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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 **REPLY TO KOSHI PADNANI'S OPPOSITION TO 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

Diablo Grande Community Facilities District No. 1 (the "**Debtor**"), hereby replies to the Opposition To Motion for an Order Modifying Automatic Stay (the "**Motion**") filed by creditor Koshi Padnani [Dkt. 101] (the "**Opposition**").

1. The Opposition does not comply with LBR 9014- 1(f)(1)(B), which requires that "[o]pposition shall be accompanied by evidence establishing its factual allegations." The Opposition includes references to supporting exhibits, but there is no declaration authenticating the exhibits or testifying to any of the factual allegations asserted in the Opposition. Debtor has separately filed Objections To Evidence. Consequently, the Court should deem these deficiencies to constitute the equivalent of a failure to file a timely opposition and a waiver of any opposition to the granting of the Motion.

2. The Debtor served the Notice and Motion as required by Bankruptcy Rule 4001(d)(1)(C) [Dkt. 3, 94].

3. The Opposition clearly misconstrues the relief that is being sought in the Motion. The Motion requests that the Court grant a limited modification to the automatic stay to permit the County to go to tax sale of the Subject Parcels **only if** the Debtor fails to perform the terms of the Settlement Agreement. The potential lifting of the automatic stay will be conditioned on the Debtor's non-performance under the Settlement Agreement. In her Opposition, however, Creditor Padnani requests the following relief: "Therefore I respectfully request that the court grants that the stay order be removed." This does not make sense because: (1) it does not address the relief being requested in the Motion; and (2) such relief would clearly be against the interest of Creditor Padnani because it is through the Settlement Agreement that the Debtor is seeking to prevent the loss of the Subject Parcels through tax sales.

4. To help the Court better understand the context of the Motion and the Settlement Agreement, and why the Opposition is nonsensical, the Debtor provides the following short history of the special tax judicial foreclosure actions and the lingering County ad valorem tax issue.

a. Up until 2017, the prior owners of the undeveloped properties in the Diablo Grande Development—first Diablo Grande Limited Partners, and then World International, LLC—had paid the annual regular and special taxes secured by the properties they still owned, as well as the HOA fees due on some lots. However, in the fall of 2017, World International, LLC stopped any further tax or HOA payments. In 2020, World International, LLC entered into a purchase agreement whereby it sold the undeveloped Diablo Grande Project properties to Angel's Crossing, LLC. As the new owner of the undeveloped properties, Angel's Crossing, LLC never made any payments on the property tax (ad valorem or Mello-Roos) or HOA obligations. Declaration of Mark Kovich In Support Of Reply To Koshi Padnani's Opposition To Motion For Order Modifying Automatic Stay (the "**Kovich Declaration**"), ¶ 2.

b. In 2021, the Debtor elected to commence judicial foreclosures against

Angel's Crossing, LLC for unpaid special taxes in order to either collect the unpaid special taxes at the Sheriff's auction or obtain title to the undeveloped properties and then sell them to generate proceeds to pay the obligations to the bondholders. In November 2022, the first judicial foreclosure judgment was entered against Angel's Crossing, LLC. Angel's Crossing, LLC appealed the judgment and in August 2023, the appeal was dismissed. The first Sheriff's auction to enforce the judgment took place the same month. Angel's Crossing, LLC filed bankruptcy in an attempt to stop the Sheriffs' auction, but its bankruptcy was dismissed in September 2023. Kovich Declaration, ¶ 3.

c. In all, three judicial foreclosure actions were prosecuted against Angel's Crossing, LLC resulting in the same number of judgments and Sheriff's auctions. At the Sheriff's auctions, Western Hills Water District, on behalf of the Debtor, credit bid the amount of the judgments, which were all based on the unpaid Mello-Roos special taxes. **There were no other bids.** The CFD special tax revenues are pledged to the CFD's bondholders. This means that the Debtor's debt to the bondholders is secured by the special tax revenues, subject to administrative costs. When those special taxes were not paid and went into default, the unpaid special taxes were converted to ownership of the undeveloped properties through the judicial foreclosure process. However, bondholders' interest therein remains, as it does in the special tax revenues that are collected, subject to administrative costs. Kovich Declaration, ¶ 4.

d. Ad valorem property taxes have the same priority as special taxes (like Mello-Roos taxes) as a lien on real property while the Mello-Roos taxes remain on the secured tax roll against a real property parcel. However, to enforce the lien for Mello-Roos taxes when they are not being paid, the enforcing agency must remove the Mello-Roos taxes from the secured tax roll and sue the property owner in a judicial foreclosure action. This is what was done to enforce the Mello-Roos taxes that were unpaid by World International, LLC and Angel's Crossing, LLC. Kovich Declaration, ¶ 5.

e. Post-foreclosure, the Subject Parcels are owned by the Debtor for the benefit of the bondholders, but the ad valorem tax debt against the Subject Parcels on the

secured tax roll remains. Therefore, the ad valorem taxes against the Subject Parcels are now senior to the interests of the Debtor (the owner). And because the ad valorem taxes are delinquent going back to when World International, LLC stopped paying them in the 2017/18 tax year, the County Treasurer-Tax Collector has been endeavoring to sell the Subject Parcels at tax auction to collect the delinquent ad valorem taxes. If the Subject Parcels are sold at a County tax auction, the equity in the properties which belongs to the bondholders will be lost. Therefore, to preserve the Subject Parcels and keep them from being sold by the County, the Debtor has entered into the Settlement Agreement. The Debtor's intent is to sell the Subject Parcels to 1) generate proceeds for the benefit of bondholders, and 2) return the properties to tax-paying status. Kovich Declaration, ¶ 6.

In conclusion, the Motion should be granted. Creditor Padnani's Opposition is fatally deficient and wholly misconstrues the relief the Motion seeks.

Dated: September 23, 2026

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