Richard J. Reynolds (SBN 89911)
E-mail: rreynolds@bwslaw.com
Joseph P. Buchman (SBN 148983)
E-mail: jbuchman@bwslaw.com
Martin Kosla (SBN 247224)
E-mail: mkosla@bwslaw.com
BURKE, WILLIAMS & SORENSEN, LLP
444 South Flower Street, 40th Floor
Los Angeles, California 90071-2942
Tel: 213.236.0600 Fax: 213.236.2700

Attorneys for Diablo Grande Community Facilities District No. 1

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-001 **DECLARATION OF MARK KOVICH IN SUPPORT OF DEBTOR'S RESPONSE TO KOSHI PADNANI'S OBJECTION TO DEBTOR'S CHAPTER 9 PETITION** Date: November 18, 2026 Time: 9:30 a.m. Ctrm: Dept. A, Ctrm 11 2500 Tulare Street, Fresno California

DECLARATION OF MARK KOVICH

I, Mark Kovich, declare as follows:

1. I am over the age of 18 and I am the President of the Board of Directors of the Western Hills Water District ("**WHWD**"), the governing authority of Diablo Grande Community Facilities District No. 1 (the "**Debtor**" or "**CFD**"). As are all the elected members of the Board of Directors, I am a volunteer and receive no compensation for acting in this role. I submit this Declaration in support of the Debtor's Response To Koshi Padnani's Objection To Debtor's Chapter 9 Petition. I have personal knowledge of the matters stated herein except as to those

matters stated on information and belief and if called as a witness and sworn, I could competently testify thereto.

2. The following information is based in part on my review of the records of the WHWD and the CFD. I am one of the custodians of these books, records, and files of the WHWD and the CFD. I have personally worked with the books, records and files, and as to the following facts, I know them to be true of my own knowledge or I have gained knowledge of them from the WHWD and the CFD's business records. These books, records and files were made at or about the time of the events recorded, and which are maintained in the ordinary course of the WHWD and the CFD's business at or near the time of the actions, conditions or events to which they relate. Any such document was prepared in the ordinary course of business of the WHWD and the CFD by a person who had personal knowledge of the event being recorded and had or has a business duty to record accurately such event.

A. Bankruptcy Filing and Deadline To File An Objection To Petition

3. The Bankruptcy Case was commenced by the filing of the Debtor's Bankruptcy Petition on November 25, 2025 (the "**Petition**") [25-26635 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 [25-26635 Dkt. 4].

4. 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 [25-26635 Dkt. 23].

5. 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 [25-26635 Dkt. 28, 29, 30, 31, 32, 33].

6. Pursuant to the Court's Order [25-26635 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**") [25-26635 Dkt. 43]. No other creditor or interested party filed an objection.

7. On August 19, 2026, the Debtor and the County filed a Joint Report For Status Conference [25-26635 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.

B. Formation of the CFD and Issuance of Bonds

8. The Diablo Grande Specific Plan was originally proposed to the County in 1990 by Diablo Grande Limited Partners. which was the original developer for the Diablo Grande Project. In 1992, the developer, the Stanislaus Local Agency Formation Commission (LAFCO), and Stanislaus County formed Western Hills Water District ("**WHWD**") and in 1993, the Diablo Grande Specific Plan and an original EIR was adopted by the Stanislaus County Board of Supervisors.

9. After the Diablo Grande Project was approved in October of 1993, two Phase 1 golf courses and a clubhouse were constructed. In addition, the project entry road was constructed along with the pump stations and water lines to serve the Diablo Grande Project. Diablo Grande Limited Partners, which held control of the WHWD as the sole landowner, caused WHWD to form the Diablo Grande Community Facilities District No. 1.

10. On September 28, 2000, after a public hearing, the Board of Directors of the Western Hills Water District ("WHWD") adopted Resolution No. 2000-06 forming the Diablo Grande Community Facilities District No. 1 (the "**Debtor**" or "**CFD**") under the terms of the Mello-Roos Act, for the purpose of financing the Facilities for the Project. A true and correct copy of WHWD Resolution No. 2000-06 is provided in Exhibits In Support of this Response as Exhibit 1.

11. Between 2001 and 2005, four series of Mello-Roos Bonds were issued through the CFD for the purpose of financing costs of acquiring and constructing certain public infrastructure improvements. The total amount of these bond series was $57,000,000.

12. Between 2004 and 2008, 425 homes were constructed out of a total of 735 final mapped residential lots.

13. In 2008, Diablo Grande Limited Partnership went filed bankruptcy in the Eastern District of California [Case no. 08-90365] and the Diablo Grande Project, including control of WHWD, was acquired by World International, LLC in 2008.

C. Refinancing of the Bonds

14. In 2014 and 2015, World International, LLC caused the 2001-2005 Mello-Roos bonds to be refinanced with new issuances totaling $45,765,000.

15. In May 2017, the County Board of Supervisors approved an Amendment to the Diablo Grande Specific Plan sought by World International, LLC that increased the density of the development so that more homes could be constructed, at the expense of one of the two golf courses in the original plan.

D. Defaults of Original Developers

16. Up until 2017, 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 Homeowners Association ("**HOA**") fees due on some lots. However, in the fall of 2017, World International, LLC stopped any further tax or HOA payments. Additionally, in 2019, the subsidy needed to ensure WHWD's obligations under its water contract with Kern County Water Agency, and which Diablo Grande Limited Partners, and then World International, LLC, had provided, ended.

17. In 2020, World International, LLC entered into a purchase agreement whereby it sold the Diablo Grande Project to Angel's Crossing, LLC. Immediately thereafter, the WHWD board (whose members at that time were appointed by World International, LLC) voted to enter into an Assignment, Assumption, and Release Agreement (the "**AA&R**") with World International, LLC and Angel's Crossing, LLC whereby Angel's Crossing, LLC agreed to assume all of the outstanding liabilities of World International, LLC and World International, LLC was released from them. These liabilities included $515,601 in unpaid water charges, 12 months' worth of WHWD operations costs, and $8,742,326 of unpaid Mello-Roos (CFD) special tax obligations. The $8,742,326 of unpaid Mello-Roos (CFD) special tax obligations meant that as of 2020, the means to pay the bondholders was already impaired in the same amount.

18. Once in control, Angel's Crossing, LLC did nothing to address the problems and delinquencies faced by the community. Fortunately, in November 2020, the Stanislaus Board of Supervisors appointed Julie Davis, a Diablo Grande homeowner/resident to fill a vacancy on the WHWD board, creating a majority of homeowner/residents on that board. Then, in May 2021, the registered voters within WHWD, i.e., the residents, petitioned for and prevailed in having the WHWD board changed from being appointed according to landownership to being elected by the registered voters within the district.

E. Judicial Foreclosure Actions

19. 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.

20. In June 2021, the WHWD board determined that Angel's Crossing, LLC had abandoned the community and was not paying the ad valorem and special taxes owed on the undeveloped properties it still owned. Therefre, the WHWD board, as the governing authority for the CFD, commenced judicial foreclosures against Angel's Crossing, LLC for the unpaid special taxes in an effort to collect them. 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 Sheriff's auction to enforce the judgment took place the same month. Angel's Crossing, LLC filed bankruptcy in the Eastern District of California [Case No. 23-22593] in an attempt to stop the Sheriffs' auction, but its bankruptcy was dismissed in September 2023.

21. Multiple judicial foreclosure actions were prosecuted against Angel's Crossing, LLC resulting in judgments, and thereafter, 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.

F. Threatened Tax Sales By Stanislaus County

22. 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 previous ad valorem taxes against the Subject Parcels are now senior to the interests of the Debtor (the owner).

23. In February 2025, the Stanislaus County Treasurer-Tax Collector first asked the Board of Supervisors to authorize taking some of the Diablo Grande Project properties to tax auction in May 2025. The Board approved the request, but the CFD objected and requested that the properties be removed from the sale because: (1) the properties were owned by the CFD, a governmental entity; and (2) the amount of the delinquent taxes listed against the properties was incorrect as it included special taxes that had been removed from the tax roll in conjunction with the judicial foreclosure actions. Following discussions with members of the WHWD board, attorneys for the CFD, and County Counsel, the County Treasurer-Tax Collector elected to not go forward with any tax auctions in May 2025.

24. In October 2025, the Treasurer-Tax Collector again put taking the CFD properties to tax auction on the Board of Supervisors agenda for its November 4, 2025 meeting. Myself and eleven other members of the Diablo Grande community attended the Supervisors' meeting on November 4, 2025 and pleaded for the properties to be left off the auction block to give the community the time needed to get the properties sold to a responsible developer rather than carved up piecemeal to speculators. The Board of Supervisors elected to postpone the matter in order to consult with County Counsel. Provided concurrently as Exhibit 3 is a true and correct copy of the Board of Supervisors of the County of Stanislaus Board Action Summary for Resolution 2025-0585 dated November 4, 2025.

G. The Chapter 9 Petition

25. 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 filed the Chapter 9 Petition on November 25, 2025, and has subsequently entered into a Settlement Agreement with the County.

26. As of November 25, 2025, negotiation with the County had failed and negotiation with the bondholders was both impracticable and meaningless since it was not the bondholders who were the threat to the Subject Parcels. The CFD had been negotiating with the County but had not been able to reach an agreement that would give the CFD time to sell the Subject Parcels before the County would conduct a tax sale of the Subject Parcels. Negotiation with the bondholders was impracticable because the process to engage with them could not reasonably be completed before the County would have been conducting its tax sale of the Subject Parcels, and nothing that could have been attained in such negotiations would have enabled the CFD to stop the County going to tax sale.

H. Declaration of Fiscal Emergency

27. On November 25, 2025, the governing board of the Debtor declared a fiscal emergency and directed the filing of the Chapter 9 Petition for the Debtor. The reasons for filing the bankruptcy as a fiscal emergency were the following:

a. In 2023, over 91 real property parcels (the "**Subject Parcels**") had been acquired through judicial foreclosures on behalf of the CFD and title to these properties had been transferred by the Stanislaus County Sheriff in Sheriff's Deeds with the following grants: "Western Hills Water District, on behalf of Community Facilities District No. 1." The judicial foreclosures enforced the lien for unpaid special taxes assessed against the Subject Parcels for the benefit of the CFD and the holders of the CFD's Mello-Roos bonds. The costs of prosecuting the judicial foreclosures was borne by the CFD as an administrative expense. Western Hills Water District ("**WHWD**") did not hold and continues to hold no monetary or beneficial interest in the Subject Parcels. Consequently,

as of November 25, 2025, the CFD was the beneficial owner of the Subject Parcels and they constituted property of the CFD.

b. As of November 25, 2025, the ad-valorem property taxes on the Subject Parcels had been declared delinquent by the Stanislaus County Treasurer-Tax Collector (the "**TTC**") due to unpaid property taxes from tax year 2018-2019 and thereafter. In the TTC's report to the Stanislaus County Board of Supervisors (the "**BOS**") for the BOS' 11/4/25 Board Meeting, in which the TTC requested authority pursuant to California Revenue and Tax Code ("RTC") §3694 to conduct a tax sale of the Subject Parcels, the TTC stated that the total amount due against the Subject Parcels, including fees, for unpaid property taxes was $1,921,296.94. *See,* Exhibit 3 (Board of Supervisors of the County of Stanislaus Board Action Summary for Resolution 2025-0585 dated November 4, 2025).

c. As of November 25, 2025, the HOA had notified the CFD that unpaid and presently due HOA fees, secured by a lien against the Subject Parcels, totaled approximately $385,000.

d. As of November 25, 2025, the CFD had last made a payment to its bondholders on 3/1/24 and had missed 3 scheduled payments. The outstanding debt to the CFD's bondholders totaled approximately $38 million.

e. As of November 25, 2025, the CFD had insufficient funds to pay the $1,921,296.94 in delinquent taxes due on the Subject Parcels so as to prevent the loss of the Subject Parcels at a tax sale, and also to satisfy the HOA fees then due and secured by the Subject Parcels in the approximate amount of $385,000.

f. As of November 25, 2025, the CFD had approximately $760,000, in available funds.

g. The CFD's financial state as of November 25, 2025, meant that the CFD would not be able to satisfy the delinquent property taxes and prevent the TTC from scheduling and conducting a delinquent tax sale of the Subject Parcels in February 2026.

h. The residents within the CFD's jurisdiction were well-aware that in order to attract a qualified developer to complete the long-stalled Diablo Grande development, the

Subject Parcels needed to be available for transfer as a complete package. The delinquent tax sale of the Subject Parcels advocated for by the TTC would result in the Subject Parcels being acquired by random buyers in a piecemeal fashion, rather than being acquired by a developer in their entirety.

i. Loss of the ability to attract a qualified developer would mean the 595 residents would continue to bear the costs to maintain a water and sewer system designed for 5,500 residents, causing continuing financial hardship and risking the loss of water service altogether. It was known to the community that the water system for the CFD residents costs about $200,000 a month to run and with only 500 paying customers, that comes down to $400 a month per customer just to keep things running. However, if the community could be developed as planned with 5,500 homes and as many paying customers, the residents' bills could be as low as $85 a month and still ensure a reliable and well-maintained water system.

28. The Debtor's intent for a Plan of Adjustment is 1) to sell the Subject Parcels to one or more developers in order to generate proceeds for the benefit of bondholders, and return the properties to tax-paying status, and 2) to adjust the Debtor's obligations to its creditors as may be necessary to accomplish such a sale.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. Executed this 4th day of November, 2026, at Patterson, California.

Mark Kovich