based on the Fiscal Year 2014-15 rate of $16.71 per parcel.
(11) Projected Special Tax is based on the Fiscal Year 2015-16 Assigned Special Tax of $3,578.00 per unit. Maximum Special Tax is based on the greater of the Fiscal Year 2015-16 Assigned Special Tax of $3,578.00 per unit or the Backup Special Tax of $26,663.00 per acre.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

**COUNTY OF ORANGE**
**COMMUNITY FACILITIES DISTRICT NO. 2015-1 (ESENCIA)**
**ESTIMATED FY 2015-2016 SAMPLE TAX BILL**
**DEVELOPED PROPERTY - SFD - AGE-QUALIFIED**
**ZONE 6 - TAX CLASS 1 (> 2,400 SF)**

| *Assessed Value and Property Taxes* | *Percent of Total AV* | *Expected Amount* | *Maximum Amount* |
|---|---|---|---|
| Total Assessed Value[1] $937,431 | | | |
| Net Assessed Value[1] $930,431 | | | |
| Land Assessed Value[2] $416,833 | | | |
| Unit Size[3] 2,832 Square Feet | | | |
| Lot Size[4] 6,981 Square Feet | | | |
| | | | |
| AD VALOREM PROPERTY TAXES[5] | | | |
| Basic Levy | 1.00000% | $9,374.31 | |
| Metropolitan Water District GO Bonds | 0.00350% | 32.81 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2012 | 0.00430% | 40.31 | |
| Capistrano Unified School District SFID 1 GO Bonds, Series 2001 | 0.00470% | 44.06 | |
| Santa Margarita Water District ID No. 4/4C[6] | 0.05840% | 547.47 | |
| | | | |
| Total General Property Taxes and Overrides | 1.07090% | $10,038.96 | |
| | | | |
| ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES | | | |
| | | | |
| Mosquito & Fire Ant Assessment[7] | | $5.02 | |
| Vector Control Charge [8] | | $1.92 | |
| Metropolitan Water District West Standby Charge[9] | | $10.08 | |
| Santa Margarita Water District ID No. 4 D/S Charge[10] | | $16.71 | |
| County of Orange CFD No. 2015-1[11] | | $7,466.00 | $7,466.00 |
| | | | |
| Total Assessments, Special Taxes and Parcel Charges | | $7,499.73 | $7,499.73 |
| | | | |
| PROJECTED TOTAL PROPERTY TAXES | | $17,538.69 | $17,538.69 |
| | | | |
| Projected Total Effective Tax Rate (as percentage of Total Price) | | **1.8709%** | **1.8709%** |

(1) Based on base sales price for 23 units in Tax Class 1 of Zone 6 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of Land Assessed Value to Total Assessed Value is assumed to be 0.448 based on the Price Point Study.
(3) Based on expected unit size for 23 units in Tax Class 1 of Zone 6.
(4) Based on the average lot size for all 70 units in Zone 6.
(5) Based on the actual Fiscal Year 2014-15 *ad valorem* rate unless otherwise noted.
(6) Percent of land value of 0.13036% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.448 based on the Price Point Study.
(7) Based on the Fiscal Year 2014-15 rate of $5.02 per benefit unit. Residential parcels are assessed at one benefit unit.
(8) Based on the Fiscal Year 2014-15 rate of $1.92 per benefit unit. Residential parcels are assessed at one benefit unit.
(9) Based on the Fiscal Year 2014-15 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Based on the Fiscal Year 2014-15 rate of $16.71 per parcel.
(11) Projected Special Tax is based on the Fiscal Year 2015-16 Assigned Special Tax of $7,466.00 per unit. Maximum Special Tax is based on the greater of the Fiscal Year 2015-16 Assigned Special Tax of $7,466.00 per unit or the Backup Special Tax of $45,802.00 per acre.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

# APPENDIX J

# MARKET ABSORPTION STUDY

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# COMMUNITY FACILITIES DISTRICT NO. 2015-1
# (VILLAGE OF ESENCIA)

## MARKET ABSORPTION STUDY

PREPARED FOR:
COUNTY OF ORANGE
ORANGE COUNTY, CALIFORNIA

PREPARED BY:
EMPIRE ECONOMICS, INC.
JOSEPH T. JANCZYK, PH.D

MAY 18, 2015
(Revised July 6, 2015: Added the Apartment Project)

# TABLE OF CONTENTS

# INTRODUCTION

## A. OVERVIEW OF THE BOND FINANCING PROGRAM

Rancho Mission Viejo requested that the County of Orange form Community Facilities District No. 2015-1 (CFD No. 2015-1) to assist with the financing for the public infrastructure that is required to support the development of the forthcoming residential projects in the Planned Community of "Village of Esencia".

CFD No. 2015-1 is located in a newly developing area in the southerly portion of the County of Orange, easterly of the City of San Juan Capistrano, immediately to the east of Sendero - a currently active Planned Community, and south-easterly of the established 8,000+ home Planned Community of Ladera Ranch.

CFD No. 2015-1 encompasses the Planned Community of "Village of Esencia" which is expected to have 1,103 homes. Rancho Mission Viejo, the developer, has partitioned the Village of Esencia into thirteen residential projects, and the parcels with for-sale homes have already been purchased by seven different builders. Empire Economics Inc. (Empire) has categorized these apartment and for-sale residential projects into six major market segments, based upon their age qualifications and product types:

- Apartment: 263 units: 150 market-rate and 113 affordable
- Age-Qualified: 55+
  - Attached Product: 1 project
  - Detached Product: 3 projects
- All-Ages:
  - Attached Product: 1 project
  - Detached Product – Smaller Sq.Ft.: 3 projects
  - Detached Product – Larger Sq.Ft.: 4 projects

The County of Orange retained Empire, an economic and real estate consulting firm, to perform a Market Absorption Study for the forthcoming projects in CFD No. 2015-1. The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors that are expected to influence the absorption of the forthcoming homes in CFD No. 2015-1, in order to arrive at conclusions regarding the following:

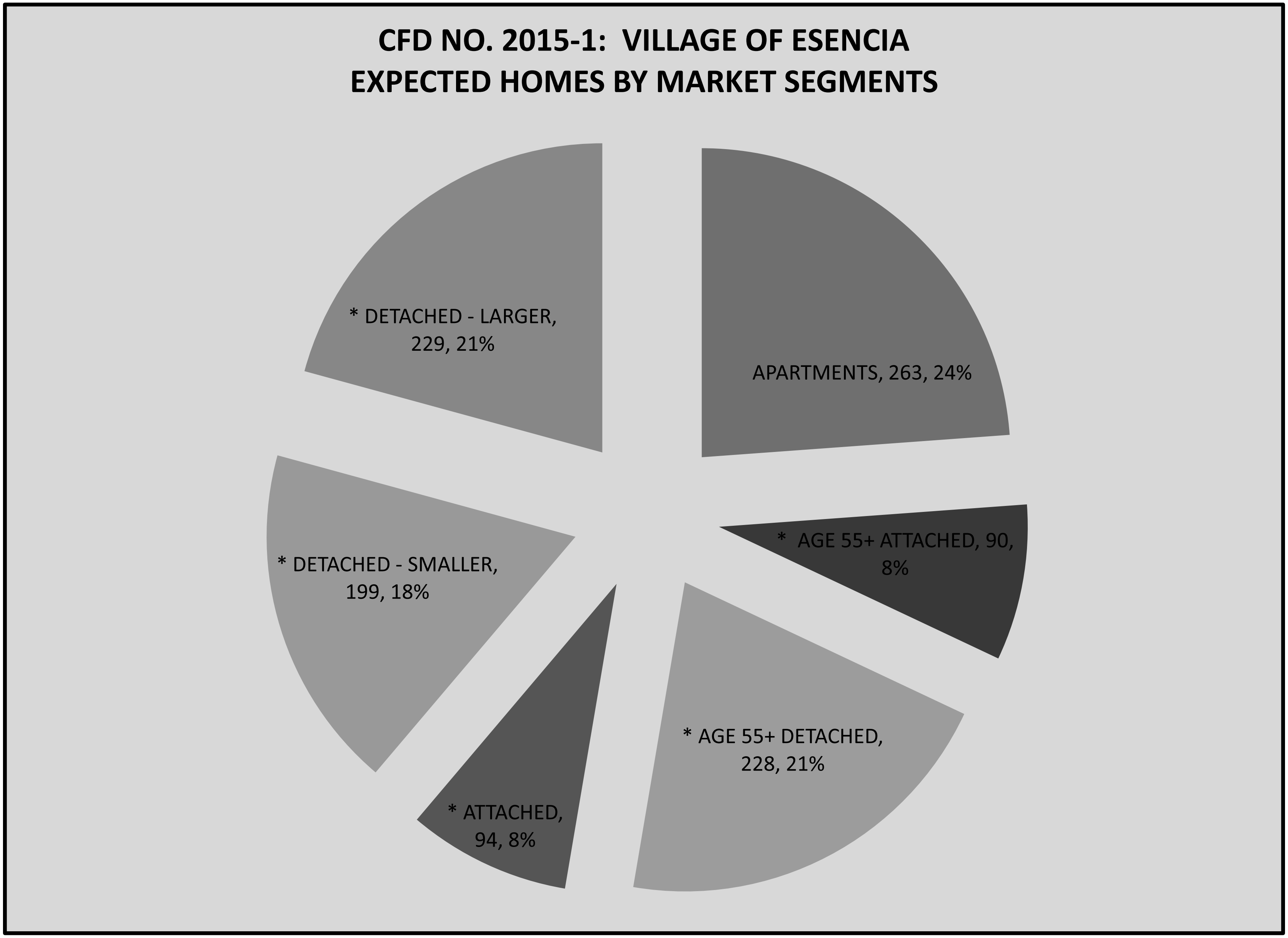
- Estimated absorption schedules for the homes in each of the twelve projects, from market-entry to build-out, on an annualized basis.
- Discussion of potential economic, financial and real estate risk factors that may adversely impact their marketability.

The relevant geographical areas for the economic and real estate research are as follows:

- Market Region includes all of the cities/communities within Orange County, as a whole
- Market Area encompasses the currently active residential projects in south Orange County



For information on the location of CFD No. 2015-1, please refer to the maps on the following pages.


CFD NO. 2015-1: VILLAGE OF ESENCIA
EXPECTED HOMES BY MARKET SEGMENTS
* DETACHED - LARGER, 229, 21%
APARTMENTS, 263, 24%
* AGE 55+ ATTACHED, 90, 8%
* DETACHED - SMALLER, 199, 18%
* AGE 55+ DETACHED, 228, 21%
* ATTACHED, 94, 8%

# SOUTHERN CALIFORNIA MARKET REGION:
# LOCATION OF CFD NO. 2015-1: VILLAGE OF ESENCIA

# SOUTH ORANGE COUNTY
# APPROXIMATE LOCATION OF CFD NO. 2015-1
# (VILLAGE OF ESENCIA)

## B. ROLES OF THE MARKET ABSORPTION STUDY FOR THE BOND FINANCING

The Market Absorption Study for CFD No. 2015-1 has a multiplicity of roles with regards to the Bond Financing; accordingly, these are set-forth below:

**Marketing Prospects for the Residential Products**

Estimated Absorption Schedules:
Escrow Closings of Homes to Homeowners,
From Market-Entry to Build-Out for
Each of the Twelve Projects

Potential Risk Factors that may Adversely Impact
the Marketability of the Projects

**Relationship of the Market Study to the Special Tax Payments**

Special Taxes for the Residential Projects/Products

Aggregate Levels of Special Tax Revenues for Bond Sizing

Absorption Rate Determines Shares of Payments:
Developer/Builders vs. Final-Users/Homeowners

**Relationship of the Market Absorption Study to the Appraisal/Valuation**

Appraisal of Property
Appraiser Uses Absorption Schedules for
Discounted Cash Flow – Present Value

(The Longer the Absorption Time, the Lower the Present Value)

## C. METHODOLOGY UNDERLYING THE MARKET ABSORPTION STUDY FOR CFD NO. 2015-1

The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the homes in CFD No. 2015-1 (Village of Esencia); the primary components of the Study are as follows:

**I. Expected Product Mix Characteristics**

**II. Economic and Real Estate Model Underlying the Market Absorption Study**

**III. Overview of the Development Trends/Patterns and Socioeconomic Factors**

**IV. Competitive Market Analysis of the Residential Projects**

**V. Estimated Absorption Schedules for the Projects/Products**

**Assumptions and Limiting Conditions**

## D. CERTIFICATION OF INDEPENDENCE

## EMPIRE ECONOMICS PROVIDES CONSULTING SERVICES ONLY FOR PUBLIC ENTITIES

The Securities & Exchange Commission has taken action against firms that have utilized their research analysts to promote companies with whom they conduct business, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients, including the County of Orange, are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence.

**This Certificate states that Empire performs consulting services only for public entities such as the County of Orange, in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builders.**

For example, if a research firm for a specific Community Facilities District were to provide consulting services to both the public entity as well as the property owner/developer/builders, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

Accordingly, Empire Economics certifies that the Market Absorption Study for the CFD No. 2015-1 of the County of Orange was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the County of Orange, not the CFD's developer/builders.
- Empire has not performed any consulting services for the CFD's property owner or the developer/builders during the past twenty+ years.
- Empire will not perform any consulting services for the CFD's property owner or the developer/builders during the next five years.
- Empire's compensation for performing the Market Absorption Study for the CFD is not contingent upon the issuance of bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 2015-1 of the County of Orange was performed in an independent professional manner.

## SECTION I
## EXPECTED FOR-SALE RESIDENTIAL PRODUCT MIX CHARACTERISTICS

CFD No. 2015-1, which encompasses The Village of Esencia,, is expected to have a total of 840 for-sale homes in twelve different projects by seven different builders. Empire has partitioned these projects into five distinct market segments, based upon age-qualified vs. all ages as well as attached vs. detached; accordingly, their characteristics are as follows:

- **Age-Qualified 55+ Attached Product** segment has one project (planning areas AQ-1) by William Lyon Homes that is expected to have 90 homes. Their estimated base prices range from $510,000 to $568,000, for an overall average of about $540,000. Their living areas range from 1,456 sq.ft. to 1,950 sq.ft., for an overall average of about 1,686 sq.ft. The value ratio (price/living area) amounts to $320/sq.ft. and their total tax burden (ad valorem and other special taxes/assessments) is not expected to exceed 1.80%.

- **Age-Qualified 55+ Detached Product** segment has three projects (AQ-11, AQ-13, and AQ-21), including Standard Pacific (1) and Shea Homes (2), that are expected to have 228 homes. Their estimated base prices range from $617,000 to $980,000, for an overall average of about $776,000. Their living areas range from 1,509 sq.ft. to 2,589 sq.ft., for an overall average of about 2,097 sq.ft. The value ratio amounts to $370/sq.ft. and their total tax burden is not expected to exceed 1.80%.

- **All-Ages Attached Product** segment has one project (MR-1) by William Lyon Homes that is expected to have 94 homes. The estimated base prices range from $380,000 to $500,000, for an overall average of about $436,000. Their living areas range from 1,361 sq.ft. to 1,802 sq.ft., for an overall average of about 1,557 sq.ft. The value ratio amounts to $280/sq.ft. and their total tax burden is not expected to exceed 2.00%.

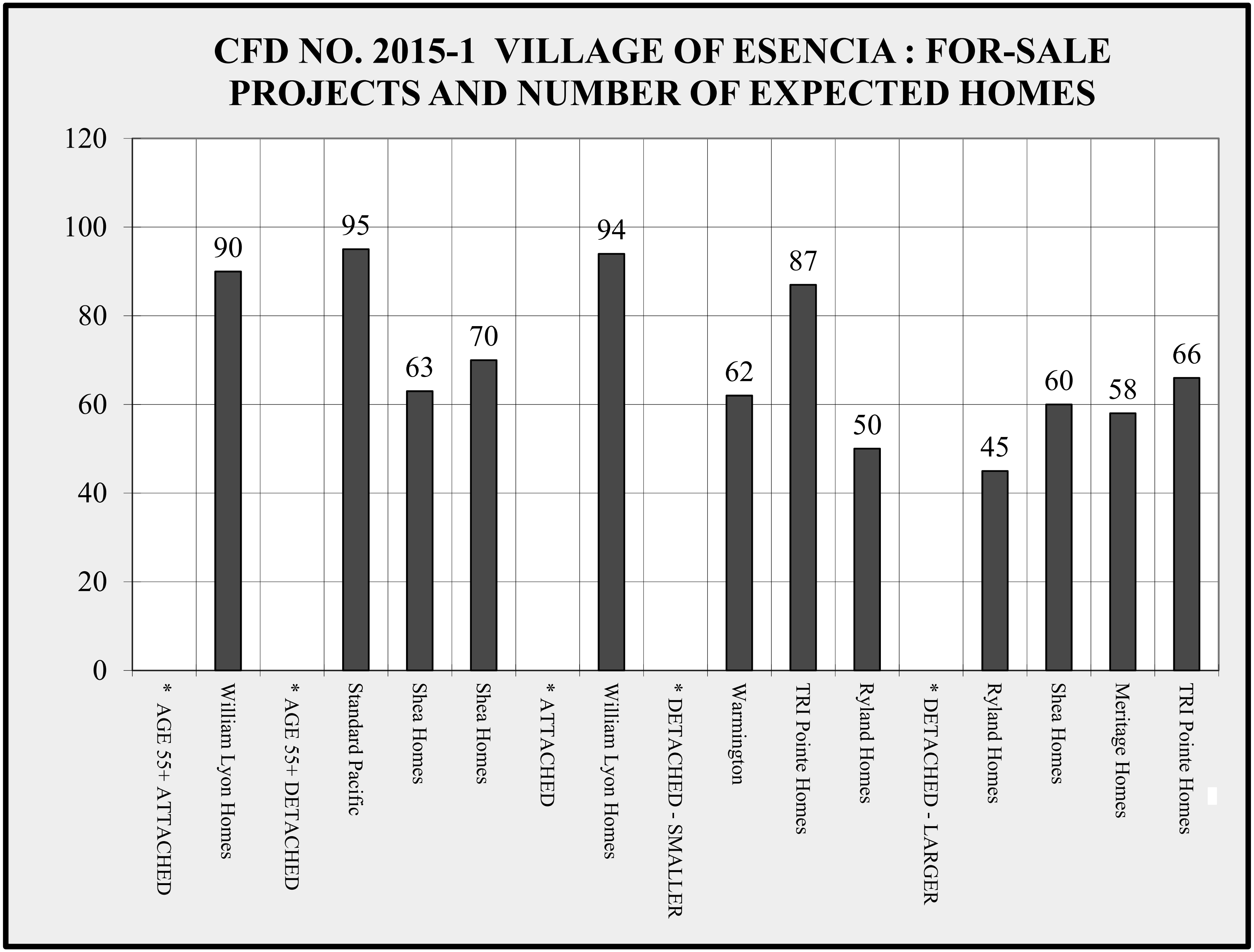
- **All-Ages Detached Product - Smaller (Below 2,200 sq.ft.)** segment has three projects (MR-14, MR-15, and MR-17), including Warmington (1), TRI Pointe (1) and Ryland Homes (1), that are expected to have 199 homes. Their estimated base prices range from $560,000 to $670,000, for an overall average of about $601,000. Their living areas range from 1,526 sq.ft. to 2,205 sq.ft., for an overall average of about 1,839 sq.ft. The value ratio amounts to $327/sq.ft. and their total tax burden is not expected to exceed 2.00%.

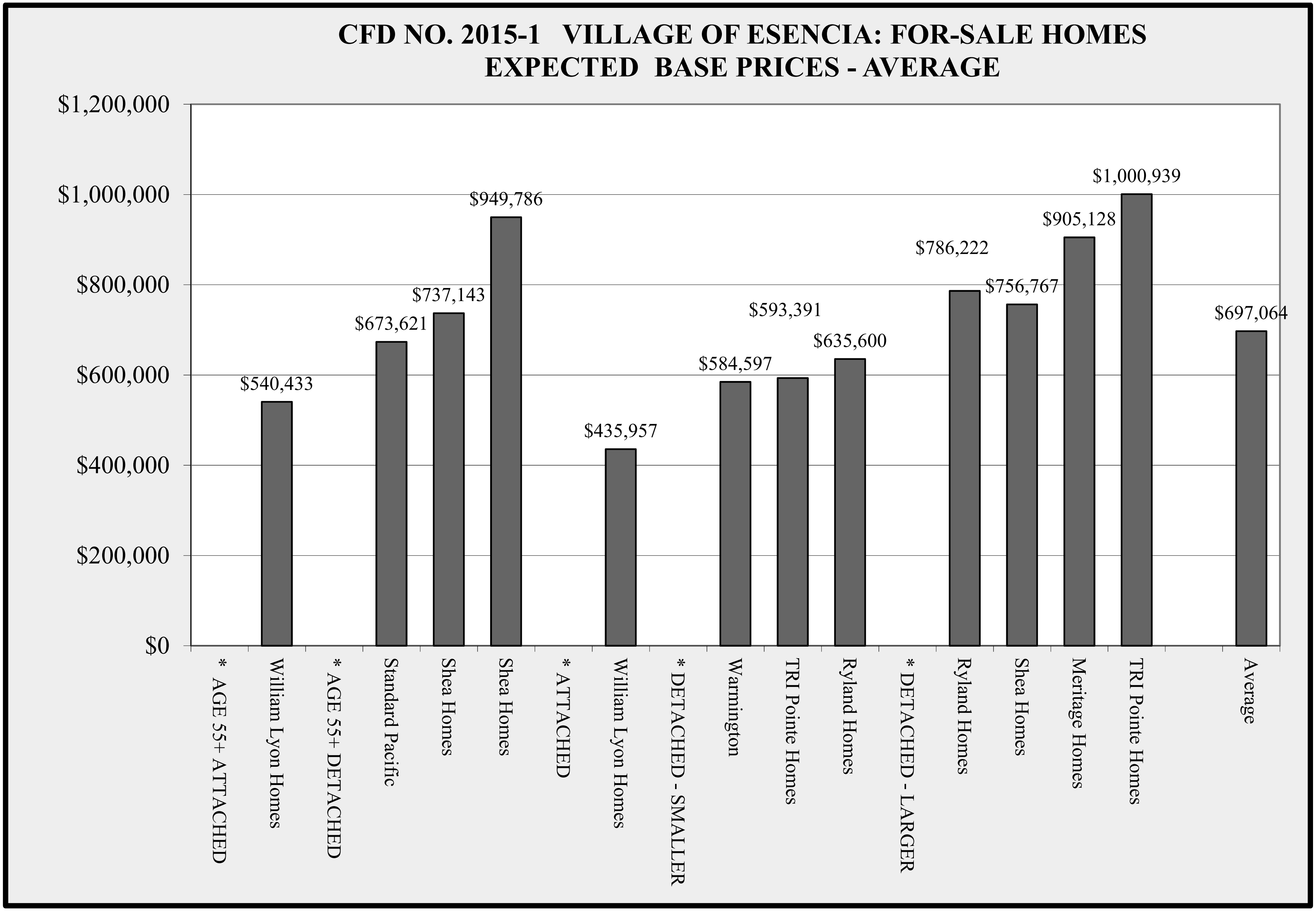
- **All-Ages Detached Product - Larger (Above 2,200 sq.ft.)** segment has four projects (MR-19, MR-22, MR-23, and MR-24), including Ryland (1), Shea (1), TRI Pointe (1) and Meritage (1), that are expected to have 229 homes. Their estimated base prices range from $712,000 to $1,056,000, for an overall average of about $871,000. Their living areas range from 2,207 sq.ft. to 3,751 sq.ft., for an overall average of about 2,901 sq.ft. The value ratio amounts to $301/sq.ft. and their total tax burden is not expected to exceed 2.00%.

So, for all of the projects, as a whole, the base prices amount to some $697,000, on the average, and they have a range of $380,000 to $1,056,000. While their living areas amount to some 2,151 sq.ft., on the average, and they have a range of 1,361 to 3,751 sq.ft. Their overall value ratio amounts to $324/sq.ft., on the average. The total tax burdens are not expected to exceed 1.80% for the age qualified and 2.00% for the all-age products.

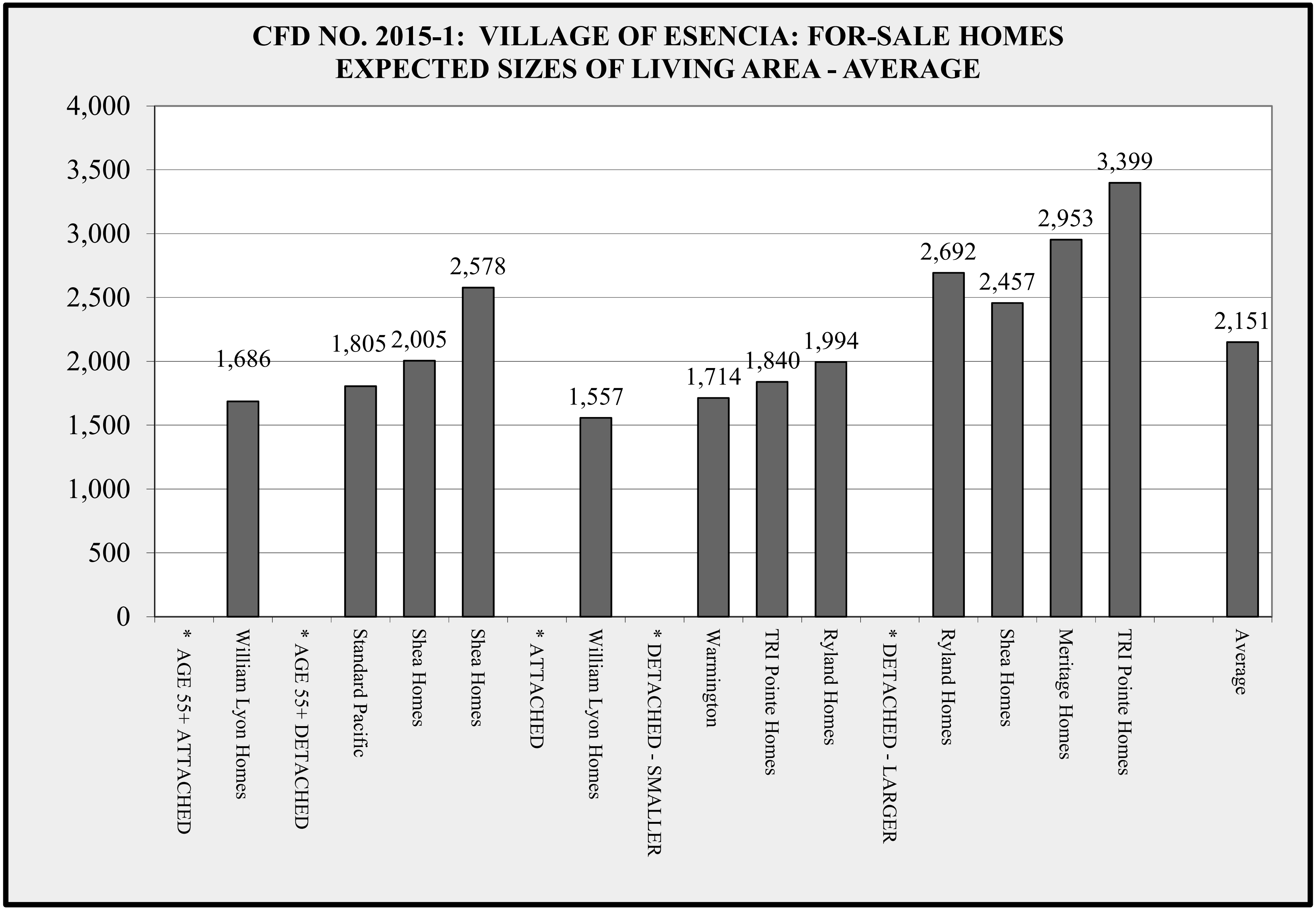


For more information on these projects, please refer to the following graphs and table.


CFD NO. 2015-1 VILLAGE OF ESENCIA : FOR-SALE PROJECTS AND NUMBER OF EXPECTED HOMES
120
100
80
60
40
20
0
90
95
63
70
94
62
87
50
45
60
58
66
* AGE 55+ ATTACHED
William Lyon Homes
* AGE 55+ DETACHED
Standard Pacific
Shea Homes
Shea Homes
* ATTACHED
William Lyon Homes
* DETACHED - SMALLER
Warmington
TRI Pointe Homes
Ryland Homes
* DETACHED - LARGER
Ryland Homes
Shea Homes
Meritage Homes
TRI Pointe Homes



CFD NO. 2015-1 VILLAGE OF ESENCIA: FOR-SALE HOMES
EXPECTED BASE PRICES - AVERAGE
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
$540,433
$673,621
$737,143
$949,786
$435,957
$584,597
$593,391
$635,600
$786,222
$756,767
$905,128
$1,000,939
$697,064
* AGE 55+ ATTACHED
William Lyon Homes
* AGE 55+ DETACHED
Standard Pacific
Shea Homes
Shea Homes
* ATTACHED
William Lyon Homes
* DETACHED - SMALLER
Warmington
TRI Pointe Homes
Ryland Homes
* DETACHED - LARGER
Ryland Homes
Shea Homes
Meritage Homes
TRI Pointe Homes
Average


CFD NO. 2015-1: VILLAGE OF ESENCIA: FOR-SALE HOMES
EXPECTED SIZES OF LIVING AREA - AVERAGE
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
1,686
1,805
2,005
2,578
1,557
1,714
1,840
1,994
2,692
2,457
2,953
3,399
2,151
* AGE 55+ ATTACHED
William Lyon Homes
* AGE 55+ DETACHED
Standard Pacific
Shea Homes
Shea Homes
* ATTACHED
William Lyon Homes
* DETACHED - SMALLER
Warmington
TRI Pointe Homes
Ryland Homes
* DETACHED - LARGER
Ryland Homes
Shea Homes
Meritage Homes
TRI Pointe Homes
Average

# EXPECTED CHARACTERISTICS OF THE FORTHCOMING PROJECTS IN CFD NO. 2015-1

| | Apartment | Age Qualified (Age 55+) | | | | All Ages | | | | | | | | Overall | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Market Segments >** | **Rentals** | **Attached** | **Detached** | **Detached** | **Detached** | **Attached** | **Detach-Small** | **Detach-Small** | **Detach-Small** | **Detach - Large** | **Detach - Large** | **Detach - Large** | **Detach - Large** | **Totals** | **Averages** |
| | | | | | | | | | | | | | | | |
| **Planning Area >** | | AQ-1 | AQ-11 | AQ-13 | AQ-21 | MR-1 | MR-14 | MR-15 | MR-17 | MR-19 | MR-22 | MR-23 | MR-24 | | |
| | | | | | | | | | | | | | | | |
| **Builder >** | | William Lyon Homes | Standard Pacific | Shea Homes | Shea Homes | William Lyon Home | Warmington | TRI Pointe Homes | Ryland Homes | Ryland Homes | Shea Homes | Meritage Homes | TRI Pointe Homes | | |
| | | | | | | | | | | | | | | | |
| **Housing Units** | | | | | | | | | | | | | | | |
| Totals | 263 | 90 | 95 | 63 | 70 | 94 | 62 | 87 | 50 | 45 | 60 | 58 | 66 | 1,103 | |
| Share | 23.8% | 8.2% | 8.6% | 5.7% | 6.3% | 8.5% | 5.6% | 7.9% | 4.5% | 4.1% | 5.4% | 5.3% | 6.0% | 100.0% | |
| | | | | | | | | | | | | | | | |
| **Marketing Status:** | | | | | | | | | | | | | | | |
| Closed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Future Closings | 263 | 90 | 95 | 63 | 70 | 94 | 62 | 87 | 50 | 45 | 60 | 58 | 66 | 1,103 | |
| **Market Segment-Totals>** | 263 | 90 | | 228 | | 94 | | 199 | | | 229 | | | | |
| | | | | | | | | | | | | | | | |
| **Expected Product Mix** | | | | | | | | | | | | | | | |
| Plan # 1 | N/A | 23 | 13 | 15 | 24 | 18 | 15 | 39 | 16 | 12 | 18 | 18 | 21 | | |
| Plan # 2 | | 11 | 13 | 20 | 23 | 14 | 21 | 28 | 15 | 13 | 20 | 19 | 22 | | |
| Plan # 3 | | 11 | 34 | 15 | 23 | 14 | 11 | 20 | 19 | 5 | 22 | 21 | 23 | | |
| Plan # 4 | | 32 | 18 | 13 | | 30 | 15 | | | 5 | | | | | |
| Plan # 5 | | 13 | 17 | | | 18 | | | | 5 | | | | | |
| Plan # 6 | | | | | | | | | | 5 | | | | | |
| **Totals** | 263 | 90 | 95 | 63 | 70 | 94 | 62 | 87 | 50 | 45 | 60 | 58 | 66 | | 1,103 |
| | | | | | | | | | | | | | | | |
| **Living Areas (Sq. Ft.)** | | | | | | | | | | | | | | | |
| Plan # 1 | N/A | 1,456 | 1,509 | 1,816 | 2,323 | 1,361 | 1,526 | 1,779 | 1,797 | 2,351 | 2,207 | 2,698 | 3,097 | | |
| Plan # 2 | | 1,546 | 1,937 | 1,831 | 2,832 | 1,425 | 1,726 | 1,855 | 1,937 | 2,519 | 2,450 | 2,910 | 3,319 | | |
| Plan # 3 | | 1,936 | 1,718 | 2,116 | 2,589 | 1,618 | 1,693 | 1,937 | 2,205 | 2,665 | 2,669 | 3,211 | 3,751 | | |
| Plan # 4 | | 1,707 | 1,798 | 2,362 | | 1,560 | 1,899 | | | 3,094 | | | | | |
| Plan # 5 | | 1,950 | 2,110 | | | 1,802 | | | | 3,072 | | | | | |
| Plan # 6 | | | | | | | | | | 3,209 | | | | | |
| **Averages** | | 1,686 | 1,805 | 2,005 | 2,578 | 1,557 | 1,714 | 1,840 | 1,994 | 2,692 | 2,457 | 2,953 | 3,399 | | 2,151 |
| **Market Segment-Averages >** | | 1,686 | | 2,097 | | 1,557 | | 1,839 | | | 2,901 | | | | |
| | | | | | | | | | | | | | | | |
| **Current Prices** | | | | | | | | | | | | | | | |
| Plan # 1 | N/A | $510,000 | $617,000 | $705,000 | $935,000 | $390,000 | $560,000 | $575,000 | $600,000 | $730,000 | $712,000 | $836,990 | $950,000 | | |
| Plan # 2 | | $524,000 | $673,000 | $713,000 | $935,000 | $380,000 | $590,000 | $600,000 | $630,000 | $765,000 | $755,000 | $897,990 | $992,000 | | |
| Plan # 3 | | $563,000 | $668,000 | $760,000 | $980,000 | $460,000 | $580,000 | $620,000 | $670,000 | $785,000 | $795,000 | $969,990 | $1,056,000 | | |
| Plan # 4 | | $549,000 | $678,000 | $785,000 | | $440,000 | $605,000 | | | $820,000 | | | | | |
| Plan # 5 | | $568,000 | $724,000 | | | $500,000 | | | | $845,000 | | | | | |
| Plan # 6 | | | | | | | | | | $885,000 | | | | | |
| **Averages** | | $540,433 | $673,621 | $737,143 | $949,786 | $435,957 | $584,597 | $593,391 | $635,600 | $786,222 | $756,767 | $905,128 | $1,000,939 | | $697,064 |
| **Market Segment-Averages >** | | $540,433 | | $775,961 | | $435,957 | | $601,256 | | | $870,504 | | | | |
| | | | | | | | | | | | | | | | |
| **Value Ratios : (Price / Living Area)** | | $320 | $373 | $368 | $368 | $280 | $341 | $323 | $319 | $292 | $308 | $306 | $294 | | $324 |
| **Market Segment-Averages >** | | $320 | | $370 | | $280 | | $327 | | | $301 | | | | |
| | | | | | | | | | | | | | | | |
| **Tax Burden** | | | | | | | | | | | | | | | |
| **Ad Valorem - Percent of Price** | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | | 1.12% |
| **Special Taxes $/Yr - Avg.** | $1,863 | $3,675 | $4,581 | $5,013 | $6,459 | $3,836 | $5,144 | $5,222 | $5,593 | $6,919 | $6,660 | $7,965 | $8,808 | | $6,134 |
| *** Total Tax Burden %/Price** | | 1.80% | 1.80% | 1.80% | 1.80% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | | 2.00% |

# SECTION II

## ECONOMIC AND REAL ESTATE FORECASTING MODEL UNDERLYING THE MARKET ABSORPTION STUDY FOR THE CFD NO. 2015-1 – VILLAGE OF ESENCIA

This section describes the Economic and Real Estate Forecasting Model underlying the Market Absorption Study for the forthcoming residential projects in the CFD No. 2015-1 (Village of Esencia); accordingly, the primary components are as follows:

A. Overview of the Economic and Real Estate Forecasting Model

B. Critical Components of the Forecasting Model
   - Employment as the Primary Driver of Housing Demand and Prices
   - Mortgage Rates as a Secondary Economic Driver of Housing Demand and Prices
   - Levels of Mortgage Defaults
   - Sales of Existing and New Homes
   - New Residential Development Activity

C. Recent Employment Trends/Patterns in the County of Orange
   - Employment Trends/Patterns
   - Unemployment Rates: California, Orange County and Select Cities

D. Conclusion on Recent/Future Housing Market Conditions

# RECENT/EXPECTED REAL ESTATE MARKET TRENDS/PATTERNS FOR THE MARKET REGION AND MARKET AREA

## IMPACT OF EMPLOYMENT

STRONGER THAN ANTICIPATED EMPLOYMENT GROWTH ACCELERATES THE REAL ESTATE RECOVERY

⇧

**EMPLOYMENT CHANGES, WHICH DEPEND UPON THE OVERALL ECONOMY, MAY SHIFT THIS PARADIGM**

⇩

LOWER THAN ANTICIPATED EMPLOYMENT GROWTH ELONGATES THE REAL ESTATE RECOVERY

**PHASE 1: PRICE DECLINES 2007 TO 2009**

**HOUSING PRICES ADJUST FROM PEAK LEVELS BACK TO EQUILIBRIUM, BASED UPON HOUSEHOLD INCOMES AND CONVENTIONAL FINANCING TECHNIQUES**

**PRICES DECLINE SIGNIFICANTLY DUE INITIALLY TO MORTGAGE RESETS AND THEN PRICE DECLINES CONTINUE DUE TO NEGATIVE EQUITY FOR HOMEOWNERS**

**PHASE 2: PRICES STABILIZE 2010 TO 2012**

**FORECLOSURE AND SHORT-SALES DOMINATED THE MARKET**

**FORECLOSURE/SHORT SALES WERE A SIGNIFICANT COMPONENT OF THE MARKET**
**MARKET SALES OF EXISTING HOMES WERE MODERATE**
**SALES OF NEW HOMES WERE MINIMAL – DISPLACED BY FORECLOSURE SALES**

**MOST OF THE HOMES THAT HAVE SIGNIFICANT LEVELS OF NEGATIVE EQUITY WERE CLEARED IN THE MARKETPLACE**

**PHASE 3: HOUSING MARKET RECOVERY 2013-2015+**

**MODERATE/STRONG EMPLOYMENT GROWTH IN ORANGE COUNTY, AS A WHOLE, AND ALSO SOUTHERN ORANGE COUNTY , IN PARTICULAR**

**EMPLOYMENT GROWTH DRIVES HOUSING DEMAND AND PRICE APPRECIATION, SO THE MARKET IS SUFFICIENTLY STRONG TO SUPPORT NEW RESIDENTIAL PROJECTS**

**BUT POTENTIAL NEAR-TERM CHALLENGES ARE REDUCING THE FEDERAL DEFICIT AND THE FEDERAL RESERVE RE-BALANCING ITS FINANCIAL ACCOUNTS**

## IMPACT OF MORTGAGE RATES

LOWER THAN ANTICIPATED MORTGAGE RATES ACCELERATE THE REAL ESTATE RECOVERY

⇧

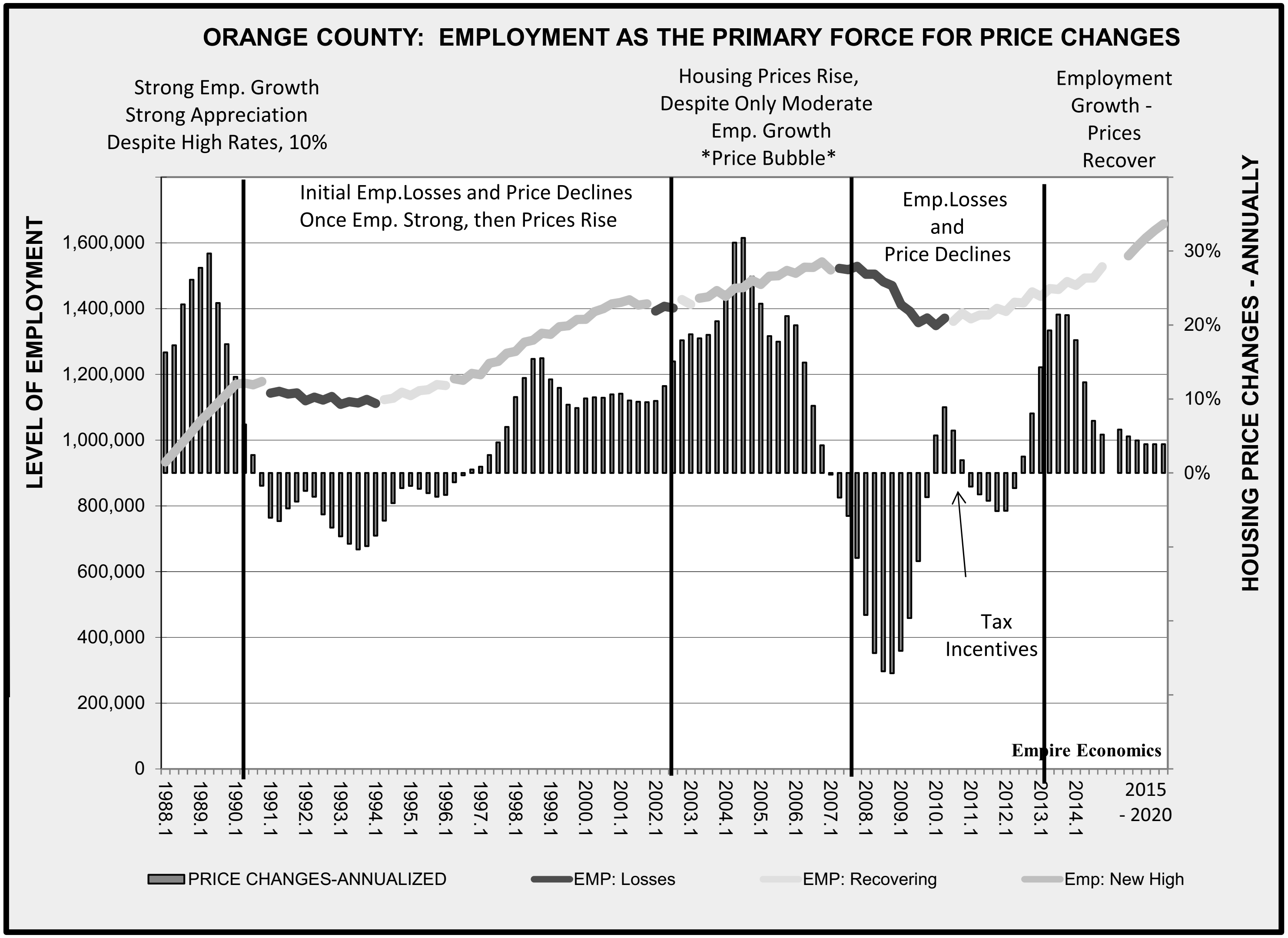
**THE LEVEL OF MORTGAGE RATES, WHICH DEPEND UPON THE RATE OF INFLATION, MAY SHIFT THIS PARADIGM**

⇩

HIGHER THAN ANTICIPATED MORTGAGE RATES ELONGATE THE REAL ESTATE RECOVERY

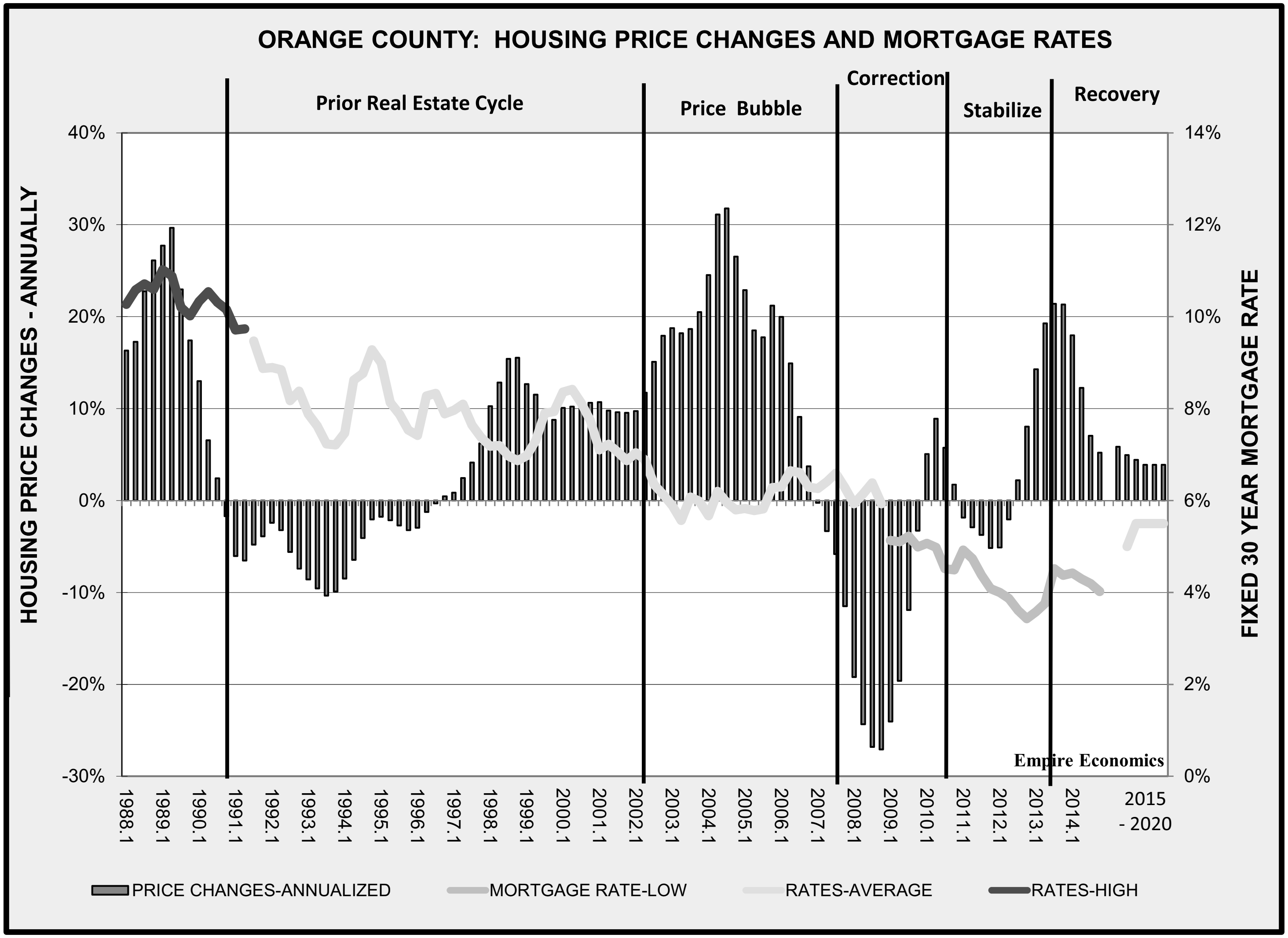
## B. CRITICAL COMPONENTS OF THE FORECASTING MODEL

EMPLOYMENT IS THE **PRIMARY ECONOMIC DRIVER** OF HOUSING DEMAND AND PRICE CHANGES
EMPLOYMENT GROWTH/LOSSES **DRIVE DEMAND AND PRICE INCREASES/DECREASES**

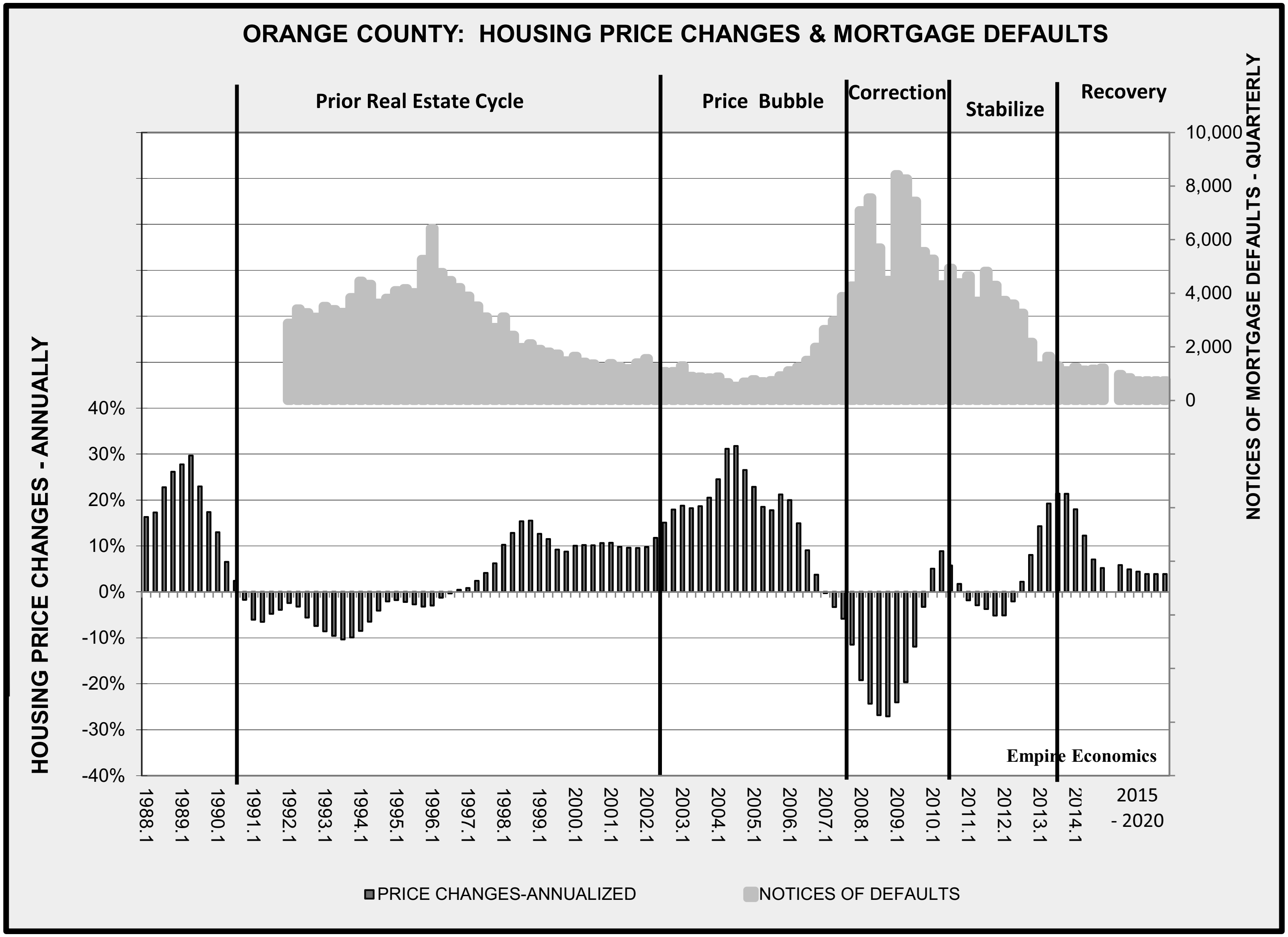


MORTGAGE RATES ARE A SECONDARY ECONOMIC DRIVER OF HOUSING PRICES:

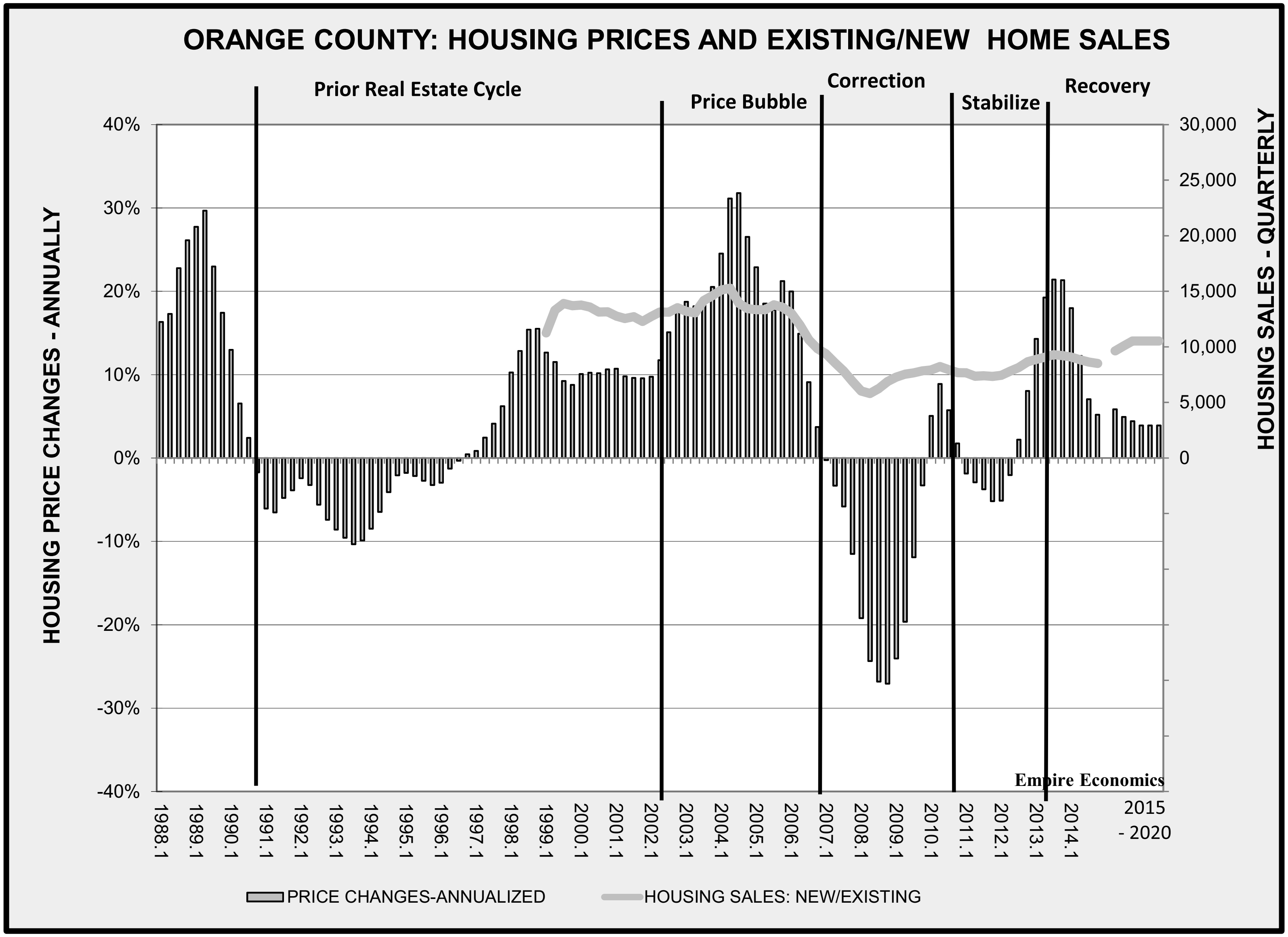
HIGH/LOW **MORTGAGE RATES HAVE A MODERATE INFLUENCE** ON HOUSING PRICES
**LENDING CRITERIA ALSO PLAYS ROLE**: LOOSE (2002-2006) VS. TIGHT (2010-2013)



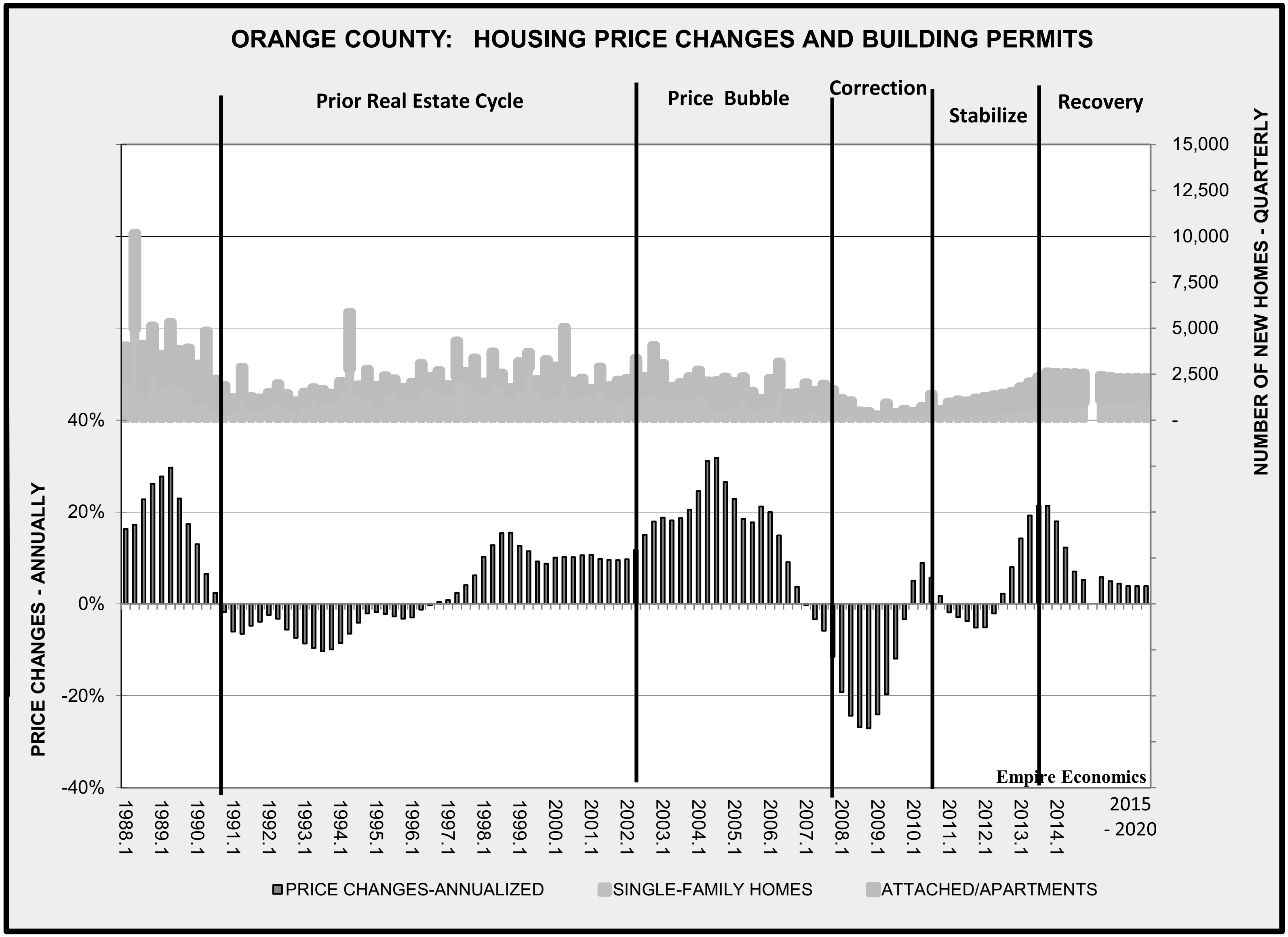
HIGH **LEVELS OF MORTGAGE DEFAULTS** CONTRIBUTE TO PRICE DECLINES
DUE TO EXCESS SUPPLY AND PRICE DISCOUNTS

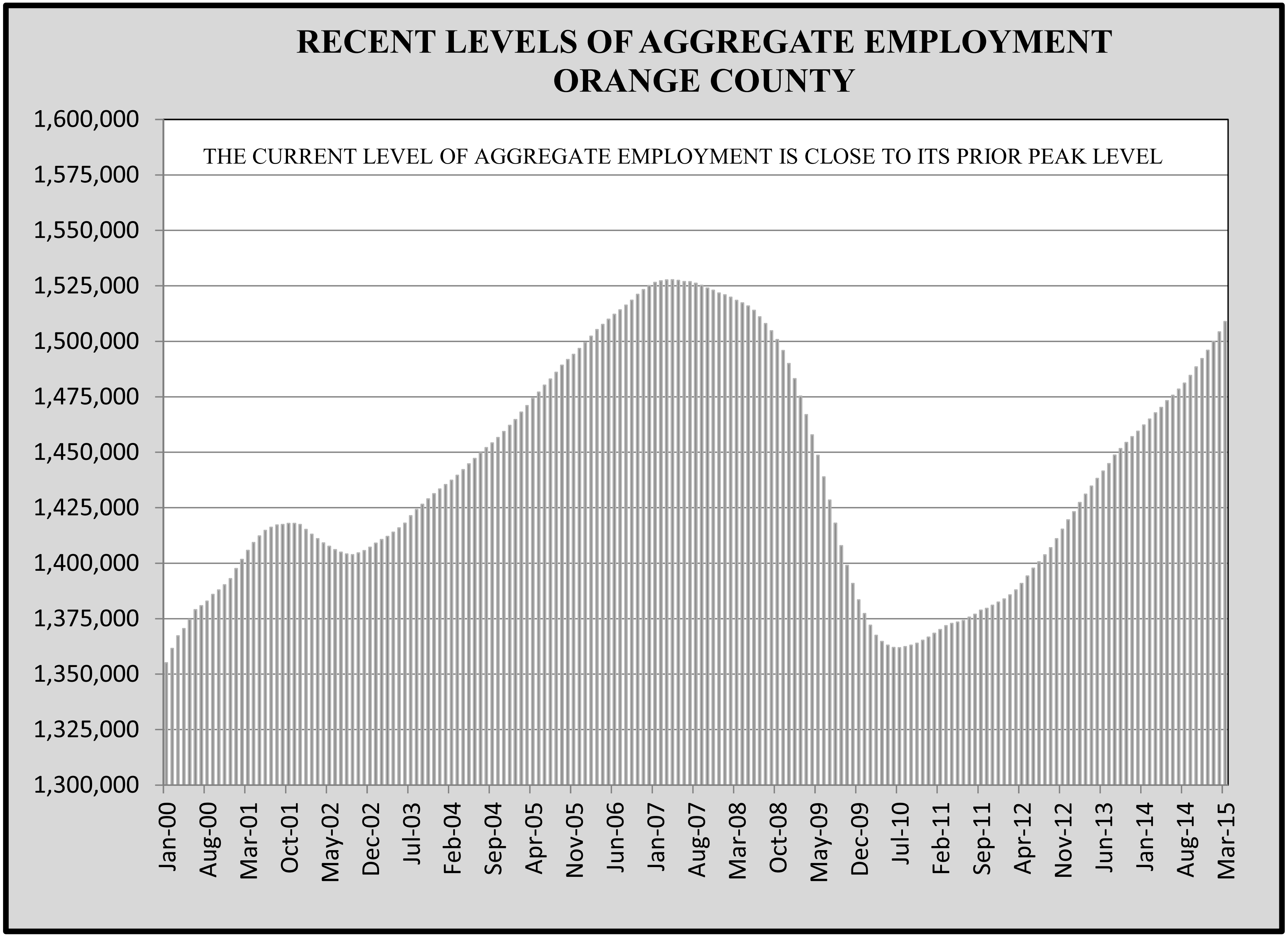


**SALES OF EXISTING AND NEW HOMES** ARE DRIVEN
PRIMARILY BY EMPLOYMENT GROWTH BUT ALSO MORTGAGE RATES

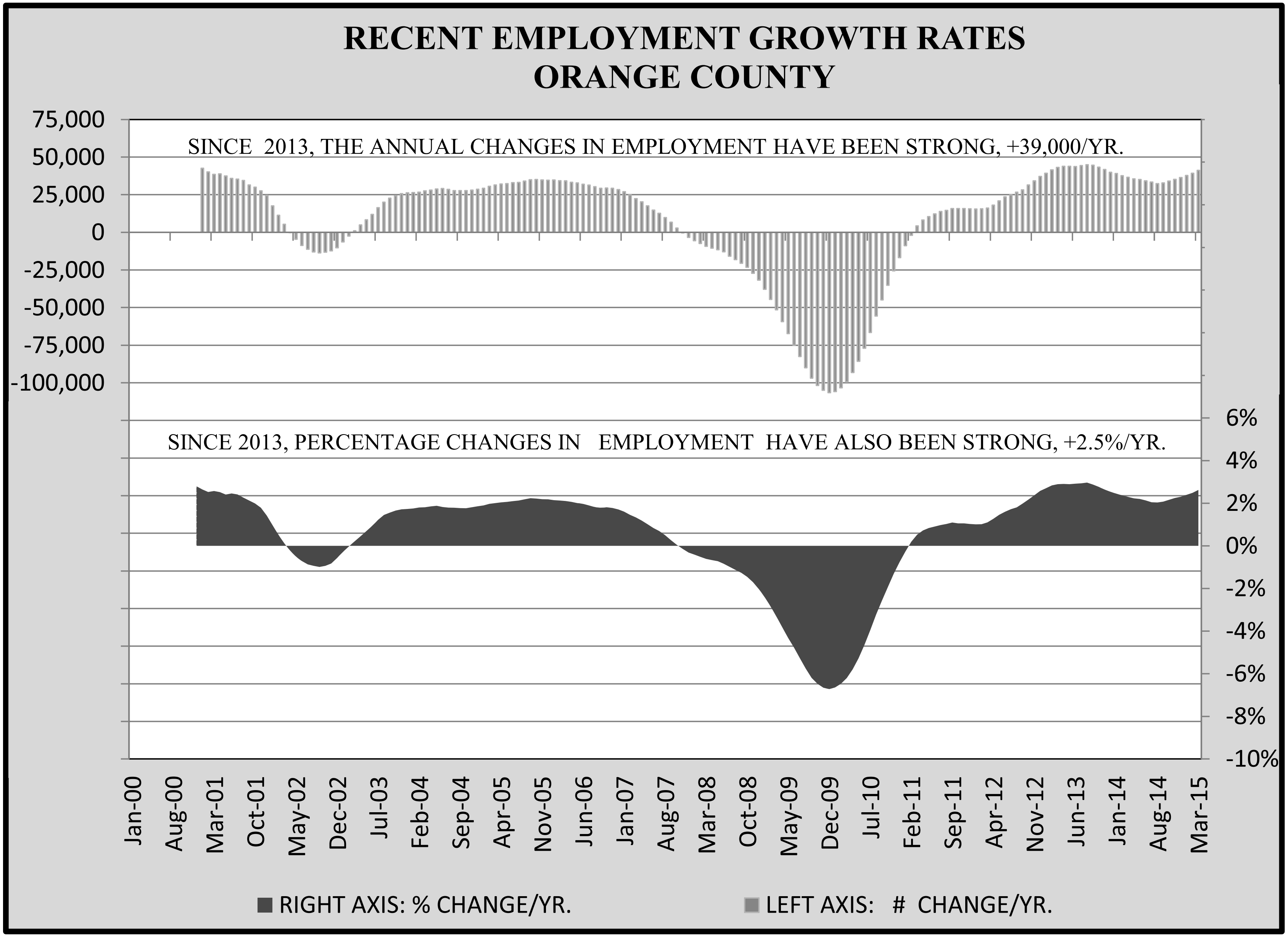


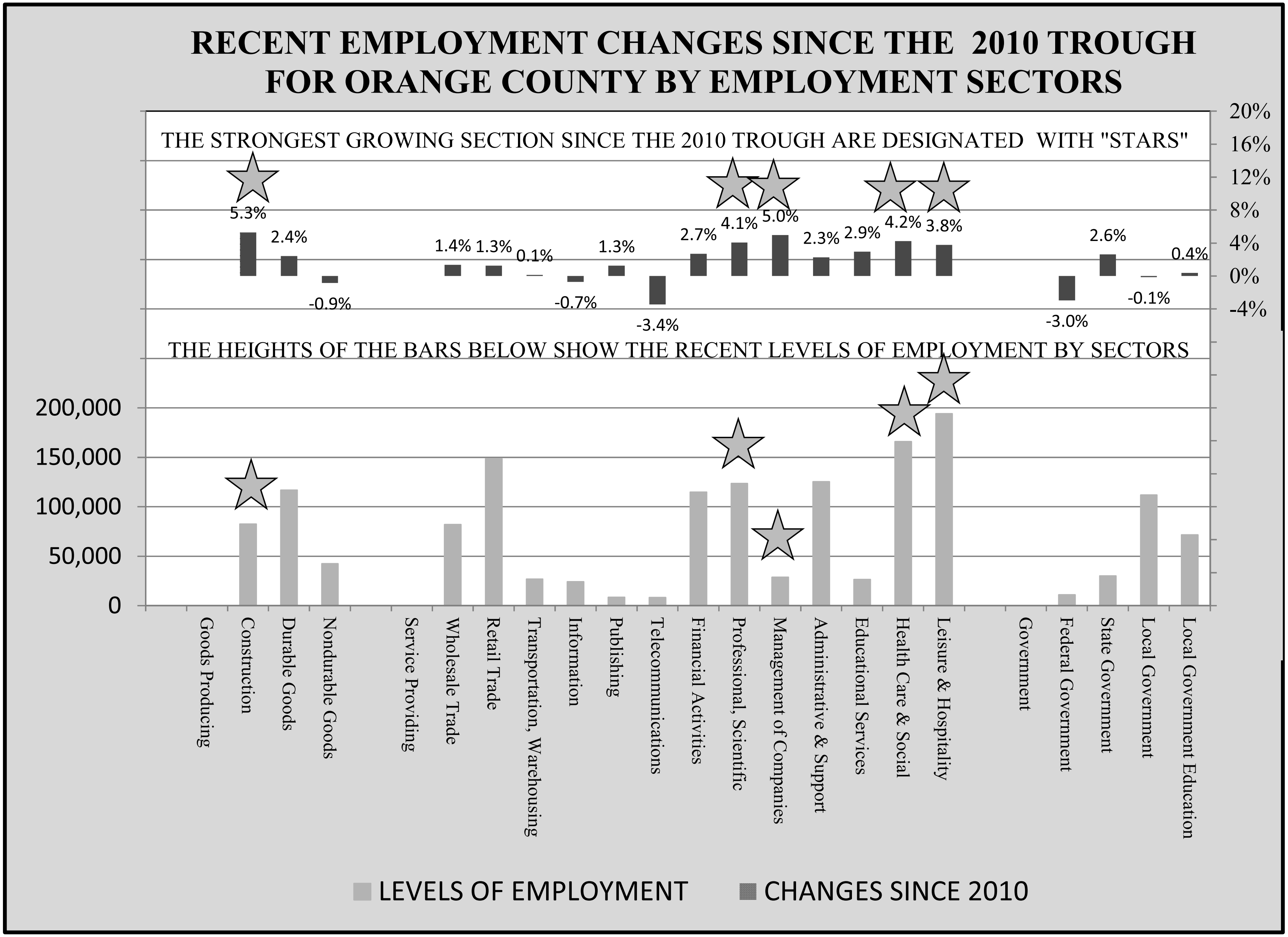
**NEW RESIDENTIAL DEVELOPMENT ACTIVITY** IS DRIVEN
BY EMPLOYMENT GROWTH AND HOUSING PRICE INCREASES





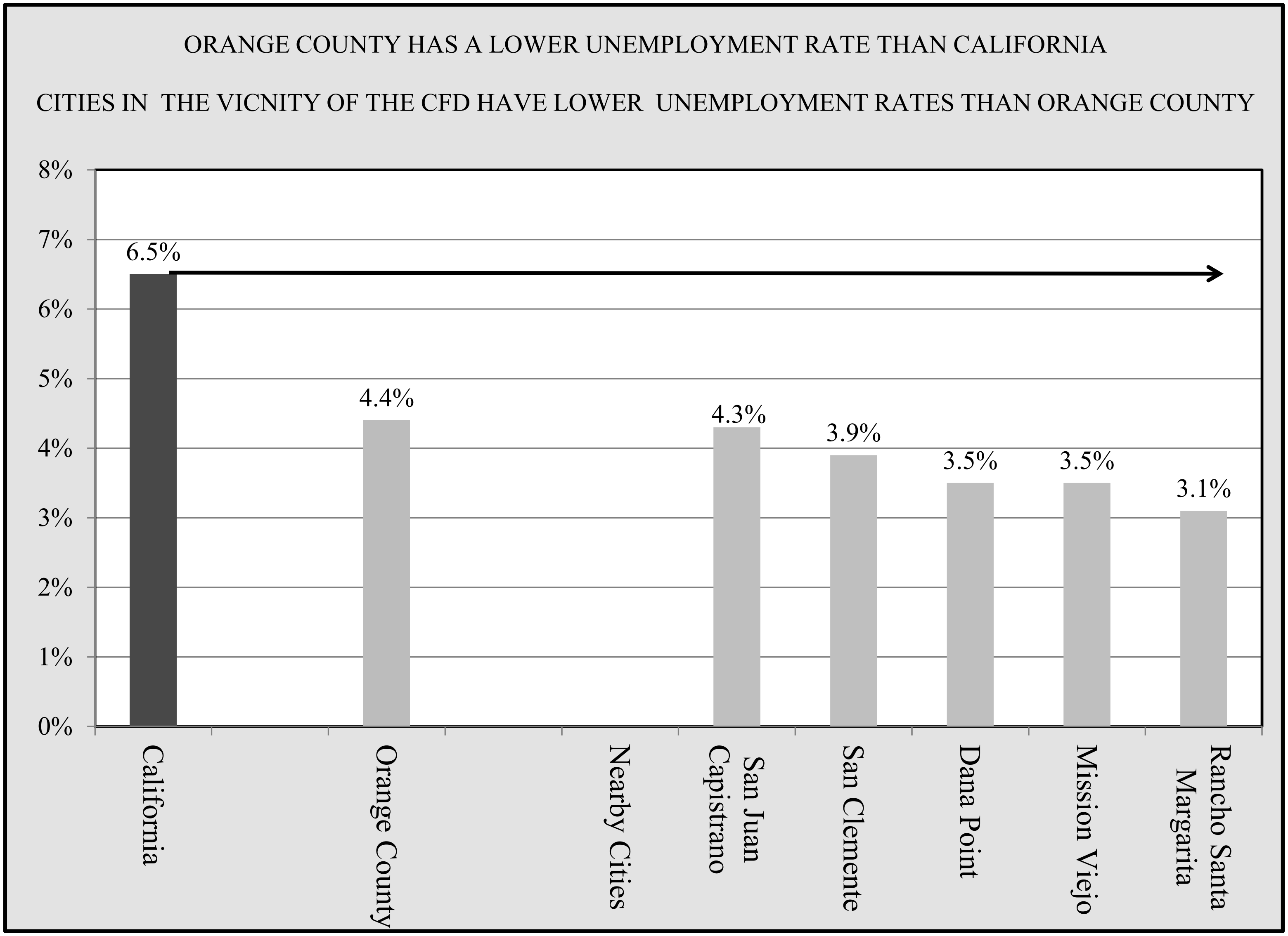
RECENT LEVELS OF AGGREGATE EMPLOYMENT
ORANGE COUNTY
THE CURRENT LEVEL OF AGGREGATE EMPLOYMENT IS CLOSE TO ITS PRIOR PEAK LEVEL
1,600,000
1,575,000
1,550,000
1,525,000
1,500,000
1,475,000
1,450,000
1,425,000
1,400,000
1,375,000
1,350,000
1,325,000
1,300,000
Jan-00
Aug-00
Mar-01
Oct-01
May-02
Dec-02
Jul-03
Feb-04
Sep-04
Apr-05
Nov-05
Jun-06
Jan-07
Aug-07
Mar-08
Oct-08
May-09
Dec-09
Jul-10
Feb-11
Sep-11
Apr-12
Nov-12
Jun-13
Jan-14
Aug-14
Mar-15


RECENT EMPLOYMENT GROWTH RATES
ORANGE COUNTY
SINCE 2013, THE ANNUAL CHANGES IN EMPLOYMENT HAVE BEEN STRONG, +39,000/YR.
SINCE 2013, PERCENTAGE CHANGES IN EMPLOYMENT HAVE ALSO BEEN STRONG, +2.5%/YR.
75,000
50,000
25,000
0
-25,000
-50,000
-75,000
-100,000
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
Jan-00
Aug-00
Mar-01
Oct-01
May-02
Dec-02
Jul-03
Feb-04
Sep-04
Apr-05
Nov-05
Jun-06
Jan-07
Aug-07
Mar-08
Oct-08
May-09
Dec-09
Jul-10
Feb-11
Sep-11
Apr-12
Nov-12
Jun-13
Jan-14
Aug-14
Mar-15
RIGHT AXIS: % CHANGE/YR.
LEFT AXIS: # CHANGE/YR.



RECENT EMPLOYMENT CHANGES SINCE THE 2010 TROUGH FOR ORANGE COUNTY BY EMPLOYMENT SECTORS
THE STRONGEST GROWING SECTION SINCE THE 2010 TROUGH ARE DESIGNATED WITH "STARS"
THE HEIGHTS OF THE BARS BELOW SHOW THE RECENT LEVELS OF EMPLOYMENT BY SECTORS
20%
16%
12%
8%
4%
0%
-4%
5.3%
2.4%
-0.9%
1.4%
1.3%
0.1%
-0.7%
1.3%
-3.4%
2.7%
4.1%
5.0%
2.3%
2.9%
4.2%
3.8%
-3.0%
2.6%
-0.1%
0.4%
200,000
150,000
100,000
50,000
0
Goods Producing
Construction
Durable Goods
Nondurable Goods
Service Providing
Wholesale Trade
Retail Trade
Transportation, Warehousing
Information
Publishing
Telecommunications
Financial Activities
Professional, Scientific
Management of Companies
Administrative & Support
Educational Services
Health Care & Social
Leisure & Hospitality
Government
Federal Government
State Government
Local Government
Local Government Education
LEVELS OF EMPLOYMENT
CHANGES SINCE 2010

## C. RECENT EMPLOYMENT TRENDS/PATTERNS: MARCH 2015



## D. CONCLUSIONS ON RECENT/FUTURE HOUSING MARKET CONDITIONS

The recent trends/patterns in Orange County's economy and housing market, along with Empire's forecast for economic growth and housing demand based upon its Designated Economic and Real Estate Scenario, are now discussed.

**Price Appreciation:** Starting in 2002, housing prices began to appreciate as mortgage rates declined. Then during 2004 to 2006 the rate of appreciation accelerated due to the pervasive use of non-conventional (creative) financing structures. During this time period, these financing structures and related financing factors, rather than employment growth, were the primary driving forces underlying the extraordinary rate of housing price appreciation for California and also for Orange County.

**Price Declines – Negative Equity**: During 2007 to 2009, housing prices decreased significantly, pushing a substantial proportion of homeowners who purchased their homes during the price bubble into a position of negative equity, especially those that had high loan to value ratios. The enormous number of homeowners under duress caused an over-supply of homes which, in turn, severely depressed new development activity.

**Foundation for Recovery:** Since 2009, and continuing through 2012, housing prices were relatively stable, and this enabled the housing market to go through a consolidation phase:

- Many homeowners with negative equity went through the foreclosure and short sales process.
- These homes, in turn, were purchased by new bona-fide homeowners as well as investors that benefited from lower prices. Although mortgage rates were very favorable, mortgage lending criteria were tighter for households and many investors were cash buyers.

**Market Recovery During 2013:** The housing market experienced a strong level of demand from home purchasers as well as investors who were attracted by the oversold market conditions, and their demand resulted in housing price increases of some 20% for Southern California, including Orange County.

**Normal Market Conditions During 2014+:** Employment, the traditional driver of housing price appreciation, is expected to increase at a moderate rate, and this will enable the housing market to return to its "historical" rate of price appreciation. However, unlike other recoveries, this recovery is not expected to surpass the recent price bubble peak in the near term due to the following macroeconomic conditions:

- Reducing the Federal Deficit through higher tax rates, reduced deductions and lower spending.
- Federal Reserve Board re-balancing its accounts by selling recently purchased securities.

**Economic Strength of the County of Orange:** The County of Orange is regarded as having favorable prospects, considering its recent growth rates as well as the size and diversity of its employment-economic base, along with its relatively low unemployment rate. These economic factors along with its future employment growth, will generate a strong level of demand for housing thereby providing support for the residential projects in CFD No. 2015-1.

# SECTION III

# OVERVIEW OF DEVELOPMENT TRENDS/PATTERNS AND SOCIOECONOMIC FACTORS

This section discusses the employment and residential development trends/patterns in the general vicinity of CFD No. 2015-1 as well as the County of Orange, and also the socioeconomic factors that households consider when purchasing a home, such as personal safety as well as educational quality.

## A. DEVELOPMENT TRENDS/PATTERNS IN THE MARKET AREA (SOUTH ORANGE COUNTY)

From a geographical regional perspective, the marketing potential of the forthcoming products in CFD No. 2015-1 involves an analysis of the existing/active/forthcoming Planned Communities, Retail Centers and Business Parks, in conjunction with the transportation system in south Orange County. South Orange County includes the portion of Orange County that is generally southerly of Route 55, spanning from the Newport-Tustin-Irvine at the northern portion, Aliso Viejo in the central area, and to San Clemente at the southern portion.

Business Parks generate employment through their industrial-office development while Planned Communities generate residential development which, in turn, generates a demand for Retail Centers; additionally, the flow of traffic between them is facilitated by the freeways and transportation corridors between them.

- **Primary Employment Center and Business Parks**

The currently established major employment center in south Orange County is the City of Irvine. For example, the City of Irvine has a robust economic base that has created 75,000+ net new jobs since 2003. There are also some secondary employment centers, such as Newport Beach, Aliso Viejo and Foothill Ranch, among others.

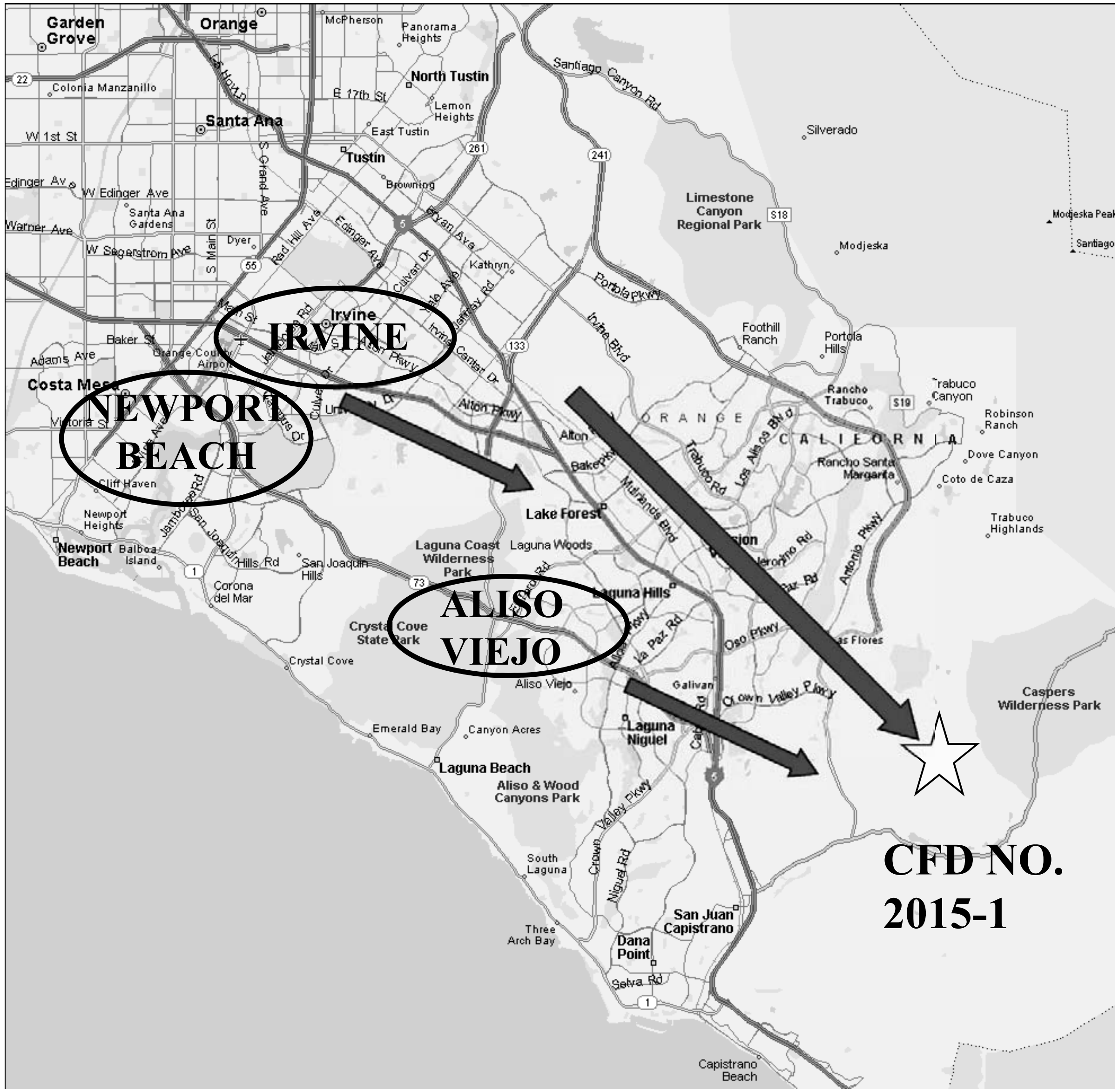
- **Commuting Patterns: Employment Centers to Residential Areas**

The employment growth in the primary as well as the secondary employment centers, in turn, generates a substantial demand for housing in CFD No. 2015-1 Market Area. Some of the households employed in the City of Irvine, due to its high housing prices, will seek moderately priced housing in other areas. Their commuting patterns are based upon the available transportation corridors, including the Interstate 5 freeway that links the City of Irvine to CFD No. 2015-1.

Therefore, CFD No. 2015-1 is situated in the south portion of Orange County, and it offers moderately priced housing opportunities for households that are employed in the Irvine-Tustin-Newport Beach and Aliso Viejo employment centers.

For additional information on the regional development patterns, please refer to the following exhibit.

## ECONOMIC BASES IN SOUTH ORANGE COUNTY THAT GENERATE A DEMAND FOR HOUSING FOR CFD NO. 2015-1

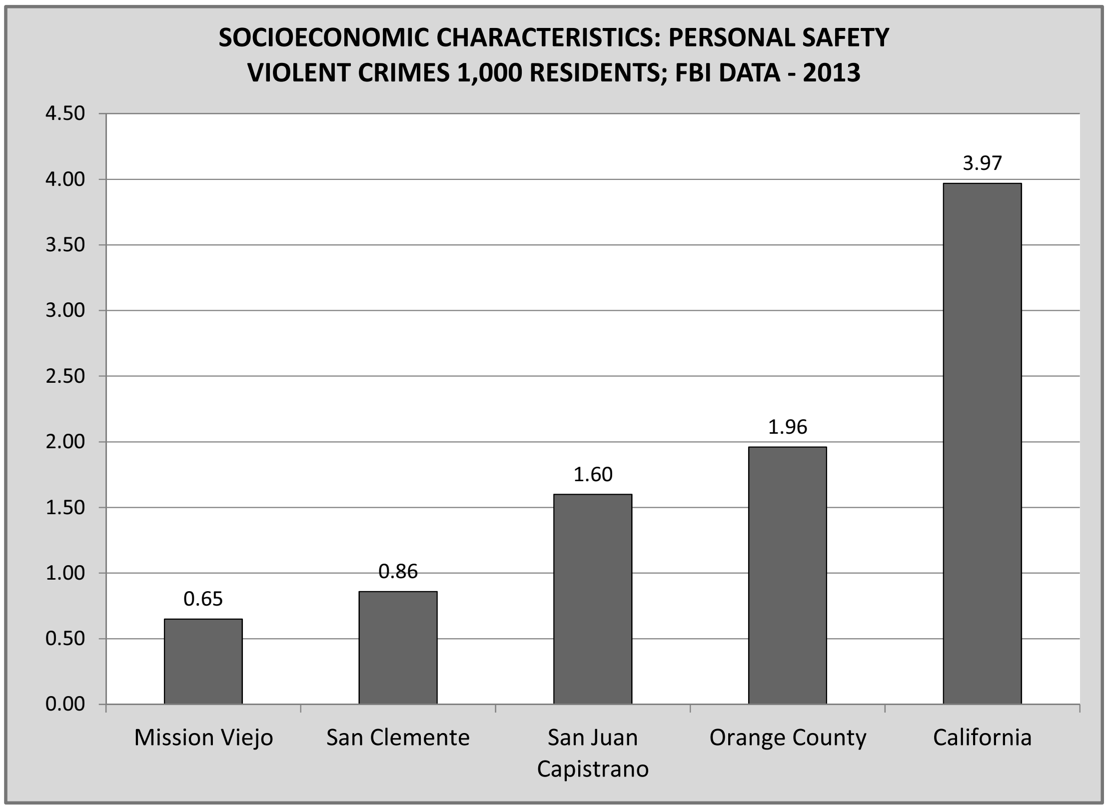


## B. SOCIOECONOMIC CHARACTERISTICS:
## CRIME LEVELS AND THE QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location of the residence relative to their place of employment and also the prices that they can afford. Furthermore, secondary socioeconomic factors that are significant include the neighborhood safety as well as the educational quality of the schools; accordingly, these are now discussed.

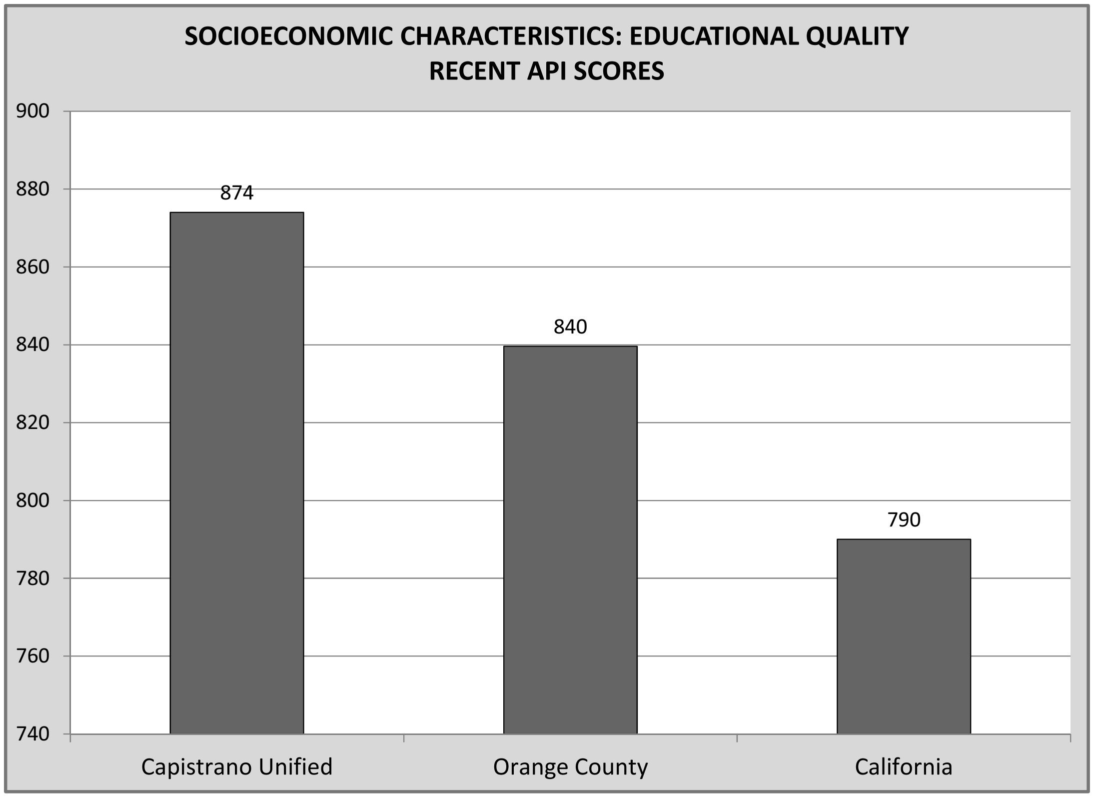
### Crime Levels and Safety in the County of Orange

To gauge the safety of the cities in the vicinity of CFD No.2015-1, information on crime levels was obtained utilizing the most recent data available (the 2013 calendar year) from the Federal Bureau of Investigation (FBI) Index, with a focus on "Violent Crimes." Accordingly, the County of Orange had a violent crime rate of 1.96, below that of California, which amounted to 3.97. Furthermore, the cities in the vicinity of CFD No. 2015-1 all had lower crime rates than the County of Orange, and these ranged from 0.65 for Mission Viejo to 1.60 for San Juan Capistrano.



## Quality of Schools and Education

To gauge the quality of schools in the vicinity of CFD No. 2015-1, information was compiled on educational achievement for Capistrano Unified School District utilizing the Academic Performance Index Scores (API), published by the California Department of Education; the most recent report available, has data from 2013  Accordingly, the Capistrano Unified School District has an API of 874, higher than the overall average for Orange County  of 840 and also higher than for California of 790 as a whole.




From a socioeconomic perspective, the cities in the vicinity of CFD No. 2015-1 have a significantly lower crime rate and the school district has a higher educational achievement level than for Orange County and California; accordingly, these positive socioeconomic factors support the demand for the forthcoming  homes in CFD No. 2015-1.

# SECTION IV

# COMPETITIVE MARKET ANALYSIS OF THE RESIDENTIAL PROJECTS IN THE CFD NO. 2015-1 COMPETITIVE MARKET AREA

The purpose of this section is to perform an analysis of the product types, prices, living areas and special taxes for the forthcoming homes in CFD No. 2015-1 (Villages of Esencia) as compared to other comparable/competing projects in various Planned Communities in the Competitive Market Area (south Orange County), in order to evaluate their competitiveness in the marketplace.

## A. IDENTIFICATION OF NEWLY DEVELOPING PLANNED COMMUNITIES WITH MARKET COMPARABLE PROJECTS

Market surveys were performed to identify the newly developing Planned Communities in the Competitive Market Area (CMA) and then information was compiled on the characteristics of their projects.

Identification of currently active comparable projects offering **“ attached a well as single-family detached”** homes.

- ✓ Projects that are situated in Planned Communities (PCs).
- ✓ Projects that have similar products types and sizes of living areas to CFD No. 2015-1, both for attached and detached homes.

Compilation of information on the projects:

- ✓ Product Type
- ✓ Number of homes planned and number of escrows closed
- ✓ Current base prices
- ✓ Living Areas
- ✓ Special Taxes/Assessments

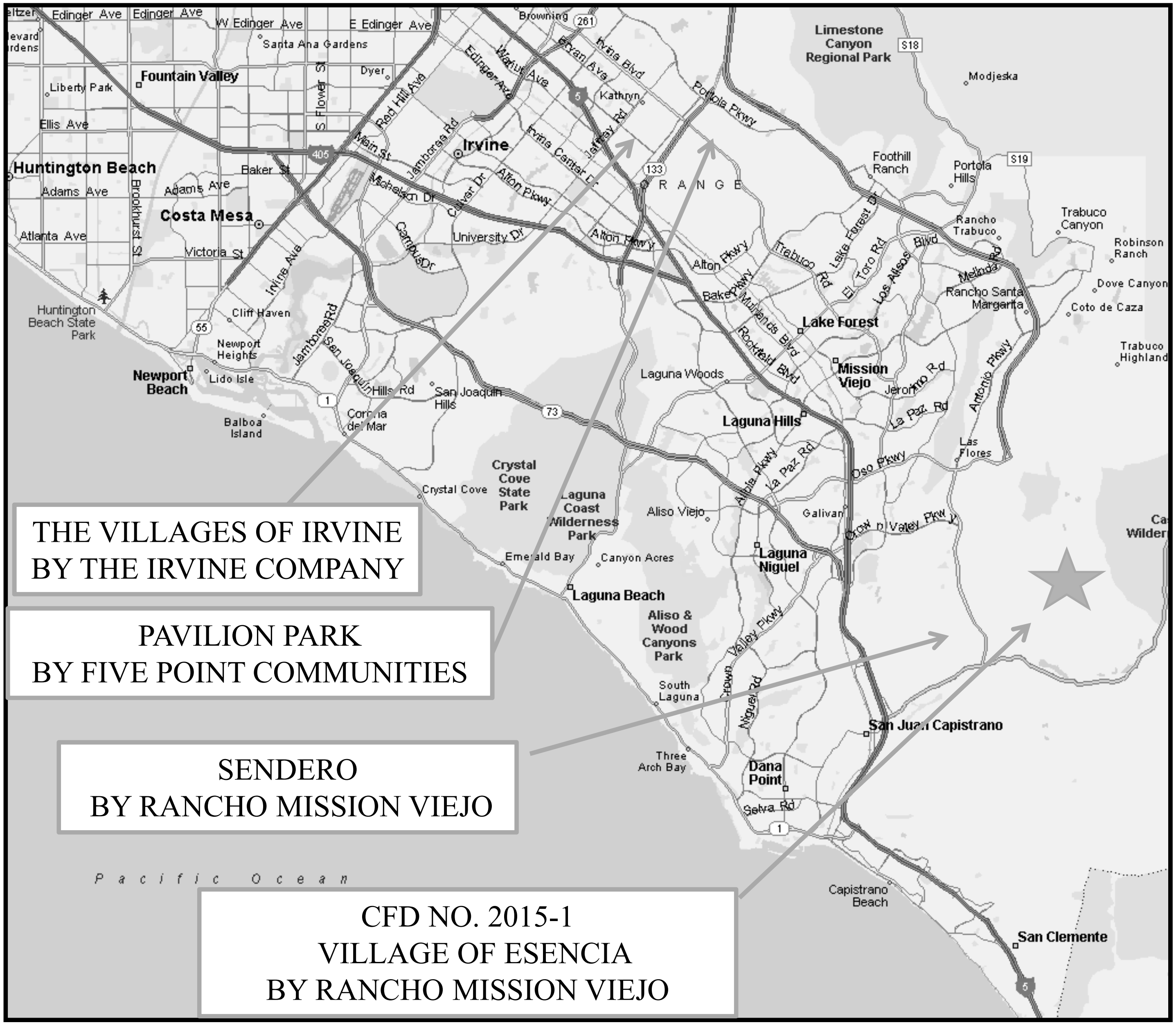
Based upon Empire’s market surveys, there are three major Planned Community Areas (PCs) that have currently active projects with attached as well as detached housing products that are located in the CMA; these are as follows:

- ✓ Villages of Irvine: PCs being developed by The Irvine Company, located in easterly Irvine
- ✓ Pavilion Park: PC by Five Point Communities, also located in easterly Irvine
- ✓ Sendero, the prior PC developed by Rancho Mission Viejo

(Note: Baker Ranch: PC by Shea/Toll Brothers located in Lake Forest is NOT included since it is a smaller PC and it does not have a CFD.)

Please refer to the map on the following page for locations of these Planned Community Areas.

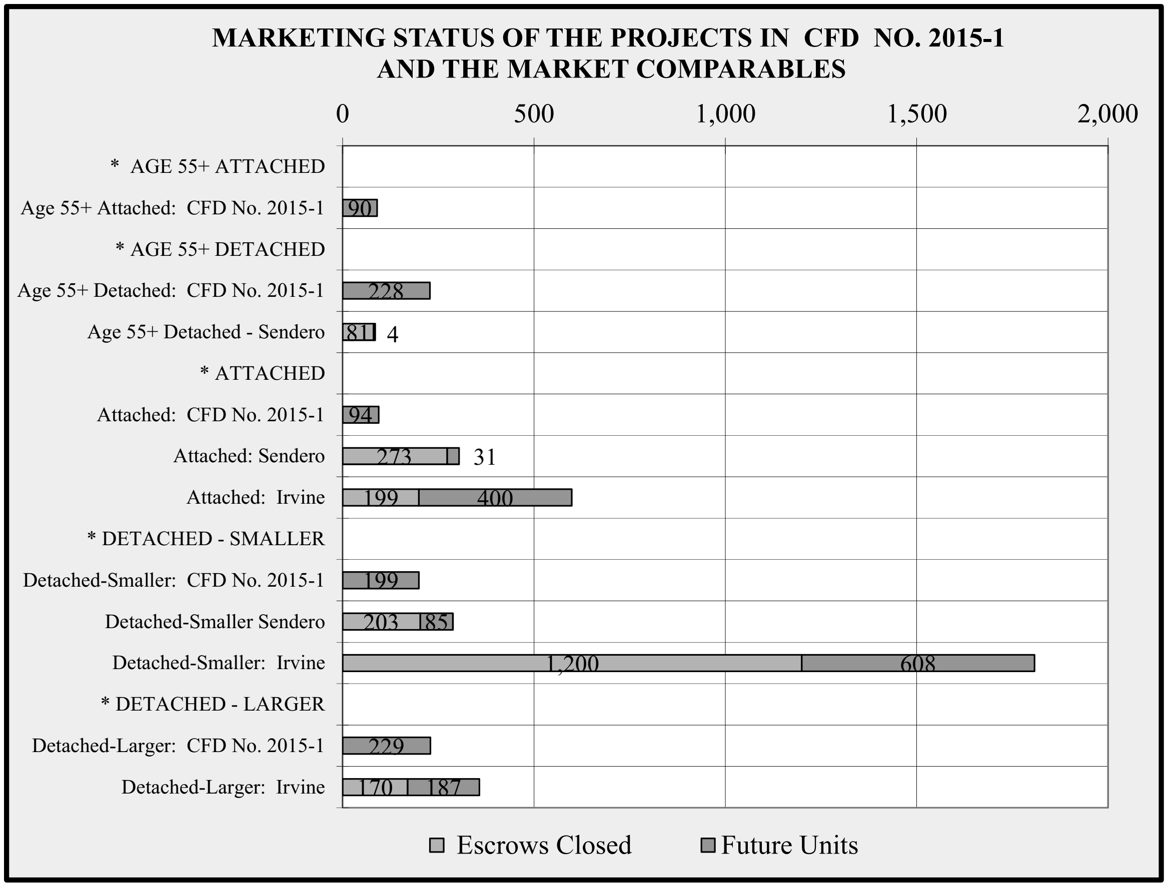
# CFD NO. 2015-1 COMPETITIVE MARKET ANALYSIS
# COMPARABLE PLANNED COMMUNITIES



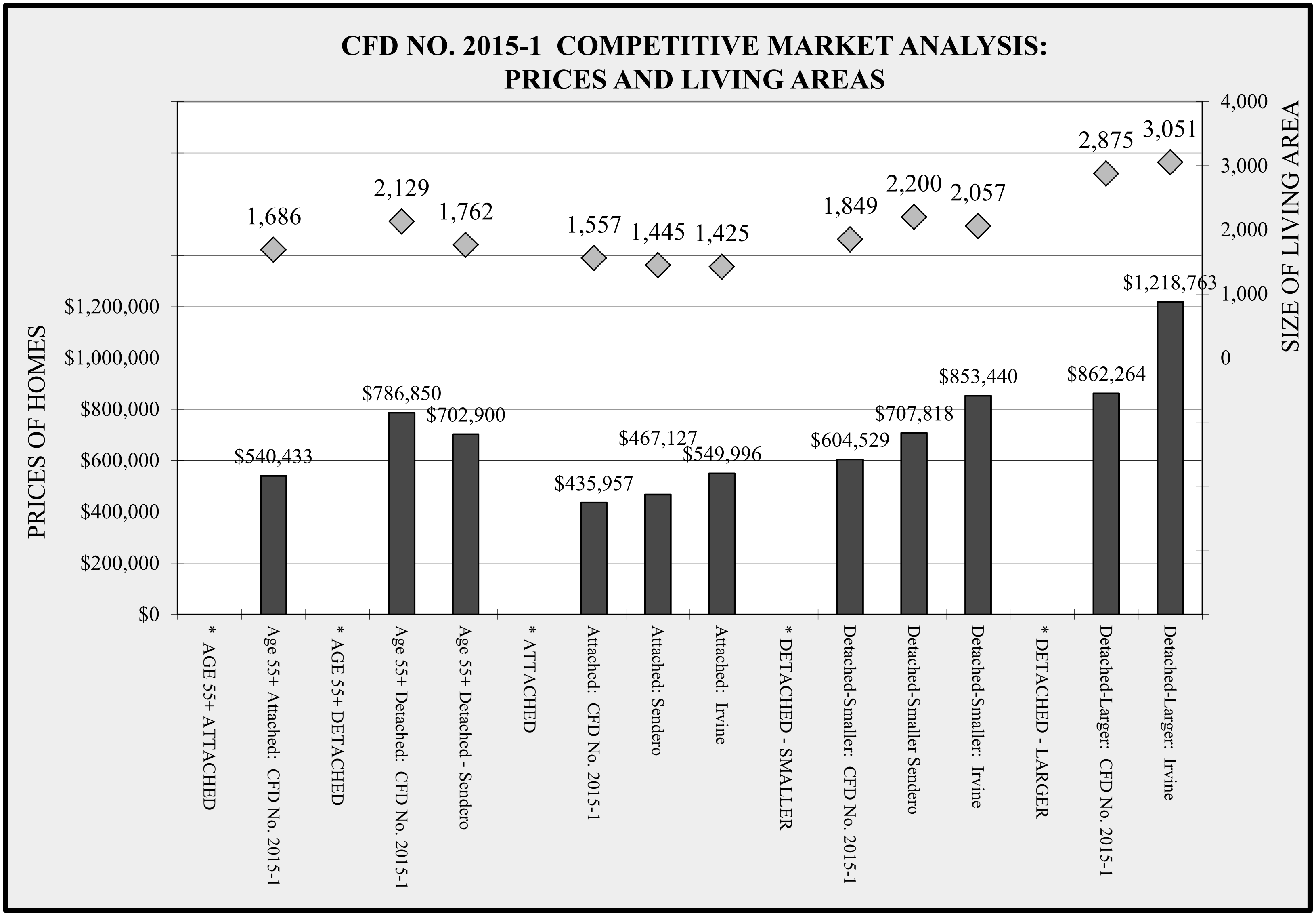
## B. COMPETITIVE MARKET ANALYSIS FOR THE FORTHCOMING FOR-SALE PROJECTS IN CFD NO. 2015-1

A Competitive Market Analysis of the projects in CFD No. 2015-1 is now performed, by comparing their expected characteristics to the currently active comparable projects in the Competitive Market Area (CMA), which includes Sendero as well as The Villages of Irvine and Pavilion Park.

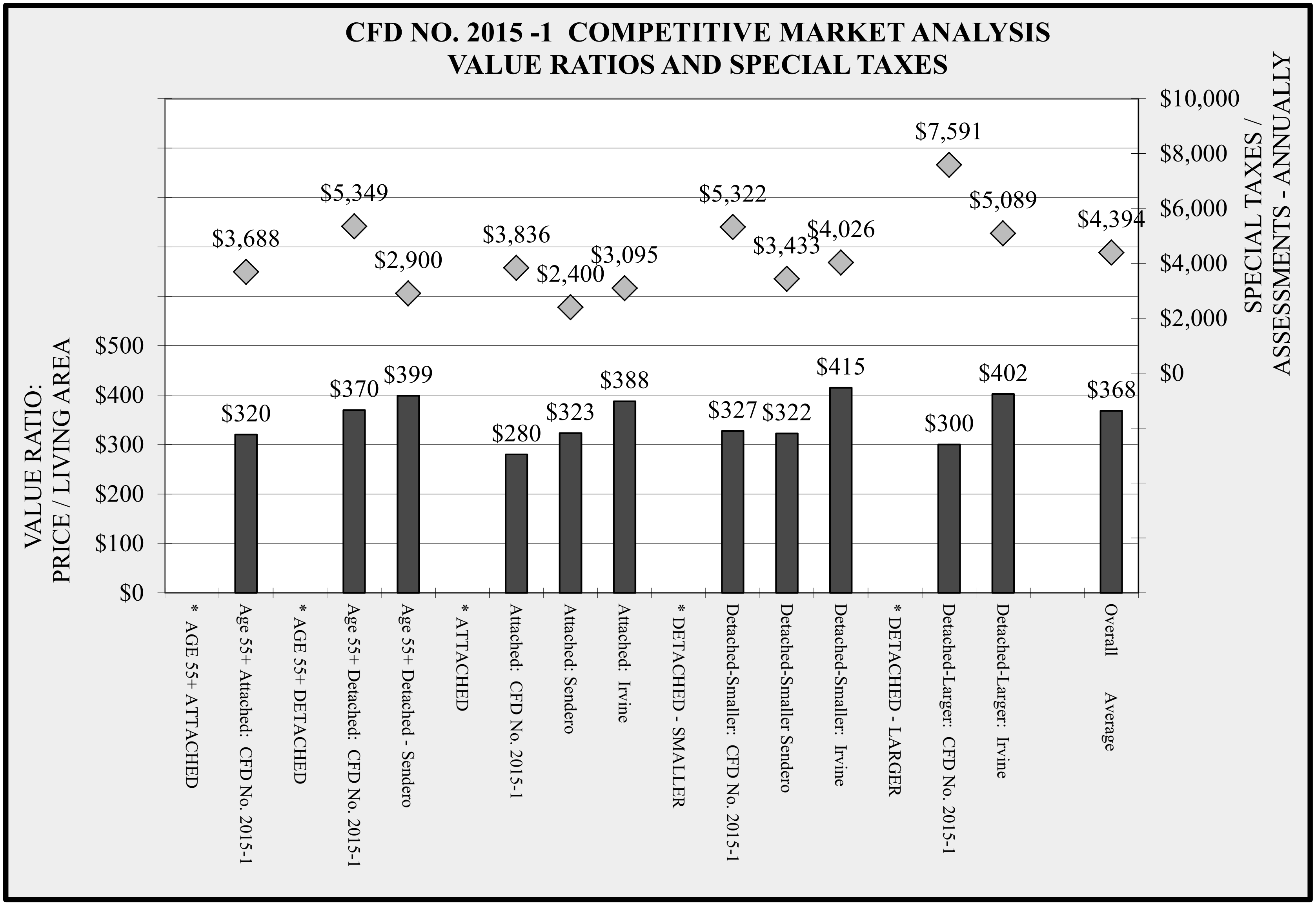
There are a total of 39 active/near-term projects in the CMA, including the 12 in CFD No. 2015-1, and these were categorized by the five market segments reflecting age-qualified 55+ vs. all ages as well as attached vs. detached. These projects have a total of 4,281 homes of which 2,126 (50%) have closed escrows, and so here are another 2,155 (50%) for future escrow closings; their development status by market segments are as follows:



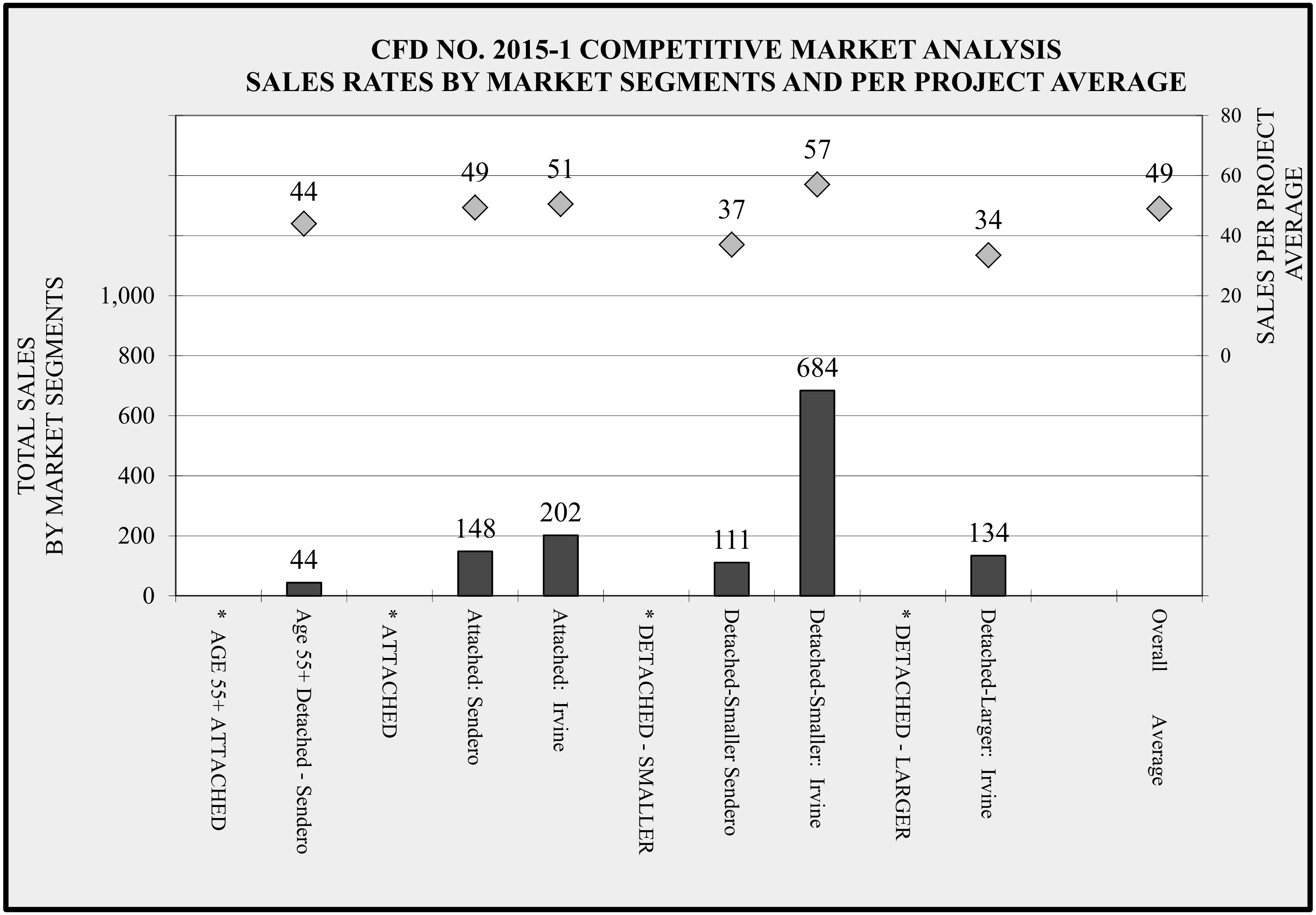
For the forthcoming projects in CFD No. 2015-1 as well as the currently active projects, their prices amount to about $773,000, on the average, and their living areas amount to 2,101 sq.ft., on the average; their pricing and living area characteristics by the various market segments are as follows:



For all of the projects as a whole, their value ratio (price/living area ) amounts to $368/sq.ft., and their Special Taxes amount to $4,394 per year, or 0.59% of the housing price, on the average; their value ratios and special taxes by the various market segments are as follows:



For all of the active comparable projects in the relevant PCs (excluding the CFD No. 2015-1 projects), their overall sales rate amounts to 1,323 homes per year, or some 49 homes per year per project, on the average; their sales by the various market segments are as follows:



The culmination of the Competitive Market Analysis involves a statistical comparison of the currently active comparable projects (Sendero as well as the PCs in Irvine: Villages of Irvine and Pavilion Park) to the forthcoming projects in CFD No. 2015-1, using their total housing prices (base price plus Special Tax liens and excluding options/upgrades) and their sizes of living area; this is performed for the following:

- ✓ 1. Attached Product: Both Age-Qualified and All Ages: Pricing tends to be similar for both age groups.
- ✓ 2. Detached Products: Age Qualified 55+: Prices tend to be higher since these are often single-story
- ✓ 3. Detached Products: All Ages: The smaller and larger categories have different sizes of living areas

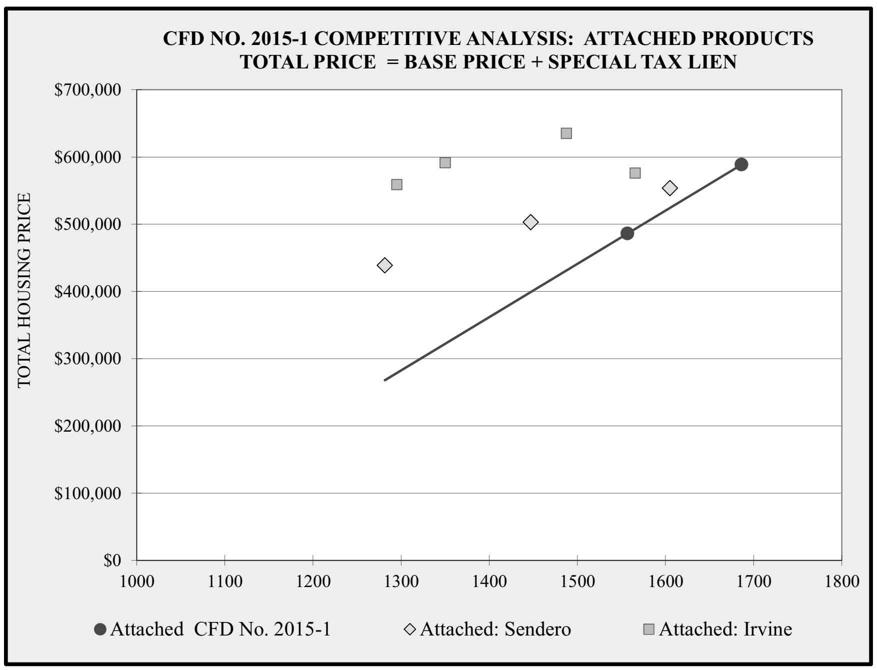
The projects in CFD No. 2015-1 are represented by Blue circles, and Blue line on the graph represents the best fit for these projects.
The other symbols on the graph represent the currently active projects in the comparable PCs:
Yellow for Sendero Orange for Irvine (Villages of Irvine and Pavilion Park)

The "Total Housing Price" represents the base price of the home, excluding options/upgrades, and the amounts of the special tax lien.
Note: The lender takes into consideration total housing costs in qualifying prospective homeowners for a mortgage loan.

**1. Attached Housing Products: Age-Qualified and All Ages**

The projects in CFD No. 2015-1 have a blue trendline which shows that their total housing prices are below to all of the market comparables, and so they are regarded as being competitive in the marketplace.

- ✓ Sendero has slightly/somewhat higher total housing prices as compared to CFD No. 2015-1.
- ✓ The PCs in Irvine, Villages of Irvine and Pavilion Park, have established premiums reflecting more desirable locations in closer proximity to a major employment center, the City of Irvine.

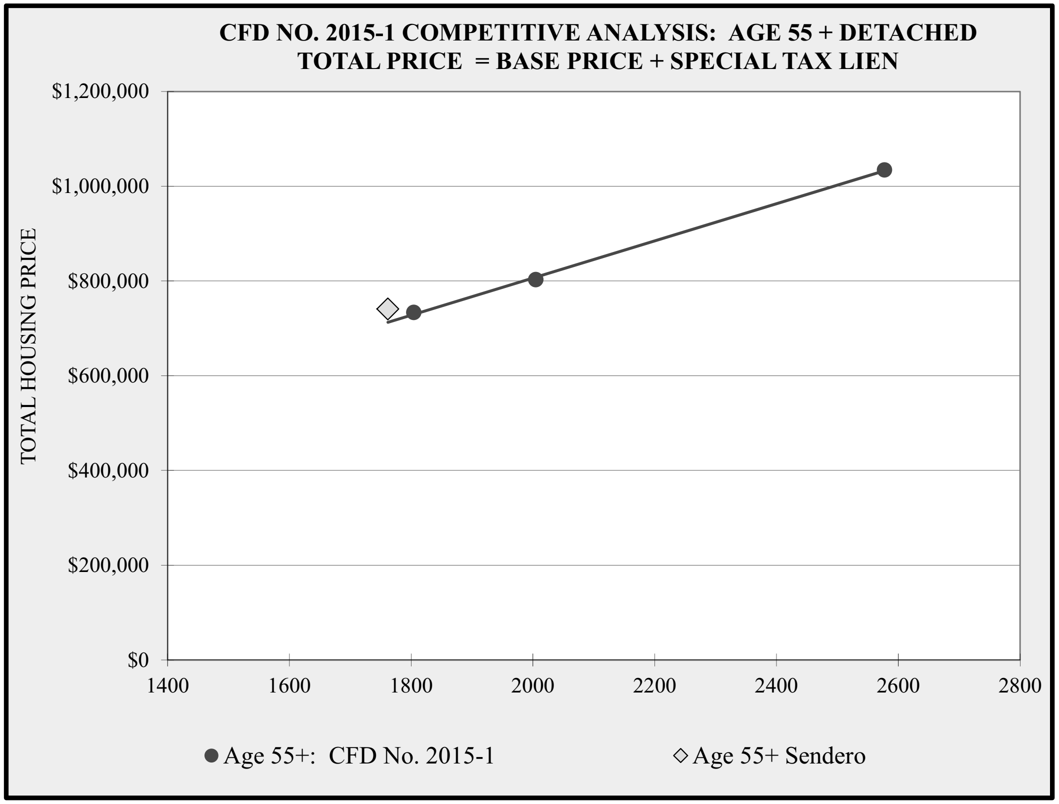


**2. Age-Qualified Detached Housing Products:**

The projects in CFD No. 2015-1 have a blue trendline which shows that their total housing prices are similar to the market comparable project in Sendero, and so they are regarded as being competitive in the marketplace.

✓ Sendero has slightly higher total housing prices as compared to the projects in CFD No. 2015-1.

(Note: The PCs in Irvine, Villages of Irvine and Pavilion Park, do not currently offer age qualified detached housing products.)

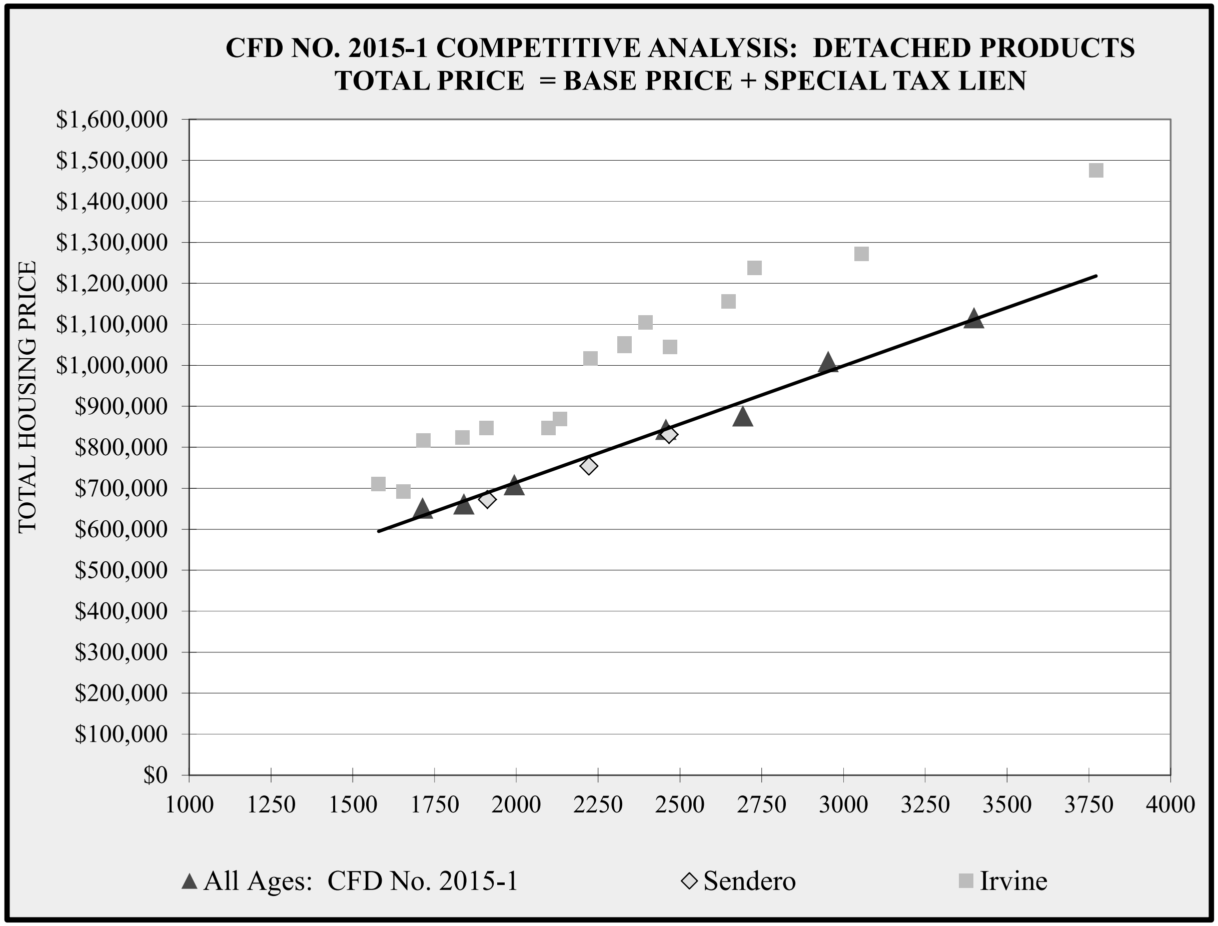


### 3. Detached Housing Products: All Ages and Sizes

The projects in CFD No. 2015-1 have a blue trendline which shows that their total housing prices are below/similar to all of the market comparables, and so they are regarded as being competitive in the marketplace.

✓ Sendero generally has similar/slightly lower total housing prices as compared to CFD No. 2015-1.

✓ While the PCs in Irvine, Villages of Irvine and Pavilion Park have established premiums reflecting more desirable locations in closer proximity to a major employment center, the City of Irvine.



**Analysis of Housing Price Differentials Between the Cities of Irvine and San Juan Capistrano (Near CFD No. 2015-1)**

The purpose of this section is discuss the price differential for homes in Irvine vs. the CFD No. 2015-1 Area (San Juan Capistrano). The differentials can be attributed to the City of Irvine having a strong and robust employment center which generates numerous employment opportunities with relatively high paying salaries. Whereas the CFD No. 2015-1 area does not currently have a strong employment center, and it is located some 21 miles to the south on Irvine, so households employed in Irvine have a somewhat lengthy commute.

**Price Differential for Existing Homes:** Based upon special data gathered from DataQuick, a firm that compiles real estate statistics, the median prices for existing homes sold in Irvine and San Juan Capistrano during the most recent twelve month time period have been as follows:

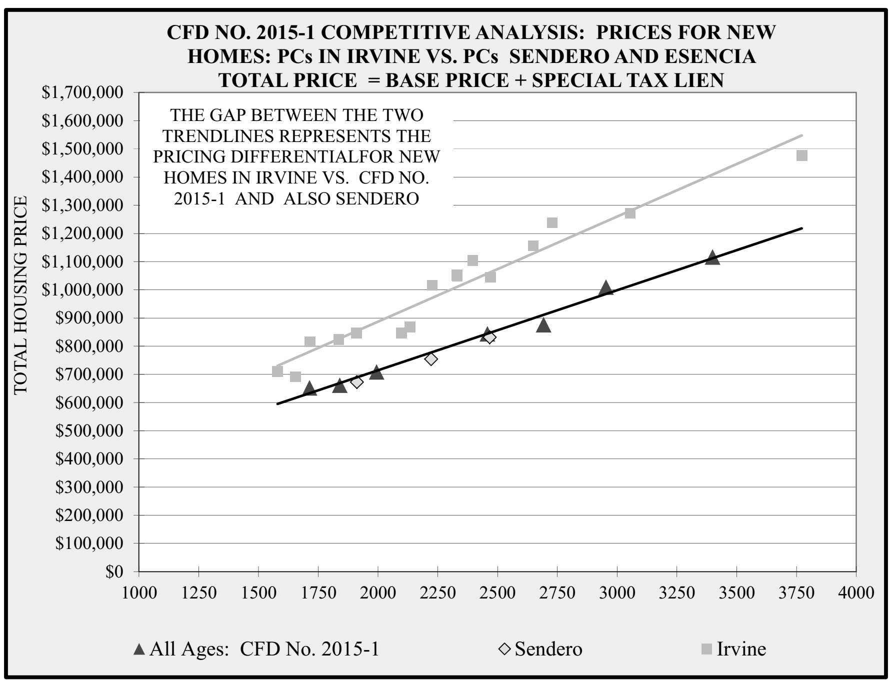
Sales Prices: City of Irvine: $733,521 San Juan Capistrano: $619,167; a discount of -16% for San Juan Capistrano

Value Ratios (Sales Price/Living Area) : City of Irvine: $404/sq.ft. vs. San Juan Capistrano: $338/sq.ft.; a discount of -16% for San Juan Capistrano

Therefore, based upon an analysis of the price differentials for existing homes, San Juan Capistrano has a discount of approximately -16% as compared to Irvine .

**Price Differentials for New Homes:** Next, a comparison of the total housing prices for NEW Homes in Irvine (The Villages of Irvine and Pavilion Park) with the projects in Sendero and CFD No. 2015-1 reveals that for SIMILAR sized homes, using the overall average of 2,100 sq.ft., the San Juan Capistrano projects have a discount of approximately -20%.

**Conclusions on the Pricing Differentials:** Therefore, for the projects in CFD No. 2015-1, their prices are regarded as being competitive with the PCs in Irvine, since their pricing differential is consistent with the market standards for the Irvine/San Juan Capistrano areas, and the discount for new homes is somewhat higher than the discount for existing homes.



# CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2015-1
# AND ALSO THE PROJECTS IN THE COMPARABLE PCs BY MARKET SEGMENTS

| Project Locations | Planned Community | Project | Builder | Product Type | Project Size and Sales: Total | Escrows Closed | Future | Sales Rate/Yr. | Housing Prices: Lower | Average | Upper | Incentives | Size of Living Area: Lower | Average | Upper | Value Ratio | Special Taxes (Base Rate = 1.05% -1.26%): Tax Amount/ Year | Ratio: Tax / Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CFD No. 2015-1 | Village of Esencia | Age Qualified | William Lyon Homes | Attached | 90 | 0 | 90 | N/A | $510,000 | $540,433 | $568,000 | $0 | 1,456 | 1,686 | 1,950 | $320 | $3,688 | 0.68% |
| CFD No. 2015-1 | Village of Esencia | Age Qualified | Standard Pacific | Detached | 95 | 0 | 95 | N/A | $617,000 | $673,621 | $724,000 | $0 | 1,509 | 1,805 | 2,110 | $373 | $4,577 | 0.68% |
| CFD No. 2015-1 | Village of Esencia | Age Qualified | Shea Homes | Detached | 63 | 0 | 63 | N/A | $705,000 | $737,143 | $785,000 | $0 | 1,816 | 2,005 | 2,362 | $368 | $5,013 | 0.68% |
| CFD No. 2015-1 | Village of Esencia | Age Qualified | Shea Homes | Detached | 70 | 0 | 70 | N/A | $935,000 | $949,786 | $980,000 | $0 | 2,323 | 2,578 | 2,832 | $368 | $6,459 | 0.68% |
| Easterly-San Juan Capistrano | Gavilan | Casitas | Standard Pacific | Detached- Age 55+ | 85 | 81 | 4 | 44 | $664,900 | $702,900 | $740,900 | $0 | 1,624 | 1,762 | 1,900 | $399 | $2,900 | 0.41% |
| CFD No. 2015-1 | Village of Esencia | All Ages | William Lyon Homes | Attached | 94 | 0 | 94 | N/A | $390,000 | $435,957 | $500,000 | $0 | 1,361 | 1,557 | 1,802 | $280 | $3,836 | 0.88% |
| Easterly-San Juan Capistrano | Sendero | Lyon Cabanas | William Lyon | Attached | 97 | 96 | 1 | 52 | $369,990 | $409,990 | $449,990 | $5,000 | 1,006 | 1,282 | 1,557 | $320 | $2,200 | 0.54% |
| Easterly-San Juan Capistrano | Sendero | Lyon Villas | William Lyon | Attached | 96 | 89 | 7 | 48 | $434,990 | $472,990 | $510,990 | $5,000 | 1,308 | 1,447 | 1,586 | $327 | $2,300 | 0.49% |
| Easterly-San Juan Capistrano | Sendero | Shea Sendero | Shea Homes | Attached | 111 | 88 | 23 | 48 | $475,900 | $518,400 | $560,900 | $5,000 | 1,419 | 1,605 | 1,791 | $323 | $2,700 | 0.52% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Acacia | Ryland Homes | Attached | 98 | 56 | 42 | 42 | $467,250 | $518,750 | $570,250 | $0 | 1,112 | 1,295 | 1,478 | $401 | $3,080 | 0.59% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Zinnia | California Pacific Homes | Attached | 148 | 24 | 124 | 55 | $482,000 | $554,995 | $627,990 | $0 | 1,163 | 1,350 | 1,537 | $411 | $2,800 | 0.50% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Caserta | California Pacific Homes | Attached | 197 | 110 | 87 | 69 | $505,000 | $597,250 | $689,500 | $0 | 1,165 | 1,488 | 1,810 | $402 | $2,900 | 0.49% |
| Easterly Irvine; Villages of Irvine | Portola Springs | Willow | KB Home | Attached | 156 | 9 | 147 | 36 | $484,990 | $528,990 | $572,990 | $0 | 1,263 | 1,566 | 1,868 | $338 | $3,600 | 0.68% |
| CFD No. 2015-1 | Village of Esencia | All Ages | Warmington | Detach-Small | 62 | 0 | 62 | N/A | $560,000 | $584,597 | $605,000 | $0 | 1,526 | 1,714 | 1,899 | $341 | $5,144 | 0.88% |
| CFD No. 2015-1 | Village of Esencia | All Ages | TRI Pointe Homes | Detach-Small | 87 | 0 | 87 | N/A | $575,000 | $593,391 | $620,000 | $0 | 1,779 | 1,840 | 1,937 | $323 | $5,222 | 0.88% |
| CFD No. 2015-1 | Village of Esencia | All Ages | Ryland Homes | Detach-Small | 50 | 0 | 50 | N/A | $600,000 | $635,600 | $670,000 | $0 | 1,797 | 1,994 | 2,205 | $319 | $5,599 | 0.88% |
| Easterly-San Juan Capistrano | Sendero | Sea Country | Sea Country | Detach-Small | 105 | 61 | 44 | 33 | $586,230 | $636,055 | $685,880 | $10,000 | 1,803 | 1,912 | 2,020 | $333 | $2,800 | 0.44% |
| Easterly-San Juan Capistrano | Sendero | Tri-Pointe | Tri-Pointe | Detach-Small | 105 | 84 | 21 | 46 | $683,900 | $708,400 | $732,900 | $5,000 | 2,050 | 2,222 | 2,394 | $319 | $3,500 | 0.49% |
| Easterly-San Juan Capistrano | Sendero | Ryland | Ryland | Detach-Small | 78 | 58 | 20 | 32 | $755,000 | $779,000 | $803,000 | $7,500 | 2,310 | 2,468 | 2,625 | $316 | $4,000 | 0.51% |

# CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2015-1
# AND ALSO THE PROJECTS IN THE COMPARABLE PCs BY MARKET SEGMENTS

| | | | | | | | | | | | | | | | | | Special Taxes | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Planned | Project | Builder | Product | Project Size and Sales | | | | Housing Prices | | | Incentives | Size of Living Area | | | Value | (Base Rate = 1.05% -1.26%) | |
| Locations | Community | | | Type | Total | Escrows Closed | Future | Sales Rate/Yr. | Lower | Average | Upper | | Lower | Average | Upper | Ratio | Tax Amount/ Year | Ratio: Tax / Price |
| Easterly Irvine; Villages of Irvine | Cypress Village | Jade Court | California Pacific Homes | Detach-Small | 160 | 104 | 56 | 62 | $636,000 | $671,250 | $706,500 | $0 | 1,559 | 1,580 | 1,600 | $425 | $3,000 | 0.45% |
| Easterly Irvine; Villages of Irvine | Portola Springs | Luna | California Pacific Homes | Detach-Small | 75 | 61 | 14 | 38 | $584,284 | $650,564 | $716,844 | $0 | 1,513 | 1,655 | 1,796 | $393 | $3,200 | 0.49% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Jasmine | Irvine Pacific | Detach-Small | 228 | 56 | 172 | 56 | $749,000 | $770,400 | $791,800 | $0 | 1,627 | 1,716 | 1,804 | $449 | $3,500 | 0.45% |
| Easterly Irvine; Villages of Irvine | Portola Springs | Sage II | KB Home | Detach-Small | 125 | 30 | 95 | 35 | $724,880 | $758,380 | $791,880 | $0 | 1,697 | 1,836 | 1,975 | $413 | $5,000 | 0.66% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Marigold | Irvine Pacific | Detach-Small | 242 | 169 | 73 | 84 | $778,550 | $801,750 | $824,950 | $0 | 1,840 | 1,910 | 1,979 | $420 | $3,500 | 0.44% |
| Easterly Irvine; Villages of Irvine | Portola Springs | Colibri | Ryland Homes | Detach-Small | 92 | 72 | 20 | 42 | $748,200 | $791,850 | $835,500 | $1,000 | 1,875 | 2,099 | 2,323 | $377 | $4,200 | 0.53% |
| Easterly Irvine; Pavilion Park | Pavilion Park | Birch Trail | Richmond American | Detach-Small | 88 | 78 | 10 | 49 | $754,990 | $802,490 | $849,990 | $5,000 | 1,878 | 2,133 | 2,388 | $376 | $5,051 | 0.63% |
| Easterly Irvine; Pavilion Park | Pavilion Park | Beachwood | Lennar | Detach-Small | 90 | 88 | 2 | 56 | $899,990 | $949,490 | $998,990 | $5,000 | 1,767 | 2,226 | 2,685 | $427 | $5,167 | 0.54% |
| Easterly Irvine; Villages of Irvine | Stonegate | Mendocino | Irvine Pacific | Detach-Small | 247 | 219 | 28 | 85 | $989,000 | $999,500 | $1,010,000 | $0 | 2,221 | 2,331 | 2,441 | $429 | $4,100 | 0.41% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Laurel | Irvine Pacific | Detach-Small | 120 | 29 | 91 | 30 | $949,500 | $1,002,000 | $1,054,500 | $0 | 2,170 | 2,332 | 2,493 | $430 | $3,500 | 0.35% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Mulberry | Irvine Pacific | Detach-Small | 178 | 158 | 20 | 79 | $981,700 | $1,053,400 | $1,125,100 | $0 | 2,199 | 2,396 | 2,592 | $440 | $3,900 | 0.37% |
| Easterly Irvine; Villages of Irvine | Cypress Village | Magnolia | Irvine Pacific | Detach-Small | 163 | 136 | 27 | 68 | $900,900 | $990,200 | $1,079,500 | $0 | 2,196 | 2,470 | 2,743 | $401 | $4,200 | 0.42% |
| | | | | | | | | | | | | | | | | | | |
| CFD No. 2015-1 | Village of Esencia | All Ages | Shea Homes | Detach - Large | 60 | 0 | 60 | N/A | $712,000 | $756,767 | $795,000 | $0 | 2,207 | 2,457 | 2,669 | $308 | $6,660 | 0.88% |
| CFD No. 2015-1 | Village of Esencia | All Ages | Ryland Homes | Detach - Large | 45 | 0 | 45 | N/A | $730,000 | $786,222 | $885,000 | $0 | 2,351 | 2,692 | 3,209 | $292 | $6,919 | 0.88% |
| CFD No. 2015-1 | Village of Esencia | All Ages | Meritage Homes | Detach - Large | 58 | 0 | 58 | N/A | $836,990 | $905,128 | $969,990 | $0 | 2,698 | 2,953 | 3,211 | $306 | $7,965 | 0.88% |
| CFD No. 2015-1 | Village of Esencia | All Ages | TRI Pointe Homes | Detach - Large | 66 | 0 | 66 | N/A | $950,000 | $1,000,939 | $1,056,000 | $0 | 3,097 | 3,399 | 3,751 | $294 | $8,822 | 0.88% |
| | | | | | | | | | | | | | | | | | | |
| Easterly Irvine; Villages of Irvine | Stonegate | Lafayete | Richmond American | Detach - Large | 60 | 0 | 60 | 30 | $1,057,990 | $1,097,990 | $1,137,990 | $1,000 | 2,443 | 2,648 | 2,853 | $415 | $4,400 | 0.40% |
| Easterly Irvine; Pavilion Park | Pavilion Park | Sagewood | Shea Homes | Detach - Large | 103 | 89 | 14 | 56 | $1,082,900 | $1,152,900 | $1,222,900 | $5,000 | 2,515 | 2,728 | 2,941 | $423 | $6,457 | 0.56% |
| Easterly Irvine; Villages of Irvine | Stonegate | Arcacia | TRI Pointe Homes | Detach - Large | 127 | 66 | 61 | 36 | $1,191,900 | $1,211,900 | $1,231,900 | $0 | 2,909 | 3,056 | 3,202 | $397 | $4,600 | 0.38% |
| Easterly Irvine; Villages of Irvine | Stonegate | Sausalito | Shea Homes | Detach - Large | 67 | 15 | 52 | 12 | $1,360,365 | $1,412,260 | $1,464,155 | $1,000 | 3,533 | 3,772 | 4,011 | $374 | $4,900 | 0.35% |

# CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2015-1
# AND ALSO THE PROJECTS IN THE COMPARABLE PCs BY MARKET SEGMENTS

| | | | | | | | | | | | | | | | | | Special Taxes | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | Planned | Project | Builder | Product | | Project Size and Sales | | | Housing Prices | | | Incentives | Size of Living Area | | | Value | (Base Rate = 1.05% -1.26%) | |
| Locations | Community | | | Type | Total | Escrows | Future | Sales | Lower | Average | Upper | | Lower | Average | Upper | Ratio | Tax Amount/ | Ratio: |
| | | | | | | Closed | | Rate/Yr. | | | | | | | | | Year | Tax / Price |
| **Statistical Summary** | | | | | | | | | | | | | | | | | | |
| * AGE 55+ ATTACHED | | | | **Projects** | | | | | | | | | | | | | | |
| Age 55+ Attached: CFD No. 2015-1 | | | | 1 | 90 | 0 | 90 | 0 | $510,000 | $540,433 | $568,000 | $0 | 1,456 | 1,686 | 1,950 | $320 | $3,688 | 0.68% |
| * AGE 55+ DETACHED | | | | | | | | | | | | | | | | | | |
| Age 55+ Detached: CFD No. 2015-1 | | | | 3 | 228 | 0 | 228 | 0 | $752,333 | $786,850 | $829,667 | $0 | 1,883 | 2,129 | 2,435 | $370 | $5,349 | 0.68% |
| Age 55+ Detached - Sendero | | | | 1 | 85 | 81 | 4 | 44 | $664,900 | $702,900 | $740,900 | $0 | 1,624 | 1,762 | 1,900 | $399 | $2,900 | 0.41% |
| * ATTACHED | | | | | | | | | | | | | | | | | | |
| Attached: CFD No. 2015-1 | | | | 1 | 94 | 0 | 94 | 0 | $390,000 | $435,957 | $500,000 | $0 | 1,361 | 1,557 | 1,802 | $280 | $3,836 | 0.88% |
| Attached: Sendero | | | | 3 | 304 | 273 | 31 | 148 | $426,960 | $467,127 | $507,293 | $5,000 | 1,244 | 1,445 | 1,645 | $323 | $2,400 | 0.51% |
| Attached: Irvine | | | | 4 | 599 | 199 | 400 | 202 | $484,810 | $549,996 | $615,183 | $0 | 1,176 | 1,425 | 1,673 | $388 | $3,095 | 0.57% |
| * DETACHED - SMALLER | | | | | | | | | | | | | | | | | | |
| Detached-Smaller: CFD No. 2015-1 | | | | 3 | 199 | 0 | 199 | 0 | $578,333 | $604,529 | $631,667 | $0 | 1,701 | 1,849 | 2,014 | $327 | $5,322 | 0.88% |
| Detached-Smaller Sendero | | | | 3 | 288 | 203 | 85 | 111 | $675,043 | $707,818 | $740,593 | $7,500 | 2,054 | 2,200 | 2,346 | $322 | $3,433 | 0.48% |
| Detached-Smaller: Irvine | | | | 12 | 1,808 | 1,200 | 608 | 684 | $808,083 | $853,440 | $898,796 | $917 | 1,879 | 2,057 | 2,235 | $415 | $4,026 | 0.48% |
| * DETACHED - LARGER | | | | | | | | | | | | | | | | | | |
| Detached-Larger: CFD No. 2015-1 | | | | 4 | 229 | 0 | 229 | 0 | $807,248 | $862,264 | $926,498 | $0 | 2,588 | 2,875 | 3,210 | $300 | $7,591 | 0.88% |
| Detached-Larger: Irvine | | | | 4 | 357 | 170 | 187 | 134 | $1,173,289 | $1,218,763 | $1,264,236 | $1,750 | 2,850 | 3,051 | 3,252 | $402 | $5,089 | 0.42% |
| | | | | | | | | | | | | | | | | | | |
| Totals/Averages | | | | 39 | 4,281 | 2,126 | 2,155 | 1,323 | $728,751 | $772,914 | $819,123 | $1,423 | 1,900 | 2,101 | 2,316 | $368 | $4,394 | 0.59% |

## C. COMPETITIVE MARKET ANALYSIS FOR THE FORTHCOMING APARTMENT PROJECT IN CFD NO. 2015-1

CFD No. 2015-1 is expected to have an apartment project with 263 units that is anticipated to have its Grand Opening in January 2017; the primary characteristics are as follows:

Market Rate Units: 150:

| | | |
|---|---|---|
| One Bedroom: | 61 | units with 808 sq.ft. with rents of $1,700/month/avg. |
| Two Bedrooms: | 72 | units with 1,088 sq.ft. with rents of $2,100/month/avg. |
| Three Bedroom: | 17 | units with 1,313 sq.ft. with rents of $2,575/month/avg. |

Affordable Units: 113: (Note: Sq.Ft. and Bedrooms/Baths not yet determined)

| | |
|---|---|
| One Bedroom: | 22 units |
| Two Bedrooms: | 58 units |
| Three Bedroom: | 33 units |

Since 2000 there have been several apartment projects that have been built/leased in the Planned Community of Ladera Ranch, located to the north-west of Esencia: these include Remington, Laurel Canyon, Laurel Terrace and Laurel Glen, and so the market for apartments has been established in the vicinity of Esencia.

The most recent apartment project is Sendero Gateway, in the Planned Community of Sendero, situated just to the west of Esencia. Sendero Gateway will have a total of 286 units, and their construction is expected to be completed around August 2015. Since leasing commenced in February 2015, 184 of these homes are completed, 84 have been leased and 60 are occupied.. Based upon the rate at which units that have been leased, the remaining units are expected to be leased by Fall 2016.

With regards to the forthcoming market rate apartment units in Esencia, a comparison of its expected rents with the rents for similar sized apartment units in Sendero Gateway reveals that the expected rents are slightly lower.

| | | | |
|---|---|---|---|
| One Bedroom: | Esencia at $2.10/sq.ft. | vs. | Sendero Gateway at $2.10/sq.ft. |
| Two Bedrooms: | Esencia at $1.93/sq.ft. | vs. | Sendero Gateway at $2.02/sq.ft. |
| Three Bedrooms: | Esencia at $1.96/sq.ft. | vs. | Sendero Gateway at $2.11/sq.ft. |

For additional information on the apartment units characteristics for Esencia and Sendero Gateway, please refer to the following page.

# CHARACTERISTICS OF THE APARTMENT PROJECTS IN CFD NO. 2015-1 (ESENCIA) AND ALSO THE COMPARABLE APARTMENT PROJECT IN SENDERO

SENDERO GATEWAY

| Product Name | Bedrooms | Bathrooms | Sq.Ft. | Lease/Month | Lease/Sq.Ft |
|---|---|---|---|---|---|
| Sage | 1 | 1 | 786 | $1,757 | $2.24 |
| Acacia | 1 | 1 | 732 | $1,722 | $2.35 |
| Willow | 1 | 1 | 828 | $1,822 | $2.20 |
| Larkspur | 2 | 2 | 1,029 | $2,082 | $2.02 |
| Mesquite | 2 | 2 | 1,173 | $2,307 | $1.97 |
| Palm | 2 | 2 | 1,145 | $2,287 | $2.00 |
| Cottonwood | 2 | 2 | 1,163 | $2,277 | $1.96 |
| Cress | 3 | 2 | 1,313 | $2,775 | $2.11 |

CFD NO. 2015-1 ESENCIA MARKET RATE APARTMENTS

FOR EACH NUMBER OF BEDROOMS, AVG. SQ.FT./RENT

| Bedrooms | Sq.Ft. | Lease/Month | Lease/Sq.Ft |
|---|---|---|---|
| 1 | 808 | $1,700 | $2.10 |
| 2 | 1,088 | $2,100 | $1.93 |
| 3 | 1,313 | $2,575 | $1.96 |

# SECTION V

# ESTIMATED ABSORPTION SCHEDULES FOR PROJECTS IN CFD NO. 2015-1

The purpose of this section is to estimate the absorption schedules for the forthcoming residential projects in CFD No. 2015-1 (Village of Esencia), based upon a consideration of the recent/expected economic and housing market demand/supply conditions.

## A. METHODOLOGY UNDERLYING THE ABSORPTION FORECASTS

Empire Economics estimated the expected absorption schedules for the residential projects in CFD No. 2015-1 through a comprehensive analysis of the following factors:

- The anticipated development schedule for the projects: their Grand Opening of the for-sale Homes is expected during September 2015, and he apartment rentals in January 2017.

- The competitive market analysis of the projects in CFD No. 2015-1 with currently active comparable projects, based upon their prices, sizes of living areas and special taxes, revealed that the projects in CFD No. 2015-1 are competitive in the marketplace.

- The expected market demand for homes in the CFD Market Area is based upon recent/expected economic and real estate factors according to the Most Probable Economic Scenario.

- The estimated absorption schedule for each of the for-sale projects takes into consideration their market entry during September 2015 and their anticipated schedule for move-ins starting in early 2016. The apartments are expected to commence leasing in January 2017.

- Furthermore, consideration is given to the potential for higher mortgage rates during the foreseeable future; however, this is somewhat offset by the strong rates of employment growth.

## B. SAFEGUARDS UNDERLYING THE ABSORPTION FORECASTS

Empire's absorption schedules, based upon numerous market absorption studies for CFDs over the past thirty years, reflect various conservative safeguards, in order to provide more accurate/reliable forecasts, and these include the following:

- **Potential Economic Risk Factors:**
  - ✓ As the economy recovers, interest rates are likely to rise; however, the adverse effect of this will be offset by higher levels of employment; such a scenario would result in a gradual upward trend in mortgage rates over time, and so these factors counter-balance each other.
  - ✓ By comparison, a "sudden spike" in interest/mortgage rates would be a potential risk factor.

- **Potential CFD Development Risk Factors:**
  - ✓ Market-Entry – Allow time for dealing with unforeseen delays due to completing infrastructure and securing final entitlements.
  - ✓ Construction of Homes: Allow time for the construction of homes, especially the first phase.
  - ✓ Taking into consideration that if absorption rates (demand) surpass construction rates (supply), home prices rise to bring the market back to an equilibrium.

- **Project-Related Marketing Risk Factors:**
  - ✓ For the All-Age Projects, some of these projects have substantially larger sizes of living area and prices as compared to the currently active comparable projects in Sendero.
  - ✓ For the Age-Qualified projects, the proposed total tax burden of 1.8% may adversely impact the marketing of the homes; additionally, some of the homeowners that purchase homes may eventually have concerns about the relatively high tax levels, especially since seniors tend to rely on their Social Security and pensions, the amounts of which tend to be "fixed".

## C. ESTIMATED ABSORPTION SCHEDULES OR THE RESIDENTIAL PROJECTS IN CFD NO. 2015-1

Empire's absorption schedules, which reflect escrow closings, for the homes in each of the five market segment, from their market-entry to their close-out are as follows**:**

Synopsis of Primary Conclusions: Overall Absorption Rates

Grand Opening: September 2015 for the for-sale homes and January 2017 for the apartments

As a safeguard, absorption for the for-sale homes is assumed to start in early 2016, although they may be some closings in late 2015

Expected Closing –Annually

2016: 402 homes and no apartments

2017: 394 homes and 150 apartments

2018: 44 homes and 113 apartments

Expected Close-Out: Early 2018 for the for-sale and Fall 2018 for the apartments

Synopsis of Primary Conclusions: Absorption Rates by Market Segments

- **January 2016 – December 2016:** Empire expects 402 home closings during this time period, based upon all of the for-sale projects being on the marketplace for the entire year; this appears reasonable considering that the Grand Opening is occurring in September 2015.

  - ✓ Apartments: Not yet on the marketplace
  - ✓ Ages 55+ Attached: 42 homes
  - ✓ Ages 55+ Detached: 97 homes
    (The absorption rates for age 55+ have been modified to reflect the relatively high levels of Special Taxes for seniors.)

  - ✓ All-Ages Attached: 47 homes
  - ✓ All-Ages: Detached - Smaller: 104 homes
  - ✓ All-Ages: Detached - Larger: 112 homes

- **January 2017 – December 2017:** Empire expects 394 for-sale home closings and 150 apartment rentals during this time period, based upon stronger economic conditions and most of the projects being on the marketplace for the entire year.

  - ✓ Apartments: 150 units, including market-rate and also affordable

  - ✓ Ages 55+ Attached: 48 homes
  - ✓ Ages 55+ Detached: 110 homes

  - ✓ All-Ages Attached: 47 homes
  - ✓ All-Ages: Detached - Smaller: 84 homes
  - ✓ All-Ages: Detached - Larger: 105 homes

- **January 2018 – February 2018:** Empire expects the final 44 home closings during early 2018 and the 113 apartment units by Fall 2018, as the remaining projects close out.

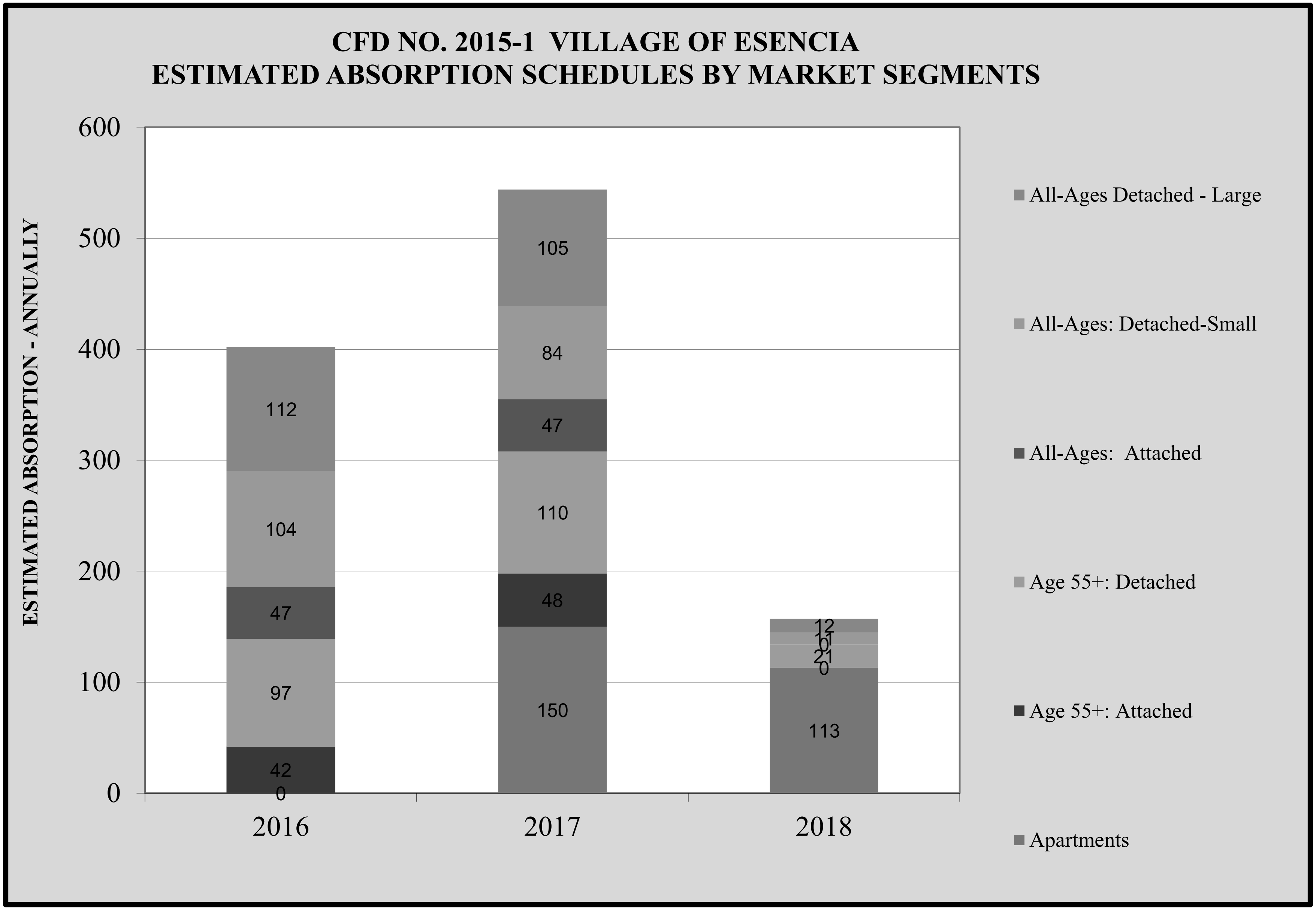
  - ✓ Apartments: remaining 113 units, including market-rate and also affordable

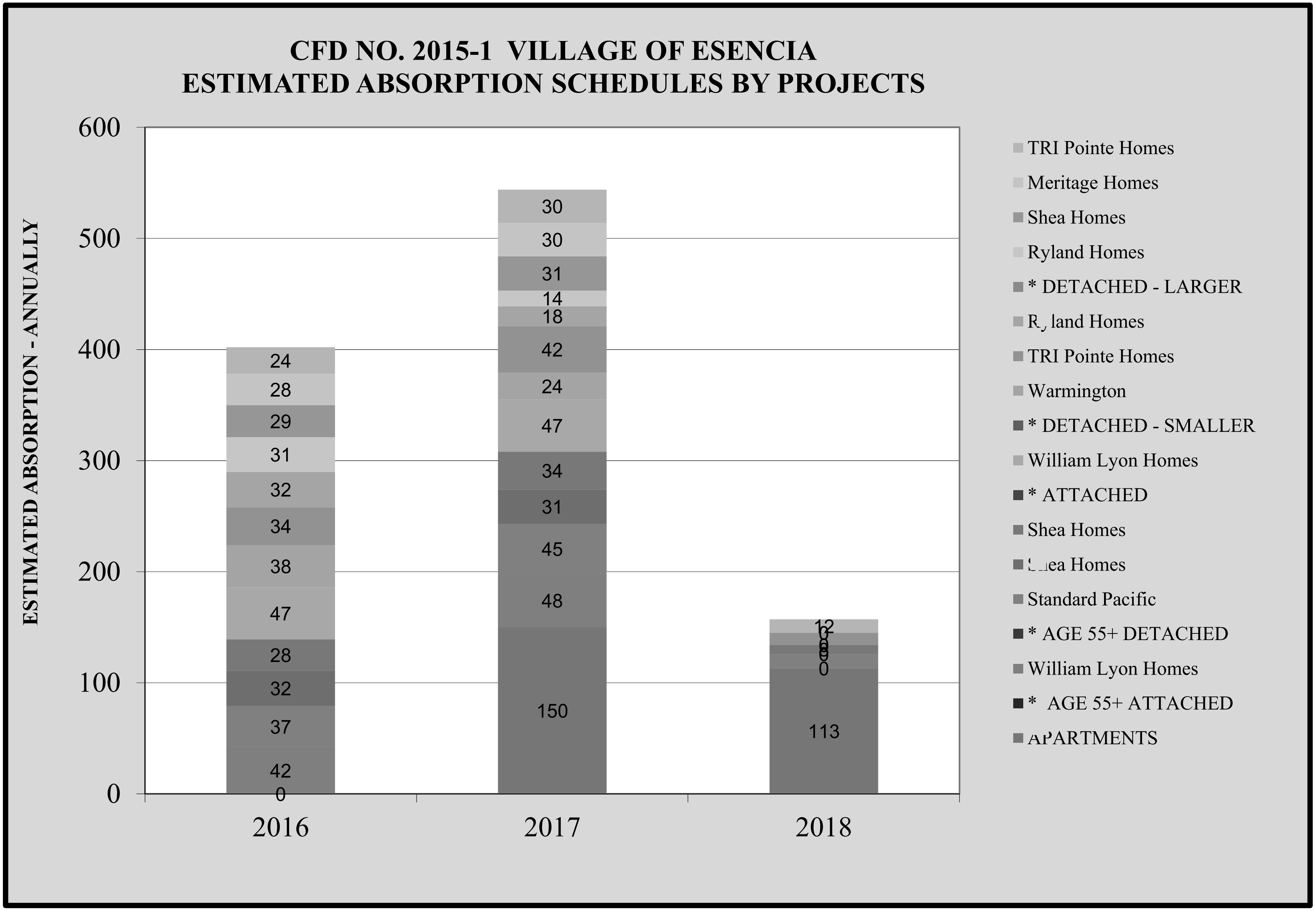
  - ✓ Ages 55+ Attached: Already Closed-out
  - ✓ Ages 55+ Detached: remaining 21 homes

  - ✓ All-Ages Attached: Already Closed-out
  - ✓ All-Ages: Detached - Smaller: remaining 11 homes
  - ✓ All-Ages: Detached - Larger: remaining 12 homes

Finally, the estimated absorption schedules are subject to the additional Assumptions and Qualifications set-forth in the next section.

Please refer to the graphs and table on the following pages for additional information on the estimated absorption schedules.


CFD NO. 2015-1 VILLAGE OF ESENCIA
ESTIMATED ABSORPTION SCHEDULES BY MARKET SEGMENTS
ESTIMATED ABSORPTION - ANNUALLY
600
500
400
300
200
100
0
2016
2017
2018
112
104
47
97
42
0
105
84
47
110
48
150
12
11
0
21
0
113
All-Ages Detached - Large
All-Ages: Detached-Small
All-Ages: Attached
Age 55+: Detached
Age 55+: Attached
Apartments


CFD NO. 2015-1 VILLAGE OF ESENCIA
ESTIMATED ABSORPTION SCHEDULES BY PROJECTS
ESTIMATED ABSORPTION - ANNUALLY
600
500
400
300
200
100
0
2016
2017
2018
24
28
29
31
32
34
38
47
28
32
37
42
0
30
30
31
14
18
42
24
47
34
31
45
48
150
12
0
113
TRI Pointe Homes
Meritage Homes
Shea Homes
Ryland Homes
* DETACHED - LARGER
Ryland Homes
TRI Pointe Homes
Warmington
* DETACHED - SMALLER
William Lyon Homes
* ATTACHED
Shea Homes
Shea Homes
Standard Pacific
* AGE 55+ DETACHED
William Lyon Homes
* AGE 55+ ATTACHED
APARTMENTS

# ESTIMATED ABSORPTION SCHEDULES
# CFD NO. 2015-1 VILLAGE OF ESENCIA

| **Projects >** | | **William Lyon Homes** | **Standard Pacific** | **Shea Homes** | **Shea Homes** | **William Lyon Homes** | **Warmington** | **TRI Pointe Homes** | **Ryland Homes** | **Ryland Homes** | **Shea Homes** | **Meritage Homes** | **TRI Pointe Homes** | **Annually** | **Cumulative** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Market Segments >** | **Apartment Rentals** | **Age Qualified (Age 55+) Attached** | **Age Qualified (Age 55+) Detached** | **Age Qualified (Age 55+) Detached** | **Age Qualified (Age 55+) Detached** | **All Ages Attached** | **All Ages Detach-Small** | **All Ages Detach-Small** | **All Ages Detach-Small** | **All Ages Detach - Large** | **All Ages Detach - Large** | **All Ages Detach - Large** | **All Ages Detach - Large** | | |
| **ESTIMATED ABSORPTION** | | | | | | | | | | | | | | | |
| **Annual Absorption Rates** | | | | | | | | | | | | | | | |
| 2016 | 0 | 42 | 37 | 32 | 28 | 47 | 38 | 34 | 32 | 31 | 29 | 28 | 24 | 402 | |
| 2017 | 150 | 48 | 45 | 31 | 34 | 47 | 24 | 42 | 18 | 14 | 31 | 30 | 30 | 544 | |
| 2018 | 113 | 0 | 13 | 0 | 8 | 0 | 0 | 11 | 0 | 0 | 0 | 0 | 12 | 157 | |
| | | | | | | | | | | | | | | | |
| **Cumulative Absorption Rates** | | | | | | | | | | | | | | | |
| 2016 | 0 | 42 | 37 | 32 | 28 | 47 | 38 | 34 | 32 | 31 | 29 | 28 | 24 | | 402 |
| 2017 | 150 | 90 | 82 | 63 | 62 | 94 | 62 | 76 | 50 | 45 | 60 | 58 | 54 | | 946 |
| 2018 | 263 | 90 | 95 | 63 | 70 | 94 | 62 | 87 | 50 | 45 | 60 | 58 | 66 | | 1,103 |
| | | | | | | | | | | | | | | | |
| **Totals** | **263** | **90** | **95** | **63** | **70** | **94** | **62** | **87** | **50** | **45** | **60** | **58** | **66** | **1,103** | **1,103** |

# ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study is based upon various assumptions and limiting conditions; accordingly, these are as follows:

**Property Boundaries**

No survey or engineering analysis of CFD No. 2015-1 property has been made by the market analyst; the District Engineer's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

**Maps and Exhibits**

Maps and exhibits included in this report are for illustration only as an aid in visualizing matters discussed within the report. They should not be considered as surveys, or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from the report.

**Title to Property**

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No. 2015-1 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

**Earthquakes and Seismic Hazards**

The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

**Soil and Geological Studies**

No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

**Presence and Impact of Hazardous Material**

Unless otherwise stated in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material.

**Structural Deficiencies of Improvements**

The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

**Environmental and Other Regulations**

The property is evaluated assuming it to be in full compliance with all applicable federal, state and local environmental regulations and laws, unless otherwise stated, and that there are no lawsuits that may adversely impact the rate of development.

**Required Permits and Other Governmental Authority**

Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

**Designated Economic Scenario**

The Market Absorption Study focuses upon the expected absorption schedule for the products in CFD No. 2015-1 according to the designated economic scenario. Specifically, this scenario represents the economic and real estate conditions for the Market Region and also the Market Area during the foreseeable future according to the most probable conditions, and this is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No. 2015-1 rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

**Provision of the Infrastructure**

The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed products/projects in CFD No. 2015-1 can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the products/projects could be adversely impacted.

**Developer/Builders Responsiveness to Market Conditions**

The Market Absorption Study assumes that the developer/builders in CFD No. 2015-1 respond to the market conditions with products that are competitively priced and have the features/amenities that are desired by the purchasers. Specifically, the homes in CFD No. 2015-1 have not yet entered the marketplace, and so the specific characteristics of their product types cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future products/projects have prices/features that differ from the competitive market standards, then their absorption schedule would need to be modified from those presented according to the designated economic scenario.

**Financial Strength of the Projects' Developer/Builders**

The Market Absorption Study assumes that the developer/builders in CFD No. 2015-1 (and also their lenders) have sufficient financial strength to adequately fund their projects, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

**Accuracy of Information from Others**

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

**Liability of Market Analyst**

The liability of Empire Economics, the market analyst responsible for this report, is limited to the client only and to the fee actually received by the market analyst. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The market analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property--physical, financial, and/or legal.

**Testimony or Court Attendance**

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market analysis, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for the market analyst's time to prepare for and attend any such hearing.

**Right of Publication of Report**

Possession of this report, or a copy of it, does not carry with it the right of publication except for the party to whom it is addressed. Without the written consent of the market analyst, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose which is being published in the Official Statement.

**Timeliness of the Market Absorption Study**

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic, residential and commercial market conditions that are expected to influence the marketing success of the products/projects in CFD No. 2015-1 . Nevertheless, the Study should be dated within six-months of the Bond Sale, or even sooner, should these land-use and/or economic market as well as real estate conditions change significantly.

# APPENDIX A: CREDENTIALS/QUALIFICATIONS OF EMPIRE ECONOMICS

Empire Economics is an economic and real estate consulting firm that specializes in conducting market absorption studies on behalf of public entities for residential, commercial, and industrial projects located throughout California, with an emphasis on Master Planned Communities, Business Parks and Retail Centers situated in Southern California, including Orange County, in particular.

During the past thirty years, Empire Economics has performed consulting services on behalf of numerous Issuers for approximately 500 municipal tax-exempt bond issues amounting to more than $14+ billion.

Empire Economics' experience with municipal tax-exempt issues during the past thirty years has been as follows:

- ✓ Mello-Roos/Assessment District Financings in which bonds have been sold: Over four hundred Bond Issues amounting to more than $7.5+ billion. Empire Economics' Market Studies are typically for Planned Communities and Business Parks which have 500-2,000+ housing units and/or 50-100+ commercial-industrial acres.
- ✓ Mortgage Revenue Bond Financings: Fifty+ issues with bonds amounting to more than $1.7 billion.
- ✓ Socioeconomic Forecast/Market Studies for the $2.75 billion refundings for the San Joaquin Hills and Foothill/Eastern Transportation Corridors' Toll Roads located in Orange County; the latter was designated as the Municipal Bond Issue of the Year for 1999.
- ✓ Mello-Roos/Assessment District Financings that are presently in their formative stages: over thirty CFDs that have forthcoming Bond Issues amounting to $500+ million.

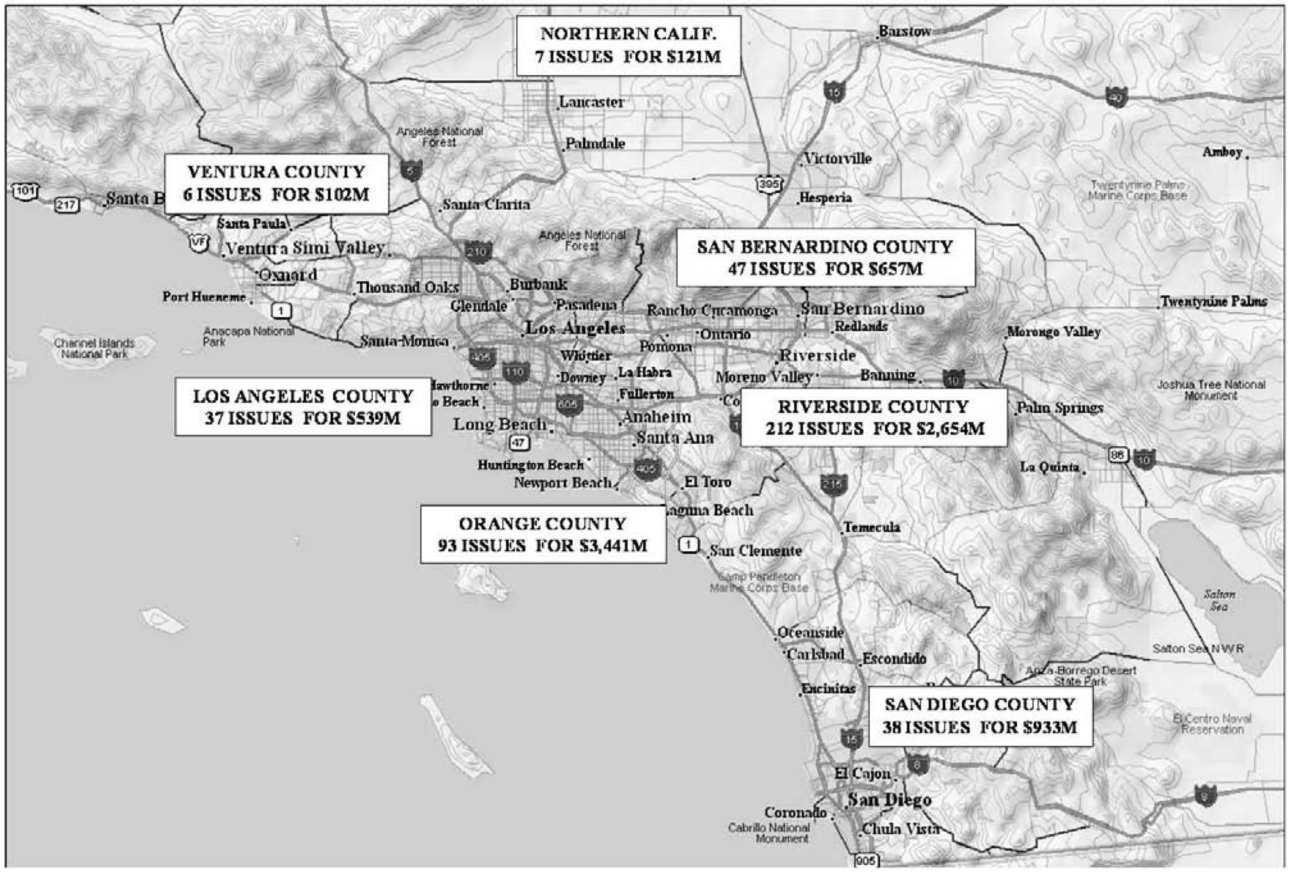
Empire Economics has taken an active role in the municipal bond industry by participating in numerous events; some examples are as follows:

- ✓ Treasurer John Chiang, Council of Economic Advisors
- ✓ California Debt Advisory Commission: Land Secured Practices and Policies , Speaker/Panelist
- ✓ League of Cities: Most Recently in Anaheim and Monterey: Speaker/Panelist
- ✓ UCLA Municipal Bond Financing Seminars: Featured Speaker
- ✓ Municipal Bond Industry Association - Panelist
- ✓ Best Practices for Continuing Disclosure – Panelist
- ✓ Appraisal Standards for Land Secured Financing by CDIAC – Panelist/Contributor
- ✓ Rating Agency and Bond Insurer Presentations – More than 15 Trips to New York City
- ✓ Meetings with Municipal Bond Funds:
- ✓ Mello-Roos Bond Issues – Site Tours
- ✓ San Joaquin Hills and Foothill Eastern Corridors:
- ✓ Bond Buyer Seminar Presentations in New York, Boston, and Chicago to 50+ Bond Funds

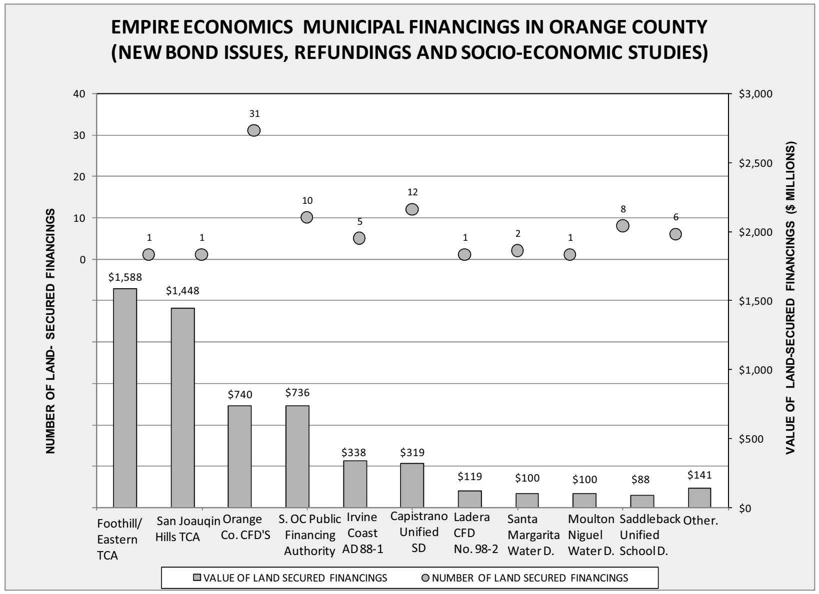
Consequently, the Municipal Bond Funds and Rating Agencies are familiar with Empire Economics and also the Price Point and Market Absorption studies that it has conducted for Planned Communities, Business Parks and Retail Centers in Southern California. This is beneficial to the forthcoming Bond Issues since these Market Studies have enabled Empire Economics to establish a high degree of credibility with the municipal Bond Funds and Rating Agencies. At such events, Empire Economics focuses upon discussing emerging trends/patterns in the economy and real estate markets.

Empire Economics has participated in numerous land secured financings throughout Southern California counties; the distribution of these by counties has been as follows:

## EMPIRE ECONOMICS: LAND-SECURED FINANCINGS



During the past thirty years, Empire Economics has completed about ninety studies for land secured municipal bond financing for various Districts located in Orange County.




Consequently, the Municipal Bond Funds are familiar with Empire Economics and also the Market Studies that it has conducted for Planned Communities, Business Parks and Retail Centers in Southern California, in general, and Orange County, in particular. This is beneficial to the forthcoming Bond Issues for the County of Orange since these Price Point and Market Absorption studies have enabled Empire Economics to establish a high degree of credibility with the municipal Bond Funds and Rating Agencies.

The following represent some of the major Planned Communities and Business Parks in Orange County for which Empire has provided Market Absorption Consulting Services:

- ✓ City of Irvine: Columbus Grove and Central Park West
- ✓ Aliso Viejo: 18,500 homes and 600 acres of business-retail.
- ✓ Rancho Santa Margarita: 15,000 homes and 500 acres of business-retail
- ✓ Ladera Ranch: 8,100 homes and 150 acres of commercial-retail
- ✓ Talega: 4,000 homes and 75 acres of business-retail
- ✓ Newport Coast: 2,000+ luxury homes and custom lots
- ✓ Heritage Fields by Five Point Communities in easterly Irvine, with an expected 9,500 homes
- ✓ Rancho Mission Viejo 14,000 planned homes; Sendero the first phase with about 940 homes

## APPENDIX K

## RMV PA 2 DEVELOPMENT, LLC UNAUDITED FINANCIAL STATEMENTS

**RMV PA2 Development, LLC**
**Balance Sheets**
**(Unaudited)**

**ASSETS**

| | | | July 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | Note 1 | $ | 111,059,829 | $ | 182,409,708 |
| Land and Land Improvements | Note 2 | | 143,446,848 | | 69,605,398 |
| Total Assets | | $ | 254,506,677 | $ | 252,015,106 |

**LIABILITIES AND MEMBERS' EQUITY**

| | | | | | |
|---|---|---|---|---|---|
| Accounts Payable & Accrued Liabilities | Note 3 | $ | 6,493,454 | $ | 7,140,501 |
| Option Payments | Note 4 | | 52,828,137 | | 51,234,150 |
| Builder Sales Deferred Income | | | 25,915,573 | | 21,269,669 |
| | | | 85,237,164 | | 79,644,320 |
| Members' Equity | | | | | |
| RMV Community Development, LLC | | | 148,286,103 | | 155,786,103 |
| Retained Earnings | | | 20,983,410 | | 16,584,683 |
| | | | 169,269,513 | | 172,370,786 |
| Total Liabilities & Members' Equity | | $ | 254,506,677 | $ | 252,015,106 |

**Statements of Operations**
**For The Current Month and Year to Date Period Ended July 31, 2015**
**(Unaudited)**

| | | Current Month | | Year to Date |
|---|---|---|---|---|
| **Revenue** | | | | |
| Land Sales | $ | 0 | $ | 25,514,806 |
| Total Income | | 0 | | 25,514,806 |
| **Cost of Sales** | | | | |
| Land Sales | | 0 | | 20,602,567 |
| Total Cost of Sales | | 0 | | 20,602,567 |
| **Other Income:** | | | | |
| Interest Income | | 88,372 | | 526,012 |
| Total Other Income | | 88,372 | | 526,012 |
| **Other Expenses:** | | | | |
| Marketing Expense | | 389,125 | | 921,288 |
| Other G&A | | 88,428 | | 433,451 |
| Total Other Expenses | | 477,553 | | 1,354,739 |
| **Net Other** | | (389,181) | | (828,727) |
| Prior Year Deferred Income Adjustment | | 0 | | 315,215 |
| Net Income/(Loss) | $ | (389,181) | $ | 4,398,727 |

**RMV PA2 Development, LLC**
**Notes to Financial Statements**
**July 31, 2015**
**(Unaudited)**

## Note 1 Cash and Cash Equivalents

| | |
|---|---|
| Union Bank Checking | $12,195,054 |
| Union Bank Money Market | 1,742,380 |
| County of Orange Trust-PA2 | 80,281 |
| Temporary Investments* | 97,042,114 |
| Total | $111,059,829 |

* Temporary Investments represent Commercial Paper with maturities ranging from 30 days to 120 days.

## Note 2 Land and Land Improvements

Land and Land Improvements are carried at cost, which in management's opinion, is not in excess of that which will be realized from the orderly development and disposition of the Project.

The costs of Land and Land Improvements sold are determined based on the relative sale value.

Land and Land Improvements includes direct and indirect land costs, offsite and onsite improvement costs, as well as carrying charges during such time as a portion of the Project is under active development.

Selling and marketing costs are generally expensed as incurred unless future benefit from such expenditures can be demonstrated.

Land and Land Improvements at July 31, 2015 consist of:

| | |
|---|---|
| Land | $167,880,447 |
| Land improvements | 180,805,153 |
| | 348,685,600 |
| Less amount allocated to cost of sales | (205,238,752) |
| | $143,446,848 |

## Note 3 Accounts Payable & Accrued Liabilities

| | 07/31/15 | 12/31/14 |
|---|---|---|
| Accounts Payable | $6,349,272 | $7,140,501 |
| Property Taxes | 144,182 | 0 |
| | $6,493,454 | $7,140,501 |

## Note 4 Option Payments

Option payments represent deposits received for PA2.2 builder land sales scheduled to occur in late 2015.

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COMMUNITY FACILITIES DISTRICT NO. 2015-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA) • SERIES A OF 2015 SPECIAL TAX BONDS

COUNTY OF ORANGE CALIFORNIA


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