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ANNUAL TAX REPORT

TRLIA COMMUNITY FACILITIES DISTRICT NO. 2006-2 (SOUTH COUNTY AREA—OVERLAY DISTRICT)

FISCAL YEAR 2007–2008

Prepared for:

Three Rivers Levee Improvement Authority

Prepared by:

Economic & Planning Systems, Inc.

August 1, 2007

EPS #16497

SACRAMENTO
1750 Creekside Oaks Drive, Suite 290
Sacramento, CA 95833-3647
www.epsys.com
phone: 916-649-8010
fax: 916-649-2070

BERKELEY
phone: 510-841-9190
fax: 510-841-9208

DENVER
phone: 303-623-3557
fax: 303-623-9049

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I. INTRODUCTION

The Three Rivers Levee Improvement Authority (TRLIA) Board of Directors (Board) approved the formation of two Community Facilities Districts (CFDs) in April 2006, one of which was "TRLIA CFD No. 2006-1 (South County Area)" (CFD 2006-1) and the other of which was "TRLIA CFD No. 2006-2 (South County Area—Overlay District)" (CFD 2006-2), herein referred to collectively as CFD(s). The property owners within the proposed boundaries of each CFD who qualified as the electors for the purposes of authorizing the CFD unanimously voted to form the CFDs and to incur bonded indebtedness in an amount not to exceed $25,000,000 for CFD 2006-2. The CFD 2006-2 bond proceeds would be used to reimburse the previously advanced costs of the Levee Improvement Program and Yuba County (County) Capital Facilities Fees funded through prior agreements entered into by certain landowners, the County, and TRLIA before the execution of the Second Agreement for Advanced Funding and Reimbursement of Costs for Levee Improvement (Second Funding Agreement). CFD 2006-1 proceeds would be used to fund ongoing costs of the Levee Improvement Program pursuant to the details outlined in the Second Funding Agreement. This report primarily focuses on the Annual Special Tax Levy for Fiscal Year (FY) 2007–2008 that relates to CFD 2006-2.

CFD 2006-2 comprises approximately 269 acres in a portion of the County. In FY 2007–2008, 14 parcels will be subject to the levy of a special tax. The total amount of special tax levied against these parcels in this FY is $12,350. All the parcels will be taxed at 100 percent of maximum annual special tax.

In April 2007, TRLIA issued two series of bonds: Series A related to CFD 2006-1 in the total amount of $14,930,382 and Series B related to CFD 2006-2 in the total amount of $8,663,901. Both these series of Bonds are Builder Bonds, 100 percent of which were purchased by landowners in the district at the time of formation. All the Builder Bonds are capital appreciation bonds, which have no debt service or annual cost associated with them. These bonds merely accrete in value over time, and the entire accreted amount is due either at redemption or at maturity of the bond solely to the extent payable by Refunding Bonds issued by the CFD. Refunding Bonds are bonds expected to be issued by the CFD solely to repay outstanding bonds, which include the above-referenced Builder Bonds. No Refunding Bonds have been issued by either CFD as of the date of this report.

In each fiscal year that any bonds are outstanding, the CFD must levy a special tax against taxable parcels in CFD 2006-2 to pay principal and interest on outstanding bonds and to pay other costs of CFD 2006-2, such as the costs of administration. Once the CFD has identified the annual costs of CFD 2006-2, the district must then apply the Special Tax Formula to determine the parcels to be taxed, the maximum amount of special tax that can be levied against all taxable parcels, and finally, using the Special Tax Formula, determine the amount of special tax to be levied in a given fiscal year.

PURPOSE OF THE REPORT

This report serves as the Annual Tax Report for FY 2007–2008, which is submitted to the Treasurer of the TRLIA for approval in support of the annual levy of the special tax. This is the first year in which special taxes will be levied. Pursuant to TRLIA Ordinance No. 3, the TRLIA Board authorized the Treasurer to determine the specific tax rate and amount to be levied for each parcel of real property in the CFD in each fiscal year. The Annual Tax Report will identify the annual costs of CFD 2006-2, the parcels to be taxed, the maximum amount that can be levied against all taxable parcels, and the amount to be levied in FY 2007–2008.

ORGANIZATION OF THE REPORT

This report consists of four chapters including this introduction. **Chapter II** describes annual costs of CFD 2006-2. **Chapter III** describes the parcels to be taxed and the assignment of the tax to taxable parcels. **Chapter IV** discusses the accounting by Tax Zone and the accounting's relation to the Second Agreement for Advanced Funding and Reimbursement of Costs for Levee Improvement (Second Funding Agreement).

One appendix is attached to this report. **Appendix A** contains a list of all parcels to be taxed in FY 2007–2008, the maximum amount of special tax that could be levied against any given parcel, and the amount of the FY 2007–2008 special tax levy.

II. CALCULATION OF ANNUAL COSTS

ANNUAL COSTS

Annual costs of the CFD 2006-2 are those costs authorized by the formation documents. CFD 2006-2 was authorized to fund the following costs and facilities:

- The construction, repair, and/or rehabilitation of flood control improvements including but not limited to levee system and drainage improvements, and any necessary habitat mitigation incident to any improvements.
- The financing of County capital impact fees or the financing of criminal justice, general government, law enforcement, library, park, social service or traffic public facilities that such the County capital impact fees would otherwise be used to fund.
- The acquisition of land; the costs of design, engineering and planning; the costs of any environmental or other studies, surveys or other reports; the cost of any required environmental mitigation measures, landscaping, soils testing, permits, plan check and inspection fees; insurance, legal and related overhead costs; coordination and supervision and any other costs or appurtenances related to any of the foregoing.

The district is also authorized to fund the following items:

- Bond-related expenses, including underwriter's discount, reserve fund, capitalized interest, bond and disclosure counsel and all other incidental expenses.
- Administrative fees of TRLIA, the County, and the bond trustee or fiscal agent related to the District and any bonded indebtedness of the CFD.
- Reimbursement of costs related to the formation of the CFD that were advanced by the TRLIA, the County, Reclamation District No. 784, or any other governmental agency or any landowner or developer in the CFD, as well as reimbursement of any costs advanced by TRLIA or any related entity or any landowner or developer in the CFD, for facilities, fees, or other purposes or costs of the CFD.

Pursuant to the Rate and Method of Apportionment and Method of Collection of the Special Tax (RMA) **Section 9 A**, for each individual Tax Zone, the minimum amount of Annual Costs is equal to the Maximum Annual Special Tax Revenue from all Occupied Parcels until Authorized Facilities are complete and all outstanding Builder Bonds are retired. As previously stated, TRLIA Series B Bonds (Bonds) were issued in April 2007. Bonds were issued for each of the eight Tax Zones in CFD 2006-2, and all zones continue to have Bonds outstanding. Therefore, for each tax zone, the minimum amount of Annual Costs is equal to the Maximum Annual Special Tax Revenue from Occupied Parcels within the zone.

Table 1 computes the Maximum Annual Special Tax Revenue from all Occupied Parcels by Tax Zone. **Appendix A** provides the detailed listing of each individual parcel levied, the corresponding Maximum Annual Special Tax, and the proposed levy for FY 2007–2008.

The determination of parcels subject to the tax (Occupied Parcels) is discussed in **Chapter II** below.

Combined, all the Tax Zones will generate $12,350 in Maximum Annual Special Tax Revenue from 14 Occupied Parcels. Therefore, Annual Costs is defined to be $12,350, an amount including all administrative expenses. **Chapter III** discusses the estimate of expenses for administration.

Table 1
TRLIA CFD 2006-2
Summary of Fiscal Year 2007-2008 Maximum Annual Special Tax Revenue by Tax Zone

Tax Zone	Builder/ Developer	Project	Number of Parcels	FY 2007-2008 Tax Levy
2	**Lakemont Tributary L.L.C**			
		Feather Glen Phase 1 (Arboga)		
	Total Proposed Tax Zone 2		0 Parcels	$0
3	**Meritage Homes of California, Inc., a California corporation**			
		Draper Ranch North		
	Total Proposed Tax Zone 3		0 Parcels	$0
4	**Plumas Lake Holdings, L.L.C.**			
		Rio Del Oro (Villages 6 & 8)		
	Total Proposed Tax Zone 4		0 Parcels	$0
5	**Towne Development of Plumas Lake L.L.C.**			
		Rio Del Oro (Village 14)		
	Total Proposed Tax Zone 5		0 Parcels	$0
6	**US Home Corporation, a Delaware corporation**			
		Rio Del Oro (Village 15)		
	Total Proposed Tax Zone 6		14 Parcels	$12,350
	TOTAL PROPOSED TAX LEVY - ALL ZONES		**14 Parcels**	**$12,350**

"summary"

III. ASSIGNMENT OF MAXIMUM SPECIAL TAXES

DETERMINING PARCELS SUBJECT TO THE SPECIAL TAX

The Special Tax Formula states that the Administrator first must determine whether a parcel is a Tax-Exempt Parcel, Occupied Parcel, Developed Parcel, Final Map Parcel, Large Lot Parcel or Undeveloped Parcel.

Since only Builder Bonds are outstanding and no Refunding Bonds have been issued, no parcels other than Occupied Parcels are to be taxed. Occupied Parcels are defined as Developed Parcels (Parcels having an already-issued building permit for residential use) ownership of which has been transferred to a Homeowner. A Parcel will be designated as an Occupied Parcel when either the Administrator has received, in writing, a certification from the Builder/Developer that the parcel in question is deemed to be occupied by a Homeowner, or the records of Yuba County indicate that the Parcel has transferred ownership to a Homeowner. For a Parcel to be classified as Occupied by certification for the Fiscal Year in which taxes will be levied, the certification from the Builder/Developer must be received by June 1 of the prior Fiscal Year.

TRLIA received no Occupancy Certification forms from landowners before June 1, 2007. Records obtained from the County (parcel level data from the County Assessor's office that show parcel ownership information, as well as log records from the County Recorder's office that indicate Deed transfer between a Builder/Developer and a third party) indicated that 14 parcels transferred ownership from a Builder/Developer to a Homeowner. Based upon this information, the parcels in question were classified as Occupied Parcels. **Appendix A** lists the parcels subject to the tax levy.

TAX ESCALATION FACTOR

As specified by the RMA the maximum special tax for all tax categories is increased by 2 percent each fiscal year after the Base Year. The FY 2007–2008 is the Base Year; the Maximum Special Tax Rates are the rates indicated in **Attachment** 3 to the RMA.

ASSIGNMENT OF MAXIMUM ANNUAL SPECIAL TAX TO TAXABLE PARCELS

Section 7 of the RMA describes the process for assigning the Maximum Annual Special tax to Final Map Parcels. This assignment takes place when Final Map Parcels are created by the recording of Final Maps. Since the formation of the CFD on April 3, 2007, no additional Final Map parcels were created by the recording of Final Maps; therefore, no Maximum Annual Special Taxes need to be assigned to Final Map Parcels.

IV. ACCOUNTING FOR SPECIAL TAX REVENUE

With respect to the use of Special Tax Revenues, provisions of the Second Funding Agreement entered into by the Builders/Developers in the CFD, the County, and TRLIA have been transferred into Article IV of the Fiscal Agent Agreements for each respective Tax Zone's currently outstanding Builder Bonds. Article IV, Section 4.01, of each of these agreements outlines the use of Special Tax Revenues. Section 4.01 states that Special Tax Revenues, after the payment of any claims or pledges as related to the Builder Bonds, will be used for the following purposes:

> "(i) the payment of debt service on any Private Placement Bonds or Conventional Bonds, as such terms are defined in the Second Funding Agreement; (ii) the payment of any debt service on any Refunding Bonds; and (iii) the payment of any other Annual Cost, as such term is defined in the RMA, other than the payment of the Bonds"

According to the RMA, the following item is one component of Annual Costs:

> "Pay-As-You-Go Expenditures for Authorized Facilities to be constructed or acquired by the CFD, including the repayment of Builder Bonds, or to be used to reduce the amount of future Capital Calls."

Based on the RMA and Fiscal Agent Agreements, Special Tax Revenues must be used to fund Authorized Facilities as described in **Chapter II** and not used to retire Builder Bonds.

Since a portion of Authorized Facilities are yet to be constructed as of FY 2007–2008, remaining Special Tax Revenue (after administrative expenses) from each Tax Zone will be used to fund these facilities directly. The intent of the Second Funding Agreement was for the remaining Special Tax Revenue from each of the Tax Zones that go to fund Authorized Facilities directly ultimately to be used to reduce the remaining Capital Calls. In other words, the Builder/Developers would get credit for Special Tax Revenue generated by their respective Tax Zones. **Table 2** shows the accounting for Special Tax Revenue by Tax Zone to fund its share of estimated administrative expenses and authorized facilities, which results in a reduction of remaining Capital Calls. This table presumes that 100 percent of all Tax Levies are received. **Table 3** outlines the estimated administrative expenses used in **Table 2**. The ultimate credit received by each Builder/Developer will be determined upon the receipt of Special Tax Revenue by the Trustee and transfer of the revenue into the appropriate fund in accordance with the Fiscal Agreement and the ultimate determination of Administrative Expenses.

Table 2
TRLIA CFD 2006-1
Special Tax Revenue Accounting by Tax Zone

Tax Zone	Builder/ Developer	Total FY 2007-2008 Special Tax Revenue	Share of Total CFD Tax Revenue	Share of Estimated Administrative Expenses	Remaining Tax Revenue for Authorized Facilities [1]
	Reference	*Table 1*		*Table 3*	
2	Lakemont Tributary L.L.C	$0	0.0%	$0	$0
3	Meritage Homes of California, Inc., a California corporation	$0	0.0%	$0	$0
4	Plumas Lake Holdings, L.L.C.	$0	0.0%	$0	$0
5	Towne Development of Plumas Lake L.L.C.	$0	0.0%	$0	$0
6	US Home Corporation, a Delaware corporation	$12,350	100.0%	$6,000	$6,350
Total CFD Special Tax Revenue		**$12,350**	100.0%	**$6,000**	**$6,350**

"accounting"

8 [1] Estimated amount for credit to be applied to each builder in advancement of capital calls in accordance with the Second Funding Agreement. Actual Credit will be determined when Special Tax Revenues are received by the Trustee and when funds are transferred to TRLIA in accordance with the Fiscal Agent Agreement.

Table 3
TRLIA CFD 2006-1
Estimate of Administrative Expenses

Item	Estimated Amount
Preparation of Annual Tax Roll (EPS)	$2,000
Special Fund Accounting	$3,000
Treasure Tax Collector Expenses	$1,000
Estimated Administrative Expenses [1]	**$6,000**

"admin"

[1] Expenses are estimated amounts; only actual cost will be charged.

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APPENDIX A

SPECIAL TAX LEVY 2007–2008

Table A-1
TRLIA CFD 2006-2
Detailed List of Fiscal Year 2007-2008 Proposed Special Tax Levy

Tax Zone	Builder/ Developer	Project	APN	Owner	Street Address	FY 2007-2008 Maximum Special Tax	FY 2007-2008 Annual Cost & Tax Levy
2	Lakemont Tributary L.L.C						
		Feather Glen Phase 1 (Arboga)					
	Total Proposed Tax Zone 2					0 Parcels	$0
3	Meritage Homes of California, Inc., a California corporation						
		Draper Ranch North					
	Total Proposed Tax Zone 3					0 Parcels	$0
4	Plumas Lake Holdings, L.L.C.						
		Rio Del Oro (Villages 6 & 8)					
	Total Proposed Tax Zone 4					0 Parcels	$0
5	Towne Development of Plumas Lake L.L.C.						
		Rio Del Oro (Village 14)					
	Total Proposed Tax Zone 5					0 Parcels	$0
6	US Home Corporation, a Delaware corporation						
		Rio Del Oro (Village 15)					
			016-601-001		1912 LONG HORN TRAIL DR	$950	$950
			016-601-002		1908 LONG HORN TRAIL DR	$950	$950
			016-601-003		1904 LONG HORN TRAIL DR	$950	$950
			016-611-001		1391 SUNDANCE DR	$950	$950
			016-611-002		1389 SUNDANCE DR	$950	$950
			016-611-015		1394 HIGH NOON DR	$950	$950
			016-611-016		1396 HIGH NOON DR	$950	$950
			016-611-017		1398 HIGH NOON DR	$950	$950
			016-611-018		1400 HIGH NOON DR	$950	$950
			016-611-019		1402 HIGH NOON DR	$950	$950
			016-611-020		1404 HIGH NOON DR	$950	$950
			016-611-021		1406 HIGH NOON DR	$950	$950
			016-611-022		1408 HIGH NOON DR	$950	$950
			016-612-002		1389 HIGH NOON DR	$950	$950
	Total Proposed Tax Zone 6					14 Parcels	$12,350
	TOTAL PROPOSED TAX LEVY - ALL ZONES					14 Parcels	$12,350

"2006-2_07/08_levy"

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