

INSURED BONDS RATING: S&P: "AA"

UNINSURED BONDS AND UNDERLYING RATING: S&P: "A-"

(See "CONCLUDING INFORMATION - Rating on the Bonds" herein)

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax under the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

\$15,565,000

**IMPROVEMENT AREA A OF THE CITY OF PALMDALE
COMMUNITY FACILITIES DISTRICT NO. 2003-1
(ANAVERDE PUBLIC IMPROVEMENTS)
2019 SPECIAL TAX REFUNDING BONDS**

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

The Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds (the "Bonds") are being issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53311 et seq. of the California Government Code), Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and a Fiscal Agent Agreement (the "Fiscal Agent Agreement"), dated as of August 1, 2019, between the City of Palmdale (the "City"), for and on behalf of Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) (the "Improvement Area"), and U.S. Bank National Association, as Fiscal Agent. The Bonds are special obligations of the City for the Improvement Area and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on certain taxable land within the Improvement Area (less certain administrative expenses) and from certain other funds pledged under the Fiscal Agent Agreement, all as further described herein. The Special Taxes are to be levied according to the Rate and Method of Apportionment of Special Taxes approved by the City Council of the City and the original qualified electors of the Improvement Area. See "SECURITY FOR THE BONDS - Pledge of Special Tax Revenues." The City Council of the City is the legislative body of the Improvement Area.

The proceeds of the Bonds will be used to (1) refinance outstanding bonds issued for the Improvement Area, (2) fund a reserve fund for the Bonds (as described herein) and (3) pay costs of issuing the Bonds. See "THE FINANCING PLAN – Estimated Sources and Uses of Funds" herein.

Interest due on to the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2020. Initial purchases of beneficial interests in the Bonds will be made in book-entry form and the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Bond denominations are \$5,000 and any integral multiple in excess thereof. Purchasers of beneficial interests in the Bonds will not receive certificates representing their interests in the Bonds and will not be paid directly by the Fiscal Agent. See "APPENDIX G - DTC AND THE BOOK ENTRY SYSTEM."

The Bonds are subject to optional and mandatory redemption prior to their stated maturity, as described herein. See "THE BONDS - Redemption" herein.

THE BONDS, THE INTEREST THEREON, AND ANY PREMIUM PAYABLE UPON THE REDEMPTION OF ANY OF THE BONDS, ARE NOT AN INDEBTEDNESS OF THE CITY, LOS ANGELES COUNTY (THE "COUNTY"), THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF THEIR POLITICAL SUBDIVISIONS, AND NEITHER THE CITY, THE COUNTY, THE IMPROVEMENT AREA (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE FOR THE BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE IMPROVEMENT AREA (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE COUNTY, OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. OTHER THAN THE SPECIAL TAXES LEVIED IN THE IMPROVEMENT AREA PURSUANT TO THE RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT A GENERAL OBLIGATION OF THE IMPROVEMENT AREA BUT ARE LIMITED OBLIGATIONS OF THE IMPROVEMENT AREA PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES, AS MORE FULLY DESCRIBED HEREIN.

The scheduled payment of principal of and interest on the Bonds maturing on September 1 of the years 2024 through 2035, inclusive (collectively, the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP. See "MUNICIPAL BOND INSURANCE" and "APPENDIX F - SPECIMEN MUNICIPAL BOND INSURANCE POLICY."



This cover page contains certain information for general reference only. It is not a complete summary of the terms of the Bond issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds. **Investment in the Bonds involves risks which may not be appropriate for some investors. See "RISK FACTORS" herein for a discussion of risk factors that should be considered in evaluating the investment quality of the Bonds.**

The Bonds are being offered when, as and if issued by the City on behalf of the Improvement Area, subject to the approval as to their legality by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Wm. Matthew Ditzhazy, as City Attorney and by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel to the City, and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, as Underwriter's Counsel. Delivery of the Bonds through the facilities of The Depository Trust Company is expected to occur on or about August 1, 2019.

The date of the Official Statement is July 17, 2019.

STIFEL

\$15,565,000
IMPROVEMENT AREA A OF THE CITY OF PALMDALE
COMMUNITY FACILITIES DISTRICT NO. 2003-1
(ANAVERDE PUBLIC IMPROVEMENTS)
2019 SPECIAL TAX REFUNDING BONDS

MATURITY SCHEDULE
(Base CUSIP†: 696738)

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®†</u>
2020	\$ 605,000	5.00%	1.19%	104.087	CQ4
2021	690,000	5.00	1.24	107.708	CR2
2022	730,000	5.00	1.27	111.242	CS0
2023	765,000	5.00	1.30	114.666	CT8
2024*	805,000	5.00	1.28	118.250	CU5
2025*	840,000	5.00	1.36	121.181	CV3
2026*	885,000	5.00	1.47	123.662	CW1
2027*	930,000	5.00	1.56	126.028	CX9
2028*	975,000	5.00	1.64	128.246	CY7
2029*	1,030,000	5.00	1.73	130.136	CZ4
2030*	1,080,000	5.00	1.83	129.065 C	DA8
2031*	1,125,000	5.00	1.91	128.217 C	DB6
2032*	1,180,000	5.00	2.02	127.061 C	DC4
2033*	1,245,000	5.00	2.10	126.227 C	DD2
2034*	1,305,000	5.00	2.17	125.504 C	DE0
2035*	1,375,000	5.00	2.22	124.990 C	DF7

* Insured Bonds.

C Priced to the first optional call date of September 1, 2029 at par.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the City, the Municipal Advisor or the Underwriter and are included solely for the convenience of the owners of the Bonds. None of the City, the Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Improvement Area since the date of this Official Statement.

Use of This Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Bonds.

Preparation of This Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. All summaries of the Bonds, the Fiscal Agent Agreement and other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information. See "INTRODUCTION - Summaries Not Definitive."

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

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt From Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. 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," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY, ON BEHALF OF THE IMPROVEMENT AREA, DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Website. The City maintains an Internet website, but the information on the website is not incorporated in this Official Statement.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX F - SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

**CITY OF PALMDALE
LOS ANGELES COUNTY, CALIFORNIA**

City Council

Steven D. Hofbauer, Mayor
Austin Bishop, Mayor Pro Tem/Councilmember District 1
Richard J. Loa Councilmember District 2
Laura Bettencourt, Councilmember District 3
Juan Carrillo, Councilmember District 4

City Staff

James Purtee, City Manager
Anne Ambrose, Director of Administrative Services
Charles Heffernan, Director of Public Works
Keith Kang, Interim Finance Manager/Deputy City Treasurer
Wm. Matthew Ditzhazy, City Attorney
Rebecca Smith, City Clerk

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Orange, California

Special Tax Consultant and Dissemination Agent

NBS Government Finance Group
Temecula, California

Fiscal Agent

U.S. Bank National Association
Los Angeles, California

Verification Agent

Robert Thomas CPA, LLC
Overland Park, Kansas

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OFFICIAL STATEMENT

\$15,565,000

IMPROVEMENT AREA A OF THE CITY OF PALMDALE COMMUNITY FACILITIES DISTRICT NO. 2003-1 (ANVERDE PUBLIC IMPROVEMENTS) 2019 SPECIAL TAX REFUNDING BONDS

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in this entire Official Statement, including the cover page and appendices hereto, and the documents summarized or otherwise described herein. A full review should be made of this entire Official Statement and such documents prior to making an investment in the Bonds. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given such terms in the Fiscal Agent Agreement, some of which are set forth in Appendix A hereto.

General

This Official Statement, including the cover page, the inside cover page and appendices hereto, sets forth certain information concerning the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds (the “Bonds”).

The Bonds are being issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53311 et seq. of the California Government Code) (the “Act”), Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Refunding Law”) and a Fiscal Agent Agreement, dated as of August 1, 2019 (the “Fiscal Agent Agreement”), between the City of Palmdale (the “City”), for and on behalf of Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) (the “Improvement Area,” also referred to as “Improvement Area A”), and U.S. Bank National Association, as Fiscal Agent (the “Fiscal Agent”). The Bonds were authorized to be issued by a resolution adopted by the City Council of the City (the “City Council”) on July 9, 2019 (the “Resolution”).

The City

The City was incorporated as a general law city on August 24, 1962. It became a charter city in November 2009. The City encompasses approximately 104 square miles in an area of northern Los Angeles County (the “County”) known as the Antelope Valley. The City is located approximately 60 miles north of downtown Los Angeles. Neighboring communities include Santa Clarita and Lancaster. See “APPENDIX D - CITY OF PALMDALE INFORMATION STATEMENT” attached hereto.

The Community Facilities District and Improvement Area A

Community Facilities District No. 2003-1 (Anaverde Public Improvements) (the “Community Facilities District”) was established by the City Council, acting as legislative body of the Community Facilities District, pursuant to proceedings under the Act on August 23, 2004. There are four improvement areas established within the Community Facilities District, including Improvement Area A. See “THE IMPROVEMENT AREA - Authorization” herein.

The Community Facilities District was formed to finance the acquisition and construction of certain public capital improvements necessary for the development of a 5,200-unit master-planned community known as Anaverde, located in the City. The Community Facilities District is located on the southwestern edge of the City, west of California State Route 14 and intersected by Avenue S. The project was expected to be built out in four phases, with the initial phase of development occurring in Improvement Area A. Anaverde is also proposed to include schools and commercial space, none of which are located in Improvement Area A. See “THE IMPROVEMENT AREA - General” herein. To date, only Improvement Area A of the Community Facilities District has been developed.

In accordance with the original development plan, the Improvement Area has been developed with 1,417 homes. On July 9, 2019, pursuant to the Act, 11.1 acres of vacant land originally located in another improvement area within the Community Facilities District (the “Annexation Parcel”) was annexed to the Improvement Area. See “Annexation Proceedings” below. The City expects the Annexation Parcel to be developed with 54 single family homes.

Formation Proceedings. The Community Facilities District and the Improvement Area were formed by the City Council pursuant to the Act. The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State of California (the “State”). Any local agency (as defined in the Act) may establish a 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 at least 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. The City Council acts as the legislative body of the Community Facilities District and of the Improvement Area.

Pursuant to the Act, in 2004 the City Council adopted the necessary resolutions stating its intent to establish the Community Facilities District, including Improvement Area A, to authorize the levy of special taxes on taxable property within the boundaries of the Community Facilities District, including Improvement Area A, and to incur bonded indebtedness in an aggregate amount not to exceed \$30 million within Improvement Area A. See “THE IMPROVEMENT AREA - Authorization.”

Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the Improvement Area and calling a special election to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified electors within the Improvement Area. On August 23, 2004, at a landowner election held pursuant to the Act, the then-qualified voters of the Improvement Area, by more than a two-thirds vote, authorized the Improvement Area to incur bonded indebtedness in the aggregate principal amount not to exceed \$30 million to be secured by the levy of Special Taxes on taxable property within the Improvement Area. At that same election, the qualified voters within the Improvement Area approved the rate and method of apportionment of special taxes for the Improvement Area (the “Rate and Method of Apportionment of Special Taxes”).

Annexation Proceedings. On May 7, 2019, pursuant to the Act, the City Council adopted a resolution declaring its intent to annex the Annexation Parcel into Improvement Area A and subject the property in the Annexation Area to the same Rate and Method of Apportionment of Special Taxes as the existing homes in the Improvement Area. On July 9, 2019, pursuant to the Act, the City Council held a public hearing regarding the annexation, adopted a resolution annexing the Annexation Parcel into Improvement Area A, held a special election (submitted to the sole landowner of the Annexation Parcel as the qualified elector) and adopted a resolution declaring the results of the election. This concluded the proceedings to annex the Annexation Parcel into the Improvement Area. The Annexation Parcel was originally located in Improvement Area B (“Improvement Area B”) of the Community Facilities District.

The Annexation Parcel has been removed from Improvement Area B and will not be subject to any Improvement Area B special taxes. As of July 9, 2019, New Anaverde LLC is the owner of the Annexation Parcel.

Property Value. The value of the land within the Improvement Area is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of the Special Tax levied on its property, the City's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Tax. See "THE IMPROVEMENT AREA - Development Summary and Special Taxes," and "- Property Assessed Values" for discussions of the development status of property in the Improvement Area and the assessed value (and value-to-lien ratios) of property within the Improvement Area.

The value of the property subject to the Special Tax for Fiscal Year 2018-19, based on County assessed values as of January 1, 2018, is \$443,822,488 (including the undeveloped Annexation Parcel), providing an overall value to lien ratio based on the initial principal amount of the Bonds, excluding overlapping land-secured and general obligation bond debt, of 28.5:1.. See "THE IMPROVEMENT AREA - Property Assessed Values." Within the Improvement Area there is overlapping indebtedness. Total direct and overlapping tax and assessment debt on property in the Improvement Area as of May 1, 2019 is \$22,989,093, as adjusted to include the par amount of the Bonds. See "THE IMPROVEMENT AREA - Estimated Direct and Overlapping Debt" for a discussion of additional debt secured by liens on the real property in the Improvement Area on a parity with the Bonds. The total value-to-lien ratio within the Improvement Area including direct and overlapping tax and assessment debt is 19.3:1. See "THE IMPROVEMENT AREA - Development Summary and Special Taxes" and "- Estimated Direct and Overlapping Debt."

The value of individual parcels in the Improvement Area vary significantly. In addition, County assessed values may not reflect current market values. No recent independent appraisal of the property subject to the levy of Special Taxes has been conducted in connection with the Bonds, and no assurance can be given that should Special Taxes levied on one or more of the parcels become delinquent, and should the delinquent parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the property or, if a bid is received, that such bid would be sufficient to pay such parcel's delinquent Special Taxes. See "RISK FACTORS - Assessed Valuations" and "RISK FACTORS - Proceeds of Foreclosure Sales."

Application of Proceeds

The net proceeds of the Bonds will be used to: (1) refinance outstanding bonds of the Improvement Area, (2) fund a reserve fund for the Bonds and (3) pay costs of issuing the Bonds. See "THE FINANCING PLAN - Estimated Sources and Uses of Funds" herein.

Security for the Bonds

Under the Fiscal Agent Agreement, the City has pledged to repay the Bonds from Special Tax Revenues as hereafter described, and certain funds held pursuant to the Fiscal Agent Agreement. The pledge of Special Tax Revenues excludes the portion of the Special Tax levy for Administrative Expenses, as defined in the Fiscal Agent Agreement, which will be separately identified by the City's Finance Manager/Treasurer (the "Finance Director") and shall be deposited by the Finance Director in the Administrative Expense Fund established under the Fiscal Agent Agreement (the "Administrative Expenses").

“Special Tax Revenues” is defined in the Fiscal Agent Agreement to mean the proceeds of the Special Taxes received by the City, including any scheduled payments and any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. “Special Tax Revenues” does not include any penalties collected in connection with delinquent Special Taxes, which amounts may be deposited to the Administrative Expense Fund or otherwise disposed of as determined by the Finance Director consistent with any applicable provisions of the Act. See “APPENDIX C - RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES FOR IMPROVEMENT AREA A OF THE CITY OF PALMDALE COMMUNITY FACILITIES DISTRICT NO. 2003-1 (ANAVERDE PUBLIC IMPROVEMENTS)” and “APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT.”

“Special Taxes” is defined in the Fiscal Agent Agreement to mean the special taxes levied by the City within the Improvement Area pursuant to the Act, the Ordinance providing for the levy of Special Taxes (the “Ordinance”) and the Rate and Method of Apportionment of Special Taxes. Special Taxes are currently levied by the City on parcels of Developed Property within the Improvement Area pursuant to the Rate and Method of Apportionment of Special Taxes. “Developed Property” is defined as a parcel of property for which a building permit was issued on or before March 1 of the Fiscal Year preceding the Fiscal Year for which the Special Tax is levied. Developed Property does not include Final Mapped Property, Undeveloped Property, Taxable Public Property or Taxable Property Owner Association Property, as such terms are defined in the Rate and Method of Apportionment of Special Taxes. See “SECURITY FOR THE BONDS - Pledge of Special Tax Revenues.” Under the Fiscal Agent Agreement, the City has agreed to levy the Special Tax, and to repay the Bonds from the Special Tax Revenues and from certain amounts on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Fiscal Agent Agreement. See “APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT.”

Foreclosure Proceeds. The City, on behalf of the Improvement Area, has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) properties in the Improvement Area with delinquent installments of Special Taxes, subject to a minimum of \$3,600 in delinquent Special Taxes; and (ii) all properties with delinquent Special Taxes following the close of each fiscal year in which the Improvement Area receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied, provided, however, the City is not required to order and cause judicial foreclosure proceedings to be commenced against any delinquent properties if the amount in the Reserve Fund is at least equal to the Reserve Requirement. See “SECURITY FOR THE BONDS - Covenant to Foreclosure” herein. There is no assurance that, in the event of a failure by a property owner to pay Special Taxes when due, the delinquent taxable property within the Improvement Area can be sold for the values described herein or at all. See “RISK FACTORS - Assessed Valuations” herein.

Except for the Special Tax Revenues (less amounts levied to pay Administrative Expenses), no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City nor general obligations of the Improvement Area, but are special obligations of the City for the Improvement Area payable solely from Special Tax Revenues and certain amounts held under the Fiscal Agent Agreement as more fully described herein.

Municipal Bond Insurance and Reserve Fund Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (the “Municipal Bond Insurer”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds maturing on September 1 in the years 2024 through and including 2035 (collectively, the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as “APPENDIX F - SPECIMEN MUNICIPAL BOND INSURANCE

POLICY.” The Policy does not insure the payment of the Bonds maturing in the years 2020 through and including 2023 (the “Uninsured Bonds”). See “MUNICIPAL BOND INSURANCE” herein.

In order to further secure the payment of the principal of and interest on the Bonds, a Reserve Fund has been established by the Fiscal Agent Agreement for the Bonds. One-half of the Reserve Requirement for the Bonds, as defined in the Fiscal Agent Agreement, is anticipated to be funded by the purchase of a Reserve Fund Municipal Bond Insurance Policy (the “Reserve Fund Insurance Policy”) issued by the Municipal Bond Insurer. See “SOURCES OF PAYMENT FOR THE BONDS - Reserve Fund.”

Limited Liability

Although the unpaid Special Taxes constitute a lien on the real property within the Improvement Area on which they are levied, they do not constitute a personal indebtedness of any home-owner or landowner within the Improvement Area, or any future property owner in the Improvement Area. There is no assurance that the current owners of Developed Property within the Improvement Area, or any future owners of Developed Property within the Improvement Area, will be financially able to pay the Special Taxes or that they will pay the Special Taxes even though financially able to do so.

The Bonds are payable solely from the proceeds of the Special Tax to be levied annually on the Developed Property within the Improvement Area and amounts in certain funds established under the Fiscal Agent Agreement. Neither the faith and credit of the City, nor the faith and credit or the taxing power of the County, the State, or any political subdivision thereof (other than of the Improvement Area, to the limited extent set forth in the Fiscal Agent Agreement) is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any of the property or revenues of the City, and the payment of the interest on or principal of or redemption premium, if any, on the Bonds is not a general debt, liability or obligation of the City or the Improvement Area.

Legal Matters

The legal proceedings relating to the issuance of the Bonds are subject to the approving opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Certain legal matters will be passed on for the Improvement Area by the City Attorney and by Quint & Thimmig LLP, Larkspur, California acting as Disclosure Counsel.

Tax Matters

In the opinion of Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” and Appendix B hereto.

Offering of the Bonds

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Quint & Thimmig LLP, Larkspur, California, Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about August 1, 2019 through the facilities of The Depository Trust Company (“DTC”). See “APPENDIX G - DTC AND THE BOOK-ENTRY SYSTEM.”

Summaries Not Definitive

Brief descriptions of the Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Certificate, the security for the Bonds, the Improvement Area, the state of development of the property in the Improvement Area, the Developed Property and certain other documents and information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. Any references to documents herein are qualified by reference to the complete text thereof. Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given them in the Fiscal Agent Agreement, some of which are set forth in "APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT." Copies of documents referenced herein may be obtained upon written request and payment of the cost of mailing and duplication from the office of the City Clerk, 38300 Sierra Highway, Palmdale, California 93550.

THE FINANCING PLAN

The Refunding Plan

On the Closing Date, a portion of the proceeds of the Bonds will be transferred to U.S. Bank National Association, the fiscal agent (the "2005 Fiscal Agent") for the outstanding Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) Special Tax Bonds, Series 2005-A (the "2005-A Bonds") and Special Tax Bonds, Subordinate Series 2005-B (the "2005-B Bonds" and together with the 2005-A Bonds, the "2005 Bonds").

Such funds will be used, together with certain existing funds related to the 2005 Bonds, to provide for the defeasance and refunding of the 2005 Bonds. Money will be deposited into an escrow fund (the "Refunding Fund") which will be held under an Escrow Agreement, dated as of August 1, 2019, between the City for and on behalf of the Improvement Area and the 2005 Fiscal Agent, as Escrow Bank (the "Escrow Agreement").

Moneys in the Refunding Fund will be invested in certain Federal Securities specified therein. The amount deposited in the Refunding Fund (together with interest earnings) will be sufficient to (1) pay the principal of and interest on the 2005-A Bonds due on September 1, 2019, (2) redeem the 2005 Bonds maturing on or after September 1, 2020 on September 1, 2019, without premium, (3) pay the principal of and interest on the 2005-B Bonds due on September 2, 2019 and (4) redeem the outstanding 2005-B Bonds on September 2, 2019, without premium.

As a result of the deposit and application of funds as provided in the Escrow Agreement, the obligation to make payments of the principal of and interest on the 2005 Bonds will be legally defeased on such date of deposit. Neither the moneys in the Refunding Fund nor the interest thereon will be available for the payment of the Bonds.

Robert Thomas CPA, LLC will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the amounts listed in the schedules prepared by the Municipal Advisor, to be held under the Escrow Agreement, will be sufficient to pay, when due, the principal, and interest and redemption price of the 2005 Bonds, and (2) the computation of yield on the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest with respect to the Bonds is exempt from federal taxation.

Estimated Sources and Uses of Funds

Under the provisions of the Fiscal Agent Agreement, the Fiscal Agent will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources of Funds

Principal Amount of Bonds	\$15,565,000.00
Underwriter's Discount	(105,525.00)
Plus Net Original Issue Premium	<u>3,587,903.25</u>
Total	\$19,047,378.25

Uses of Funds

Transfer to 2005-A Account of the Refunding Fund	\$17,349,365.06
Transfer to 2005-B Account of the Refunding Fund	658,844.21
Reserve Fund ⁽¹⁾	724,052.09
Costs of Issuance Fund ⁽²⁾	<u>315,116.89</u>
Total	\$19,047,378.25

⁽¹⁾ Represents the cash portion of the funding of the Reserve Requirement. Fifty percent of the Reserve Requirement is anticipated to be satisfied with a deposit of the Reserve Fund Insurance Policy to the Reserve Fund (see "SECURITY FOR THE BONDS - Reserve Fund" herein).

⁽²⁾ To be used to pay costs of issuance of the Bonds, including Bond Counsel fees, Disclosure Counsel fees, initial Fiscal Agent fees, Municipal Advisor's fees, verification agent fees, rating fees, escrow bidding agent fees, Special Tax Consultant fees, Official Statement printing, premiums for the Policy and the Reserve Fund Insurance Policy and other costs of issuance.

Transfers to Refunding Fund. In addition to Bond proceeds transferred to the Refunding Fund, the 2005 Fiscal Agent will transfer (1) amounts on deposit in the reserve fund for the 2005-A Bonds to the 2005-A Bonds Account of the Refunding Fund, (2) certain amounts on deposit in the improvement fund for the 2005-A Bonds (the "2005 Improvement Fund") to the 2005-A Bonds Account of the Refunding Fund, (3) certain amounts on deposit in the bond fund, the special tax fund and other funds and accounts established for the 2005 Bonds to the 2005-A Bonds to the 2005-A Bonds Account of the Refunding Fund and the 2005-B Bonds Account of the Refunding Fund.

Transfer to the Improvement Fund. The 2005 Fiscal Agent will also transfer certain amounts on deposit in 2005 Improvement Fund to the Improvement Fund established under the Fiscal Agent Agreement.

Transfer to the Administrative Expense Fund. The City will transfer certain amounts on deposit for administrative expenses of the Improvement Area and the 2005 Bonds to the Administrative Expense Fund established under the Fiscal Agent Agreement, and the balance will be transferred to the Refunding Fund.

THE BONDS

Authority for Issuance

The Bonds will be issued pursuant to the Act, the Refunding Law, the Resolution and the Fiscal Agent Agreement.

Description of the Bonds

The Bonds are dated their date of delivery (the “Closing Date”) and will mature in the amounts and in the years, and bear interest at the rates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple in excess thereof.

Interest on the Bonds will be payable semiannually on September 1 and March 1 of each year, commencing March 1, 2020 (each, an “Interest Payment Date”) and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the 15th calendar day of the month preceding such Interest Payment Date (each, a “Record Date”), in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Closing Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry System. DTC 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. Interest on and principal of the Bonds will be payable when due by wire transfer of the Fiscal Agent to DTC which will in turn remit such interest and principal to participants in DTC’s book-entry only system, which will in turn remit such interest and principal to Beneficial Owners (as described herein) of the Bonds (see “APPENDIX G - DTC AND THE BOOK-ENTRY SYSTEM” herein). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Fiscal Agent will send any notices to Bond Owners only to DTC. See “APPENDIX G - DTC AND THE BOOK ENTRY SYSTEM.”

Redemption

Optional Redemption. The Bonds maturing on or after September 1, 2030 are subject to optional redemption prior to their stated maturities on any date on or after September 1, 2029, as a whole, or in part in an amount equal to \$5,000 or any integral multiple thereof and among maturities so as to maintain substantially level debt service on the Bonds, and by lot within a maturity, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption From Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the Reserve Fund pursuant to the Fiscal Agent Agreement shall be used to redeem Bonds on the next Interest Payment Date for which notice of redemption can timely be given, in whole, or in part in an amount equal to \$5,000 or any integral multiple thereof allocated among maturities of the Bonds so as to maintain substantially level debt service on the Bonds, and by lot within a maturity,

at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
any Interest Payment Date from March 1, 2020 to and including March 1, 2027	103%
September 1, 2027 and March 1, 2028	102%
September 1, 2028 and March 1, 2029	101%
September 1, 2029 and any Interest Payment Date thereafter	100%

Purchase of Bonds. In lieu of redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase prior to the selection of Bonds for redemption, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Fiscal Agent Agreement.

Selection of Bonds for Redemption

Whenever provision is made for the redemption of less than all of the Bonds, the Fiscal Agent shall select the Bonds to be redeemed, from all Bonds not previously called for redemption, among maturities as directed in writing by the Finance Director (who shall specify Bonds to be redeemed so as to maintain substantially level debt service on the Bonds), and by lot within a maturity in any manner which the Fiscal Agent deems appropriate.

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

Notice of Redemption

Redemption Procedure by Fiscal Agent. The Fiscal Agent shall cause notice of any redemption to be sent (by first class mail, postage prepaid, or by such other means as is acceptable to the recipient thereof), at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories, to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond Register maintained by the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the CUSIP numbers and, if applicable, the Bond numbers of the Bonds to be redeemed by giving the individual CUSIP number and, if applicable, Bond number of each Bond to be redeemed or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at

the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date.

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

Right of Rescission. Notwithstanding the foregoing, in the case of any optional redemption of the Bonds, the notice of redemption may state that the redemption is conditioned upon receipt by the Fiscal Agent of sufficient moneys to redeem the Bonds on the anticipated redemption date, and that the redemption shall not occur if by no later than the scheduled redemption date sufficient moneys to redeem the Bonds have not been deposited with the Fiscal Agent. In the event that the Fiscal Agent does not receive sufficient funds by the scheduled redemption date to so redeem the Bonds to be redeemed, the Fiscal Agent shall send written notice to the owners of the Bonds and to the Securities Depositories to the effect that the redemption did not occur as anticipated, and the Bonds for which notice of redemption was given shall remain Outstanding.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Bonds so called for redemption shall have been deposited in the Bond Fund, such Bonds so called shall cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the specified redemption date.

Transfer or Exchange of Bonds

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of Bonds shall be made in accordance with DTC procedures. See "APPENDIX G - DTC AND THE BOOK ENTRY SYSTEM." If the book-entry only system for the Bonds is ever discontinued, any Bond may, in accordance with its terms, be transferred or exchanged by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond to the Fiscal Agent for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount of Bonds of authorized denominations. The Fiscal Agent shall collect from the Bondowner requesting such transfer or exchange any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfers or exchanges of Bonds shall be required to be made (i) within 15 days prior to the date established by the Fiscal Agent for selection of Bonds for redemption, (ii) with respect to a Bond after such Bond has been selected for redemption or (iii) between a Record Date and the succeeding Interest Payment Date.

Annual Debt Service of Bonds

The table below sets forth the scheduled annual debt service payments on the Bonds, assuming no optional redemption of the Bonds or redemption of the Bonds from Special Tax prepayments.

Bond Year Ending (September 1)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 605,000.00	\$ 843,104.17	\$ 1,448,104.17
2021	690,000.00	748,000.00	1,438,000.00
2022	730,000.00	713,500.00	1,443,500.00
2023	765,000.00	677,000.00	1,442,000.00
2024	805,000.00	638,750.00	1,443,750.00
2025	840,000.00	598,500.00	1,438,500.00
2026	885,000.00	556,500.00	1,441,500.00
2027	930,000.00	512,250.00	1,442,250.00
2028	975,000.00	465,750.00	1,440,750.00
2029	1,030,000.00	417,000.00	1,447,000.00
2030	1,080,000.00	365,500.00	1,445,500.00
2031	1,125,000.00	311,500.00	1,436,500.00
2032	1,180,000.00	255,250.00	1,435,250.00
2033	1,245,000.00	196,250.00	1,441,250.00
2034	1,305,000.00	134,000.00	1,439,000.00
2035	<u>1,375,000.00</u>	<u>68,750.00</u>	<u>1,443,750.00</u>
Total	\$15,565,000.00	\$7,501,604.17	\$23,066,604.17

Parity Bonds

The City may issue one or more series of Parity Bonds, in addition to the Bonds, by means of a Supplemental Agreement and without the consent of any Bond Owners, upon compliance with the provisions of the Fiscal Agent Agreement, but only for the purposes of refunding all or a portion of the then Outstanding Bonds (“Refunding Bonds”); provided that the debt service on the Refunding Bonds in any Bond Year is not in excess of the debt service on the Bonds being refunded and the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded. See “APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT.”

SECURITY FOR THE BONDS

Limited Obligations

All obligations of the City under the Fiscal Agent Agreement and the Bonds are special obligations of the City for the Improvement Area, payable solely from the Special Tax Revenues (less amounts levied to pay Administrative Expenses) and amounts in certain funds pledged therefore. Neither the faith and credit nor the taxing power of the City (except with respect to the levy of Special Taxes in the Improvement Area, to the limited extent set forth herein) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Pledge of Special Tax Revenues

The Bonds shall be secured by a first pledge of the Special Tax Revenues (less amounts levied to pay Administrative Expenses) and all moneys deposited in the Bond Fund and the Reserve Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into said funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement.

Special Tax Revenues include any prepayments of Special Taxes and interest on delinquent Special Taxes, as well as proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. Special Tax Revenues do not include any penalties collected in connection with delinquent Special Taxes.

Amounts in the Administrative Expense Fund, the Costs of Issuance Fund and the Improvement Fund established under the Fiscal Agent Agreement are not pledged to the repayment of the Bonds. The facilities acquired with the proceeds of the 2005 Bonds are not in any way pledged to pay the Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2005 Bonds are not pledged to pay the Bonds and are free and clear of any lien or obligation imposed under the Fiscal Agent Agreement.

Reserve Fund

A Reserve Fund has been established under the Fiscal Agent Agreement to be held by the Fiscal Agent to further secure the timely payment of principal of and interest on the Bonds. The Fiscal Agent Agreement provides that the balance in the Reserve Fund is to be maintained in an amount equal to the Reserve Requirement. The Reserve Requirement is, as of any date of calculation, an amount equal to the least of (i) the then Maximum Annual Debt Service, but only with respect to the Bonds (and not any Parity Bonds), (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service, but only with respect to the Bonds, or (iii) ten percent (10%) of the initial principal amount of the Bonds. The Reserve Requirement as of the Closing Date is \$1,448,104.17. All amounts deposited in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Bonds or, for the purpose of redeeming Bonds from the Bond Fund. The Reserve Fund is not available to pay Parity Bonds, if any

The Fiscal Agent Agreement provides that the City will satisfy 50% of the Reserve Requirement (\$724,052.08) with the deposit of the Reserve Fund Municipal Bond Insurance Policy (the "Reserve Fund Insurance Policy"), to be issued by the Municipal Bond Insurer. The Reserve Fund Insurance Policy is not available to pay debt service on any Parity Bonds. The City is not required under the Fiscal Agent Agreement to replace the Reserve Fund Insurance Policy with cash or a replacement instrument in the event the ratings of the Municipal Bond Insurer decline or are withdrawn or if amounts are unavailable to be drawn under the Reserve Fund Insurance Policy.

Covenant to Foreclosure

Pursuant to Section 53356.1 of the Act, the City has covenanted with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as described below, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as described

in the following paragraph. The Fiscal Agent Agreement provides that the Finance Director shall notify the City Attorney of any such delinquency of which it is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

On or about June 15 of each Fiscal Year, the Finance Director shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the City, and:

(A) Individual Delinquencies. If the Finance Director determines that any single parcel subject to the Special Tax in the Improvement Area is delinquent in the payment of Special Taxes in the aggregate amount of \$3,600 or more, then the Finance Director shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of such determination.

(B) Aggregate Delinquencies. If the Finance Director determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire Improvement Area, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and the City shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the Improvement Area with a Special Tax delinquency.

Notwithstanding the foregoing, the Finance Director may defer any mailing of notices of delinquency or foreclosure action if (i) the amount in the Reserve Fund (taking into account the amount available under the Reserve Fund Insurance Policy) is at least equal to the Reserve Requirement, and (ii) no Policy Costs are then owing to the Municipal Bond Insurer.

No Teeter Plan

Collection of the Special Taxes is not subject to the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds,” as provided for in Section 4701 et seq. of the California Revenue and Taxation Code (known as the “Teeter Plan”). Accordingly, collections of Special Taxes will reflect actual delinquencies, if any. See “THE IMPROVEMENT AREA - Historical Levies and Tax Delinquencies” herein.

Investment of Funds

The Fiscal Agent Agreement provides that moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments as described in the Fiscal Agent Agreement. See “APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT” for a description of the Permitted Investments.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “Municipal Bonds Insurer”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds maturing on September 1 of the years 2024 through 2035, (collectively, the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 27, 2019, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On May 7, 2018, Moody’s announced it had affirmed AGM’s insurance financial strength rating of “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capitalization of AGM

At March 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,523 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,054 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,848 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "MUNICIPAL BOND INSURANCE - Assured Guaranty Municipal Corp." or included in a document incorporated by reference

herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “MUNICIPAL BOND INSURANCE.”

THE IMPROVEMENT AREA

General

The Improvement Area originally encompassed 394 gross acres of land, of which 232 acres were designated for development of 1,417 homes, with the balance of the acreage to be set aside for open space and public uses. All 1,417 homes have been built and all but 2 of those homes have been sold to individual homeowners. Homes built within the Improvement Area range from 1,600 square feet to 3,600 square feet.

The Annexation Parcel that was annexed into the Improvement Area on July 9, 2019 consists of 11.1 acres. The owner of the Annexation Parcel, New Anaverde LLC, has indicated that it expects 54 homes will be constructed on the Annexation Parcel and anticipates selling the Annexation Parcel to a merchant builder for that purpose. The homes are anticipated to be between 1,800 and 2,800 square feet.

The Improvement Area was formed for the purpose of financing the acquisition and construction of certain public capital improvements to be owned and operated by the City and the Los Angeles County Water Works District No. 40 that were necessary for the development of Phase 1 of the Anaverde development, which includes the Improvement Area. Those improvements were paid for from the proceeds of the 2005 Bonds.

Pursuant to the Rate and Method of Apportionment of Special Taxes and the current level of debt service included in the Special Tax Requirement, Special Taxes are not currently being levied on vacant property. Only after a building permit is issued for the property within the Annexation Parcel does the City expect that Special Taxes will be levied on any portion of the Annexation Parcel.

Authorization

Pursuant to the Act, on May 26, 2004, the City Council adopted Resolution No. 2004-169, stating its intention to establish the Community Facilities District, including Improvement Area A and Resolution No. 2004-170, declaring its intention to incur bonded indebtedness in the Community Facilities District, including an amount not to exceed \$30 million in Improvement Area A. On August 23, 2004:

- Following a duly noticed public hearing, the City Council acting as legislative body of the Community Facilities District:
 - adopted Resolution No. 2004-242 establishing the four improvement areas of the Community Facilities District and authorized the levy of a special tax,

- adopted Resolution No. 2004-243 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$30,000,000 for Improvement Area A, and
 - adopted Resolution No. 2004-244, calling an election by the landowners within the four improvement areas of the Community Facilities District for the same date on the issues of the levy of special taxes, the incurring of bonded indebtedness and the establishment of an appropriations limit for each improvement area in the Community Facilities District.
- An election was held within each improvement area of the Community Facilities District in which the then-qualified electors (the owners of the property) within each improvement area approved a ballot proposition authorizing the improvement area to incur bonded indebtedness, including an amount not to exceed \$30 million for Improvement Area A, to finance the acquisition and construction of the Facilities, the levy of a special tax and the establishment of an appropriations limit for the improvement area.
 - The City Council adopted Resolution No. 2004-245, pursuant to which the City Council, acting as the legislative body of the Community Facilities District, approved the canvass of the votes and declared each improvement area to be fully formed with the authority to levy special taxes, to incur bonded indebtedness and to have its respective appropriations limit.

On September 13, 2004, the City Council, acting as legislative body for the Community Facilities District, adopted Ordinance No. 1246 levying the Special Tax on property in Improvement Area A beginning with the 2004-05 Fiscal Year (the “Ordinance”).

Pursuant to the Act, on May 7, 2019, the City Council acting as legislative body of the Improvement Area adopted Resolution No. CC 2019-044 declaring its intent to annex the Annexation Parcel to the Improvement Area and subject the property therein to the same Rate and Method of Apportionment of Special Taxes as applicable to the existing homes in the Improvement Area.

On July 9, 2019:

- Following a duly noticed public hearing, the City Council acting as legislative body of the Improvement Area adopted Resolution No. CC 2019-055 annexing the Annexation Parcel into the Improvement Area and authorizing the levy of a special tax and calling an election by the landowners within the Annexation Parcel for the same date on the issue of the levy of special taxes.
- An election was held in which the then sole qualified elector within the Annexation Parcel approved a ballot proposition annexing the Annexation Parcel into the Improvement Area and authorizing the levy of a special tax on the Annexation Parcel.
- The City Council adopted Resolution No. CC 2019-056 declaring the results of the election, determining the validity of the prior proceedings and directing recording of an amendment to the Notice of Special Tax Lien for the Improvement Area to provide notice of the special tax levy pursuant to the Improvement Area’s Rate and Method of Apportionment of Special Taxes and the recording of a Notice of Cessation of Special Tax with respect to the original Improvement Area B special taxes that otherwise applied to the Annexation Parcel.

The foregoing concluded the proceedings to annex the Annexation Parcel into the Improvement Area and subject the property to the Special Tax.

Rate and Method of Apportionment of Special Taxes

The City is legally authorized and has covenanted in the Fiscal Agent Agreement to levy the Special Taxes in accordance with the Rate and Method of Apportionment of Special Taxes. The City annually levies an amount equal to the “Special Tax Requirement.” In general, the Special Tax Requirement is described in Rate and Method of Apportionment of Special Taxes as the amount required (i) pay debt service on all Outstanding Bonds (and any Parity Bonds) which is due in the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, rebate payments; (iii) pay expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay for reasonably anticipated Special Tax delinquencies based on the delinquency rate for the Special Tax levy in the previous Fiscal Year; less a credit for any funds available to reduce the annual Special Tax levy, all as determined by pursuant to the Fiscal Agent Agreement.

Pursuant to the Rate and Method of Apportionment of Special Taxes, due to the amount of debt service on the Bonds to be included in the calculation of the Special Tax Requirement, Special Taxes are expected to be levied only on properties currently categorized as “Developed Property” (that is, property for which a building permit has been issued as of March 1, 2019) up to the applicable Assigned Special Tax (as defined in the Rate and Method of Apportionment of Special Taxes).

Pursuant to the Rate and Method of Apportionment of Special Taxes, the Special Tax can be levied for a period not to exceed 40 years commencing with Fiscal Year 2004-05. The final maturity of the Bonds is September 1, 2035, the 31st year of the Special Tax levy.

See “APPENDIX C - RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES FOR IMPROVEMENT AREA A OF THE CITY OF PALMDALE COMMUNITY FACILITIES DISTRICT NO. 2003-1 (ANAVERDE PUBLIC IMPROVEMENTS)” for the complete text of the Rate and Method of Apportionment of Special Taxes.

Development Summary and Special Taxes

In accordance with the Rate and Method of Apportionment of Special Taxes, Special Taxes are first levied on Developed Property equal to 100% of the “Assigned Special Tax.” “Developed Property” is defined as a parcel of property for which a building permit was issued on or before March 1 of the Fiscal Year preceding the Fiscal Year for which the Special Tax is levied. Developed Property does not include Final Mapped Property, Undeveloped Property, Taxable Public Property or Taxable Property Owner Association Property, as such terms are defined in the Rate and Method of Apportionment of Special Taxes.

If additional monies are needed to satisfy the Special Tax Requirement after the first step described above has been completed, (a) the Special Tax shall be levied proportionately on each Assessor’s Parcel of Final Mapped Property at up to 100% of the Maximum Special Tax for Final Mapped Property (a maximum of \$11,364 per acre); then (b) proportionately on each Assessor’s Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property (a maximum of \$11,364 per acre); then (c) if additional monies are needed to satisfy the Special Tax Requirement, the levy of the Special Tax on each Assessor’s Parcel of Developed Property whose 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 (being the greater of the Assigned Special Tax or \$10,694 per acre; and (d) last the Special Tax shall be levied proportionately on each Assessor’s Parcel of Taxable Public Property and Taxable Property Owner Association Property at up to the Maximum

Special Tax for Taxable Public Property and Taxable Property Owner Association Property (a maximum of \$11,364 per acre).

Notwithstanding the above, the Improvement Area may, in any Fiscal year, levy Proportionately less than 100% of the Assigned Special Tax on Developed Property, when (i) the Improvement Area is no longer required to levy the Special Tax pursuant to the steps described above in order to meet the Special Tax Requirement, and (ii) all authorized Bonds have already been issued or the City on behalf of the Improvement Area has covenanted that it will not issue any additional Bonds (except refunding bonds) to be supported by the Special Tax (which determinations were made by the City in 2016). The Special Tax Requirement has been satisfied only by levies on Developed Property starting with the 2016-17 tax roll. Therefore, the City does not expect to levy Special Taxes on the Annexation Parcel until it is categorized as Developed Property.

Further, pursuant to the Act, the Special Taxes levied in any Fiscal Year against any parcel of residential property in the Improvement Area may not be increased as a consequence of delinquency or default by the owners of any other parcels within the Improvement Area by more than 10% above the amount at would have been levied in that Fiscal Year had there never been any such delinquencies or defaults. See “APPENDIX C - RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES FOR IMPROVEMENT AREA A OF THE CITY OF PALMDALE COMMUNITY FACILITIES DISTRICT NO. 2003-1 (ANAVERDE PUBLIC IMPROVEMENTS).”

The Assigned Special Tax rates for Developed Property are shown in the table below.

<u>Land Use Class</u>	<u>Residential Floor Area (SF)</u>	<u>Average Lot Size (SF)</u>	<u>Assigned Special Tax Per Unit</u>
Residential 1	> 3,600	NA	\$2,349.46
Residential 2	> 3,350 – 3,600	NA	2,198.71
Residential 3	> 3,100 – 3,350	NA	1,936.30
Residential 4	> 2,850 – 3,100	=> 5,500	1,889.39
Residential 5	> 2,600 – 2,850	=> 5,500	1,889.39
Residential 6	> 2,400 – 2,600	=> 5,500	1,773.74
Residential 7	> 2,200 – 2,400	=> 5,500	1,686.71
Residential 8	> 2,000 – 2,200	=> 5,500	1,686.71
Residential 9	> 1,800 – 2,000	=> 5,500	1,583.05
Residential 10	> 2,850 – 3,100	< 5,500	1,690.97
Residential 11	> 2,600 – 2,850	< 5,500	1,604.23
Residential 12	> 2,400 – 2,600	< 5,500	1,567.33
Residential 13	> 2,200 – 2,400	< 5,500	1,412.08
Residential 14	> 2,000 – 2,200	< 5,500	1,328.92
Residential 15	> 1,800 – 2,000	< 5,500	1,226.46
Residential 16	> 1,600 – 1,800	NA	1,226.46
Residential 17	<= 1,600	NA	1,149.92

Table No. 1 on the following page summarizes the Developed Property within the Improvement Area by Land Use Class under the Rate and Method of Apportionment of Special Taxes as of May 1, 2019, along with the Assigned Special Tax that may be levied under the Rate and Method of Apportionment of Special Taxes on such Developed Property, the 2018-19 Special Tax Levy and the projected 2019-20 Special Tax to be levied to meet the Special Tax Requirement subsequent to the issuance of the Bonds.

Table No. 2 summarizes the Developed Property within the Improvement Area by Land Use Class under the Rate and Method of Apportionment of Special Taxes, together with the projected 2019-20 Special Tax based on 2018-19 Developed Property (which was determined as of March 1, 2018), allocation of the Bonds debt based on the projected 2019-20 Special Tax levy, and the County Fiscal Year 2018-19 assessed value of the Developed Property.

The Annexation Parcel is not expected to be subject to Special Taxes unless and until a building permit has been issued with respect to such land. New Anaverde LLC, the current owner of the Annexation Parcel, has indicated that it expects to sell the Annexation Parcel to a merchant builder and anticipates that 54 homes will be constructed on the Annexation Parcel as follows: 14 homes in Land Use Class 11, 27 homes in Land Use Class 13 and 13 homes in Land Use Class 15. The City makes no representation as to if, or when, any such properties will be developed.

There have been no prepayments of Special Taxes for any of the Developed Property since the formation of the Improvement Area. However, no assurance can be given that prepayments of Special Taxes levied on Developed Property, or the Annexation Parcel, if any, will not occur in the future.

**TABLE NO. 1
DEVELOPMENT SUMMARY
as of May 1, 2019**

Land Use Class	Number of Units	Assigned Special Tax	2018-19 Special Tax Levy	Projected 2019-20 Special Tax Levy ⁽¹⁾	% of Total	2018-19 Assessed Value
1	111	\$ 260,790	\$ 212,319	\$ 159,385	10.3%	\$ 44,412,603
2	39	85,750	69,812	52,407	3.4%	14,577,881
3	30	58,089	47,258	35,476	2.3%	8,590,911
4	116	219,169	178,434	133,948	8.7%	37,075,030
5	297	561,149	456,851	342,953	22.2%	94,176,319
6	168	297,988	242,602	182,119	11.8%	53,026,108
7	219	369,389	300,731	225,755	14.7%	74,829,637
8	140	236,139	192,168	144,259	9.4%	37,540,276
9	195	308,695	251,320	188,663	12.3%	53,648,992
16	72	88,305	71,892	53,969	3.5%	18,327,506
17	30	34,498	28,085	21,083	1.4%	7,515,887
Undeveloped Annexation Parcel ⁽²⁾	-	-	-	-	-	101,338
Total	1,417	\$2,519,962	\$2,051,471	\$1,540,018	100.0%	\$443,822,488

⁽¹⁾ After issuance of the Bonds. Includes Debt Service and costs to administer the Improvement Area and the Bonds.

⁽²⁾ Based on the New Anaverde LLC estimates of homes to be built. Once classified as Developed Property, the Annexation Parcel is anticipated to generate approximately \$36,000 in Special Taxes, which will reduce the amount to be levied on the existing 1,417 parcels of Developed Property.

Source: NBS Government Finance Group.

**TABLE NO. 2
SHARE OF BONDS**

<u>Land Use Class</u>	<u>Number of Units ⁽¹⁾</u>	<u>FY</u>	<u>FY</u>	<u>Share of District Bonds ⁽³⁾</u>	<u>Value to Lien Ratio ⁽⁴⁾</u>
		<u>2019-20 Projected Special Tax ⁽¹⁾</u>	<u>2018-19 Assessed Value ⁽²⁾</u>		
1	111	\$ 159,385	\$ 44,412,603	\$ 1,610,912	27.6:1
2	39	52,407	14,577,881	529,677	27.5:1
3	30	35,476	8,590,911	358,554	24.0:1
4	116	133,948	37,075,030	1,353,818	27.4:1
5	297	342,953	94,176,319	3,466,239	27.2:1
6	168	182,119	53,026,108	1,840,680	28.8:1
7	219	225,755	74,829,637	2,281,715	32.8:1
8	140	144,259	37,540,276	1,458,028	25.8:1
9	195	188,663	53,648,992	1,906,824	28.1:1
16	72	53,969	18,327,506	545,462	33.6:1
17	30	21,083	7,515,887	213,091	35.3:1
Undeveloped Annexation Parcel ⁽²⁾	-	-	101,338	-	-
Total	1,417	\$1,540,018	\$443,822,488	\$15,565,000	28.5:1

⁽¹⁾ Assumes no change from Fiscal Year 2018-19 in number of Developed Property parcels, taking into account the debt service on the Bonds.

⁽²⁾ Based on the Los Angeles County Assessor Roll for Fiscal Year 2018-19, with a January 1, 2018 valuation date.

⁽³⁾ Bonds allocated based on proportionate share of Fiscal Year 2019-20 projected Special Tax levy.

⁽⁴⁾ Calculated by dividing the respective “2018-19 Assessed Value” column by the respective “Share of District Bonds” column. There are currently no overlapping assessment districts and/or other community facilities districts encumbering the Improvement Area. Does not include overlapping general obligation debt (see “THE IMPROVEMENT AREA - Estimated Direct and Overlapping Debt” below).

Source: NBS Government Finance Group.

Table No. 3 sets forth the ratio of the maximum Special Taxes that may be levied for Fiscal Year 2020-21 to the total debt service on the Bonds, based on existing Developed Property. Pursuant to the Act, the Special Taxes levied in any Fiscal Year against any parcel of residential property in the Improvement Area may not be increased as a consequence of delinquency or default by the owners of any other parcels within the Improvement Area by more than 10% above the amount at would have been levied in that Fiscal Year had there never been any such delinquencies or defaults. Therefore, while the Assigned Special Taxes are \$2,519,962, the Special Tax levy, including administrative costs, is anticipated to be \$1,540,018 in Fiscal Year 2019-20, and could only be increased by 10% to \$1,694,019 in the following year based on the limitations in the Act described above.

**TABLE NO. 3
COVERAGE FROM DEVELOPED PROPERTY SPECIAL TAX**

Estimated 2019-20 Developed Property Special Tax	\$1,540,018
Maximum 2020-21 Special Tax levy	\$1,694,019
Maximum Annual Debt Service	\$1,448,104
Coverage Ratio	1.17

Source: NBS Government Finance Group and Harrell & Company Advisors, LLC.

Historical Levies and Tax Delinquencies

The following table illustrates the historical Special Tax levies and delinquencies from Fiscal Year 2014-15 to and including 2018-19 for property located within the Improvement Area.

**TABLE NO. 4
SPECIAL TAX LEVIES AND DELINQUENCIES**

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Developed Property Special Tax Levy	\$1,900,365	\$2,023,395	\$2,046,684	\$2,050,985	\$2,051,471
Final Mapped Property Special Tax Levy	179,929	65,273	-	-	-
Undeveloped Property Special Tax Levy	-	-	-	-	-
Total Special Tax Levy	2,080,294	2,088,669	2,046,684	2,050,985	2,051,471
Collected In Year Levied	<u>2,064,714</u>	<u>2,060,539</u>	<u>2,024,935</u>	<u>2,041,118</u>	<u>2,032,294</u>
Amount Delinquent as of June 30 of each FY ⁽¹⁾	15,580	28,130	21,748	9,867	19,177
% Delinquent as of June 30 - All	0.75%	1.35%	1.06%	0.48%	0.93%
% Delinquent as of June 30 - Developed Only	0.74%	1.34%	1.06%	0.48%	0.93%
Number of Delinquent Residential Parcels	11	21	15	8	20
Current Collections as of June 15, 2019	\$2,080,141	\$2,088,599	\$2,046,684	\$2,047,777	\$2,032,294
Current % Delinquent as of June 15, 2019	0.007%	0.003%	0.000%	0.156%	0.935%
Number of Delinquent Residential Parcels as of June 15, 2019	0	0	0	2	20

⁽¹⁾ As of June 15, 2019 for Fiscal Year 2018-19.

Source: County of Los Angeles, compiled by NBS Government Finance Group.

Estimated Direct and Overlapping Debt

Set forth in the following table is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc., as of May 1, 2019 for property in the Improvement Area. The Debt Report is included for general information purposes only and the City makes no representation as to its accuracy or completeness.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Improvement Area in whole or in part. Such long-term obligations are not payable from Special Taxes nor are they necessarily obligations secured by property within the Improvement Area. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Presently, the Developed Property is subject to \$22,989,093 of direct and overlapping tax and assessment debt and overlapping lease obligation debt, adjusted to include the Bonds being issued. To repay the direct and overlapping tax and assessment debt and overlapping lease obligation debt, the owners of the land within the Improvement Area must pay the Special Taxes, any fixed assessments as applicable, and the general property tax levy.

In addition, other public agencies whose boundaries overlap those of the Improvement Area could, without the consent of the City, and in certain cases without the consent of the owners of the land within the Improvement Area, impose additional taxes or assessment liens on the real property within the Improvement Area in order to finance public improvements or services to be located or furnished inside of or outside of the Improvement Area. The lien created on the real property within the Improvement Area through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes. The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of the property owners to pay the Special Taxes and increases the possibility that foreclosure proceeds, if any, realized from the sale of property with delinquent Special Taxes will not be adequate to pay delinquent Special Taxes.

**TABLE NO. 5
DIRECT AND OVERLAPPING DEBT SUMMARY**

2018-19 Local Secured Assessed Valuation: \$443,822,488

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/19</u>
Antelope Valley Joint Community College District	1.262%	\$ 3,450,294
Antelope Valley Union High School District	1.432	779,087
Westside Union School District	5.665	3,190,081
City of Palmdale Community Facilities District No. 2003-1, I.A. A	100.000	15,565,000 ⁽¹⁾
Los Angeles County Regional Park and Open Space Assessment District	0.034	<u>4,631</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT ⁽²⁾		\$22,989,093
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	0.029%	\$ 630,095
Los Angeles County Superintendent of Schools Certificates of Participation	0.029	1,699
Los Angeles County Sanitation District No. 20 Authority	3.423	2,099,948
City of Palmdale General Fund Obligations	4.784	47,212
City of Palmdale General Fund Obligations	1.348	<u>175,457</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$ 2,954,411
 COMBINED TOTAL DEBT		 \$25,943,504 ⁽³⁾

⁽¹⁾ Represents the Bonds.

⁽²⁾ Includes \$1,700 relating to Annexation Parcel.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$15,565,000)	3.51%
Total Direct and Overlapping Tax and Assessment Debt.....	5.18%
Combined Total Debt	5.85%

Source: California Municipal Statistics.

Estimated Tax Rate

Set forth below is the estimated effective tax rates for Fiscal Year 2018-19, for representative Land Use classes of Developed Property.

**TABLE NO. 6
ESTIMATED TOTAL EFFECTIVE TAX RATES FOR DEVELOPED PROPERTY**

	Land Use Class			
	1	5	7	16
Residential Floor Area	= or > 3,600	> 2,600 – 2,850	> 2,200 – 2,400	> 1,600 – 1,800
Average Lot Size	=> 5,500 s.f.	=> 5,500 s.f.	=> 5,500 s.f.	< 5,500 s.f.
Average Assessed Value ⁽¹⁾	\$400,000.00	\$325,000.00 ⁽²⁾	\$350,000.00	\$250,000.00
Homeowner’s Exemption ⁽³⁾	<u>(7,000.00)</u>	<u>(7,000.00)</u>	<u>(7,000.00)</u>	<u>(7,000.00)</u>
Estimated Net Assessed Value ⁽³⁾	\$393,000.00	\$318,000.00	\$343,000.00	\$243,000.00
Ad Valorem Tax Rate ⁽⁴⁾	1.221075%	1.221075%	1.221075%	1.221075%
FY 2018-19 Ad Valorem Tax	\$ 4,884.30	\$ 3,968.49	\$ 4,273.76	\$ 3,052.69
Fixed Assessments/Special Tax:				
CFD 2003-1 ⁽⁵⁾	\$ 1,912.78	\$ 1,538.22	\$ 1,373.20	\$ 998.50
Other ⁽⁶⁾	<u>1,202.58</u>	<u>1,158.09</u>	<u>1,133.70</u>	<u>1,074.39</u>
Estimated Total Tax	\$ 7,999.66	\$ 6,664.81	\$ 6,780.66	\$ 5,125.58
Estimated Effective Tax Rate	2.035536%	2.095851%	1.976869%	2.109292%

⁽¹⁾ Average assessed value, based on assessed value information provided by the Los Angeles County Assessor as of January 1, 2018

⁽²⁾ Recent sales of homes in Land Use Class 5 are approximately \$450,000.

⁽³⁾ Assessed Value and ad valorem taxes for individually owned residential units incorporate owner-occupied Assessed Value exemption of \$7,000. Net Taxable Average Assessed Value used to determine the Projected Effective Tax Rate.

⁽⁴⁾ Based on the Fiscal Year 2018-19 ad valorem rates within the Improvement Area. Rates subject to change in future years.

⁽⁵⁾ Based on the Fiscal Year 2018-19 levy of the Special Tax to fund administrative expenses and debt service on the Bonds.

⁽⁶⁾ Based on the Fiscal Year 2018-19 charges identified on the Los Angeles County property tax bills for representative parcels within the Improvement Area. Charges subject to change in future years.

Source: NBS Government Finance Group; Alliant Tax Research.

The City has no control over the amount of additional debt payable from special taxes or assessments levied on all or a portion of the property within the Improvement Area that may be incurred in the future by other governmental agencies having jurisdiction over such property. Furthermore, nothing prevents owners of property within the Improvement Area from consenting to the issuance of such debt by other governmental agencies. To the extent that such indebtedness is payable from assessments, special taxes levied pursuant to the Act, or other taxes, such assessments, special taxes, and other taxes may be secured by liens on the property within the Improvement Area on a parity with the lien of the Special Taxes.

The incurrence of any such additional indebtedness could cause the total debt on the property within the Improvement Area to increase without any corresponding increase in the value of such property, thereby reducing the estimated value-to-lien ratios that exist at the time the Bonds are issued. The incurrence of such additional indebtedness could reduce the willingness and ability of the property owners within the Improvement Area to pay Special Taxes when due. See “RISK FACTORS -Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property.”

Property Assessed Values

The most recent assessed value reported by the County Assessor for the Developed Property in the Improvement Area was as of January 1, 2018, totaling \$443,721,150, excluding the Annexation Parcel. The Annexation Parcel was purchased by the current owner in 2010 and its assessed value as of January 1, 2018 was \$101,338. The assessed values of property in the Improvement Area discussed in this Official Statement are from the County Assessor’s secured property tax roll as of January 1, 2018. These assessed values represent the “full cash value” of such property as determined by the County Assessor. Pursuant to rules of the State Board of Equalization that govern the County Assessor’s valuation of property in the County, “full cash value” of real property means the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any enforceable governmental restrictions) would transfer for cash or its equivalent under prevailing market conditions. These rules also provide that when valuing property as a result of a change in ownership for consideration it shall be presumed that the consideration valued in money (i.e., the purchase price), whether paid in money or otherwise, is the full cash value of the property. Pursuant to the California Constitution, the full cash value of property may reflect from year to year the inflationary rate not to exceed two percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

No assurance can be given, therefore, that the assessed value of the Developed Property in the Improvement Area will not be reduced by the Los Angeles County Assessor (the “County Assessor”) for Fiscal Year 2019-20 or for any subsequent fiscal year.

See “RISK FACTORS - Assessed Valuations.”

Assessed values, as determined by the County Assessor, may not reflect the actual market value of property in the Improvement Area (e.g., homes in the Improvement Area might sell for more or less than the County Assessor’s assessed value). The City has not and does not intend to have an appraisal prepared to estimate the market value of any of the Developed Property or the property in the Annexation Parcel in the Improvement Area in connection with the sale of the Bonds.

The Improvement Area was formed in 2004. Building permits were first issued and the first Developed Property was taxed on the 2005-06 tax roll. Homes sales to individuals were substantially complete (except for the Annexation Parcel) by December 2018. For Fiscal Year 2018-19, the Improvement Area had 1,417 parcels of Developed Property with an assessed value of \$443,721,150.

The table below sets forth the 5-year historical assessed value of the property in the Improvement Area subject to the levy of the Special Taxes.

**TABLE NO. 7
HISTORICAL ASSESSED VALUATION**

<u>Fiscal Year</u>	<u>Developed</u>	<u>Undeveloped</u>	<u>Total</u>
2014-15	\$247,198,557	\$ 4,316,358	\$251,514,915
2015-16	270,954,600	4,319,220	275,273,820
2016-17	310,287,619	9,081,969	319,369,588
2017-18	375,685,414	11,920,483	387,605,897
2018-19 ⁽¹⁾	443,721,150	-	443,721,150

⁽¹⁾ Fiscal Year 2018-19 does not include the Annexation Parcel, annexed into the Improvement Area on July 9, 2019. The assessed value of the Annexation Parcel for Fiscal Year 2018-19 was \$101,338.

Source: County of Los Angeles; compiled by NBS Government Finance Group.

Estimated Value-to-Lien Ratios for Developed Property Within the Improvement Area

Table No. 8 shows the pro-rata share of Bonds allocated to the existing Developed Property by the Assigned Special Tax levy summarized based on value-to-lien ratios ranges

**TABLE NO. 8
VALUE TO LIEN RATIO OF DEVELOPED PROPERTY
(Excludes Annexation Parcel)**

<u>Assessed Value-to-Lien</u>	<u>Parcels</u>	<u>% of Assigned Special Tax</u>	<u>Share of Bonds ⁽¹⁾</u>	<u>Pro Rata Share Including Overlapping Tax Debt</u>	<u>2018-19 Assessed Value ⁽²⁾</u>	<u>Average Assessed Value to Lien ⁽³⁾</u>
3.00:1 to 5.00:1	3	0.20%	\$ 31,794	\$ 34,156	\$ 140,402	4.1:1
5.01:1 to 10.00:1	50	3.60%	560,234	651,212	5,691,128	8.7:1
10.01:1 to 15.00:1	121	8.79%	1,368,411	1,792,829	25,757,126	14.4:1
15.01:1 to 20.00:1	554	39.72%	6,183,130	8,795,955	156,330,338	17.8:1
Above 20.00:1	<u>689</u>	<u>47.68%</u>	<u>7,421,431</u>	<u>11,713,241</u>	<u>255,802,156</u>	21.8:1
Total	1,417	100.00%	\$15,565,000	\$22,987,393	\$443,721,150	19.3:1

⁽¹⁾ Bonds allocated based on proportionate share of 2018-19 Assigned Special Tax.

⁽²⁾ Based on Los Angeles County Assessor Roll for 2018-19, with a January 1, 2018 valuation date; excluding Annexation Parcel.

⁽³⁾ Calculated by dividing the “2018-19 Assessed Value” by the “Pro Rate Share Including Overlapping Tax Debt.” See “Estimated Direct and Overlapping Debt” above.

Source: NBS Government Finance Group.

As describe above under the caption “Property Assessed Values,” a parcel’s value is generally determined upon sale (change in ownership) or with respect to any new construction on such parcel. The assessed value that is determined at that time is inflated annually up to 2% in accordance with the California Constitution.

There are 3 residential parcels with an assessed value to lien ratio of less than 5:1 and 50 residential parcels with an assessed value to lien ratio between 5:1 and 10:1. Most of these parcels include no improvement value on the assessor's tax roll as of January 1, 2018. Of these total 53 parcels, 44 have changed ownership (from the home builder to individuals) since January 1, 2018, at an average sales price of approximately \$450,000. As a result, these 44 homes are expected to have an average assessed value to lien ratio of 30:1 when the home sale price is reflected on the assessor's roll. Only 2 of the remaining parcels do not reflect any change in ownership from Richmond American (the home builder). Notwithstanding the foregoing and following discussions and estimates of value, there is no assurance that, in the event of a foreclosure sale of a parcel for delinquent Special Taxes, any bid would be received for such property or that any bid received would be sufficient to pay the delinquent Special Taxes and any parity special taxes, taxes and assessments. See the section herein entitled "RISK FACTORS."

The City has no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, may be on a parity with the Special Taxes and be secured by a lien on a parity with the lien securing payment of the Special Taxes. See "THE IMPROVEMENT AREA - Estimated Direct and Overlapping Debt" herein.

RISK FACTORS

Investment in the Bonds involves risks which may not be appropriate for certain investors. The following is a discussion of certain risk factors, in no particular order of importance, all of which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of existing or future property owners within the Improvement Area to pay the Special Taxes levied on property in the Improvement Area when due. Such failure to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Improvement Area.

Risks of Real Estate Secured Investments Generally

The Owners of the Bonds 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 Improvement Area, the supply of or demand for competitive properties in such area, and the market value of residential property 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, landslides, wildfires, floods and droughts), which may result in uninsured losses.

Special Taxes Are Not Personal Obligations

The current and future owners of land within the Improvement Area are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of each parcel of land within the Improvement Area on which it is levied. If the value of a parcel within the Improvement Area is not sufficient to fully secure the Special Tax levied on it, then the Improvement Area has no recourse against the landowner.

Potential Early Redemption of Bonds From Prepayments

Property owners within the Improvement Area are permitted to prepay their Special Taxes at any time. Such payments will result in a redemption of Bonds on the Interest Payment Date for which timely notice may be given under the Fiscal Agent Agreement following the receipt of the prepayment. The resulting redemption of Bonds purchased at a price greater than par could reduce the otherwise expected yield on such Bonds.

The Bonds Are Limited Obligations of the Improvement Area

The Improvement Area has no obligation to pay principal of and interest on the Bonds if the Special Tax collections with respect to the Improvement Area are delinquent, other than from amounts, if any, on deposit in the Reserve Fund (including draws on the Reserve Fund Insurance Policy) or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Improvement Area or the City obligated to advance funds to pay debt service on the Bonds.

Tax Cuts and Jobs Act of 2017

Changes made by federal tax legislation (the Public Law No. 115-97, also referred to as the “Tax Cuts and Jobs Act of 2017”) were enacted into law on December 22, 2017. The Tax Cuts and Jobs Act made significant changes to many aspects of the Internal Revenue Code of 1986 (the “Code”). For example, the Tax Cuts and Jobs Act of 2017 reduced the amount of mortgage interest deduction to the first \$750,000 of a home loan on new purchases (existing loans are grandfathered in), increased the standard deduction, and put a limit of \$10,000 on deductions for state and local income tax, sales tax and property tax expenses that individuals may deduct from their gross income for federal income tax purposes. The changes made by the Tax Cuts and Jobs Act of 2017 could increase the cost of home ownership within the Improvement Area.

Neither the City nor the Improvement Area can predict the effect that the Tax Cuts and Jobs Act of 2017 may have on the cost of home ownership or the price of homes in the Improvement Area, the rate at which homes planned for the Annexation Parcel are built and sold to individuals or the ability or willingness of homeowners to pay Special Taxes or property taxes. See “- Legislative Proposals, Clarifications of the Internal Revenue Code and Court Decisions on Tax Exemption” below.

Insufficiency of the Special Tax within the Improvement Area

The principal source of payment of principal of and interest on the Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Improvement Area. The annual levy of the Special Tax is subject to the maximum tax rates authorized by the Rate and Method of Apportionment of Special Taxes and as allowed pursuant to the Act. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Bonds and administrative expenses of the Improvement Area. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of a particular parcel and the amount of the levy of the Special Tax against such parcel. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels in the Improvement Area and the proportionate share of debt service on the Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a parcel of Developed Property (including any Special Taxes levied on the Annexation Parcel if and when all or any portion of it is categorized as Developed Property) is based upon the revenue needs and application of Rate and Method of Apportionment of Special Taxes with respect to the Improvement Area. Application of the Rate and Method of Apportionment of Special Taxes will, in turn, be dependent upon certain development factors with respect to each Developed Property by comparison with similar development factors with respect to the other Developed Property within the Improvement Area. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Developed Property within the Improvement Area to vary from the Special Tax that might otherwise be expected:

- (1) Reduction in the amount of Developed Property, for such reasons as acquisition of Developed Property by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining parcels of Developed Property; or
- (2) Failure of the owners of Developed Property within the Improvement Area to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Developed Property (but only to the extent permitted by the Act).

Except as set forth above under “SECURITY FOR THE BONDS - Pledge of Special Tax Revenues” and “THE IMPROVEMENT AREA - Rate and Method of Apportionment of Special Taxes” herein, the Fiscal Agent Agreement contemplates that the Special Tax is to be collected in the same manner as ordinary ad valorem property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE BONDS - Covenant to Foreclosure” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ad valorem property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Assessed Valuations

The City has not commissioned an appraisal of the parcels in the Improvement Area in connection with the issuance of the Bonds. Therefore, the estimated valuation of the parcels of Developed Property and Undeveloped Property (consisting of the Annexation Parcel) in the Improvement Area set forth in this Official Statement is based on the County Assessor’s values. The assessed value is not an indication of what a willing buyer might pay for a property. The assessed value is not evidence of future value because future facts and circumstances may differ significantly from the present.

No assurance can be given that any of the Developed Property in the Improvement Area could be sold for the assessed value if that property should become delinquent in the payment of the Special Taxes and subject to foreclosure proceedings. At this time, no Special Taxes are levied or are expected to be levied on the undeveloped Annexation Parcel, but if Special Taxes were levied on the Annexation Parcel while undeveloped, no assurance can be given that any of the Annexation Parcel could be sold for its assessed value if that property should become delinquent in the payment of the Special Taxes and subject to foreclosure proceedings.

Value-to-Debt Ratios

Value-to-debt ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-debt ratio is mathematically a fraction, the numerator of which is the value of the property (usually either the assessed value or a market value as determined by an appraiser) and the denominator of which is the “lien” of the assessments or special taxes as represented by the principal amount of bonds repaid by such assessment or special tax. A value-to-debt ratio should not, however, be viewed as a guarantee of credit-worthiness. Land values are especially sensitive to economic cycles. A downturn of the economy may depress land values and hence the value-to-debt ratios. Further, the value-to-debt ratio typically cited for a bond issue is an average. Individual parcels in the Improvement Area may fall above or below the average, sometimes even below a 1:1 ratio (with a ratio below 1:1, the land is worth less than the bonded debt on it). Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action.

Local agencies may form overlapping community facilities districts or assessment districts. Such local agencies typically do not coordinate their bond issuances. Debt issuance by an entity other than the Improvement Area can therefore dilute value-to-debt ratios. See “THE IMPROVEMENT AREA - Estimated Direct and Overlapping Debt.”

Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property

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

The table in the section entitled “THE IMPROVEMENT AREA - Estimated Direct and Overlapping Debt” sets forth the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Developed Property. The table does not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Developed Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Developed Property and may be secured by a lien on a parity with the lien of the Special Tax levied on the parcels within the Improvement Area securing the Bonds.

In general, as long as the Special Tax on the parcels within the Improvement Area is collected on the County tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Developed Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the special Tax, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Developed Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with

regard to a hazardous substances. See “Factors Affecting Parcel Values and Aggregate Value - *Hazardous Substances*” below.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Developed Property in the Improvement Area in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Developed Property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Developed Property may well depreciate or disappear.

Seismic Conditions. The Improvement Area is located in a seismically active region in Southern California. Active faults in the area could cause significant ground shaking. Recently, two earthquakes measuring 6.4 and 7.1 on the Richter scale, as well as numerous smaller aftershocks, have occurred in the area around Ridgecrest, California, approximately 95 miles from the City. The City reports no incidents of damage or injury in the City from this recent seismic activity, although ground shaking did occur.

The San Andreas Fault is located immediately south of the City, with the Cemetery Fault, the Nadeau Fault and the Littlerock Fault fault traces for the San Andreas Fault located in the City. Other faults of concern are the Sierra Madre-San Fernando, Garlock, Owens Valley and White Wolf Faults, located between 20 and 60 miles from the City, although other faults exist in the area. Earthquakes of magnitude of 6 to 8 on the Richter Scale are possible. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Improvement Area. As a result, the property owners may be unable or unwilling to pay the Special Taxes when due, and the Reserve Fund may eventually become depleted. In addition, the value of land in the Improvement Area could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes. Homes within the Improvement Area have been built in accordance with applicable building codes, including requirements relating to seismic safety. No assurances can be given that any earthquake insurance will be obtained as to any of the homes within the Improvement Area.

Drought Conditions. With respect to droughts specifically, the State in recent years experienced a 5-year drought throughout much of the State, though from October 1, 2016 through the spring of 2017, most of the State experienced above average rainfall. On April 7, 2017, then Governor Brown issued an executive order which lifted the drought emergency in all State counties, except Fresno, Kings, Tulare and Tuolumne (none of which are in the immediate vicinity of the City), where emergency drinking water projects will continue to help address diminished groundwater supplies. In a related action, State agencies on April 7, 2017, issued a plan to continue to make conservation a way of life in the State, as directed by then Governor Brown in May 2016. The framework requires new legislation to establish long-term water conservation measures and improved planning for more frequent and severe droughts. As of April 1, 2019, most areas of the State have experienced above normal levels of rainfall, with a number of areas having aggregate rainfall totals which are above the full season normal rainfall levels. The State’s five-year drought underscored the need for permanent improvements in long-term efficient water use and drought preparedness, as called for in a previous executive order made by Governor Brown. On May 31, 2018, then

Governor Brown signed Assembly Bill 1668 and Senate Bill 606, which impose new and expanded requirements on state water agencies and local water suppliers, including provisions for the establishment by the State Water Resources Control Board of long-term urban water use efficiency standards by June 30, 2022, and starting in 2027, authorization of fines for failure to comply with the State Water Resources Control Board's adopted long-term standards. The actions taken over the last several years were intended to help to ensure all communities have sufficient water supplies and are conserving water regardless of the conditions of any one year. The Improvement Area cannot predict if and when the State will experience drought conditions again in the future, what effect such conditions may have on property values or whether or to what extent any water reduction requirements may affect homeowners within the Improvement Area or their ability or willingness to pay Special Taxes.

Wildfires. In recent years, portions of California have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures, even in areas not previously thought to be prone to wildfires. Such areas affected by wildfires are more prone to flooding and mudslides that can lead to the destruction of homes. The Improvement Area is located in an area designated by California Department of Forestry and Fire Protection as a Very High Fire Hazard Severity Zone ("FHSZ"). While FHSZ zones do not predict when or where a wildfire will occur, they do identify areas where wildfire hazards could be more severe and therefore are of greater concern. There can be no assurances that wildfires won't occur within the Improvement Area. Property damage due to wildfire could result in a significant decrease in the market value of property in the Improvement Area and in the ability or willingness of property owners to pay Special Taxes when due.

Legal Requirements. Other events that may affect the value of Developed Property include changes in the law or application of the law. Such changes may include, local application of statewide tax and governmental spending limitation measures.

Hazardous Substances. While government taxes, assessments and charges are a common claim against the value of a taxed parcel, other less common claims can occur. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Taxes is a claim with regard to hazardous substances. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "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) may be obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels be affected by a hazardous substance, would be to reduce the marketability and value by the costs of remedying the condition, because the purchaser, upon becoming owner, may become obligated to remedy the condition just as is the seller. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of the property owner to develop the Annexation Parcel, as well as the value of the Developed Property that is realizable upon a delinquency and foreclosure.

The assessed values of the property within the Improvement Area, do not take into account the possible reduction in marketability and value of any of the parcels of Developed Property or the Annexation Parcel by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Improvement Area has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the parcels of Developed Property or the Annexation Parcel. However, it is possible that such liabilities do currently exist and that the Improvement Area is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the Improvement Area resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly adversely affect the value of the Developed Property or the Annexation Parcel.

Ownership or Mortgage Interests by FDIC, Fannie Mae, Freddie Mac and Other Federal Agencies

The ability of the Improvement Area to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

FDIC. Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its 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 Improvement Area 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 Improvement Area in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the Improvement Area will be unable to collect Special Taxes or to foreclose on any parcel within the Improvement Area owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Bonds. Based upon the secured tax roll as of January 1, 2018, the FDIC did not own any of the property in the Improvement Area.

The City and the Improvement Area express no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

Mortgage Interests. Similarly, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding”), in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments. Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the Improvement Area wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. For a discussion of risks associated with taxable parcels within the Improvement Area becoming owned by the federal government, federal government entities or federal government sponsored entities. See “-Exemptions Under Rate and Method of Apportionment of Special Taxes and the Mello-Roos Act” below.

Exemptions Under Rate and Method of Apportionment of Special Taxes and the Mello-Roos Act

Certain properties are exempt from the Special Tax in accordance with the Rate and Method of Apportionment of Special Taxes and the Act, which provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the Improvement Area acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax.

In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax. If a governmental entity acquires Developed Property in the Improvement Area, no assurance can be given that the City will be able to pursue foreclosure action against the governmental entity if the governmental entity fails to pay Special Taxes when due for such property.

Proceeds of Foreclosure Sales

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax, the City Council, as the legislative body of the Improvement Area, may order that the Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. The City has covenanted in the Fiscal Agent Agreement that it will, under certain circumstances, commence such a foreclosure action. See “SECURITY FOR THE BONDS - Covenant to Foreclosure.”

No assurances can be given that a Developed Property in the Improvement Area that would be subject to a judicial foreclosure sale for delinquent Special Taxes will be sold or, if sold, that the proceeds of such sale will be sufficient to pay the delinquent Special Tax installment. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the City with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale in any such action if there is no other purchaser at such sale and the City has not in any way agreed nor does it expect to be such a bidder.

In a foreclosure proceeding, a judgment debtor (i.e., the property owner) has 140 days from the date of service of the notice of levy in which to redeem the property to be sold and may have other redemption rights afforded by law. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale if the purchaser at the sale was the judgment creditor. If a foreclosure sale is thereby set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made.

If foreclosure proceedings were ever instituted, any holder of a mortgage or deed of trust on the affected property could, but would not be required to, advance the amount of the delinquent Special Tax installment to protect its security interest.

In the event such superior court foreclosure or foreclosures are necessary, there could be a delay in principal and interest payments to the owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale, if any. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions and other factors beyond the control of the City, including delay due to crowded local court calendars or legal tactics and, in any event could take several years to complete. In particular, bankruptcy proceedings involving the owner of a Developed Property in the Improvement Area could cause a delay, reduction or elimination in the flow of Special Tax Revenues derived from the Developed Property to the City. See “Bankruptcy and Foreclosure Delays” below.

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE BONDS - Reserve Fund” herein). Funds in the Reserve Fund may be used to pay principal of and interest on the Bonds, in the event the proceeds of the levy and collection of the Special Tax against property within the Improvement Area are insufficient. If funds in the Reserve Fund are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Owners of the Bonds pursuant to the Fiscal Agent Agreement and the administrative expenses of the Improvement Area. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Improvement Area, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus, it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

Further, the City is not required under the Fiscal Agent Agreement to replace the Reserve Fund Insurance Policy with cash or a replacement instrument in the event the ratings of the Municipal Bond Insurer decline or are withdrawn or if amounts are unavailable to be drawn under the Reserve Fund Insurance Policy.

Potential Delay and Limitations in Foreclosure Proceedings

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

The ability of the Improvement Area to collect interest and penalties specified by State law and to foreclose against properties within the Improvement Area having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the FDIC, Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest. See "RISK FACTORS - Ownership or Mortgage Interest by FDIC, Fannie Mae, Freddie Mac and Other Federal Agencies" herein.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

The Improvement Area and the City are unable to predict what effect the application of a policy statement by the FDIC regarding payment of state and local real property taxes would have in the event of a delinquency on a parcel within the Improvement Area in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would likely reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale.

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond the control of the Improvement Area or the City. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes may take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the "minimum bid amount" which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys' fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the Improvement Area may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such superior court approval requires the consent of the Owners of 75% of the aggregate principal amount of the outstanding Bonds.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Owners of the Bonds. High rates of special tax payment delinquencies, which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the Bonds. See "- Special Taxes Are Not Personal Obligations" above.

If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Improvement Area) must cause a notice of levy to be issued. Under current law, a judgment debtor (property owner) has 120 days (or in some cases a shorter period) from the date of service of the notice of levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the aggregate principal amount of the Bonds Outstanding.

No assurances can be given that the real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the City or the Improvement Area to purchase or otherwise acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale, and the City and the Improvement Area have no intention to do so. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as do *ad valorem* property taxes.

If the Reserve Fund is depleted and amounts are not available to draw on the Reserve Policy and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the Improvement Area of foreclosure sale proceeds, if any. However, within the limits of the Rate and Method of Apportionment of Special Taxes and the Act, the Improvement Area may adjust the Special Taxes levied on all property in the Improvement Area in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the Bonds to replenish the Reserve Fund and reimburse the reserve policy provider for draws. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the Bonds by the Fiscal Agent Agreement. The levy of Special Taxes is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Improvement Area and the limitation imposed by Section 53321 of the Act as applied. See "SECURITY FOR THE BONDS - Pledge of Special Tax Revenues."

Bankruptcy and Foreclosure Delays

The payment of Special Taxes and the ability of the Improvement Area to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled "SECURITY FOR THE BONDS - Covenant to Foreclose" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

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

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner within the Improvement Area, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting superior court foreclosure proceedings or adversely affect the ability or willingness of a

property owner within the Improvement Area to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property within the Improvement Area securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in the Improvement Area is owned by any one property owner, and Special Taxes have been levied on such property, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the Improvement Area to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

In 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. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as "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 of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor has sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise) it would 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 the Special Taxes levied after the filing of a petition in bankruptcy. *Glasply* is controlling precedent for bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Tax, the amount of Special Tax received from parcels whose owners declare bankruptcy could be reduced.

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

Disclosure to Future Purchasers

The City recorded a Notice of Special Tax Lien with respect to the Improvement Area in the Office of the County Recorder on September 9, 2004 and with respect to the Annexation Parcel on July 16, 2019. 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 the obligations

represented by the Special Taxes in the purchase of a parcel of land or a home in the Improvement Area, or the lending of money secured by property in the Improvement Area.

No Acceleration

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Fiscal Agent Agreement, a Bondowner is given the right for the equal benefit and protection of all Owners of the Bonds similarly situated to pursue certain remedies (see “APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT” herein). So long as the Bonds are in book-entry form, DTC will be treated as the sole Bondowner and will be entitled to exercise all rights and remedies of the Owners of the Bonds.

Billing of Special Taxes

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

Under provisions of the Act, the Special Taxes may be billed to the properties within the Improvement Area which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future.

See “SECURITY FOR THE BONDS - Covenant to Foreclosure” for a discussion of the provisions which apply and procedures which the Improvement Area is obligated to follow in the event of delinquency in the payment of installments of Special Taxes.

Right to Vote on Taxes Act

An initiative measure referred to as the “Right to Vote on Taxes Act” or commonly referred to as “Proposition 218” (the “Initiative”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIC (“Article XIIC”) and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative as they may relate to community facilities districts are subject to interpretation by the courts.

Among other things, Section 3 of Article XIIC 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 XIII C 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 of the Improvement Area to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. 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.

The Act also establishes time limits for initiating any challenge to the validity of special taxes levied pursuant to the Act and any challenge to the validity of bonds issued pursuant to the Act. 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 or an increase in a special tax pursuant to this chapter shall be commenced within 30 days after the special tax is approved by the voters. Any appeal from a final judgment in that action or proceeding shall be perfected within 30 days after the entry of judgment.”

Section 53359 of the Act provides that:

“An action to determine the validity of bonds issued pursuant to this chapter or the validity of any special taxes levied pursuant to this chapter may be brought pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure but shall, notwithstanding the time limits specified in Section 860 of the Code of Civil Procedure, be commenced within 30 days after the voters approve the issuance of the bonds or the special tax if the action is brought by an interested person pursuant to Section 863 of the Code of Civil Procedure. Any appeal from a judgment in that action or proceeding shall be commenced within 30 days after entry of judgment.”

Based on the foregoing, with respect to any challenge to the validity of the Special Tax or the Bonds, the City believes that under current State law the time for initiating any such legal challenge has expired.

Like its antecedents, the Initiative is likely to undergo both judicial and legislative scrutiny before its impact on the Improvement Area and its obligations can be determined. Certain provisions of the Initiative may be examined by the courts for their constitutionality under both State and federal constitutional law. For example, on August 1, 2014, in *City of San Diego v. Shapiro*, an Appellate Court ruled that an election held by the City of San Diego to authorize the levying of special taxes on hotels City-wide pursuant to a City ordinance which created a convention center facilities district and which specifically defined the electorate to consist solely of (1) the owners of real property in the City on which a hotel is

located, and (2) the lessees of real property owned by a governmental entity on which a hotel is located, was invalid under the California Constitution because such landowners and lessees are neither “qualified electors” of the City for purposes of Article XIII A, Section 4 of the California Constitution nor do they comprise a proper “electorate” under Article XIII C, Section 2(d).

The Court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes pursuant to Section 53326(b) of the Act is constitutional under Article XIII A, Section 4 and Article XIII C, Section 2(d) in districts that lack sufficient registered voters to conduct an election among registered voters, and thus does not affect the validity of the levy of the Special Taxes by the Improvement Area. In addition, the provisions of the Act described above that establish time limits for initiating any challenge to (i) the validity of the Special Taxes levied pursuant to the Act or (ii) the issuance of Bonds pursuant to the Act would provide obstacles to any party which sought to present a legal challenge to the validity of the Special Taxes or the Bonds based on the City of San Diego v. Shapiro case. The City is not able to predict the outcome of any examination of the Initiative in relation to the Improvement Area formed under the Act.

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

Ballot Initiatives and Legislative Measures

The Initiative was adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County, the City or local districts to increase revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

Improvement Area Formation

California voters, on June 6, 1978, approved an amendment (“Article XIII A”) to the California Constitution. Section 4 of Article XIII A, requires a vote of two-thirds of the qualified electorate to impose “special taxes,” or any additional ad valorem, sales or transaction taxes on real property. At an election held within the Improvement Area, pursuant to the Act, more than two-thirds of the qualified electors within the Improvement Area, consisting of the landowners within the boundaries of the Improvement Area, authorized the Improvement Area to incur bonded indebtedness to finance the certain facilities funded by the 2005 Bonds and approved the Rate and Method of Apportionment of Special Taxes.

At an election held within the Annexation Parcel pursuant to the Act, the sole owner of property within the boundaries of the Annexation Parcel authorized the Annexation Parcel to be subject to the bonded indebtedness and the Rate and Method of Apportionment of Special Taxes for the Improvement Area. The Supreme Court of the State has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIII A, nor has the Supreme Court decided whether the special taxes of a Improvement Area constitute a “special tax” for purposes of Article XIII A.

Section 53341 of the Act requires that any action or proceeding to attack, review, set aside, void or annul the levy of a special tax or an increase in a special tax pursuant to the Act shall be commenced within 30 days after the special tax is approved by the voters. No such action has been filed with respect to the Special Tax for the Improvement Area. New Anaverde LLC, as the sole qualified elector within the Annexation Parcel, approved the Special Tax levy on property in the Annexation Parcel of the Improvement Area on July 9, 2019.

Loss of Tax Exemption

As discussed under the caption “TAX MATTERS,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of future acts or omissions of the City in violation of certain provisions of the Code and the covenants of the Fiscal Agent Agreement. The Fiscal Agent Agreement provides that the City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds. Should such an event of taxability occur, the Bonds would not be subject to early redemption and would remain outstanding to maturity or, if the City determines to redeem the Bonds prior to maturity, until redeemed under the optional redemption provisions of the Fiscal Agent Agreement. See “THE BONDS - Redemption.”

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations, including both random and targeted audits. It is possible that the Bonds will be selected for audit or examination by the Internal Revenue Service. It is also possible that the market value of such Bonds might be affected as a result of such an audit of such Bonds (or by an audit of similar bonds or securities). See “TAX MATTERS” herein.

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

Recent legislation, future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. Recent legislation, the introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of or marketability of, the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion. As discussed in this Official Statement, under the caption “TAX MATTERS,” 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 City in violation of its covenants in the Fiscal Agent Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or, if the City determines to redeem the Bonds prior to maturity, until redeemed under the optional redemption provisions contained in the Fiscal Agent Agreement.

Enforceability of Remedies

The remedies available to the Fiscal Agent and the owners of the Bonds upon a default under the Fiscal Agent Agreement or any other document described in this Official Statement are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified to the extent that the enforceability of the Fiscal Agent Agreement and the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Judicial remedies, such as foreclosure and enforcement of covenants, are subject to exercise of judicial discretion. A California court may not strictly apply certain remedies or enforce certain covenants if it concludes that application or enforcement would be unreasonable under the circumstances and it may delay the application of such remedies and enforcement.

Bond Insurance

In the event of default of the payment of the scheduled principal of or interest on the Insured Bonds when all or some becomes due, the Fiscal Agent on behalf of any owner of the Insured Bonds shall have a claim under the Policy for such payments. The Municipal Bond Insurer may direct and must consent to any remedies with respect to the Insured Bonds and the Municipal Bond Insurer's consent may be required in connection with amendments to any applicable documents relating to the Insured Bonds. See "APPENDIX A - SUMMARY OF THE FISCAL AGENT AGREEMENT - Provisions Relating to the Bond Insurance Policy."

The Municipal Bond Insurer is expected to insure a majority of the Bonds and may therefore have the ability to direct the actions of the Trustee, give consents and waivers and take other actions without regard to the views of the owners of the Uninsured Bonds. As a result, Owners of Uninsured Bonds may be limited in the rights and remedies they are able to exercise in the event of a default by the City under the Fiscal Agent Agreement. The Municipal Bond Insurer may have different business and other interests than the Owners of the Uninsured Bonds.

The Municipal Bond Insurer is also providing the Reserve Fund Insurance Policy that is available to be drawn on to pay debt service on the Bonds under certain conditions. See "SECURITY FOR THE BONDS - Reserve Fund" herein.

The long-term ratings on the Insured Bonds are dependent in part on the financial strength of the Municipal Bond Insurer and its claims paying ability. The Municipal Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Municipal Bond Insurer and the ratings on the Insured Bonds will not be subject to downgrade and such event could adversely affect the market price of the Insured Bonds or the marketability (liquidity) for the Insured Bonds. See "CONCLUDING INFORMATION - Ratings on the Bonds" herein.

The obligations of the Municipal Bond Insurer under the Policy and the Reserve Fund Insurance Policy are unsecured contractual obligations and in an event of default by the Municipal Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the City, the Underwriter nor the Municipal Advisor has made independent investigation into the claims paying ability of the Municipal Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Municipal Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to make the debt service payments on the Insured Bonds from the Special Tax Revenues and the claims paying ability of the Municipal Bond Insurer, particularly over the life of the investment. See “MUNICIPAL BOND INSURANCE” herein for further information regarding the Municipal Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Municipal Bond Insurer.

Early Redemption Risk

Early redemption of the Bonds may occur in whole or in part, if the City is required to redeem the Bonds from Special Tax Prepayments or exercises its right to redeem the Bonds in whole or in part pursuant to the provisions of the Fiscal Agent Agreement. See “THE BONDS - Redemption.” The resulting redemption of Bonds that were purchased at a price greater than the applicable redemption price could reduce the otherwise expected yield on such Bonds.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the City, for and on behalf of the Improvement Area, has committed to provide certain financial and operating information, there can be no assurance that such information will be available to Owners of the Bonds on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, 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.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The City has covenanted in the Fiscal Agent Agreement to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the City’s compliance with the above-referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax under the Internal Revenue Code of 1986, as amended (the “Code”).

In rendering its opinion, Bond Counsel will rely upon certifications of the City with respect to certain material facts within its knowledge. Bond Counsel’s opinion represents its legal judgment based

upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The issue price (the “Issue Price”) for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page of this Official Statement.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Bonds (the “OID Bonds”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Authority comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond’s stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount reduced by payments of interest included in the computation of original issue discount and previously paid (the “Revised Issue Price”), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price even if the purchase price exceeds par. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the City as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

The complete text of the final opinion that Bond Counsel expects to deliver upon issuance of the Bonds is set forth in Appendix B.

LEGAL MATTERS

Absence of Litigation

At the time of delivery of and payment for the Bonds, the City will deliver a certificate to the effect that there is no known action, suit, proceeding, inquiry or investigation at law or in equity before or by any court or regulatory agency against the City or the Improvement Area affecting the existence of the City or the Improvement Area or the title of their respective officers to office or seeking to restrain or to enjoin the issuance, sale, or delivery of the Bonds, the application of the proceeds thereof in accordance with the Fiscal Agent Agreement, or the collection or application of the Special Taxes to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Resolution, the Fiscal Agent Agreement or any action of the City or the Improvement Area or contemplated by any of said documents.

Legal Matters Incident to the Issuance of the Bonds

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Quint & Thimmig LLP, acting in its capacity as Bond Counsel. Certain legal matters related to the Bonds and the Improvement Area will be passed upon by Wm. Matthew Ditzhazy, acting in his capacity as City Attorney to the City. Certain legal matters related to disclosure will be passed upon for the City by Quint & Thimmig LLP, acting in its capacity as Disclosure Counsel to the City. Jones Hall, A Professional Law Corporation, is acting as counsel for the Underwriter. Payment of Bond Counsel's, Disclosure Counsel's, and Underwriter Counsel's fees and expenses is contingent upon the sale and issuance of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

CONTINUING DISCLOSURE

The City has agreed in a Continuing Disclosure Certificate to provide certain annual financial information (the "Annual Reports") and notices of the occurrence of certain enumerated events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the "Rule") by not later than January 31 in each year commencing January 31, 2020. NBS Government Finance Group will act as dissemination agent (the "Dissemination Agent") under the Continuing Disclosure Certificate. The specific nature of the information to be contained in the annual report or the notices of listed events and certain other terms of the continuing disclosure obligation are found in the form of the Continuing Disclosure Certificate in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

It is expected that the Dissemination Agent will prepare and file the Annual Report and any notices of enumerated events as required by the Continuing Disclosure Certificate on behalf of the City and the Improvement Area.

CONCLUDING INFORMATION

Rating on the Bonds

S&P Global Ratings, ("S&P") is expected to assign to the Insured Bonds (being the Bonds maturing on September 1 in the years 2024 through and including 2035) its municipal bond rating of "AA" with the understanding that the Policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued concurrently by the Bond Insurer with the delivery of the Insured Bonds. The Bonds have received the underlying rating of "A-" by S&P. Such ratings reflects only the views of S&P, and any desired explanation of the significance of such ratings may be obtained from S&P Global Ratings. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Except as otherwise required in the Continuing Disclosure Certificate, the City undertakes no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any ratings obtained or to oppose any such revision or

withdrawal. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) for a price of \$19,047,378.25 being equal to the initial principal amount of the Bonds of \$15,565,000.00, plus an original issue premium of \$3,587,903.25 and less an Underwriter’s discount of \$105,525.00. The Bonds are being offered for sale to the public at the prices set forth on the inside cover page of this Official Statement, which prices may be changed by the Underwriter from time to time without notice. The Bonds may be offered and sold to dealers, including the Underwriter and dealers acquiring Bonds for their own account or for an account managed by them, at prices lower than the public offering price. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter’s discount.

The Municipal Advisor

The material contained in this Official Statement was prepared by the City with the assistance of the Municipal Advisor who advised the City as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein received from sources other than the City has been obtained by the City from sources which are believed to be reliable, but such information is not guaranteed by Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Miscellaneous

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract or agreement between any of the City, the Improvement Area or the Underwriter and the purchasers or the owners of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the City Council.

CITY OF PALMDALE, for and on behalf of
IMPROVEMENT AREA A OF THE CITY OF
PALMDALE COMMUNITY FACILITIES DISTRICT
NO. 2003-1 (ANAVERDE PUBLIC
IMPROVEMENTS)

By: /s/ James Purtee
City Manager

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APPENDIX A

SUMMARY OF THE FISCAL AGENT AGREEMENT

The following is a summary of certain provisions of the Fiscal Agent Agreement not otherwise described in the text of this Official Statement. This summary does not purport to be comprehensive or definitive and is subject to all of the complete terms and provisions of the Fiscal Agent Agreement, to which reference is hereby made.

Definitions

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 et seq. of the California Government Code.

“Administrative Expenses” means costs directly related to the administration of the Improvement Area consisting of the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the Finance Director or designee thereof or both) and the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent; fees and costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties required of it under the Fiscal Agent Agreement; any fees or expenses of the Escrow Bank under or in connection with the Escrow Agreement; any Policy Costs (other than in respect of the reimbursement of draws under the Reserve Policy); the costs of the City or its designee of complying with the disclosure provisions of the Act, the Continuing Disclosure Agreement and the Fiscal Agent Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Bondowners and the Original Purchaser; the costs of the City or its designee related to an appeal of the Special Tax; any amounts required to be rebated to the federal government in order for the City to comply with the Fiscal Agent Agreement; and an allocable share of the salaries of the City staff directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto. Administrative Expenses shall also include amounts advanced by the City for any administrative purpose of the Improvement Area, including costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, amounts advanced to ensure compliance with the rebate requirements of the Fiscal Agent Agreement, and the costs of commencing foreclosure of delinquent Special Taxes.

“Administrative Expense Fund” means the fund by that name established by the Fiscal Agent Agreement.

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

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

“Auditor” means the auditor/controller of the County.

“Authorized Officer” means the Mayor, City Manager, the City’s Finance Manager/Treasurer (including any Interim Finance Manager/Deputy Treasurer), the City Clerk or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referenced in the Fiscal Agent Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means (i) Quint & Thimmig LLP, or (ii) any attorney or other firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Bond Register” means the books for the registration and transfer of Bonds maintained by the Fiscal Agent under the Fiscal Agent Agreement.

“Bond Year” means the one-year period beginning on September 2nd in each year and ending on September 1st in the following year, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2019.

“Bonds” means the 2019 Bonds, and, if the context requires, any Parity Bonds, at any time Outstanding under the Fiscal Agent Agreement or any Supplemental Agreement.

“Business Day” means any day other than (i) a Saturday or a Sunday, or (ii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

“CDIAC” means the California Debt and Investment Advisory Commission of the office of the State Treasurer of the State of California or any successor agency or bureau thereto.

“City” means the City of Palmdale, California.

“City Attorney” means any attorney or firm of attorneys employed by the City in the capacity of city attorney.

“Closing Date” means the date upon which there is a physical delivery of the 2019 Bonds in exchange for the amount representing the purchase price of the 2019 Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the 2019 Bonds or (except as otherwise referenced in the Fiscal Agent Agreement) as it may be amended to apply to obligations issued on the date of issuance of the 2019 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Certificate pertaining to the 2019 Bonds, dated as of August 1, 2019, by the City and NBS Government Finance Group, as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the 2019 Bonds and the refunding and defeasance of the 2005 Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee, fees and expenses of Fiscal Agent’s counsel, expenses incurred by the City in connection with the issuance of the Bonds and the refunding and defeasance of the 2005 Bonds, Escrow Bank fees and expenses, special tax consultant fees and expenses, Bond (underwriter’s) discount, legal fees and charges, including those of bond counsel and disclosure counsel, municipal advisor’s fees, verification agent and bidding agent fees, rating agency fees, premiums for Insurance Policy and the Reserve Policy, if any, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

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

“County” means the County of Los Angeles, California.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Debt Service” means the scheduled amount of interest and amortization of principal on the Bonds and the scheduled amount of interest and amortization of principal payable on any Parity Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Depository” means (i) initially, DTC, and (ii) any other Securities Depository acting as Depository pursuant to the Fiscal Agent Agreement.

“Escrow Agreement” means the Escrow Agreement No. A-6679, dated as of August 1, 2019, by and between the City and the Escrow Bank, as amended from time to time.

“Escrow Bank” means U.S. Bank National Association, and its successors and assigns, acting as escrow agent under the Escrow Agreement.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“Federal Securities” means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State of California for funds held by the Fiscal Agent:

(i) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America, including, without limitation, such of the foregoing which are commonly referred to as “stripped” obligations and coupons; or

(ii) any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.

“Finance Director” means the Finance Manager/Treasurer of the City (including any Interim Finance Manager/Deputy Treasurer) or such other officer or employee of the City performing the functions of the chief financial officer of the City.

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

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

“Improvement Area” means Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements), formed by the City under the Act and the Resolution of Formation.

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

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the City or the Finance Director, and who, or each of whom: (i) is judged by the person or entity that appointed them to have experience in matters relating to the issuance and/or administration of bonds under the Act; (ii) is in fact independent and not under the domination of the City; (iii) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property in the Improvement Area, or any real property in the Improvement Area; and (iv) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>); and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Insured Bonds when due.

“Insured Bonds” means the 2019 Bonds maturing on September 1 of the years 2024 through 2035, inclusive.

“Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2020.

“Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank plus 3%, and (ii) the then applicable highest rate of interest on the 2019 Bonds, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify.

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

“Moody’s” means Moody’s Investors Service, and any successor thereto.

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

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

“Original Purchaser” means Stifel, Nicolaus & Company, Incorporated, as the first purchaser of the 2019 Bonds from the City.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Fiscal Agent Agreement) all Bonds except: (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the Fiscal Agent Agreement; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City pursuant to the Fiscal Agent Agreement or any Supplemental Agreement.

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

“Parity Bonds” means bonds issued by the City for the Improvement Area and secured on a parity with any then Outstanding Bonds pursuant to the Fiscal Agent Agreement.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

“Permitted Investments” means any of the following, but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) Registered state warrants or treasury notes or bonds of the State of California (the “State”), including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State, which are rated in one of the two highest short-term or long-term rating categories by either Moody’s or S&P, and which have a maximum term to maturity not to exceed three years.

(c) Unsecured certificates of deposit, time deposits and bankers’ acceptance of any bank the short-term obligations of which are rated on the date of purchase “A-1+” or better by S&P and “P-1” by Moody’s and or certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase A-1 or better by S&P and Moody’s.

(d) Commercial paper which at the time of purchase is of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by either Moody’s or S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an “A” or higher rating for the issuer’s debentures, other than commercial paper, by either Moody’s or S&P, provided that purchases

of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10 percent of the outstanding commercial paper of an issuing corporation. Purchases of commercial paper may not exceed 20 percent of the total amount invested pursuant to this definition of Permitted Investments.

(e) A repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, provided that all of the following conditions are satisfied: (1) the agreement is secured by any one or more of the securities described in subdivision (a) of this definition of Permitted Investments, (2) the underlying securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least one hundred million dollars (\$100,000,000) and which is independent of the issuer of the repurchase agreement, and (3) the underlying securities are maintained at a market value, as determined on a marked-to-market basis calculated at least weekly, of not less than 103 percent of the amount so invested.

(f) An investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution the long-term unsecured obligations of which are rated Aa2 and/or "AA" or better, respectively, by Moody's or S&P at the time of initial investment. The investment agreement shall be subject to a downgrade provision with at least the following requirements: (1) the agreement shall provide that within five business days after the financial institution's long-term unsecured credit rating has been withdrawn, suspended, other than because of general withdrawal or suspension by Moody's or S&P from the practice of rating that debt, or reduced below "AA-" by S&P or below "Aa3" by Moody's (these events are called "rating downgrades") the financial institution shall give notice to the City and, within the five-day period, and for as long as the rating downgrade is in effect, shall deliver in the name of the City or the Fiscal Agent Federal Securities allowed as investments under subdivision (a) of this definition of Permitted Investments with aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement invested with the financial institution at that time, and shall deliver additional allowed federal securities as needed to maintain an aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly, and (2) the agreement shall provide that, if the financial institution's long-term unsecured credit rating is reduced below "A3" by Moody's or below "A-" by S&P, the Fiscal Agent or the City may, upon not more than five business days' written notice to the financial institution, withdraw the investment agreement, with accrued but unpaid interest thereon to the date, and terminate the agreement.

(g) The Local Agency Investment Fund of the State of California.

(h) Investments in a money market fund (including any funds of the Fiscal Agent or its affiliates and including any funds for which the Fiscal Agent or its affiliates receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise) rated in the highest rating category (without regard to plus (+) or minus (-) designations) by Moody's or S&P.

(i) Any other lawful investment for City funds.

"Policy Costs" means, collectively, draws on the Reserve Policy, expenses of the Insurer related to the Reserve Policy and interest on any such draws at the Late Payment Rate until repaid to the Insurer.

"Principal Office" means the principal corporate trust office of the Fiscal Agent set forth in the Fiscal Agent Agreement, except for the purpose of maintenance of the registration books and presentation of Bonds for payment, transfer or exchange, such term shall mean the office at which the

Fiscal Agent conducts its corporate agency business, or such other or additional offices as may be designated by the Fiscal Agent.

“Project” means the facilities eligible to be funded by the Improvement Area, as more particularly described in the Resolution of Formation.

“Rate and Method of Apportionment of Special Taxes” means the rate and method of apportionment of special taxes for the Improvement Area, as approved pursuant to the Resolution of Formation, and as it may be modified from time to time in accordance with the Act.

“Record Date” means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date, whether or not such day is a Business Day.

“Refunding Bonds” means bonds issued by the City for the Improvement Area the net proceeds of which are used to refund all or a portion of the then Outstanding Bonds; provided that the debt service on the Refunding Bonds in any Bond Year is not in excess of the debt service on the Bonds being refunded and the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded.

“Refunding Fund” means the fund of that name created and maintained under the Escrow Agreement.

“Refunding Law” means Article 11, commencing with Section 53580, of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code.

“Reserve Fund” means the fund by that name established pursuant to the Fiscal Agent Agreement.

“Reserve Policy” means the Reserve Policy issued by the Insurer in an amount equal to 50% of the Reserve Requirement as of the Closing Date.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (i) the then Maximum Annual Debt Service, but only with respect to the 2019 Bonds, (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service, but only with respect to the 2019 Bonds, or (iii) ten percent (10%) of the initial principal amount of the 2019 Bonds.

“Resolution” means Resolution No. CC 2019-057, adopted by the City Council of the City on July 9, 2019.

“Resolution of Formation” means Resolution No. CC 2004-246, adopted by the City Council of the City on August 23, 2004.

“S&P” means S&P Global Ratings, and any successor thereto.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, New York, New York 10041-0099, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Special Tax Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Special Tax Prepayments” means the proceeds of any Special Tax prepayments received by the City, as calculated pursuant to the Rate and Method of Apportionment of the Special Taxes, less any administrative fees or penalties collected as part of any such prepayment.

“Special Tax Prepayments Account” means the account by that name established within the Bond Fund by the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments and any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. “Special Tax Revenues” does not include any penalties collected in connection with delinquent Special Taxes, which amounts may be deposited to the Administrative Expense Fund or otherwise disposed of as determined by the Finance Director consistent with any applicable provisions of the Act.

“Special Taxes” means the special taxes levied by the City within the Improvement Area pursuant to the Act, the Ordinance, the Rate and Method of Apportionment of Special Taxes and the Fiscal Agent Agreement.

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the City under the Act and which agreement is amendatory of or supplemental to the Fiscal Agent Agreement, but only if and to the extent that such agreement is specifically authorized thereunder.

“Tax Consultant” means any independent financial or tax consultant retained by the City for the purpose of computing the Special Taxes.

“2005 Bonds” means, collectively, the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) Special Tax Bonds, Series 2005-A and the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) Special Tax Bonds, Subordinate Series 2005-B, each issued on February 23, 2005, and outstanding as of the Closing Date.

“2019 Bonds” means the Bonds so designated and authorized to be issued under the Fiscal Agent Agreement.

Parity Bonds

The City may issue one or more series of Parity Bonds, in addition to the 2019 Bonds authorized under the Fiscal Agent Agreement, by means of a Supplemental Agreement and without the consent of any Bondowners, upon compliance with the applicable provisions of the Fiscal Agent Agreement. Only Refunding Bonds that comply with the requirements of the Fiscal Agent Agreement will be Parity Bonds, and such Parity Bonds shall constitute Bonds thereunder and shall be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds issued under the Fiscal Agent Agreement on a parity with all other Bonds Outstanding thereunder. The City may issue Refunding Bonds that are Parity Bonds subject to the following specific conditions precedent:

(A) Current Compliance. The City shall be in compliance in all material respects on the date of issuance of the Parity Bonds with all covenants set forth in the Fiscal Agent Agreement and all Supplemental Agreements, and the principal amount of the Parity Bonds shall not cause the City to exceed the maximum authorized indebtedness of the Improvement Area under the provisions of the Act.

(B) Payment Dates. The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on March 1 and September 1, and principal thereof shall be payable on September 1 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) Separate Funds and Accounts; Reserve Fund. The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts, including but not limited to a separate reserve fund as security for the payment of the Parity Bonds in such amount, if any, as shall be determined by the City at the time of issuance of the respective Parity Bonds (it being acknowledged that the Reserve Fund has been established as security only for the payment of the 2019 Bonds).

(D) Refunding Bonds. The Parity Bonds shall be Refunding Bonds.

(E) Officer's Certificate. The City shall deliver to the Fiscal Agent an Officer's Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in subsections (A), (B), (C) and (D) above have been satisfied. In delivering such Officer's Certificate, the Authorized Officer that executes the same may conclusively rely upon such certificates of the Fiscal Agent, the Tax Consultant and others selected with due care, without the need for independent inquiry or certification.

Nothing in the Fiscal Agent Agreement shall prohibit the City from issuing bonds or otherwise incurring debt secured by a pledge of Special Tax Revenues subordinate to the pledge thereof under the Fiscal Agent Agreement.

Pledge of Special Tax Revenues

The Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of the Special Tax Revenues and all moneys deposited in the Bond Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into said funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement. The 2019 Bonds shall also be secured by amounts in the Reserve Fund.

Amounts in the Improvement Fund, Administrative Expense Fund and the Costs of Issuance Fund are not pledged to the repayment of the 2019 Bonds. The facilities acquired with the proceeds of the 2005 Bonds are not in any way pledged to pay the Debt Service on the 2019 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2005 Bonds are not pledged to pay the Debt Service on the 2019 Bonds and are free and clear of any lien or obligation imposed by the Fiscal Agent Agreement.

Funds and Accounts

Costs of Issuance Fund. The Fiscal Agent Agreement establishes the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds Costs of Issuance Fund, to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Costs of Issuance Fund shall be held in trust by the Fiscal Agent and shall be disbursed as provided below for the payment or reimbursement of Costs of Issuance.

Amounts in the Costs of Issuance Fund shall be disbursed from time to time to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by the Finance Director and delivered to the Fiscal Agent on the Closing Date, or otherwise in an Officer's Certificate delivered to the Fiscal Agent after the Closing Date. The Fiscal Agent shall pay all Costs of Issuance after receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee pursuant to an Officer's Certificate requesting payment of Costs of Issuance. An Officer's Certificate shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall

have no duty to confirm the accuracy of such facts. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of 90 days from the date of delivery of the 2019 Bonds and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Finance Director for deposit by the Finance Director in the Administrative Expense Fund.

Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

Reserve Fund. The Fiscal Agent Agreement establishes the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds Reserve Fund, to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement equal to 50% of the Reserve Requirement as of the Closing Date for the 2019 Bonds, and deposits shall be made as provided in the Fiscal Agent Agreement. On the Closing Date there shall also be held for the benefit of the Reserve Fund, the Reserve Policy in an amount equal to 50% of the Reserve Requirement as of the Closing Date. Moneys in the Reserve Fund shall be held by the Fiscal Agent for the benefit of the Owners of the 2019 Bonds as a reserve for the payment of principal of, and interest and any premium on, the 2019 Bonds and shall be subject to a lien in favor of the Owners of the 2019 Bonds.

Except as otherwise described below, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2019 Bonds or, in accordance with the provisions of the Fiscal Agent Agreement, for the purpose of redeeming 2019 Bonds from the Bond Fund.

Whenever transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund to pay the 2019 Bonds, the Fiscal Agent shall provide written notice thereof to the Finance Director, specifying the amount withdrawn.

Whenever, on the Business Day prior to any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the Reserve Fund, taking into account the amount available under the Reserve Policy, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the Finance Director of the amount of the excess and shall transfer an amount equal to the excess from the Reserve Fund to the Bond Fund to be used for the payment of interest on the 2019 Bonds on the next Interest Payment Date.

Whenever the balance of funds held in the Reserve Fund (without regard to the Reserve Policy) equals or exceeds the amount required to redeem or pay the Outstanding 2019 Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall upon the written direction of the Finance Director transfer the amount in the Reserve Fund to the Bond Fund to be applied, on the next succeeding Interest Payment Date to the payment and redemption, in accordance with the Fiscal Agent Agreement, of all of the Outstanding 2019 Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding 2019 Bonds, the balance in the Reserve Fund shall be transferred to the City to be used for any lawful purpose under the Act.

Notwithstanding the foregoing, no amounts shall be transferred from the Reserve Fund as described in the preceding paragraph until after (i) payment of any fees and expenses due to the Fiscal Agent, and (ii) payment of any Policy Costs then due and owing.

Whenever Special Taxes are prepaid and 2019 Bonds are to be redeemed with the proceeds of such prepayment pursuant to the Fiscal Agent Agreement, a proportionate amount of the funds in the Reserve Fund (determined on the basis of the principal of 2019 Bonds to be redeemed, and the then outstanding principal of the 2019 Bonds but only to the extent that the amount on deposit after such transfer in the Reserve Fund, taking into account the amount of the Reserve Policy, equals the Reserve

Requirement assuming such redemption) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2019 Bonds pursuant to the Fiscal Agent Agreement. The Finance Director shall deliver to the Fiscal Agent an Officer's Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

Moneys in the Reserve Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be subject to transfer on the Business Day prior to each Interest Payment Date or when otherwise requested in writing by the Finance Director to the Bond Fund to be used for the payment of interest on the 2019 Bonds on the next Interest Payment Date in accordance with the Fiscal Agent Agreement.

The following provisions of the Fiscal Agent Agreement shall prevail over any conflicting provisions elsewhere in the Fiscal Agent Agreement.

(i) If, on any Interest Payment Date, the moneys available in the Bond Fund do not equal the amount of the principal or interest then coming due and payable on the 2019 Bonds, the Fiscal Agent shall apply the moneys available in the Reserve Fund to make delinquent amount by transferring the amount necessary for this purpose to the Bond Fund or shall draw on the Reserve Policy and apply amounts received from such draw to make delinquent amounts by transferring the amount necessary for this purpose to the Bond Fund. To the extent there are cash or investments on deposit in the Reserve Fund, such cash or investments shall be applied first before there is any draw on the Reserve Policy or any other credit facility credited to the Reserve Fund in lieu of cash (a "Credit Facility"). Payment of any Policy Costs (as defined below) shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a *pro rata* basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a *pro rata* basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw. Upon receipt of any delinquent amount with respect to which moneys have been advanced from the Reserve Fund or there has been a draw on the Reserve Policy, such amount shall be deposited in the Reserve Fund to the extent of such advance and first applied to reimburse a draw on the Reserve Policy and then to replenish any cash drawn therefrom.

The City has no obligation to replace the Reserve Policy with a replacement Credit Facility or to fund more than 50% of the Reserve Requirement with cash if, at any time the 2019 Bonds are outstanding, the ratings of the Insurer decline or are withdrawn or if amounts are unavailable to be drawn under the Reserve Policy.

(ii) The City shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate. If the interest provisions of this subparagraph (ii) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created by the Fiscal Agent Agreement, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party thereto, be applied as additional interest for any later periods of time when amounts are outstanding thereunder to the extent that interest otherwise due thereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the Insurer, with the same force and effect as if the City had specifically designated

such extra sums to be so applied and the Insurer had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created by the Fiscal Agent Agreement exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on the Special Tax Revenues pledged as security for the 2019 Bonds (subject only to the priority of payment provisions set forth in the Fiscal Agent Agreement).

All cash and investments in the Reserve Fund shall be transferred to the Bond Fund for payment of the debt service on the 2019 Bonds before any drawing may be made on the Reserve Policy or any other Credit Facility in lieu of cash. Payment of any Policy Cost shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(iii) Draws under the Reserve Policy may only be used to make payments on 2019 Bonds.

(iv) If the City shall fail to pay any Policy Costs in accordance with the requirements of subsection (ii) above, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Fiscal Agent Agreement other than (x) acceleration of the maturity of the 2019 Bonds, or (y) remedies which would adversely affect owners of the 2019 Bonds or any Parity Bonds then Outstanding.

(v) The Fiscal Agent Agreement shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The City's obligation to pay such amount shall expressly survive payment in full of the 2019 Bonds.

(vi) The City shall include any Policy Costs then due and owing the Insurer in the calculation of the levy and collection of the Special Taxes set forth in the Fiscal Agent Agreement, subject to any limitations on maximum Special Taxes under the Rate and Method of Apportionment of Special Taxes.

(vii) The Fiscal Agent shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of subsection (i) above and provide notice to the Insurer in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the 2019 Bonds.

(viii) The Reserve Policy shall expire on the earlier of the date the 2019 Bonds are no longer outstanding and the final maturity date of the 2019 Bonds.

Bond Fund. The Fiscal Agent Agreement establishes the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) Bond Fund, to the credit of which deposits shall be made as required by the Fiscal Agent Agreement or the Act. The Fiscal Agent Agreement also establishes a separate account held by the Fiscal Agent within the Bond Fund, the Special Tax Prepayments Account, to the credit of which deposits shall be made as provided in the Fiscal Agent Agreement.

Moneys in the Bond Fund and the Special Tax Prepayments Account therein shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds. Notwithstanding the foregoing, amounts in the Bond Fund may be used for the purpose of purchasing Bonds otherwise subject to redemption in accordance with the Fiscal Agent Agreement.

On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal, and interest and any premium, then due and payable on the Bonds, including any amounts due on the Bonds by reason of a redemption of the Bonds required by the Fiscal Agent Agreement, such payments to be made in the priority listed in the second succeeding paragraph. Notwithstanding the foregoing, amounts in the Bond Fund as a result of a transfer of amounts collected in respect of delinquent Special Taxes to the Bond Fund shall be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

In the event that amounts in the Bond Fund on the date which is five (5) Business Days prior to each Interest Payment Date are insufficient to pay amounts due and owing on the 2019 Bonds on the immediately succeeding Interest Payment Date, the Fiscal Agent shall withdraw from the Reserve Fund to the extent of any funds therein and then shall draw on the Reserve Policy if a deficiency still exists, all as described above, amounts to cover the amount of such Bond Fund insufficiency with respect to the 2019 Bonds. Amounts so withdrawn from the Reserve Fund or drawn on the Reserve Policy shall be deposited in the Bond Fund and shall be used solely to make payments on the 2019 Bonds.

If, after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments provided for in the Fiscal Agent Agreement, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds. Each such payment shall be made ratably to the Owners of the Bonds based on the then Outstanding principal amount of the Bonds, if there are insufficient funds to make the corresponding payment for all of the then Outstanding Bonds.

Moneys in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Fiscal Agent Agreement, and notice to the Fiscal Agent can timely be given under the Fiscal Agent Agreement, and shall be used (together with any amounts transferred from the Reserve Fund to the Bond Fund in connection with such redemption pursuant to the Fiscal Agent Agreement) to redeem Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement.

Moneys in the Bond Fund and the Special Tax Prepayments Account shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from the investment and deposit of amounts in the Bond Fund and the Special Tax Prepayments Account

shall be retained in the Bond Fund and the Special Tax Prepayments Account, respectively, to be used for purposes of such fund and accounts.

Special Tax Fund. The Fiscal Agent Agreement establishes the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) Special Tax Fund to be held by the Finance Director, to the credit of which the City shall deposit, as soon as practicable following receipt, all Special Tax Revenues received by the City and any amounts required by the Fiscal Agent Agreement to be deposited therein.

Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting payment of the portion of the Special Tax levy for Administrative Expenses shall be separately identified by the Finance Director and shall be deposited by the Finance Director in the Administrative Expense Fund;

(ii) any proceeds of Special Tax Prepayments shall be transferred by the Finance Director directly to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Fiscal Agent Agreement; and

(iii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be transferred by the Finance Director first, to the Fiscal Agent for deposit by the Fiscal Agent in the Bond Fund to the extent needed to pay any past due debt service on the Bonds; second, to the Fiscal Agent (a) to pay any Policy Costs, and (b) for the Fiscal Agent to deposit in the Reserve Fund the amount, if any, needed to restore the balance then on deposit in or credited to the Reserve Fund to the then Reserve Requirement; third, by transfer to any reserve fund for any Parity Bonds as necessary to satisfy any reserve requirement applicable thereto; fourth, to the Administrative Expense Fund to the extent that amounts in such fund were used to pay costs related to the collection of such delinquencies; and fifth, shall be retained by the Finance Director in the Special Tax Fund for use as described below.

Moneys in the Special Tax Fund shall be held in trust by the City for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds and the City.

From time to time as needed to pay the debt service due on the Bonds, but no later than the date which is five (5) Business Days prior to each Interest Payment Date or date for the redemption of Bonds, the Finance Director shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority (i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Reserve Fund and the Special Tax Prepayments Account to the Bond Fund pursuant to the Fiscal Agent Agreement, such that the amount in the Bond Fund equals the principal, premium, if any, and interest due on the Bonds on the next Interest Payment Date or date of redemption with respect to Bonds being redeemed, (ii) to the Fiscal Agent in respect of the Reserve Fund an amount (a) sufficient to pay any Policy Costs then due and owing, and (b) taking into account amounts then on deposit in or credited to the Reserve Fund, such that the balance on deposit or credited to the Reserve Fund is restored to the then Reserve Requirement, to the extent possible, and (iii) to any reserve fund for any Parity Bonds an amount, taking into account amounts then on deposit in any such reserve fund, such that the amount therein is equal to any requirement applicable thereto.

In addition to the foregoing, if in any Fiscal Year there are sufficient funds in the Special Tax Fund to make the foregoing transfers to the Bond Fund and the Reserve Fund in respect of the Interest Payment Dates occurring in the Bond Year that commences in such Fiscal Year and in respect of any Bonds being redeemed in such Bond Year, the Finance Director may transfer any amount in the Special Tax Fund in excess of the amount needed to make such transfers to the Bond Fund and the Reserve Fund (i) to the Administrative Expense Fund, from time to time, if monies are needed to pay

Administrative Expenses in excess of the amount then on deposit in the Administrative Expense Fund; (ii) to such other fund or account established to pay debt service on or administrative expenses with respect to any bonds or other debt secured by a pledge of Special Tax Revenues subordinate to the pledge thereof under the Fiscal Agent Agreement; or (iii) to such other fund or account established by the City to be used for any lawful purpose under the Act and otherwise in accordance with the provisions of the Rate and Method of Apportionment of Special Taxes.

Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Administrative Expense Fund. The Fiscal Agent Agreement establishes as a separate fund to be held by the Finance Director, the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) Administrative Expense Fund, to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Administrative Expense Fund shall be held by the Finance Director for the benefit of the City and shall be disbursed as provided below. Amounts in the Administrative Expense Fund are not pledged as security for the repayment of the Bonds.

Amounts in the Administrative Expense Fund shall be withdrawn by the Finance Director from time to time and used to pay Administrative Expenses or a Costs of Issuance. Amounts transferred from the Costs of Issuance Fund to the Administrative Expense Fund shall be separately identified at all times, and shall be expended for purposes of the Administrative Expense Fund prior to the use of amounts transferred to the Administrative Expense Fund from the Special Tax Fund pursuant to the Fiscal Agent Agreement.

Moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Finance Director in the Administrative Expense Fund to be used for the purposes thereof.

Improvement Fund. The Fiscal Agent Agreement establishes the Improvement Fund, to the credit of which fund a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Improvement Fund shall be disbursed, except as otherwise provided below, for the payment or reimbursement of the costs of the Project. Amounts in the Improvement Fund are not pledged as security for the repayment of the Bonds.

Disbursements from the Improvement Fund shall be made by the Fiscal Agent upon receipt of an Officer's Certificate which shall: (i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made (which shall be for payment of a Project cost or to reimburse expenditures of the City or any other party for Project costs previously paid), and the person to which the disbursement is to be paid; and (ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officers Certificate previously filed requesting disbursement.

Moneys in the Improvement Fund shall be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits from such investment shall be retained in the Improvement Fund to be used for the purpose of such fund.

Upon the filing of an Officer's Certificate stating that the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, the Fiscal Agent shall transfer the amount, if any, remaining in the Improvement Fund to the Bond Fund for application to Debt Service payments due on the next succeeding Interest Payment Date and the Improvement Fund shall be closed.

Covenants of the City

Punctual Payment. The City will punctually pay or cause to be paid the principal of, and interest and any premium on, the Bonds when and as due in strict conformity with the terms of the Fiscal Agent Agreement and any Supplemental Agreement, and it will faithfully observe and perform all of the conditions covenants and requirements of the Fiscal Agent Agreement and all Supplemental Agreements and of the Bonds.

Limited Obligation. The Bonds are limited obligations of the City on behalf of the Improvement Area and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund (including the Special Tax Prepayments Account therein), the Reserve Fund and the Special Tax Fund created by the Fiscal Agent Agreement.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default thereunder, to the benefits of the Fiscal Agent Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have so extended or funded.

Against Encumbrances. The City will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created by the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted by the Fiscal Agent Agreement.

Books and Records. The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Administrative Expense Fund, the Improvement Fund and the Special Tax Fund and to the Special Tax Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent (who shall have no duty to inspect the same) and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Compliance with Law. The City will comply with all applicable provisions of the Act and law in administering the Improvement Area.

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

The Finance Director shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each July 15 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the Improvement Area for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Finance Director shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

The Finance Director shall fix and levy the amount of Special Taxes within the Improvement Area required for the payment of principal of and interest on any outstanding Bonds of the Improvement Area becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund (taking into account the Reserve Policy) for the Bonds, an amount needed to pay any Policy Costs due and owing, and an amount estimated to be sufficient to pay the Administrative Expenses (including amounts necessary to discharge any obligation under the Fiscal Agent Agreement) during such year, taking into account in any event the balances in such funds and in the Special Tax Fund. The Special Taxes so levied shall not exceed the maximum amounts as provided in the Rate and Method of Apportionment of Special Taxes.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property; provided that, pursuant to and in accordance with the Ordinance, the Special Taxes may be collected by means of direct billing of the property owners within the Improvement Area, in which event the Special Taxes shall become delinquent if not paid when due pursuant to said billing.

The Finance Director is authorized by the Fiscal Agent Agreement to employ consultants to assist in computing the levy of the Special Taxes and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Finance Director (including a charge for City staff time) in conducting the Finance Director's duties under the Fiscal Agent Agreement shall be an Administrative Expense under the Fiscal Agent Agreement.

Covenant to Foreclose. Pursuant to Section 53356.1 of the Act, the City covenants in the Fiscal Agent Agreement with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as provided by the Fiscal Agent Agreement, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as described in the following paragraph. The Finance Director shall notify the City Attorney of any such delinquency of which it is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

On or about June 15 of each Fiscal Year, the Finance Director shall compare the amount of Special Taxes theretofore levied in the Improvement Area to the amount of Special Tax Revenues theretofore received by the City, and:

(A) Individual Delinquencies. If the Finance Director determines that any single parcel subject to the Special Tax in the Improvement Area is delinquent in the payment of Special Taxes in the aggregate amount of \$3,600 or more, then the Finance Director shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of such determination.

(B) Aggregate Delinquencies. If the Finance Director determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire Improvement Area, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and the City shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the Improvement Area with a Special Tax delinquency.

Notwithstanding the foregoing, the Finance Director may defer any mailing of notices of delinquency or foreclosure action if the amount in the Reserve Fund (taking into account the amount available under the Reserve Policy) is at least equal to the Reserve Requirement, and (ii) no Policy Costs are then owing to the Insurer.

The Finance Director and the City Attorney, as applicable, are authorized by the Fiscal Agent Agreement to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for City staff time) in conducting foreclosure proceedings shall be an Administrative Expense under the Fiscal Agent Agreement.

Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Fiscal Agent Agreement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Fiscal Agent Agreement.

Private Activity Bond Limitations. The City shall assure that the proceeds of the 2005 Bonds and of the 2019 Bonds are not so used as to cause the 2019 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the 2019 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2019 Bonds.

If necessary, the City may use amounts on deposit in the Administrative Expense Fund and any other funds available to the Improvement Area, including amounts advanced by the City, in its sole discretion, to be repaid by the Improvement Area as soon as practicable from amounts described in the preceding clauses, to satisfy its obligations under the Rebate Requirement provisions of the Fiscal Agent Agreement. The Finance Director shall take note of any investment of monies under the Fiscal Agent Agreement in excess of the yield on the Bonds, and shall take such actions as are necessary to ensure compliance with the Rebate Requirement, such as increasing the portion of the Special Tax levy for Administration Expenses as appropriate to have funds available in the Administrative Expense Fund to satisfy any rebate liability.

In order to provide for the administration of the Rebate Requirement, the Fiscal Agent Agreement provides that the Finance Director may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the Finance Director may deem appropriate and in addition, and without limitation of the provisions of the Fiscal Agent Agreement, the Finance Director may rely conclusively upon and be fully protected from all liability in relying upon the opinions, determinations, calculations and advice of such agents, attorneys and consultants employed under the Fiscal Agent Agreement. Any fees or expenses incurred by the City under or pursuant to the Rebate Requirement provisions of the Fiscal Agent Agreement shall be Administrative Expenses.

The Fiscal Agent may rely conclusively upon the City’s determinations, calculations and certifications required by the Rebate Requirement provisions of the Fiscal Agent Agreement. The Fiscal Agent shall have no responsibility to independently make any calculation or determination or to review the City’s calculations hereunder.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the 2019 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date

of issuance of the 2019 Bonds would have caused the 2019 Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

Yield of the 2019 Bonds. In determining the yield of the 2019 Bonds to comply with the Rebate and Arbitrage provisions above, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the 2019 Bonds, without regard to whether or not prepayments are received or 2019 Bonds redeemed.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the 2019 Bonds from the gross income of the Owners of the 2019 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the 2019 Bonds.

Continuing Disclosure to Owners. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Fiscal Agent Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered a default under the Fiscal Agent Agreement; however, any Participating Underwriter or any holder or Beneficial Owner (as defined in the Fiscal Agent Agreement) of the 2019 Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations thereunder, including seeking mandate or specific performance by court order.

No Additional Bonds. Except as expressly permitted by the Fiscal Agent Agreement, the City shall not issue any additional bonds secured by (A) a pledge of Special Taxes on a parity with or senior to the pledge thereof under the Fiscal Agent Agreement; or (B) any amounts in any funds or accounts established thereunder.

Reduction of Special Taxes. The City covenants and agrees to not consent or conduct proceedings with respect to a reduction in the maximum Special Taxes that may be levied in the Improvement Area below an amount, for any Fiscal Year, equal to 110% of the aggregate of the debt service due on the Bonds in such Fiscal Year, plus a reasonable estimate of Administrative Expenses for such Fiscal Year. It is acknowledged that Bondowners are purchasing the Bonds in reliance on the foregoing covenant, and that said covenant is necessary to assure the full and timely payment of the Bonds.

Limits on Special Tax Waivers and Bond Tenders. The City covenants not to exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or to declare Special Tax penalties amnesty program if to do so would materially and adversely affect the interests of the owners of the Bonds. The City further covenants not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds that will remain Outstanding following such tender.

City Bid at Foreclosure Sale. The City will not bid at a foreclosure sale of property in respect of delinquent Special Taxes unless it expressly agrees to take the property subject to the lien for Special Taxes imposed by the Improvement Area and that the Special Taxes levied on the property are payable while the City owns the property.

Deposit and Investment of Moneys in Funds

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer’s Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. The Officer’s Certificate shall contain a certification to the Fiscal Agent that the investments being directed are Permitted Investments as required under the Fiscal

Agent Agreement. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in clause (h) of the definition thereof; provided, however, that any such investment shall be made by the Fiscal Agent only if, prior to the date on which such investment is to be made, the Fiscal Agent shall have received an Officer's Certificate specifying a specific money market fund into which the funds shall be invested and, if no such Officer's Certificate is so received, the Fiscal Agent shall hold such moneys uninvested. The Finance Director shall make note of any investment of funds under the Fiscal Agent Agreement in excess of the yield on the Bonds, so that appropriate actions can be taken to assure compliance with the Rebate Requirement provisions of the Fiscal Agent Agreement.

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Finance Director shall be invested by the Finance Director in any Permitted Investment, which in any event by their terms mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of the Fiscal Agent Agreement for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts. Whenever in the Fiscal Agent Agreement any moneys are required to be transferred by the City to the Fiscal Agent, such transfer may be accomplished by transferring a like amount of Permitted Investments.

The Fiscal Agent and its affiliates or the Finance Director may act as sponsor, advisor, depository, principal or agent in the acquisition or disposition of any investment. Neither the Fiscal Agent nor the Finance Director shall incur any liability for losses arising from any investments made pursuant to the Fiscal Agent Agreement. The Fiscal Agent shall not be required to determine the legality of any investments.

Except as otherwise provided in the next sentence, the City shall direct or make investments under the Fiscal Agent Agreement such that all investments of amounts deposited in any fund or account created by or pursuant to the Fiscal Agent Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) are to be acquired, disposed of, and valued (as of the date that valuation is required by the Fiscal Agent Agreement or the Code) at Fair Market Value. The City shall direct or make investments under the Fiscal Agent Agreement such that investments in funds or accounts (or portions thereof) that are subject to a yield restriction under the applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Fund are valued at their present value (within the meaning of section 148 of the Code). The Fiscal Agent shall not be liable for verification of the application of such sections of the Code.

Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions in the Fiscal Agent Agreement for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent or the Finance Director hereunder, provided that the Fiscal Agent or the Finance Director, as applicable, shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Fiscal Agent Agreement.

The Fiscal Agent or the Finance Director, as applicable, shall sell in a commercially reasonable manner, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Fiscal Agent nor the Finance Director shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance therewith.

Limited Obligation

The City's obligations under the Fiscal Agent Agreement are limited obligations of the City on behalf of the Improvement Area and are payable solely from and secured solely by the Special Tax

Revenues and the amounts in the Special Tax Fund, the Bond Fund (including the Special Tax Prepayments Account therein) and the Reserve Fund created under the Fiscal Agent Agreement.

Liability of City

The City shall not incur any responsibility in respect of the Bonds or the Fiscal Agent Agreement other than in connection with the duties or obligations explicitly in the Fiscal Agent Agreement or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions covenants or agreements of the Fiscal Agent in the Fiscal Agent Agreement or of any of the documents executed by the Fiscal Agent in connection with the Bonds, or as to the existence of a default or event of default thereunder.

In the absence of bad faith, the City, including the Finance Director, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Fiscal Agent Agreement. The City, including the Finance Director, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City and the Finance Director may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be the City Attorney, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The City shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactory established, if disputed.

Whenever in the administration of its duties under the Fiscal Agent Agreement the City or the Finance Director shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Fiscal Agent Agreement, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Fiscal Agent, an Independent Financial Consultant or a Tax Consultant, and such certificate shall be full warrant to the City and the Finance Director for any action taken or suffered under the provisions of the Fiscal Agent Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the City or the Finance Director may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

In order to perform its duties and obligations under the Fiscal Agent Agreement, the City and/or the Finance Director may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith under the Fiscal Agent Agreement, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

The Fiscal Agent

U.S. Bank National Association is appointed as Fiscal Agent and paying agent for the Bonds under the Fiscal Agent Agreement. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in the Fiscal Agent Agreement, and no implied covenants or obligations shall be read into the Fiscal Agent Agreement against the Fiscal Agent.

Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the following paragraph, shall be the successor to such Fiscal Agent without the execution or filing of any paper or any further act, anything in the Fiscal Agent Agreement to the contrary notwithstanding.

The City may at any time remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Fiscal Agent Agreement, combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving written notice to the City and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent. Upon such acceptance, the successor Fiscal Agent shall be vested with all rights and powers of its predecessor under the Fiscal Agent Agreement without any further act.

If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of this Section within forty-five (45) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

If, by reason of the judgment of any court, or reasonable agency, the Fiscal Agent is rendered unable to perform its duties under the Fiscal Agent Agreement, all such duties and all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement shall be assumed by and vest in the Finance Director of the City in trust for the benefit of the Owners. The City covenants for the direct benefit of the Owners that its Finance Director in such case shall be vested with all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement, and shall assume all of the responsibilities and perform all of the duties of the Fiscal Agent thereunder, in trust for the benefit of the Owners of the Bonds. In such event, the Finance Director may designate a successor Fiscal Agent qualified to act as Fiscal Agent under the Fiscal Agent Agreement.

The recitals of facts, covenants and agreements in the Fiscal Agent Agreement and in the Bonds shall be taken as statements, covenants and agreements of the City, and the Fiscal Agent assumes no responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Fiscal Agent Agreement or of the Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Fiscal Agent Agreement or in the Bonds assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own

negligence or willful default. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

In the absence of bad faith, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Fiscal Agent and conforming to the requirements of the Fiscal Agent Agreement; but in the case of any such certificates or opinions by which any provision of the Fiscal Agent Agreement are specifically required to be furnished to the Fiscal Agent, the Fiscal Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Fiscal Agent Agreement. Except as provided above in this paragraph, Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Fiscal Agent Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of the Fiscal Agent Agreement, and the Fiscal Agent shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Fiscal Agent shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers.

The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by the Fiscal Agent Agreement at the request or direction of any of the Owners pursuant to the Fiscal Agent Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

The Fiscal Agent shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Fiscal Agent Agreement, or as to the correctness of any amounts received, and its liability shall be limited to the proper accounting for such funds as it shall actually receive.

The Fiscal Agent may consult with counsel who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Fiscal Agent Agreement in good faith and in accordance therewith.

In order to perform its duties and obligations under the Fiscal Agent Agreement, the Fiscal Agent may employ such persons or entities as it deems necessary or advisable. The Fiscal Agent shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith under the Fiscal Agent Agreement, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

The Fiscal Agent will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Improvement Fund, the Bond Fund, the Special Tax Prepayments Account, the Reserve Fund and the Costs of

Issuance Fund. Such books of record and accounts shall upon reasonable prior notice at all times during business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed in good faith by it to be genuine and to have been signed or presented by the proper party or proper parties.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Fiscal Agent Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Fiscal Agent Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Fiscal Agent Agreement) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by an Officer's Certificate, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Fiscal Agent Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Modification and Amendment

The Fiscal Agent Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Fiscal Agent Agreement), or (iii) reduce the percentage of Bonds required for the amendment under the Fiscal Agent Agreement. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Fiscal Agent Agreement and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(A) to add to the covenants and agreements of the City in the Fiscal Agent Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power reserved to or conferred upon the City in the Fiscal Agent Agreement;

(B) to make modifications not adversely affecting any outstanding series of Bonds of the City in any material respect;

(C) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Fiscal Agent Agreement, or in regard to questions arising under the Fiscal Agent Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Fiscal Agent Agreement, and which shall not adversely affect the rights of the Owners of the Bonds;

(D) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from gross federal income taxation of interest on the 2019 Bonds or any other Parity Bonds the interest which is intended to be exempt from gross income of the owners thereof for federal income tax purposes; and

(E) in connection with the issuance of Parity Bonds under and pursuant to the Fiscal Agent Agreement.

The Fiscal Agent may in its discretion, but shall not be obligated to, enter into any such Supplemental Agreement authorized by this Section which materially adversely affects the Fiscal Agent's own rights, duties or immunities under this Fiscal Agent Agreement or otherwise with respect to the Bonds or any agreements related thereto.

Prior to the Fiscal Agent entering into any Supplemental Agreement under the Fiscal Agent Agreement, the City shall deliver to the Fiscal Agent an opinion of Bond Counsel stating, in substance, that such Supplemental Agreement is in compliance with the requirements of the Fiscal Agent Agreement and that such Supplemental Agreement will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

From and after the time any Supplemental Agreement becomes effective pursuant to the Fiscal Agent Agreement, the Fiscal Agent Agreement shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under the Fiscal Agent Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Fiscal Agent Agreement for any and all purposes.

Municipal Bond Insurance Provisions

Notwithstanding anything to the contrary set forth in the Fiscal Agent Agreement, the insurance provisions described below shall govern and such provisions shall not be amended without the prior written consent of the Insurer.

(a) The prior written consent of the Insurer shall be a condition precedent to the deposit of any Credit Facility (as defined in the Fiscal Agent Agreement), other than the Reserve Policy, provided in lieu of a cash deposit into the Reserve Fund. Notwithstanding anything to the contrary set forth in the Fiscal Agent Agreement, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the 2019 Bonds.

(b) The Insurer shall be deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the owners of the Insured Bonds are entitled to take pursuant to the Fiscal Agent Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Fiscal Agent. In furtherance thereof and as a term of the Fiscal Agent Agreement and each Insured Bond, the Fiscal Agent and each Insured Bondowner appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the City under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Fiscal Agent and each Bondowner delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Fiscal Agent and each Bondowner in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary

proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Bondowners shall expressly include mandamus.

(c) The maturity of Insured Bonds shall not be accelerated without the consent of the Insurer and in the event the maturity of the Insured Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the City) and the Fiscal Agent shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Insured Bonds shall be fully discharged.

(d) No grace period for a covenant default shall exceed thirty (30) days or be extended for more than sixty (60) days, without the prior written consent of the Insurer. No grace period shall be permitted for payment defaults.

(e) The Insurer is included as a third-party beneficiary to the Fiscal Agent Agreement.

(f) Upon the occurrence of an optional redemption or redemption from Special Tax Prepayments in part, the selection of any of the Insured Bonds to be redeemed shall be subject to the approval of the Insurer. The exercise of any provision of the Fiscal Agent Agreement which permits the purchase of Insured Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Insured Bond so purchased is not cancelled upon purchase.

(g) Any amendment, supplement, modification to, or waiver of, the Fiscal Agent Agreement that requires the consent of Insured Bondowners or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

(h) The rights granted to the Insurer under the Fiscal Agent Agreement to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Insured Bondowners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Insured Bondowners or any other person is required in addition to the consent of the Insurer.

(i) Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for "AAA" defeasance under then existing criteria of S & P or any combination thereof, shall be used to effect defeasance of the Insured Bonds unless the Insurer otherwise approves.

To accomplish defeasance of the Insured Bonds, the City shall cause to be delivered to the Insurer (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Bonds are no longer "Outstanding" under the Fiscal Agent Agreement and (iv) a certificate of discharge of the Fiscal Agent with respect to the Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City, the Fiscal Agent and the Insurer. The

Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

Insured Bonds shall be deemed "Outstanding" under the Fiscal Agent Agreement unless and until they are in fact paid and retired or the above criteria are met.

(j) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Fiscal Agent Agreement and the Insured Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Fiscal Agent Agreement. The Fiscal Agent Agreement shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

(k) Each of the City and Fiscal Agent covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Special Taxes under the Fiscal Agent Agreement under applicable law.

(l) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date with respect to the Insured Bonds ("Payment Date") there is not on deposit with the Fiscal Agent, after making all transfers and deposits required under the Fiscal Agent Agreement, moneys sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Fiscal Agent shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Fiscal Agent shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Fiscal Agent shall designate any portion of payment of principal on Insured Bonds paid by the Insurer, whether by virtue of maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Bondowners, whether DTC or its nominee or otherwise, and shall issue a replacement Insured Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Fiscal Agent's failure to so designate any payment or issue any replacement Insured Bond shall have no effect on the amount of principal or interest payable by the City on any Insured Bond or the subrogation rights of the Insurer.

The Fiscal Agent shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (described below) and the allocation of such funds to payment of interest on and principal of any Insured Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Fiscal Agent.

Upon payment of a claim under the Insurance Policy, the Fiscal Agent shall establish a separate special purpose trust account for the benefit of Insured Bondowners referred to in the Fiscal Agent Agreement as the "Policy Payments Account" and over which the Fiscal Agent shall have exclusive control and sole right of withdrawal. The Fiscal Agent shall receive any amount paid under the Insurance Policy in trust on behalf of Insured Bondowners and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Fiscal Agent to Insured Bondowners in the same manner as principal and interest payments are to be made with respect to

the Insured Bonds under the sections hereof regarding payment of Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the City agrees to pay to the Insurer, solely from Special Tax Revenues, (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). The City covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Special Tax Revenues and payable from the Special Tax Revenues on a parity with debt service due on the Insured Bonds.

Funds held in the Policy Payments Account shall not be invested by the Fiscal Agent and may not be applied to satisfy (any costs, expenses or liabilities of the Fiscal Agent. Any funds remaining in the Policy Payments Account following an Insured Bond payment date shall promptly be remitted to the Insurer.

(m) The Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the City to the Insurer under the Fiscal Agent Agreement shall survive discharge or termination of the Fiscal Agent Agreement.

(n) The City shall pay or reimburse the Insurer, solely from Special Tax Revenues, any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Fiscal Agent Agreement; (ii) the pursuit of any remedies under the Fiscal Agent Agreement or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Fiscal Agent Agreement whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Fiscal Agent Agreement or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Fiscal Agent Agreement.

(o) After payment of reasonable expenses of the Fiscal Agent, the application of funds realized upon default shall be applied to the payment of expenses of the City or rebate only after the payment of past due and current debt service on the Insured Bonds and amounts required to restore the Reserve Fund to the Reserve Requirement (subject to the provisions of the Fiscal Agent Agreement).

(p) The Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the Insurance Policy) and any amounts due on the Insured Bonds as a result of acceleration of the maturity thereof, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

(q) Notwithstanding satisfaction of the other conditions to the issuance of Parity Bonds set forth in the Fiscal Agent Agreement, no such issuance may occur (1) if a default (or any event which, once all notice or grace periods have passed, would constitute a default) by the City under the Fiscal Agent Agreement exists unless such default shall be cured upon such issuance and (2) unless the Reserve Fund is fully funded at the Reserve Requirement (subject to the provisions of the Fiscal Agent Agreement) upon the issuance of such Parity Bonds, in either case unless otherwise permitted by the Insurer.

(r) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Fiscal Agent Agreement would adversely affect the security for

the Insured Bonds or the rights of the Insured Bondowners, the Fiscal Agent shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(s) No contract shall be entered into or any action taken by the City or the Fiscal Agent by which the rights of the Insurer or security for or sources of payment of the Insured Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

Discharge of Agreement

The City shall have the option to pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding in any one or more of the following ways:

(A) by well and truly paying or causing to be paid the principal of, and interest and any premium on, such Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Reserve Fund and the Bond Fund, is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and Federal Securities in such amount as the City shall determine as confirmed by Bond Counsel or an independent certified public accountant will, together with the interest to accrue thereon and moneys then on deposit in the Reserve Fund and the Bond Fund, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Fiscal Agent Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in the Fiscal Agent Agreement and all other obligations of the City under the Fiscal Agent Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Fiscal Agent. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, all amounts owing to the Fiscal Agent pursuant to the Fiscal Agent Agreement, and otherwise to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes, shall continue in any event.

Upon compliance by the City with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City and any Special Taxes thereafter received by the City shall not be remitted to the Fiscal Agent but shall be retained by the City to be used for any purpose permitted under the Act.

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APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

August 1, 2019

City of Palmdale, California
38300 Sierra Highway
Palmdale, California 93550

OPINION: \$15,565,000 Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds

Members of the City Council:

We have acted as bond counsel to the City of Palmdale, California (the "City") in connection with the issuance of its \$15,565,000 Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds (the "Bonds") pursuant to (a) Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, (b) the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.*, of the California Government Code) (the "Act"), (c) a Fiscal Agent Agreement (A-6678), dated as of August 1, 2019 (the "Fiscal Agent Agreement"), by and between the City, for and on behalf of Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) (the "Improvement Area"), and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), and (d) Resolution No. CC 2019-057 adopted by the City Council of the City on July 9, 2019 (the "Resolution").

In connection with this opinion, we have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is a municipal corporation duly organized and existing under the laws of the State of California, with the power to adopt the Resolution, enter into the Fiscal Agent Agreement and perform the agreements on its part contained therein and issue the Bonds.
2. The Fiscal Agent Agreement has been duly entered into by the City and constitutes a valid and binding obligation of the City enforceable upon the City.
3. Pursuant to the Act, the Fiscal Agent Agreement creates a valid lien on the funds pledged by the Fiscal Agent Agreement for the security of the Bonds.
4. The Bonds have been duly authorized, executed and delivered by the City and are valid and binding limited obligations of the City for the Improvement Area, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

5. Subject to the City's compliance with certain covenants, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the alternative minimum tax under the Internal Revenue Code of 1986, as amended. Failure by the City to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Fiscal Agent Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX C

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES FOR IMPROVEMENT
AREA A OF THE CITY OF PALMDALE COMMUNITY FACILITIES DISTRICT 2003-1
(ANAVERDE PUBLIC IMPROVEMENTS)**

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**RATE AND METHOD OF APPORTIONMENT FOR
IMPROVEMENT AREA A OF CITY OF PALMDALE
COMMUNITY FACILITIES DISTRICT NO. 2003-1
(ANAVERDE PUBLIC IMPROVEMENTS)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) ("CFD No. 2003-1 (IA A)") and collected each Fiscal Year commencing in Fiscal Year 2004-05, in an amount determined by the City Council of the City of Palmdale or its designee, through the application of the Rate and Method of Apportionment as described below. All of the real property in CFD No. 2003-1 (IA A), 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. The square footage of an Assessor's Parcel is equal to the Acreage of such parcel multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2003-1 (IA A): the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City 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 City, CFD No. 2003-1 (IA A) or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2003-1 (IA A) or any designee thereof of complying with City, CFD No. 2003-1 (IA A) or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, CFD No. 2003-1 (IA A) or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from any escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2003-1 (IA A) for any other administrative purposes of CFD No. 2003-1 (IA A), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"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 County 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.a.(2) below.

"Average Lot Size" means the Average Lot Size for each Assessor's Parcel of Residential Property computed by dividing the Acreage of all Taxable Property, exclusive of any Taxable Public Property and Taxable Property Owner Association Property, within the Final Subdivision containing such Assessor's Parcel by the number of Assessor's Parcels for which building permits for residential construction have or may be issued for such Final Subdivision (i.e., the number of residential lots). If a Final Subdivision includes Assessor's Parcels of Taxable Property for which building permits for both residential and non-residential construction may be issued, exclusive of Taxable Public Property and Taxable Property Owner Association Property, then the Average Lot Size for each Assessor's Parcel of Residential Property shall be computed exclusive of the Acreage and Assessor's Parcels of property for which building permits for non-residential construction may be issued.

"Backup Special Tax " means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C.a.(3) below.

"CFD Administrator" means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement, and providing for the levy and collection of the Special Taxes.

"CFD No. 2003-1" means City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements).

"CFD No. 2003-1 (IA A)" means CFD No. 2003-1 (Improvement Area A).

"CFD No. 2003-1 (IA A) 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. 2003-1 for CFD No. 2003-1 (IA A) under the Act.

"City" means the City of Palmdale, California.

"Council" means the City Council of the City, acting as the legislative body of CFD No. 2003-1 (IA A).

"County" means the County of Los Angeles.

"Developed Property" means for each Fiscal Year, all Taxable Property, exclusive of Final Mapped Property, Taxable Public Property and Taxable Property Owner Association Property, for which the Final Subdivision was recorded as of January 1 and a building permit for new construction was issued after January 1, 2004 and prior to March 1 of the prior Fiscal Year.

"Final Mapped Property" means, for each Fiscal Year, all Taxable Property, exclusive of Developed Property, Taxable Property Owner Association Property or Taxable Public Property, which as of January 1 of the previous Fiscal Year was located within a Final Subdivision. The term "Final Mapped Property" shall include any parcel map or subdivision map or portion thereof that creates individual lots for which a building permit may be issued, including parcels that are designated as a remainder parcel.

"Final Subdivision" means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) or recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual lots for which building permits may be issued without further subdivision.

"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 CFD No. 2003-1 (IA A) Bonds are issued, as modified, amended and/or supplemented from time to time.

"Land Use Class" means any of the classes listed in Table 1 below.

"Maximum Special Tax" means the Maximum Special Tax determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit was issued for a non-residential use.

"Outstanding Bonds" means all CFD No. 2003-1 (IA A) Bonds which are outstanding under an Indenture.

"Property Owner Association Property" means, for each Fiscal Year, any property within the boundaries of CFD No. 2003-1 (IA A) that was owned by a property owner association, including any master or sub-association, as of January 1 of the prior Fiscal Year.

"Proportionately" means, for 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, or where the Backup Special Tax is being levied, that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor's Parcels upon which a Backup Special Tax is being levied. For Final Mapped 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 Final Mapped Property. 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. The term "Proportionately" may similarly be applied to other categories of Taxable Property as listed in Section D below.

"Public Property" means property within the boundaries of CFD No. 2003-1 (IA A) owned by, irrevocably offered or dedicated to, or for which an easement for purposes of public right-of-way has been granted to the federal government, the State, the County, the City, or any local government or other public agency, provided 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 according to its use.

"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 or other appropriate means selected by the CFD Administrator. The actual square footage shall be rounded up to the next whole square foot. Once such determination has been made for a parcel, it shall remain fixed in all future Fiscal Years.

"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 within CFD No. 2003-1 (IA A) to fund the Special Tax Requirement.

"Special Tax Requirement " means that amount required in any Fiscal Year for CFD No. 2003-1 (IA A) to: (i) pay debt service on all Outstanding Bonds which is due in the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the CFD No. 2003-1 (IA A) Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 2003-1 (IA A) Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of CFD No. 2003-1 (IA A) facilities eligible to be funded by CFD No. 2003-1 (IA A) under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Final Mapped Property and Undeveloped Property; (vi) pay for reasonably anticipated Special Tax delinquencies based on the delinquency rate for the Special Tax levy in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2003-1 (IA A) 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.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Final Mapped Property, Taxable Public Property or Taxable Property Owner Association Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2003-1 (IA A) shall be classified as Developed Property, Final Mapped Property, Taxable Public Property, Taxable Property Owner Association 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. Assessor's Parcels of Residential Property shall be assigned to Land Use Classes 1 through 17 as listed in Table 1 below based on the Residential Floor Area and Average Lot Size of such Assessor's Parcels. Non-Residential Property shall be assigned to Land Use Class 18.

C. MAXIMUM SPECIAL TAX

a. Developed Property

(1). Maximum Special Tax

The Maximum Special Tax that may be levied in any Fiscal Year for each Assessor's Parcel classified as Developed Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

(2). Assigned Special Tax

The Assigned Special Tax that may be levied in any Fiscal Year for each Land Use Class is shown below in Table 1.

TABLE 1

**Assigned Special Tax for Developed Property in
CFD No. 2003-1 (IA A)**

Land Use Class	Description	Residential Floor Area	Average Lot Size	Assigned Special Tax
1	Residential Property	> 3,600 s.f.	NA	\$2,349.46
2	Residential Property	> 3,350 – 3,600 s.f.	NA	2,198.71
3	Residential Property	> 3,100 – 3,350 s.f.	NA	1,936.30
4	Residential Property	> 2,850 – 3,100 s.f.	=> 5,500 s.f.	1,889.39
5	Residential Property	> 2,600 – 2,850 s.f.	=> 5,500 s.f.	1,889.39
6	Residential Property	> 2,400 – 2,600 s.f.	=> 5,500 s.f.	1,773.74
7	Residential Property	> 2,200 – 2,400 s.f.	=> 5,500 s.f.	1,686.71
8	Residential Property	> 2,000 – 2,200 s.f.	=> 5,500 s.f.	1,686.71
9	Residential Property	> 1,800 – 2,000 s.f.	=> 5,500 s.f.	1,583.05
10	Residential Property	> 2,850 – 3,100 s.f.	< 5,500 s.f.	1,690.97
11	Residential Property	> 2,600 – 2,850 s.f.	< 5,500 s.f.	1,604.23
12	Residential Property	> 2,400 – 2,600 s.f.	< 5,500 s.f.	1,567.33
13	Residential Property	> 2,200 – 2,400 s.f.	< 5,500 s.f.	1,412.08
14	Residential Property	> 2,000 – 2,200 s.f.	< 5,500 s.f.	1,328.92
15	Residential Property	> 1,800 – 2,000 s.f.	< 5,500 s.f.	1,226.46
16	Residential Property	> 1,600 – 1,800 s.f.	NA	1,226.46
17	Residential Property	<= 1,600 s.f.	NA	1,149.92
18	Non-Residential Property	NA	NA	\$9,626 per Acre

(3). Backup Special Tax

The Backup Special Tax for an Assessor's Parcel of Developed Property shall equal \$10,694 per Acre.

(4) Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Maximum Special Tax levied on an Assessor's

Parcel shall be the sum of the Maximum Special Tax for all Land Use Classes located on that Assessor's Parcel.

b. Final Mapped Property, Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property

The Maximum Special Tax for Final Mapped Property, Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property shall be \$11,364 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2004-05 and for each following Fiscal Year, the Council or its designee shall determine the Special Tax Requirement and shall levy the Special Tax until the total Special Tax levy equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property in an amount equal 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 Final Mapped Property at up to 100% of the Maximum Special Tax for Final Mapped Property;

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

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose 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;

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 and Taxable Property Owner Association Property at up to the Maximum Special Tax for Taxable Public Property and Taxable Property Owner Association Property.

Notwithstanding the above the Council may, in any Fiscal year, levy Proportionately less than 100% of the Assigned Special Tax in step one (above), when (i) the Council is no longer required to levy the Special Tax pursuant to steps one through five above in order

to meet the Special Tax Requirement, and (ii) all authorized CFD No. 2003-1 (IA A) Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2003-1 (IA A) Bonds (except refunding Bonds) to be supported by the Special Tax .

Further notwithstanding the above, under no circumstances will the Special Tax levied 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 as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2003-1 (IA A).

E. EXEMPTIONS

No Special Tax shall be levied on up to 162.00 Acres of Public Property and/or Property Owner Association Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Public Property or Property Owner Association Property. However, should an Assessor's Parcel no longer be classified as Public Property or Property Owner Association Property its tax-exempt status will be revoked.

Public Property or Property Owner Association Property that is not exempt from the Special Tax under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fifth step in Section D.1 above, at up to 100% of the applicable Maximum Special Tax for Taxable Public Property and Taxable Property Owner Association Property.

F. APPEALS AND INTERPRETATIONS

Any property owner may file a written appeal of the Special Tax with the CFD Administrator claiming that the amount or application of the Special Tax is not correct. The appeal must be filed not later than one calendar year after having paid the Special Tax that is disputed, and the appellant must be current in all payments of Special Taxes. In addition, during the term of the appeal process, all Special Taxes levied must be paid on or before the payment date established when the levy was made.

The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination.

If the property owner disagrees with the CFD Administrator's decision relative to the appeal, the owner may then file a written appeal with the City Council whose subsequent decision shall be final and binding on all interested parties. If the decision of the CFD Administrator or subsequent decision by the City Council requires the Special Tax to be modified or changed in favor of the property owner, no cash refund shall be made for prior years' Special Taxes, but an adjustment shall be made to credit future Special Tax levy (ies).

This procedure shall be exclusive and its exhaustion by any property owner shall be a condition precedent to filing any legal action by such owner.

G. MANNER OF COLLECTION

The Special Tax will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2003-1 (IA A) 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.

H. PREPAYMENT OF SPECIAL TAX

The following definition applies to this Section H:

"CFD Public Facilities" means either \$27,000,000.00 in 2004 dollars, which shall increase by the Construction Inflation Index on July 1, 2005, 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. 2003-1 (IA A) under the authorized bonding program for CFD No. 2003-1 (IA A), or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2003-1 (IA A) 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 to be funded by CFD No. 2003-1 (IA A) under the Act.

"Construction Inflation Index" means 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 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 CFD No. 2003-1 (IA A) Bonds that have been issued by CFD No. 2003-1 (IA A) prior to the date of prepayment.

1. Prepayment in Full

The obligation of an Assessor's Parcel to pay the Special Tax may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only for Assessor's Parcels of Developed Property or Final Mapped Property for which a building permit for new construction was issued after January 1, 2004, 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 of such Assessor's Parcel. The CFD Administrator may charge a fee for providing this service. Prepayment in any six month period must be made not less than 45 days prior to the next occurring date that notice of redemption of CFD No. 2003-1 (IA A) Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Special Tax 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	<u>Reserve Fund Credit</u>
Total: equals	Prepayment Amount

As of the proposed date of prepayment, the Special Tax Prepayment Amount (defined below) shall be calculated by the CFD Administrator as follows:

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. 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 Final Mapped Property and Undeveloped Property (for which a building permit has been issued) to be prepaid, 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.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Tax for CFD No. 2003-1 (IA A) based on the Developed Property Special Tax which could be charged in the current Fiscal Year on all expected

development through buildout of CFD No. 2003-1 (IA A), excluding any Assessor's Parcels which have been prepaid, and

(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated total Backup Special Tax at buildout of CFD No. 2003-1 (IA A), excluding any Assessor's Parcels which have been prepaid.

4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium (e.g., the redemption price-100%), if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
6. Compute the current Future Facilities Costs
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Tax levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid.
10. Add the amounts computed pursuant to paragraphs 8 and 9 to determine the "Defeasance Amount".
11. Verify the administrative fees and expenses of CFD No. 2003-1 (IA A), including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2003-1 (IA A) Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
12. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement on the prepayment date or the redemption date.

13. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 10 and 11, less the amount computed pursuant to paragraph 12 (the "Prepayment Amount").
14. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 10 and 12 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 11 shall be retained by CFD No. 2003-1 (IA A).

The Special Tax Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 2003-1 (IA A) Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of CFD No. 2003-1 (IA A) 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 that is prepaid, the CFD Administrator shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of the Special Tax and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Tax that may be levied on Taxable Property within CFD No. 2003-1 (IA A) (after excluding 162.00 Acres of Public Property and/or Property Owner Association Property as set forth in Section E) both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding CFD No. 2003-1 (IA A) Bonds.

2. Prepayment in Part

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Final Mapped Property for which a building permit for new construction was issued after January 1, 2004 may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated by the CFD Administrator according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

- PP = the partial prepayment
- P_E = the Special Tax Prepayment Amount calculated according to Section H.1
- F = the percentage by which the owner of the Assessor's Parcel(s) is partially prepaying the Special Tax.

The Special Tax partial prepayment amount must be sufficient to redeem at least a \$5,000 increment of Bonds.

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 fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the CFD Administrator shall (i) distribute the prepayment funds remitted according to Section H.1, and (ii) indicate in the records of CFD No. 2003-1 (IA A) 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 remaining Maximum Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for a period not to exceed forty years commencing with Fiscal Year 2004-05.

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APPENDIX D

CITY OF PALMDALE INFORMATION STATEMENT

The following information relating to the City of Palmdale and the County of Los Angeles is supplied solely for the purposes of background information. Neither the City nor the County is obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds. The Bonds are payable solely from the sources described in the Official Statement.

General Information

The City is located in northern Los Angeles County, in an area known as the Antelope Valley, approximately 62 miles north of downtown Los Angeles. It encompasses approximately 104 square miles. The southern portion of the Antelope Valley is significantly urbanized and focused around the City and its neighboring community, the City of Lancaster. Nearly half of the Antelope Valley’s population live in these two cities and are connected to the metropolitan employment center of the Los Angeles Basin via the Antelope Valley Freeway (State Highway 14) and Interstate 5. Access to the Inland Empire (Riverside and San Bernardino Counties) from Palmdale is via State Highway 18.

In 1933, the United States government established Muroc Air Base six miles north of Lancaster in Kern County, now known as Edwards Air Force Base. The United States government also bought Palmdale Airport in 1952 and established an aerospace development and testing facility called United States Air Force Plant 42. One year later, in 1953, Lockheed established a facility at the airport. After this point in time, the aerospace industry took over as the primary local source of employment, where it has remained ever since.

General Demographic Information

The following table provides a comparison of population growth for Palmdale and Los Angeles County between 2015 and 2019.

**TABLE NO. D-1
CHANGE IN POPULATION
PALMDALE AND LOS ANGELES COUNTY
2015 – 2019**

January 1	<u>PALMDALE</u>		<u>LOS ANGELES COUNTY</u>		
	<u>Year</u>	<u>Population</u>	<u>Percentage Change</u>	<u>Population</u>	<u>Percentage Change</u>
	2015	158,086		10,155,753	
	2016	158,042	(0.0)%	10,185,851	0.3%
	2017	157,887	(0.1)%	10,226,920	0.4%
	2018	157,782	(0.1)%	10,254,658	0.3%
	2019	157,854	0.0%	10,253,716	0.0%
% Increase Between					
	2015 - 2019		(0.1)%		1.0%

Source: *State of California, Department of Finance, “E-4 Population Estimates for Cities, Counties and the State, 2011-2019, with 2010 Census Benchmark,”* Sacramento, California, May 2019.

Per Capita Personal Income

Per capita personal income information for Palmdale, Los Angeles County, the State of California and the United States is summarized in the following table.

TABLE NO. D-2
PER CAPITA PERSONAL INCOME ⁽¹⁾
PALMDALE, LOS ANGELES COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
2013 – 2017

<u>Year</u>	<u>Palmdale</u>	<u>Los Angeles County ⁽¹⁾</u>	<u>State of California ⁽¹⁾</u>	<u>United States ⁽¹⁾</u>
2013	\$18,695	\$49,010	\$49,173	\$44,826
2014	18,573	52,130	52,237	47,025
2015	18,920	55,366	55,679	48,940
2016	18,983	56,851	57,497	49,831
2017	19,646	58,419	59,796	51,640

⁽¹⁾ For Los Angeles County, State of California and United States, per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2013-2017 reflect county population estimates available as of March 2018.

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis (as of March 6, 2019); and City of Palmdale Comprehensive Annual Financial Report.

Commercial Activity

The following table summarizes the volume of retail and food services sales and taxable transactions for the City for 2013 through 2017 (the most recent year for which statistics are available for the full year).

TABLE NO. D-3
CITY OF PALMDALE
TOTAL TAXABLE TRANSACTIONS
(in thousands)
2013 – 2017

<u>Year</u>	<u>Retail and Food Services</u>	<u>% Change</u>	<u>Retail and Food Services Permits</u>	<u>Total Taxable Transactions</u>	<u>% Change</u>	<u>Issued Sales Permits</u>
2013	\$1,312,551		1,605	\$1,435,609		2,168
2014	1,337,007	1.9%	1,713	1,469,492	2.4%	2,269
2015	1,409,813	5.5%	1,839	1,559,109	6.1%	2,659
2016	1,425,870	1.1%	1,893	1,590,373	2.0%	2,732
2017	1,538,841	7.9%	2,001	1,734,809	9.1%	2,845

Source: California State Board of Equalization, “Taxable Sales in California” and “Taxable Sales in California Cities, by Type of Business.”

Taxable transactions by type of business for the City are summarized below for 2013 through 2017 (the most recent year for which full-year statistics are available).

**TABLE NO. D-4
CITY OF PALMDALE
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
2013 – 2017**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<i>Retail and Food Services</i>					
Clothing and Clothing					
Accessories Stores	\$ 115,324	\$ 121,303	\$ 138,570	\$ 146,262	\$ 147,973
General Merchandise Stores	310,711	310,193	320,056	322,438	326,579
Food and Beverage Stores	77,400	77,043	83,438	78,510	81,024
Food Services and Drinking Places	185,353	199,482	232,379	237,413	246,849
Home Furnishings and					
Appliance Stores	75,875	77,773	83,198	90,694	93,805
Building Materials and Garden					
Equipment and Supplies	82,961	87,420	92,913	100,701	106,848
Motor Vehicle and Parts Dealers					
Gasoline Stations	187,294	187,438	162,476	155,285	169,006
Other Retail Group	<u>93,790</u>	<u>95,911</u>	<u>98,092</u>	<u>97,499</u>	<u>105,475</u>
Total Retail and Food Services	1,312,551	1,337,007	1,409,813	1,425,870	1,538,841
<i>All Other Outlets</i>					
	<u>123,058</u>	<u>132,485</u>	<u>149,296</u>	<u>164,503</u>	<u>195,968</u>
Total All Outlets	<u>\$1,435,609</u>	<u>\$1,469,492</u>	<u>\$1,559,109</u>	<u>\$1,590,373</u>	<u>\$1,734,809</u>

Note: Detail may not compute to total due to rounding.

Source: California State Board of Equalization, "Taxable Sales in California" and "Taxable Sales in California Cities, by Type of Business."

Industry and Employment

The current principal employers operating within the Antelope Valley region of Los Angeles County and their respective number of employees are as follows:

**TABLE NO. D-5
ANTELOPE VALLEY REGION
PRINCIPAL EMPLOYERS**

<u>Name of Company</u>	<u>Employment</u> ⁽¹⁾	<u>Product/Service</u>
Edwards Air Force Base ⁽²⁾	11,149	Aerospace/Aviation
China Lake Naval Weapons Air Station ⁽²⁾	9,906	Aerospace/Aviation
County of Los Angeles	4,211	Government/Corrections
Northrop Grumman	4,200	Aerospace/Aviation
Lockheed Martin	3,700	Aerospace/Aviation
Antelope Valley Union High School District ⁽³⁾	2,500	Education
Antelope Valley Hospital Medical Center	2,425	Healthcare/Healing
Lancaster School District ⁽³⁾	2,200	Education
Wal-Mart (5) stores	1,922	Retail
Antelope Valley Mall (All Stores)	1,800	Shopping Center

⁽¹⁾ “Employment” as used above represents the total employment located within the Greater Antelope Valley region. The Antelope Valley region is considered to be the City’s economic region and covers 3,514.2 square miles of area and includes the Cities of Palmdale, Lancaster, Tehachapi and Ridgecrest. The principal employers represent all employers within the greater Antelope Valley region.

⁽²⁾ Includes contract personnel.

⁽³⁾ Includes substitutes.

Source: 2019 Greater Antelope Valley Economic Alliance Report.

The City is located in the Los Angeles-Long Beach-Glendale Metropolitan Division (the “Metropolitan Division”). Wage and salary workers by industry for each of the years 2015 through 2019 in the Metropolitan Division is presented in the following table.

TABLE NO. D-6
LOS ANGELES-LONG BEACH-GLENDALE METROPOLITAN DIVISION
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
(in thousands)

<u>Industry</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Government	574.2	583.8	594.2	596.7	601.6
Other Services	150.5	151.2	154.1	157.9	163.8
Leisure and Hospitality	474.0	495.6	514.6	527.8	533.0
Educational and Health Services	742.3	769.1	798.4	823.3	840.3
Professional and Business Services	583.3	590.5	601.8	612.5	627.1
Financial Activities	212.2	218.3	219.3	222.2	216.4
Information	205.8	229.4	212.9	225.9	215.7
Transportation, Warehousing and Utilities	175.2	183.9	195.3	199.4	206.4
Service Producing					
Retail Trade	415.4	417.8	418.9	421.4	415.8
Wholesale Trade	222.0	221.0	220.7	222.5	223.1
Manufacturing					
Nondurable Goods	160.3	158.9	150.3	143.2	138.9
Durable Goods	207.9	205.7	202.0	202.3	205.5
Goods Producing					
Construction	121.7	131.5	135.0	142.5	147.6
Mining and Logging	<u>3.0</u>	<u>2.6</u>	<u>2.0</u>	<u>1.9</u>	<u>2.0</u>
Total Nonfarm	4,247.8	4,359.3	4,419.5	4,499.5	4,537.2
Farm	<u>5.5</u>	<u>5.4</u>	<u>5.7</u>	<u>4.3</u>	<u>5.2</u>
Total (all industries)	<u>4,253.3</u>	<u>4,364.7</u>	<u>4,425.2</u>	<u>4,503.8</u>	<u>4,542.4</u>

⁽¹⁾ Annually, as of March.

Source: State of California Employment Development Department, Labor Market Information Division, “*Industry Employment & Labor Force - by month, March 2018 Benchmark.*”

As of March 2019 the civilian labor force for the City was approximately 64,600 of whom 60,700 were employed. The unadjusted unemployment rate as of March 2019 was 6.1% for the City as compared to 4.4% for the County and 4.6% for the State. Civilian labor force, employment and unemployment statistics for the City, the County, the State and the United States, for the years 2014 through 2018 are shown in the following table:

**TABLE NO. D-7
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES**

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<u>2014</u>				
City of Palmdale	64,400	57,300	7,100	11.0%
Los Angeles County	4,992,600	4,580,300	412,300	8.3%
California	18,714,700	17,310,900	1,403,800	7.5%
United States	155,922,000	146,305,000	9,617,000	6.2%
<u>2015</u>				
City of Palmdale	63,700	58,100	5,600	8.9%
Los Angeles County	4,989,800	4,659,700	330,100	6.6%
California	18,851,100	17,681,800	1,169,200	6.2%
United States	157,130,000	148,834,000	8,296,000	5.3%
<u>2016</u>				
City of Palmdale	63,600	59,300	4,300	6.8%
Los Angeles County	5,041,400	4,776,700	264,800	5.3%
California	19,044,500	18,002,800	1,041,700	5.5%
United States	159,187,000	151,436,000	7,751,000	4.9%
<u>2017</u>				
City of Palmdale	64,300	60,200	4,100	6.3%
Los Angeles County	5,096,500	4,853,800	242,700	4.8%
California	19,205,300	18,285,500	919,800	4.8%
United States	160,320,000	153,337,000	6,982,000	4.4%
<u>2018</u>				
City of Palmdale	64,900	60,700	4,100	6.4%
Los Angeles County	5,136,300	4,896,500	239,800	4.7%
California	19,398,200	18,582,800	815,400	4.2%
United States	162,075,000	155,761,000	6,314,000	3.9%

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department and United States Bureau of Labor Statistics.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate"), dated as of August 1, 2019, is executed and delivered by the City of Palmdale, California (the "City"), for and on behalf of Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) (the "District"), in connection with the issuance of the Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds (the "Bonds"). The Bonds are being issued by the City pursuant to a Fiscal Agent Agreement, dated as of August 1, 2019, by and between U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), and the City, for and on behalf of the District (the "Fiscal Agent Agreement").

The City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions of capitalized terms set forth in Section 1.03 of the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section or in the Recitals above, the following terms shall have the following meanings when used in this Disclosure Certificate:

"Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including persons holding any Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

"Disclosure Representative" means the Finance Manager of the City, or such person's designee, or such other officer or employee as the City shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

"Dissemination Agent" means NBS Government Finance Group, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"EMMA" or "Electronic Municipal Market Access" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of

disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the Official Statement, dated July 17, 2019, relating to the Bonds.

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means 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.

“*Significant Event*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The City shall, or shall cause the Dissemination Agent to, not later than the January 31 occurring after the end of each fiscal year of the City, commencing with the report for the 2018-19 fiscal year, which is due not later than January 31, 2020, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that 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 cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements of the City 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.

(b) *Change of Fiscal Year*. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(b), and subsequent Annual Report filings shall be made no later than six months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent*. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance*. If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this

Section 3, the City shall in a timely manner send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A in a timely manner.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report for each fiscal year commencing with the Annual Report for the 2018-19 fiscal year, shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the most recently completed fiscal year, prepared in accordance generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* The Annual Report for each fiscal year, commencing with fiscal year 2018-19, shall also include the following information:

(i) The principal amount of Bonds Outstanding as of the September 30 next preceding the date of the Annual Report, and a description of any special redemption from prepaid Special Taxes since the date of the prior Annual Report.

(ii) The amount of funds on deposit in the Reserve Fund, if any, and the amount available to be drawn on the Reserve Fund Insurance Policy, along with a statement of the Reserve Requirement, as of a date within 60 days preceding the Annual Report Date and if applicable, the amount of the debt service reserve insurance policy.

(iii) The number of parcels, if any, for which the Special Tax has been prepaid since the date of the prior Annual Report, the amount of the prepayment, a statement if the prepayment is in full or in part, and the Land Use Class pursuant to the Rate and Method of Apportionment of Special Taxes of such parcel.

(iv) An update to Table No. 1 under the heading "THE IMPROVEMENT AREA – Development Summary and Special Taxes" in the Official Statement including the actual special tax rate for the current fiscal year for each Land Use Class pursuant to the Rate and Method of Apportionment of Special Taxes and the assessed value of all parcels as shown on the assessment roll of the County

Assessor last equalized prior to the September 30 next preceding the date of the Annual Report.

(v) An update to Table No. 4 under the heading “THE IMPROVEMENT AREA – Historical Levies and Tax Delinquencies” in the Official Statement for the most recently completed fiscal year, and an update of the prior year’s delinquencies as of a date not more than ninety (90) days prior to the date of the Annual Report.

(vi) The status of foreclosure proceedings for any parcels within the District on which the Special Taxes are levied and a summary or the results of any foreclosure sales, or other collection efforts with respect to delinquent Special Taxes, as of the September 30 next preceding the date of the Annual Report.

(vii) The most recent annual information required to be provided to the California Debt and Investment Advisory Commission pursuant to Section 10.07 of the Fiscal Agent Agreement.

(c) *Cross References.* 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 City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference. If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-

TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the securities, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;

(xiii) The consummation of a merger, consolidation, or acquisition involving the obligated person, or the sale of all or substantially all of the assets of the obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) The incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; or

(xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Fiscal Agent Agreement.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a)(xv) of this Section 5 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law. The City intends that the words used in

paragraphs (xv) and (xvi) and the definition of “financial obligation” to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018).

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States 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 City, or if such jurisdiction has been assumed by leaving the existing governing 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 City.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Significant Event under Section 5(b).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The City 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 agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be NBS Government Finance Group.

If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties

hereunder, with payment to be made from any lawful funds of the District. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the owners of the Bonds, the Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any written direction from the City or a written opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), 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) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a 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.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following 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 City. In addition, if the amendment relates 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 Significant Event under Section 5(b), 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 former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or future notice of occurrence of a Significant Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Bond owner, any Beneficial Owner or the Participating Underwriter may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and the owners and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Certificate as of the date first above written.

CITY OF PALMDALE, CALIFORNIA

By: _____

Its: _____

NBS Government Finance Group hereby accepts the duties of Dissemination Agent under the foregoing Disclosure Certificate.

NBS GOVERNMENT FINANCE GROUP, as
Dissemination Agent

By: _____

Its: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Palmdale, California

Name of Bond Issue: Improvement Area A of the City of Palmdale Community Facilities District No. 2003-1 (Anaverde Public Improvements) 2019 Special Tax Refunding Bonds

Date of Issuance: August 1, 2019

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.17 of the Fiscal Agent Agreement, dated as of August 1, 2019, between the Obligor and U.S. Bank National Association, as fiscal agent. The Obligor anticipates that the Annual Report will be filed by _____.

Date: _____

By: NBS Government Finance Group, as
Dissemination Agent

APPENDIX F
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

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APPENDIX G

DTC AND THE BOOK ENTRY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Accordingly, no representations can be made concerning these matters and neither the DTC 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.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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 S&P Global Ratings 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. *The information contained on such Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or 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, Agent, or Issuer, 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 Issuer or 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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