

*In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and subject to the matters described in “TAX MATTERS” herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income for the owners thereof for federal income tax purposes and is not included in the federal alternative minimum tax for individuals or, except as described herein, corporations. It is also the opinion of Bond Counsel that under existing law interest on the Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein, including a discussion of the federal alternative minimum tax consequences for corporations.*

**\$4,125,000**  
**MENDOCINO COAST HEALTH CARE DISTRICT**  
**(Mendocino County, California)**  
**ELECTION OF 2000 GENERAL OBLIGATION**  
**REFUNDING BONDS, SERIES 2016**

**Dated: Date of Delivery****Due: August 1, as shown on inside cover**

The Mendocino Coast Health Care District (the “District”) is issuing \$4,125,000 aggregate principal amount of its Election of 2000 General Obligation Refunding Bonds, Series 2016 (the “Bonds”). The Bonds are being issued in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds described herein under the caption “THE BONDS — Book-Entry Only System.”

The Bonds will be issued pursuant to the terms of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and the provisions of a resolution of the Board of Directors of the District adopted on November 3, 2016 (the “Resolution”). The Bonds are being issued in order to effect the refunding of certain maturities of the District’s Election of 2000 General Obligation Bonds, which were issued by the District on May 9, 2001 (the “Refunded Bonds”), and to pay the costs of issuance of the Bonds. The Bonds are payable as to both principal and interest from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount. The District voters approved the authorization of the Refunded Bonds by more than two-thirds of the votes cast by eligible voters within the District on November 7, 2000.

The Bonds will mature on the dates and in the amounts and bear interest at the rates shown on the inside cover hereof. Interest on the Bonds is payable each February 1 and August 1, commencing on February 1, 2017. See “THE BONDS” herein.

**The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS — Redemption” herein.**

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the issuance of the Bonds by National Public Finance Guarantee Corporation. See “BOND INSURANCE” herein.



**MATURITY SCHEDULE**  
**(see inside cover)**

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision respecting purchase of the Bonds.

*The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the District by Norton Rose Fulbright US LLP, as Disclosure Counsel, and by John J. Ruprecht, as counsel to the District. Certain legal matters will be passed upon for the Underwriter by its counsel Nossaman LLP, Irvine, California. It is expected that the Bonds in definitive form will be available for delivery through the book-entry facilities of DTC in New York, New York, on or about December 15, 2016.*

*William Blair*

## **OUTSTANDING INDEBTEDNESS**

As of the date hereof, the District has one general obligation bond issue and three revenue bond issues outstanding.

On May 9, 2001, the District issued its (i) Mendocino Coast Health Care District, Mendocino County, California, Election of 2000 General Obligation Bonds (Current Interest Bonds) (Bank Qualified) in the original aggregate principal amount of \$4,615,000, with a final maturity of August 1, 2030, and (ii) Mendocino Coast Health Care District, Mendocino County, California Election of 2000 General Obligation Bonds (Capital Appreciation Bonds) (Bank Qualified) in the original aggregate principal amount of \$884,627.75, with a final maturity of August 1, 2017. Gross Revenues are not pledged to the payment of the District's Series 2001 General Obligation Bonds, which are secured by and payable from property tax receipts..

The District issued \$2,875,000 in revenue bonds in 2010 that are insured by the Cal-Mortgage program and are currently outstanding in the aggregate principal amount of \$2,140,000. The final maturity of the Series 2010 Bonds is February 1, 2029. All of the Series 2010 Bonds will be refunded with a portion of the proceeds of the Series 2016 Bonds, together with other available amounts.

The District issued \$5,000,000 in revenue bonds in 2009 that are insured by the Cal-Mortgage program and are currently outstanding in the aggregate principal amount of \$3,835,000. The final maturity of the Series 2009 Bonds is February 1, 2029. A portion of the Series 2009 Bonds will be refunded with a portion of the proceeds of the Series 2016 Bonds, together with other available amounts.

The District issued \$4,030,000 in revenue bonds in 1996 that are insured by the Cal-Mortgage program and are currently outstanding in the aggregate principal amount of \$1,095,000. The final maturity of the Series 1996 Bonds is February 1, 2020. All of the Series 1996 Bonds will be refunded with a portion of the proceeds of the Series 2016 Bonds, together with other available amounts.

The District borrowed funds in the amount of \$2,100,000 from UHC of California, Inc. (the "UHC Note") secured by a deed of trust under a program established to finance certain EMR conversion and installation required by CMS. This obligation will be subordinate to the Series 2016 Bonds and other Parity Debt. The note carries an interest rate of 4.0% and the principal payments are scheduled to coincide with both federal and State reimbursement payments to the District over the meaningful use program life.

In addition, the District borrowed a total of \$1,005,806 from Cal-Mortgage to replace a line of credit with a bank in the amount of \$1,000,000 during fiscal year ended June 30, 2013. This obligation is on a parity with the Series 2009 Bonds, the Series 2016 Bonds and other Parity Debt that will remain outstanding after the issuance of the Series 2016 Bonds. This was done to help facilitate the District's bankruptcy filing. The District also has two notes payable to equipment financing companies totaling \$501,371 at June 30, 2015. These notes were used to purchase certain pieces of medical equipment. The notes carry interest at rates from 6.35% to 7.09%. Principal and interest payments are due monthly through 2017. The District has a note payable to CMS related to a settlement for a self-reported Stark Law violation. The settlement was for \$400,000, carries interest at 5.0%, with principal and interest payments due monthly through 2018. The balance of the note payable to CMS was \$132,046 at June 30, 2015.

## SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

### General

The Bonds are general obligations of the District, and the Board of Supervisors of the County has the power and is obligated to cause to be levied and collected annual *ad valorem* taxes for payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation as to rate or amount. Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the Mendocino Coast Healthcare District Debt Service Fund (the “Debt Service Fund”), which is required to be applied for the payment of principal of and interest on the Bonds when due.

Pursuant to Section 32127 of the Health and Safety Code, in the event that the amount on deposit in the District’s Debt Service Fund is insufficient to pay the debt service coming due on the Bonds on any Bond Payment Date, an amount sufficient to make such debt service payment shall be transferred from the maintenance and operation fund of the District to the Debt Service Fund and used to pay debt service on the Bonds. The District has never had to transfer any amounts from its maintenance and operation fund to make any payments of debt service on any of its outstanding general obligation bonds.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of, premium, if any, and interest on the Bonds as the same becomes due and payable, shall be transferred by the County to the Paying Agent and by the Paying Agent, to DTC for remittance of such principal, premium, if any, and interest to its Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Bonds.

The amount of the annual *ad valorem* tax levied to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District’s control, such as economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

### Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes, is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing State-assessed public utilities’ property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax placed on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively,

and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sent to collection on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector.

Historically, property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the March 1 lien date.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

### **Assessed Valuation of Property Within the District**

All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See "*–Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" below.

Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county,

including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property’s value will no longer be divided among all taxing jurisdictions in the applicable county. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the applicable county. The District is unable to predict future transfers of State-assessed property in the District and the counties, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State’s methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as “utility” property.

The District’s 2016-17 total assessed valuation is \$3,172,124,408. The summary below shows a five-year history of the total secured and unsecured assessed property valuations of property within the District.

**MENDOCINO COAST HEALTH CARE DISTRICT**  
**Assessed Valuations**  
**2012-13 Through 2016-17**

<b>Fiscal Year</b>	<b>Local Secured</b>	<b>Utility</b>	<b>Unsecured</b>	<b>Total</b>
2012-13	\$2,852,291,149	\$542,898	\$62,486,922	\$2,915,320,969
2013-14	2,883,812,977	542,898	62,144,982	2,946,500,857
2014-15	2,913,429,461	542,898	62,266,527	2,976,238,886
2015-16	2,999,768,078	542,898	61,693,915	3,062,004,891
2016-17	3,111,087,822	340,398	60,696,188	3,172,124,408

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District’s control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each

portion of the tax year. See also “–*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

***Drought.*** On January 17, 2014, the State Governor (the “Governor”) declared a state-wide Drought State of Emergency. As of such date, the State faced water shortfalls due to the driest year in recorded State history; the State’s rivers and reservoirs were below their record low levels, and manual and electronic readings recorded the water content of snowpack at the highest elevations in the State (chiefly in the Sierra Nevada mountain range) at about 20% of normal average for the winter season. As part of his State of Emergency declaration, the Governor directed State officials to assist agricultural producers and communities that may be economically impacted by dry conditions. Following the Governor’s declaration, the California State Water Resources Control Board (the “Water Board”) issued a statewide notice of water shortages and potential future curtailment of water right diversions. On April 1, 2015, the Governor issued an executive order mandating certain temporary conservation measures, which were implemented by means of an emergency regulation adopted by the Water Board on May 5, 2015.

The temporary conservation measures have been extended and amended by subsequent executive orders of the Governor and Water Board regulations. Most recently, on May 9, 2016, the Governor issued an executive order ordering the Department of Water Resources, the Water Board and the California Public Utilities Commission to update and extend temporary water restrictions through the end of January 2017, and to take actions to transition to permanent, long-term improvements in water use. Following the Governor’s executive order, on May 18, 2016, the Water Board adopted a localized “stress test” approach of water conservation, under which local urban water agencies are required to ensure a three-year supply of water assuming three years of drought conditions. Agencies that project a water shortage at the end of the three-year period under the stress test are required to implement conservation measures through January 2017 equal to the percentage of water shortage projected.

The District cannot make any representation regarding the effects that the current drought has had, or, if it should continue, may have on the value of taxable property within the District, or to what extent the drought could cause disruptions to economic activity within the boundaries of the District.

***Appeals of Assessed Valuation; Blanket Reductions of Assessed Values.*** There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction or reconstruction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner’s property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner’s property in any one year must submit an application to the county assessment appeals board (the “Appeals Board”). Following a review of the application by the county assessor’s office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date.

Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. Counties have in the past ordered blanket reductions of assessed property values and corresponding property tax bills on single-family residential properties when the value of the property has declined below the current assessed value.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

California law exempts from taxation \$7,000 of the assessed valuation of an owner-occupied dwelling. Effective with the 1980-81 fiscal year, State law has also exempted 100 percent of the value of business inventories from taxation, rather than 50 percent as in prior years. State law also provides for reimbursements to local agencies based on their share of the revenues derived from the application of the maximum tax rate applied to business inventories in the 1979-80 fiscal year, with adjustments to reflect increases in population and the consumer price index.

Revenue estimates to be lost to local taxing agencies due to such exemptions is reimbursed from State sources. Such reimbursements are based upon total taxes due upon such exempt values and are not reduced by any amount for estimated delinquencies.

**Assessed Valuation and Parcels by Land Use**

The following table sets forth the assessed valuation and parcels by land use in the District.

**MENDOCINO COAST HEALTH CARE DISTRICT  
Assessed Valuation and Parcels by Land Use**

	<b>2016-17 Assessed Valuation<sup>(1)</sup></b>	<b>% of Total</b>	<b>No. of Parcels</b>	<b>% of Total</b>
<b>Non-Residential:</b>				
Agricultural/Timber	\$226,540,670	7.28%	2,623	19.16%
Commercial	381,704,336	12.27	620	4.53
Vacant Commercial	15,600,167	0.50	100	0.73
Industrial	32,711,330	1.05	60	0.44
Vacant Industrial	8,203,958	0.26	11	0.08
Recreational	12,029,671	0.39	29	0.21
Government/Social/Institutional	7,209,586	0.23	133	0.97
Miscellaneous	6,646,022	0.21	269	1.96
Subtotal Non-Residential	\$690,645,740	22.20%	3,845	28.08%
<b>Residential:</b>				
Single Family Residence	\$2,136,736,052	68.68%	7,214	52.69%
Mobile Home	82,766,024	2.66	703	5.13
Mobile Home Park	14,731,355	0.47	18	0.13
2-4 Residential Units	79,784,967	2.56	777	5.68
Vacant Residential	106,423,684	3.42	1,134	8.28
Subtotal Residential	\$2,420,442,082	77.80%	9,846	71.92%
<b>Total</b>	<b>\$3,111,087,822</b>	<b>100.00%</b>	<b>13,691</b>	<b>100.00%</b>

<sup>(1)</sup> Local Secured Assessed Valuation; excluding tax-exempt property.  
Source: California Municipal Statistics, Inc.

**Teeter Plan**

The County has adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing with Section 4701) of the Revenue and Taxation Code of the State (also known as the “Teeter Plan”). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under the Teeter Plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County’s general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan, the County was required to distribute to participating local agencies, 95% of the then-accumulated, secured roll property tax delinquencies and to place the remain 5% in a tax losses reserve fund. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing

entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected. Since the District maintains funds in the County Treasury, the District is included in the Teeter Plan.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors shall receive a petition for its discontinuance joined in by resolutions adopted by two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors would be required to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. In the event that the Teeter Plan were terminated, receipt of revenue of *ad valorem* taxes in the District would depend upon actual collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

**Tax Levies and Delinquencies**

Taxes will be collected by the Mendocino County Tax Collector for property falling within the District’s taxing boundaries. Taxes and assessments on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. Taxes on unsecured property are assessed and payable on March 1 and become delinquent the following August 31. The following table lists the secured tax charges and delinquencies for the District for Fiscal Years 2011-12 through 2014-15. Information for Fiscal Year 2015-16 is not currently available.

**MENDOCINO COAST HEALTH CARE DISTRICT  
Secured Tax Charges and Delinquencies**

<u>Fiscal Year</u>	<u>Secured Tax Charge<sup>(1)</sup></u>	<u>Amount Del. June 30</u>	<u>% Del. June 30</u>
2011-12	\$31,888,830.31	\$1,144,215.55	3.59%
2012-13	32,075,525.51	1,021,521.17	3.18
2013-14	32,411,991.78	729,918.67	2.25
2014-15	32,791,599.82	590,606.99	1.80

<sup>(1)</sup> All taxes collected by the County within the District.  
Source: California Municipal Statistics, Inc.

**Tax Rates**

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical TRA within the District from Fiscal Year 2012-13 to Fiscal Year 2016-17.

**MENDOCINO COAST HEALTH CARE DISTRICT  
Typical Total Tax Rates (TRA 104-004)**

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
General	1.000%	1.000%	1.000%	1.000%	1.000%
Redwoods Joint Community College District	.012	.011	.060	.010	.008
Mendocino Coast District Hospital	.013	.013	.013	.015	.010
Mendocino Unified School District	.080	.081	.080	.091	.085
Total	1.105	1.105	1.153	1.116	1.103

Source: California Municipal Statistics, Inc.

## Largest Taxpayers

The twenty largest taxpayers in the District as shown on the Fiscal Year 2016-17 secured tax roll and the approximate amounts of their aggregate level for all taxing jurisdictions within the District are shown below. These twenty largest taxpayers have a 2016-17 local secured assessed valuation of \$189,118,068, or 6.08% of the District's Fiscal Year 2016-17 local secured assessed value.

### MENDOCINO COAST HEALTH CARE DISTRICT Largest 2016-17 Local Secured Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2016-17 Assessed Valuation</u>	<u>% of Total <sup>(1)</sup></u>
1.	Georgia Pacific Corporation	Timber/Re-Use Development	\$ 31,818,250	1.02%
2.	Mendocino Redwood Company LLC	Timber	20,412,122	0.66
3.	Lyme Redwood Timberlands LLC	Timber	15,922,348	0.51
4.	Rap Investors LP	Hotel	10,905,804	0.35
5.	Van L. Phillips Trust	Residential	10,605,196	0.34
6.	Heritage House LP	Hotel	10,389,883	0.33
7.	The Boatyard Associates Phase II	Shopping Center	9,854,606	0.32
8.	Stephen A. Ricks Trust	Residential	7,403,125	0.24
9.	Jeanette Colombi Trust	Hotel	6,987,248	0.22
10.	Safeway Inc.	Supermarket	6,955,640	0.22
11.	Jedediah D. and Megan Ayres, Trustees	Hotel	6,805,017	0.22
12.	Michael A. and Maribelle Anderson, Trustees	Industrial	6,395,337	0.21
13.	Judith L. Brown Trust	Hotel	6,230,636	0.20
14.	Siamex Investment Corp.	Rural Property	6,176,229	0.20
15.	Jeff and Joan Stanford, Trustees	Hotel	5,533,369	0.18
16.	Jason S. Hurst	Hotel	5,407,532	0.17
17.	Little River Inn Inc.	Hotel	5,382,239	0.17
18.	Jackson Grube Family Inc.	Hotel	5,317,921	0.17
19.	Pounce Holdings LLC	Residential	5,311,014	0.17
20.	Tanti Family II LLC	Hotel	5,304,552	0.17

<sup>(1)</sup> 2016-17 Local Secured Assessed Valuation: \$3,111,087,822.

Source: California Municipal Statistics, Inc.

## Direct and Overlapping Bonded Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of December 1, 2016. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. 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.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District; and (3) the third

column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

**MENDOCINO COAST HEALTH CARE DISTRICT  
Direct and Overlapping Bonded Debt**

2016-17 Assessed Valuation:       \$3,172,124,408

<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</b>	<b>% Applicable</b>	<b>12/1/16</b>
Redwoods Joint Community College District	18.240%	\$ 5,431,083
Fort Bragg Unified School District	100.000	31,881,854
Mendocino Unified School District	100.000	13,795,829
<b>Mendocino Coast District Hospital</b>	<b>100.000</b>	<b>4,447,742<sup>(1)</sup></b>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 55,556,508
 <b>OVERLAPPING GENERAL FUND DEBT:</b>		
Mendocino County General Fund Obligations	28.998%	\$ 5,938,846
Mendocino County Pension Obligation Bonds	28.998	17,330,817
TOTAL OVERLAPPING GENERAL FUND DEBT		\$ 23,269,663
 <b>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</b>		
		\$ 3,800,000
COMBINED TOTAL DEBT		\$ 82,626,171 <sup>(2)</sup>

<sup>(1)</sup> Includes the Refunded Bonds. Excludes the Bonds to be issued and sold.

<sup>(2)</sup> Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2016-17 Assessed Valuation:

<b>Direct Debt (\$4,447,742)</b> .....	<b>0.14%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	1.75%
Combined Total Debt .....	2.48%

Ratio to Redevelopment Incremental Valuation (\$199,543,581):

Total Overlapping Tax Increment Debt.....	1.90%
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Source: California Municipal Statistics, Inc.

## **STATE CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES**

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the District for the payment thereof. (See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS” herein.) Articles XIII A and XIII B of the Constitution, Propositions 8 and 218 and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy, collect and spend taxes for payment of the general obligation bonds. The tax to be levied by the District for payment of the general obligation bonds was approved by the District’s voters in compliance with Article XIII A, XIII B and all applicable laws.

The District, like other California public agencies, is subject to the following Constitutional limits on its ability to raise and expend revenues.

### **Article XIII A**

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property, to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

## **Article XIII B of the California Constitution**

Under Article XIII B of the California State Constitution state and local government entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

### **Proposition 8**

Property owners are entitled to an assessment based on the lower of the fair market value of their property as of the lien date (January 1), or the assessed value as determined at the time of purchase or construction, and increased by no more than two percent annually. The assessor may also adjust independently, without taxpayer appeal. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Assessed Valuation of Property Within the District.”

### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) (“AB 454”) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county

### **Proposition 218**

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D, which contain a number of provisions affecting the ability of local agencies, including healthcare districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as healthcare districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax

beyond its maximum authorized rate without a two-thirds vote, and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIIC or XIIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution.

### **Future Initiatives**

Article XIII A, Article XIII B, Proposition 218 and Proposition 8 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the District's revenues or the District's ability to expend revenues.

## **LEGAL MATTERS**

### **Possible Limitations on Remedies; Bankruptcy**

**General.** Following is a discussion of certain considerations in the event that the District should become a debtor in a bankruptcy proceeding. It is not an exhaustive discussion of the potential application of bankruptcy law to the District. The District filed for bankruptcy in 2013 and emerged from bankruptcy in March 2015. See "DISTRICT BANKRUPTCY" herein. While in bankruptcy, the District did not fail to make a payment on the 2001 Bonds.

Under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"), no involuntary petitions for bankruptcy relief are permitted. However, California health care districts may petition for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the District (including *ad valorem* tax revenues) or to enforce any obligation of the District, without the bankruptcy court's permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, including the obligation of the County and the District to raise taxes if necessary to pay the Bonds, if the bankruptcy court determines that the plan is fair, equitable, not unfairly discriminatory and is in the best interests of creditors and otherwise complies with the Bankruptcy Code. There also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Regardless of any specific adverse determinations in any District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

***Limitations on Plans of Adjustments.*** Chapter 9 of the Bankruptcy Code provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a political subdivision of the state in the exercise of its political or governmental powers, including expenditures for the exercise. In addition, Chapter 9 provides that a bankruptcy court may not interfere with the political or governmental powers of a political subdivision debtor, unless the political subdivision approves a plan of adjustment to that effect or consents to that action. State law provides that *ad valorem* taxes may be levied to pay the principal of and interest on the Bonds and other voted general obligation bonds of the District in an unlimited amount, and that proceeds of such a levy must be used for the payment of principal of and interest on the District's general obligation bonds, including the Bonds, and for no other purpose. Under State law, the District's share of the 1% limited tax imposed by the County is the only *ad valorem* tax revenue that may be raised and expended to pay liabilities and expenses of the District other than its voter-approved debt, such as its general obligation bonds. If the District should become a debtor in a Chapter 9 proceeding, then it must propose a plan of adjustment of its debts. The plan may not become effective until confirmed by the bankruptcy court. The court may not approve a plan unless it finds, among other conditions, that the District is not prohibited by law from taking any action necessary to carry out the plan and that the plan is in the best interests of creditors and is feasible. If the State law restriction on the levy and expenditure of *ad valorem* taxes is respected in a bankruptcy case, then *ad valorem* tax revenue in excess of the District's share of the 1% limited County tax could not be used by the District for any purpose under its plan other than to make payments on the Bonds and its other voted general obligation bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

***Statutory Lien.*** Pursuant to Senate Bill 222 (2015) ("SB 222") that became effective on January 1, 2016, all general obligation bonds issued by local agencies, including the Bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the *ad valorem* taxes. SB 222 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. As a result, the lien on debt service taxes will continue to be valid with respect to post-petition receipts of debt service taxes, should the District become the subject of bankruptcy proceedings. However, the automatic stay provisions of the Bankruptcy Code would apply, preventing bondholders from enforcing their rights to payment from such taxes, so payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed. It is also possible that the bankruptcy court could approve an alternate use of such taxes, if the bondholders are afforded adequate protection.

***Possession of Tax Revenues; Remedies.*** If the County or the District goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County or the District, as applicable, does not voluntarily pay such tax revenues to the owners of the Bonds, it is not clear what procedures the owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful.

## TAX MATTERS

The delivery of the Bonds is subject to delivery of the opinion of Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the Bonds is also subject to the delivery of the opinion of Bond

Counsel, based upon existing provisions of the laws of the State of California that interest on the Bonds is exempt from personal income taxes of the State of California. The form of Bond Counsel's anticipated opinion is included as Appendix A. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Resolution by the District subsequent to the issuance of the Bonds. The Resolution contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") or the State of California with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service or the State of California. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures, the Service is likely to treat the District as the "taxpayer," and the Owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the Owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

### **Tax Accounting Treatment of Discount and Premium on Certain Bonds**

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium

Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix A.

### **APPROVAL OF LEGAL PROCEEDINGS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Bond Counsel to the District. A complete copy of the proposed form of opinion of Bond Counsel is attached as Appendix A hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Norton Rose Fulbright US LLP, as Disclosure Counsel, and by John J. Ruprecht, as counsel to the District. Certain legal matters will be passed upon for the Underwriter by Nossaman LLP, Irvine, California. The District has retained Eastshore Consulting, LLC as financial advisor in connection with the issuance of the Bonds (the "Financial Advisor"). Compensation paid to Bond Counsel, Disclosure Counsel, the Financial Advisor and Underwriter's Counsel is contingent on the successful issuance of the Bonds.

### **DISTRICT BANKRUPTCY**

During the fiscal year ended June 30, 2013, the District filed for bankruptcy under Chapter 9 of Title 11 of the United States Bankruptcy Code in United States Bankruptcy Court - Northern District of California. The District's plan for adjustment was confirmed by the bankruptcy court on October 31, 2014 and on March 31, 2015, the District emerged from bankruptcy under Chapter 9 of the Bankruptcy Code. The purpose of the District's plan of reorganization was to restructure certain classifications of the District's debt and provide for their payment in whole or in part. The ultimate success of the plan will depend primarily on the ability of the District's management to operate at a level of increased cash flow and thereby coupled with District property taxes, meet its obligations in the normal course of operations.

### **ABSENCE OF MATERIAL LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue and retire the Bonds. As with virtually all health care providers, the District experiences medical malpractice claims related to the provision of services. These claims are covered by insurance. See "APPENDIX A – Information Concerning Mendocino Coast Health Care District – ADDITIONAL INFORMATION – Insurance and Litigation."

## **UNDERWRITING**

The Bonds are being purchased by the Underwriter at a purchase price of \$4,109,121.80, which is the par amount of the Bonds of \$4,125,000.00, less an Underwriter's discount of \$41,250.00 and plus a net premium of \$25,371.80. The Bond Purchase Agreement for the Bonds provides that the Underwriter will purchase all of Bonds, if any are purchased, and contains the agreement of the District to indemnify the Underwriter against certain liabilities to the extent permitted by law. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page of this Official Statement. The offering prices or yields may be changed from time to time without notice by the Underwriter.

## **FINANCIAL STATEMENTS**

The financial statements of the District for the fiscal years ended June 30, 2016 and 2015 are included in APPENDIX B to this Official Statement have been audited by Dingus, Zarecor & Associates, PLLC, Spokane Valley, Washington. Except for the financial statements of the District contained in APPENDIX B, Dingus, Zarecor & Associates, PLLC has not reviewed or audited any financial information of the District contained in this Official Statement or contained in APPENDIX C to this Official Statement.

## **RATING**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), is expected to assign a rating of "AA-" to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the payment of the principal of and interest on the Bonds when due will be issued by National. Such rating reflects only the views of such rating agency, and an explanation of the significance of the rating may be obtained from S&P at: S&P, 55 Water Street, New York, NY 10041. There is no assurance that such rating will continue for any given period of time or that it 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.

The District has not applied, and does not anticipate applying, for an underlying rating on the Bonds. Prospective purchasers of the Bonds are required to make independent determinations as to the underlying credit quality of the Bonds and their appropriateness as an investment.

## **CONTINUING DISCLOSURE**

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District on an annual basis and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with United States Securities Exchange Commission Rule 15c2-12 (the "Rule"). The specific nature of the information to be provided by the District and notices of enumerated events is set forth in the form of Continuing Disclosure Certificate attached hereto in "APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The District has previously entered into previous undertakings under the Rule in connection with the issuance of other long-term obligations. In the previous five years, the District has failed to timely file



## APPENDIX D

### SERVICE AREA ECONOMY

*The following information concerning the City of Fort Bragg (the “City”) and Mendocino County (the “County”) is included only for the purpose of supplying general information regarding the area of the City.*

The City is located on the central coast of the County with a total area of approximately 2.8 square miles. The City was incorporated in 1889 and is governed by a five member City Council which provides governance over the City’s services to a population of approximately 7,600 residents. Each Councilmember is elected at large and serves a four-year term. The Mayor is elected by the members of the City Council following the seating of new Councilmembers in even-numbered election years, and serves a two-year term.

The County was created in 1850 by the State Legislature and was one of the State’s original 27 counties. The County spans an area of over 2 million acres and its coastline runs about 100 miles. The County is located on the north coast of the U.S. state of California. The County is legislatively governed by a board of five supervisions, each with a separate district. The County has nine Indian reservations lying within its borders, the fourth most of any county in the United States (after San Diego County, California; Sandoval County, New Mexico; and Riverside County, California).

#### **Population**

Population figures as reported by the State of California Department of Finance for the years 2012 through 2016 for the City, the County and the State are as follows:

	<u>City of Fort Bragg</u>	<u>County of Mendocino</u>	<u>State of California</u>
2012	7,367	87,436	37,881,357
2013	7,556	87,634	38,239,207
2014	7,564	88,177	38,567,459
2015	7,633	88,163	38,907,642
2016	7,672	88,378	39,255,883

<sup>(1)</sup> As of January 1 of each year.

Source: State of California, Department of Finance.

#### **Industry and Employment**

In 2015, the total civilian labor force for the County was 40,210. Unemployment for the same area averaged 5.9% while the State during the same period averaged 6.2%. The following summarizes civilian labor force data for the City, the County and the State for 2011 through 2015 (annual average):

**CITY OF FORT BRAGG, COUNTY OF MENDOCINO AND STATE OF CALIFORNIA  
Annual Average Civilian Labor Force, Civilian Employment, Civilian Unemployment,  
and Civilian Unemployment Rate**

<u>Years and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployed</u>	<u>Unemployment Rate<sup>(1)</sup></u>
2011				
City of Fort Bragg	3,590	3,270	320	9.0
Mendocino County	40,950	36,280	4,670	11.4
California	18,415,102	16,258,100	2,157,000	11.7
2012				
City of Fort Bragg	3,610	3,320	280	7.9
Mendocino County	41,020	36,900	4,120	10.0
California	18,551,400	16,627,800	1,923,600	10.4
2013				
City of Fort Bragg	3,620	3,380	240	6.5
Mendocino County	40,940	37,320	3,420	8.4
California	18,670,100	17,001,000	1,669,000	8.9
2014				
City of Fort Bragg	3,600	3,410	200	7.9
Mendocino County	40,620	37,780	2,840	7.0
California	18,287,900	17,418,000	1,409,900	7.5
2015				
City of Fort Bragg	3,370	3,410	160	4.5
Mendocino County	40,210	37,850	2,350	5.9
California	18,981,800	17,798,600	1,183,200	6.2

<sup>(1)</sup> Unemployment rate is based on unrounded data. Not seasonally adjusted.  
Sources: California State Employment Development Department.

The following tables show the annual average industry employment for the County between 2011 and 2015.

**COUNTY OF MENDOCINO, CALIFORNIA**  
**Annual Average Industry Employment**  
**2011-2015<sup>(1)</sup>**

<u>Industry</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Agriculture	1,510	1,530	1,500	1,530	1,460
Mining and Logging	250	300	310	330	310
Construction	930	960	950	990	1,010
Manufacturing	2,230	2,330	2,420	2,490	2,520
Wholesale Trade	690	720	810	830	730
Retail Trade	4,310	4,360	4,350	4,380	4,620
Transportation, Warehousing and Utilities	580	610	650	650	680
Information	310	290	280	270	260
Financial Activities	1,080	1,040	1,060	1,050	1,040
Professional and Business Services	1,800	1,700	1,700	1,660	1,670
Educational and Health Services	4,640	5,060	5,690	5,570	5,490
Leisure and Hospitality	3,590	3,690	4,180	4,230	4,250
Other Services	730	750	760	770	780
Federal Government	290	290	330	260	270
State Government	500	520	540	560	590
Local Government	<u>6,260</u>	<u>6,120</u>	<u>6,140</u>	<u>6,200</u>	<u>6,290</u>
Total All Industries <sup>(1)</sup>	29,460	30,540	31,440	31,750	31,950

<sup>(1)</sup> Totals may not add due to independent rounding.

Source: California Employment Development Department

**Major Employers**

The following table sets forth the 25 major employers for in the County for 2015 in alphabetical order. The number of employees employed by each employer listed below is not readily available.

<b>Employer's Name</b>	<b>Industry</b>
City of Ukiah	Government Offices-City, Village & Twp.
Coyote Valley Casino	Casinos
Dharma Realm Buddhist Assn	Associations
Fetzer Vineyards	Wineries (mfrs.)
Forestry & Fire Protection	Government Offices-State
Frank R Howard Memorial Hosp.	Hospitals
Hopland Sho Ka Wah Casino	Casinos
Mendocino Coast District Hosp.	Hospitals
Mendocino College	Schools-Universities & Colleges Academic
Mendocino Community Health	Clinics
Mendocino County Food Stamps	Government Offices-County
Mendocino County Office-Edctn	Government Offices-County
Mendocino County Sheriff	Government Offices-County
Mendocino County Sheriff's Dept.	Government Offices-County
Mendocino County Social Svc	Government Offices-County
Mendocino Redwood Co LLC	Nonclassified Establishments
Raley's	Grocers-Retail
Redwood Empire Packing Inc.	Fruits & Vegetables-Growers & Shippers
Safeway	Grocers-Retail
Trinity Youth Svc	Religious Schools
Ukiah Campus	Schools-Universities & Colleges Academic
Ukiah City Civic Ctr.	Government Offices-City, Village & Twp.
Ukiah High School	Schools
Ukiah Valley Medical Ctr.	Hospitals
Walmart	Department Stores

Source: State of California, Employment Development Department

## Commercial Activity

The table below sets forth taxable sales in the County for 2010 through 2014. Annual figures for 2015 are not available. Total taxable sales during calendar year 2014 in the County were reported to be \$1,333,741, a 2.26% increase over the total taxable sales of \$1,304,197 reported during calendar year 2013.

**MENDOCINO COUNTY**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in Thousands)**

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
2010	2,539	\$824,000	3,705	\$1,075,810
2011	2,468	882,347	3,616	1,158,893
2012	2,537	930,163	3,616	1,216,736
2013	2,583	976,583	3,674	1,304,197
2014	2,623	996,040	3,732	1,333,741

*Source: State of Equalization. Taxable Sales in California (Sales & Use Tax)*

## Transportation

U.S. 101, which connects San Francisco and northern coastal points, traverses the County's inland valleys. Route I, designated a "scenic highway" by the State, follows the coastline through Point Arena and Fort Bragg. Routes 20 and 129 connect the coastal areas with interior points.

Rail service through the County is provided by Northern Pacific Railroad Company (Southern Pacific) and the California Western Railroad, which operates the "Skunk Train" from Fort Bragg to Willits. A tourist attraction, the train also carries milled timber.

Mendocino Transit Authority and Greyhound Bus Lines serve both inland and coastal communities. Greyhound operates scheduled passenger service and the city is also served by several major truck lines. Ukiah operates a Municipal Airport with a 5,000 foot runway that provides charter service, plane rentals and agricultural services. Noyo Harbor, near Fort Bragg, can accommodate vessels up to a nine-foot draft and is a center of both commercial and sport fishing.

## Education

Mendocino College is a part of the California Community College System and provides a variety of curricula and programs, including academic preparation for the California State University and University of California systems, vocational education, community extension and numerous specialized professional preparation programs.