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UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

In re DIABLO GRANDE COMMUNITY FACILITIES DISTRICT NO. 1, Debtor.	Case No. 25-26635-A-9 DCN BWS-003 **MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF MOTION FOR ORDER MODIFYING AUTOMATIC STAY** Date: September 30, 2026 Time: 9:30 A.M. Ctrm: Dept. A, Ctrm 11 2500 Tulare Street, Fresno California

I. INTRODUCTION

Diablo Grande Community Facilities District No. 1 (the "**Debtor**"), moves for an Order Modifying Automatic Stay (the "**Motion**"). A copy of the proposed form of order is filed concurrently herewith as Exhibit B. The Motion is supported by this Memorandum of Points and Authorities, the concurrently filed and served Motion For Order Modifying Automatic Stay, the Declaration of Mark Kovich In Support Of Motion For Order Modifying Automatic Stay, Notice of Hearing on the Motion For Order Modifying Automatic Stay, and Certificate Of Service of all documents.

II. SUMMARY OF RELIEF REQUESTED

1. The Debtor is seeking the Court's order modifying the automatic stay arising in this Chapter 9 case in order to fulfill the terms of the Settlement Agreement dated August 18, 2026, between the Debtor and the County of Stanislaus, California (the "**County**") which resolves the County's Objection to the Debtor's Chapter 9 Petition [Dkt. 43]. A true and correct copy of the Settlement Agreement is attached to the concurrently filed and served Declaration of Mark Kovich In Support Of Motion For Order Modifying Automatic Stay (the "**Kovich Declaration**"), marked as Exhibit A thereto.

2. Pursuant to the terms of the Settlement Agreement, the Debtor has agreed to stipulate to modify the automatic stay arising in this Bankruptcy Case so that the stay will remain in effect as long as the Debtor continues to perform the terms of the Settlement Agreement, and that the stay will be lifted to permit the County to go to tax sale of the Debtor's Property (i.e., the "**Subject Parcels**" listed in the Settlement Agreement) if the Debtor fails to perform the terms of the Settlement Agreement. Exhibit A, ¶ 9.

3. Upon the entry of the requested Order Modifying Automatic Stay, the County has agreed to withdraw its Objection to the Debtor's Chapter 9 Petition [Dkt. 43] (Exhibit A, ¶ 10), and the Court may then enter the Order For Relief in the case.

III. JURISDICTION AND NOTICE

4. The Debtor brings the **Motion** pursuant to Section 362(d)(a)(1) of the Bankruptcy Code, and Bankruptcy Rule 4001(d).

5. The Court has jurisdiction over the Motion pursuant to 28 U.S.C. § 1334(b). The Motion is a core proceeding under 28 U.S.C. § 157(b)(2)(G).

6. The Debtor consents to the limited relief requested in the motion without prejudice to the rights of the Debtor pursuant to Section 904 of the Bankruptcy Code, and except as to the limited relief requested in the Motion, nothing herein is intended as or shall be deemed to constitute the Debtor's consent pursuant to Section 904 of the Bankruptcy Code to this Court's interference with (1) any of the political or governmental powers of the Debtor, (2) any of the property or revenues of the Debtor, or (3) the Debtor's use or enjoyment of any income-producing property.

7. The Debtor will serve a copy of the Notice and Motion as required by Bankruptcy Rule 4001(d)(1)(C).

IV. STATEMENT OF FACTS

A. Background Regarding the Debtor and Bankruptcy Case Events

8. Diablo Grande Community Facilities District No. 1 (the "**Debtor**") is a community facilities district established by the Board of Directors of the Western Hills Water District on September 24, 2000, pursuant to the Mello-Roos Act (Cal. Gov't. Code §§ 53311-53368.3) (Resolution No. 2000-06). As such, the CFD is a municipality as defined in section 101(40) of the Bankruptcy Code. Kovich Declaration, ¶2.

9. The Bankruptcy Case was commenced by the filing of the Debtor's Bankruptcy Petition on November 25, 2025 (the "**Petition**") [Dkt. 1], after the Debtor's governing authority, the Board of the Western Hills Water District (the "**Board**"), declared a fiscal emergency of the Debtor [Dkt. 4]. Kovich Declaration, ¶3.

10. On February 4, 2026, the Bankruptcy Court approved the form of Notice of Commencement of Chapter 9 Bankruptcy Case and set April 3, 2026, as the deadline for filing objections to the Chapter 9 Petition [Dkt. 23]. Kovich Declaration, ¶4.

11. On March 12, 2026, the Debtor submitted its evidence proving service and publication of the Notice of Commencement of Chapter 9 Bankruptcy Case in accordance with the

Court's February 4, 2026 Order [Dkt. 28, 29, 30, 31, 32, 33]. Kovich Declaration, ¶5.

12. Pursuant to the Court's Order [Dkt. 23], objections to the Chapter 9 petition were due not later than April 3, 2026. This deadline was duly noticed as part of the Notice of Commencement of Chapter 9 Case. On April 3, 2026, the County of Stanislaus, California (the "**County**") filed an Objection to the Chapter 9 Petition (the "**Objection**") [Dkt. 43]. No other creditor or interested party filed an objection. Kovich Declaration, ¶6.

13. On April 16, 2026, the Court entered its Scheduling Order [Dkt. 63], setting dates in the Contested Matter arising from the County's Objection (RPL-1). On July 17, 2026, the Court entered its Order Revising Discovery Deadlines In Contested Matter [Dkt. 78] pursuant to the Parties' stipulation [Dkt. 76] requesting a brief extension of the then remaining discovery deadlines in the Contested Matter so that they could continue their ongoing settlement discussions without the need to incur additional attorney's fees and costs in discovery efforts which may prove unnecessary. Kovich Declaration, ¶7.

14. On August 19, 2026, the Debtor and the County filed a Joint Report For Status Conference [Dkt 81] which reported to the Court that they had reached an Agreement for the County to withdraw its Objection subject to the terms of the Settlement Agreement. Kovich Declaration, ¶8.

B. The Settlement Agreement Between the Debtor and the County

15. In addition to the terms of the Settlement Agreement cited above at numbered paragraphs 2-3, the Settlement Agreement also provides for the following (this is not an exhaustive summary and the Settlement Agreement should be reviewed for all terms):

a. Under the Settlement Agreement the Debtor will satisfy the unpaid ad valorem property taxes, special district assessments, and accrued interest (collectively, the "unpaid property taxes") on the 103 real property parcels (the "**Subject Parcels**" or "**Property**") currently owned by the Debtor in the agreed amount of $2,287,605.78 as of August 31, 2026 (the "**Agreed Amount**"). Exhibit A, ¶ 2. The unpaid property taxes were incurred by prior owners of the Subject Parcels and the County is waiving penalties on the unpaid property taxes in the amount of $123,233.86. Exhibit A, ¶ 5. The County will

accept payment of the Agreed Amount according to a payment plan commencing August 31, 2026 of an initial payment of $500,000.00 and subsequent monthly payments of $40,000.00, not exceeding 5 years, and with an interest rate of 12% per annum. Exhibit A, ¶ 5. As long as the Debtor performs under the payment plan and otherwise performs its obligations under the Agreement, the County will not conduct tax sales of the Subject Parcels. Exhibit A, ¶ 6.

b. On August 25, 2026, the Debtor made the initial payment of $500,000.00 due under the payment plan in the Settlement Agreement. The first monthly payment of $40,000.00 under the payment plan in the Settlement Agreement is due by October 1, 2026. Kovich Decl., ¶ 10.

c. As property tax bills are issued for future years during the term of this Agreement reflecting special assessments levied on the Subject Parcels, the Debtor agrees to timely pay these special assessments in accordance with law. The Agreement shall not prevent the Debtor from challenging the legality of any such special assessment in a manner authorized by law. Exhibit A, ¶ 7.

16. The Settlement Agreement resolves the County's Objection to the Debtor's Chapter 9 Petition without requiring extensive litigation and the attendant expenses. The resolution of the County's Objection also clears the way for entry of the Order For Relief in this case which will in turn permit the United States trustee to consider appointment of a committee of creditors holding bonds of the Debtor pursuant to 11 USC §1102(a), which is applicable in this case pursuant to 11 USC §901(a).

V. DISCUSSION

A. Cause For Modifying Automatic Stay

17. Bankruptcy Code section 362(d)(1) provides that on request of a party in interest and after notice and a hearing, the bankruptcy court shall grant relief from the stay provided in §362(a) by modifying or conditioning the stay for cause.

18. The Debtor has negotiated and entered into the Settlement Agreement with the County, which in a Chapter 9 case the debtor is fully empowered to do without bankruptcy court

approval. 11 USC §904; In re City of Stockton, Cal., 486 B.R. 194, 199 (Bankr. E.D. Cal. 2013). However, only the Bankruptcy Court may issue an order modifying the automatic stay in accordance with the procedure required by §362(d).

19. The Debtor submits that cause for the requested Order Modifying Automatic Stay has been shown as the Order is necessary to allow the Debtor to satisfy a key term of the Debtor's Settlement Agreement with the County and to meet the County's prerequisite for withdrawing its Objection to the Debtor's Chapter 9 Petition.

VI. CONCLUSION

For the foregoing reasons, the Debtor respectfully requests the Court, pursuant to 28 U.S.C. § 362(d)(1) and Bankruptcy Rule 4001(d), to enter the proposed Order Modifying Automatic Stay, which is filed concurrently herewith as Exhibit B.

Dated: September 2, 2026

BURKE, WILLIAMS & SORENSEN, LLP

By: /s/ Joseph P. Buchman
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