

**AMENDED AND RESTATED
RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)
(IMPROVEMENT AREA NO. 1)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2 (Santaluz) - (Improvement Area No. 1) ("CFD No. 2 (IA No. 1)") and collected each Fiscal Year commencing in Fiscal Year 2000-01, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2 (IA No. 1), unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2 (IA No. 1): the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2 (IA No. 1) or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2 (IA No. 1) or any designee thereof of complying with disclosure requirements of the City, CFD No. 2 (IA No. 1) or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, CFD No. 2 (IA No. 1) or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2 (IA No. 1) for any other administrative purposes of CFD No. 2 (IA No. 1), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Affordable Unit(s)" means, for each Fiscal Year, any dwelling unit(s) located on an Assessor's Parcel of Residential Property, including Affordable Companion Units, that are

subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City providing for affordable housing prior to March 1 of the prior Fiscal Year. In order to insure that a dwelling unit is correctly classified as an Affordable Unit, the owner of such property shall provide the CFD Administrator with a copy of any applicable deed restrictions, resale restrictions, and/or regulatory agreements.

"Affordable Companion Unit(s)" means, for each Fiscal Year, Companion Units that are subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City providing for affordable housing prior to March 1 of the prior Fiscal Year. The Residential Floor Area of an Affordable Companion Unit shall not be included when calculating the total Residential Floor Area for the Assessor's Parcel on which it is located.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

"Assigned Special Tax" means the annual Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C below.

"Backup Special Tax" means the Special Tax that may be required to be paid as a result of changes in development, as determined in accordance with Section D below.

"CFD Administrator" means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

"CFD No. 2" means Community Facilities District No. 2 (Santaluz).

"CFD No. 2 (IA No. 1)" means CFD No. 2 (Improvement Area No. 1), as identified on the boundary map for CFD No. 2.

"CFD No. 2 (IA No. 1) Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2 for CFD No. 2 (IA No. 1) under the Act.

"City" means the City of San Diego.

"Companion Unit(s)" means any dwelling unit located on an Assessor's Parcel of Residential Property for which the building permit was issued for purposes of constructing an attached or detached secondary unit on a single family lot. The Residential Floor Area of a Companion Unit, except for Affordable Companion Units, shall be added to the Residential Floor Area of the primary dwelling unit when calculating the total Residential Floor Area for the Assessor's Parcel on which it is located.

"Council" means the City Council of the City, acting as the legislative body of CFD No. 2 (IA No. 1).

"County" means the County of San Diego.

"Custom Lot Property" means, for each Fiscal Year, any Assessor's Parcel of Taxable Property (i) that is within a Final Map that was recorded prior to March 1 of the prior Fiscal Year; (ii) for which (a) escrow has closed prior to March 1 of the prior Fiscal Year to a buyer who is not in the regular course of business of building homes for resale as determined by the CFD Administrator or (b) a building permit for new construction was issued prior to March 1 of the prior Fiscal Year; and (iii) that is a Proposed Custom Lot.

"Developed Property" means, for each Fiscal Year, all (i) Custom Lot Property, (ii) Golf Course Property, and (iii) all Taxable Property, exclusive of Taxable Property Owner Association Property or Taxable Public Property, for which a building permit for new construction or renovations was issued after January 1, 1999, but prior to March 1 of the prior Fiscal Year.

"Final Map" means (i) a final map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots for which building permits may be issued, or (ii) for condominiums, a final map, or portion thereof, approved by the City and a condominium plan recorded pursuant to California Civil Code Section 1352 that creates individual lots for which building permits may be issued.

"Fiscal Year" means the period starting July 1 and ending on the following June 30.

"Golf Course Property" means the land area consisting of up to 282.3 Acres to be utilized for golf course purposes including: fairways, greens, driving ranges, tennis facilities, club house, locker rooms, maintenance facilities, garages, pro shop, restaurant, or banquet facilities as geographically identified in the substantial conformance approval granted by the City on October 29, 1999, for Black Mountain Ranch Tentative Map No. VTM-0173, as amended from time-to time or modified pursuant to a final tract map or precise site plan for such golf course property, and listed in Exhibit A. Any Residential Property located within this area shall not be considered Golf Course Property. If the golf course Acreage exceeds the amount stated above, then the Acres exceeding such total shall not be considered Golf Course Property but shall be classified as Property Owner Association Property.

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2 (IA No. 1) Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Institutional Property" means Assessor's Parcels of Developed Property, including up to 11.9 Acres, for which the building permit was issued for the following institutional uses: day care center, recreation center, seniors center, private school or church. If the Acreage of institutional uses exceeds the amount stated above, then the Acres exceeding such total shall not be considered Institutional Property but shall be classified as Non-Residential Property.

"Land Use Class" means any of the classes listed in Table 1.

"Master Developer" means Santaluz, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 2 (IA No. 1).

"Maximum Annual Special Tax" means the maximum annual Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of Developed Property, excluding Golf Course Property and Institutional Property, for which a building permit(s) was issued for a non-residential use.

"Outstanding Bonds" means all CFD No. 2 (IA No. 1) Bonds which are deemed to be outstanding under the Indenture.

"Property Owner Association Property" means any property within the boundaries of CFD No. 2 (IA No. 1) owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association.

"Proportionately" means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Annual Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property.

"Proposed Custom Lot" means any property designated as a custom lot in the most current Updated Report, or if an Updated Report has yet not been provided, in the Original Report.

"Public Property" means any property within the boundaries of CFD No. 2 (IA No. 1) that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to any agency of the federal government, the State of California, the County, the City or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

"Purchase and Financing Agreement" means (i) the Purchase and Financing Agreement by and between the City and Fairbanks Highlands LLC and Santaluz LLC that was approved by the Council on February 7, 2000, as it may be modified or supplemented from time to time and/or (ii) the Purchase and Financing Agreement by and between the City and Black Mountain Ranch LP that was approved by the Council on February 7, 2000, as it may be modified or supplemented from time to time.

"RMA" means this amended and restated Rate and Method of Apportionment.

"Residential Property" means (i) Custom Lot Property, and (ii) all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

"Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property, to fund the Special Tax Requirement or the Backup Special Tax Requirement.

"Special Tax Requirement" means, for any Fiscal Year, the amount required after taking into account amounts held in funds and accounts under the Indenture which are intended to be used to pay debt service on Outstanding Bonds in the calendar year beginning in such Fiscal Year, to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 2 (IA No. 1) Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 2 (IA No. 1) Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for any CFD No. 2 (IA No. 1) Bonds; (v) pay directly for authorized facilities in accordance with the Purchase and Financing Agreement; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2 (IA No. 1) which are not exempt from the Special Tax pursuant to law or Section F below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section F below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section F below.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Property Owner Association Property, or Taxable Public Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of

apportionment determined pursuant to Sections C, D and E below.

C. MAXIMUM ANNUAL SPECIAL TAX

1. Developed Property

Residential Property shall be assigned to Land Use Classes 1 through 14 as listed in the table below based upon the type of structure or the Residential Floor Area for each unit or units located on an Assessor's Parcel, or in the case of Custom Lot Property to Land Use Class 13. Non-Residential Property shall be assigned to Land Use Class 15. Golf Course Property shall be assigned to Land Use Class 16. Institutional Property shall be assigned to Land Use Class 17.

(a). Maximum Annual Special Tax

The Maximum Annual Special Tax for each Assessor's Parcel classified as Developed Property shall be equal to the sum of the Assigned Special Tax and any Backup Special Tax due on such Assessor's Parcel.

(b). Assigned Special Tax

The Fiscal Year 2000-01 Assigned Special Tax for each Land Use Class is shown in Table 1.

TABLE 1

**Fiscal Year 2000-01 Assigned Special Taxes for Developed Property
CFD No. 2 (Improvement Area No. 1)**

Land Use Class	Description	Residential Floor Area/Unit Type	Assigned Special Tax Per unit/Acre
1	Residential Property	< 1,750 sq. ft	\$1,755.01 per unit
2	Residential Property	1,750 to 2,249 sq. ft	\$2,285.90 per unit
3	Residential Property	2,250 to 2,749 sq. ft.	\$2,764.14 per unit
4	Residential Property	2,750 to 3,149 sq. ft.	\$3,461.76 per unit
5	Residential Property	3,150 to 3,749 sq. ft.	\$4,102.34 per unit
6	Residential Property	3,750 to 4,049 sq. ft.	\$4,852.61 per unit
7	Residential Property	4,050 to 4,499 sq. ft.	\$4,979.85 per unit
8	Residential Property	4,500 to 4,999 sq. ft.	\$5,765.21 per unit
9	Residential Property	5,000 to 5,499 sq. ft.	\$7,191.16 per unit
10	Residential Property	5,500 to 5,999 sq. ft.	\$7,880.00 per unit
11	Residential Property	6,000 to 6,499 sq. ft.	\$8,564.46 per unit
12	Residential Property	≥ 6,500 sq. ft.	\$8,884.75 per unit
13	Residential Property	Custom Lots	\$8,884.75 per unit
14	Residential Property	Affordable Units	\$102.00 per unit
15	Non-Residential Property	Not Applicable	\$5,066.55 per Acre
16	Golf Course Property	Not Applicable	\$500.69 per Acre
17	Institutional Property	Not Applicable	\$102.00 per Acre

(c). Increase in the Assigned Special Tax

On each July 1, commencing July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1), the Assigned Special Tax for Developed Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2, the Assigned Special Tax for Developed Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Assigned Special Tax that may be levied after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1).

(d). Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain

more than one Land Use Class. The Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Assigned Special Tax and any Backup Special Tax that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each land use as determined by reference to the site plan approved for such Assessor's Parcel.

In the event that Custom Lot Properties are combined, the Assigned Special Tax on an Assessor's Parcel of Custom Lot Property shall be the sum of the Assigned Special Taxes for all of the predecessor Custom Lot Properties. Should Custom Lot Properties be subdivided so that the total number of Custom Lot Properties is decreased, the CFD Administrator shall allocate the Assigned Special Taxes from the lost parcel(s) to the remaining Custom Lot Properties proportionately based on the additional acreage apportioned to each remaining Custom Lot Property.

2. Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property

(a). Maximum Annual Special Tax

The Fiscal Year 2000-01 Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property shall be \$18,842.67 per Acre.

(b). Increase in the Maximum Annual Special Tax

On each July 1, commencing July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1), the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2, the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1).

D. BACKUP SPECIAL TAX

The following definitions apply to this Section D:

"Backup Special Tax Account" means the fund or account (regardless of its name) identified in the Indenture to hold payments of Backup Special Taxes received from property owners within CFD No. 2 (IA No. 1).

"Backup Special Tax Requirement" means the total amount of Backup Special Taxes necessary as calculated under Section D.7 below, as of the date of any Backup Special Tax calculation.

"Builder" means the merchant builder for each Assessor's Parcel.

"Builder Certificate" means a certificate from the Builder of a Development Product stating that such Development Product will generate at least the amount of Assigned Special Taxes that was projected in the Original Report or Updated Report that was relied upon by the CFD Administrator in issuing the most recent Letter of Compliance for such Development Product.

"Buildout" means, for any Development Product, that all Taxable Property is considered Developed Property or Update Property.

"Built Out Development Product" means a Development Product which has reached Buildout.

"Certificate of Satisfaction of Backup Special Tax" means a certificate from the CFD Administrator stating that the property described in such certificate has sufficiently met the Backup Special Tax Requirement for such property as calculated under Section D.7 below.

"Development Product" means a geographic area representing the expected construction phases planned to be developed by each merchant builder or sold to custom lot buyers. The Original Report will designate the geographic area included in each Development Product by tract and lot.

"Letter of Compliance" means a letter from the CFD Administrator stating that the property described in such letter will generate sufficient Assigned Special Taxes if developed as described the most current Updated Report, or if an Updated Report has yet not been provided, in the Original Report.

"Update Property" means an Assessor's Parcel of Undeveloped Property for which a building permit has been issued and/or a Proposed Custom Lot for which escrow has closed to a buyer who is not in the regular course of business of building homes for resale, but which has not yet been classified as Developed Property because such events occurred after the March 1 cutoff for the current Fiscal Year. For purposes of all calculations in Section D, Update Property shall be taxed as if it were Developed Property.

1. Original Report

Concurrently with the approval of this RMA the Master Developer shall submit a report (the “Original Report”) to the CFD Administrator containing a lot-by-lot listing for each Development Product that identifies for each expected taxable lot the expected Builder, Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

At the request of the Master Developer, the CFD Administrator may amend the Original Report to reflect changes approved by the City, provided that changes in the Original Report shall not be permitted if the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) are reduced by such changes.

2. Updated Report

The Master Developer shall submit updated reports to the CFD Administrator quarterly (within 45 days after each March 31, June 30, September 30, and December 31) until CFD No. 2 (IA No. 1) reaches Buildout for all Development Products. Such report shall contain a lot-by-lot listing for each Development Product that lists for each expected taxable lot the expected or actual Builder, Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage, and compares such information to the information provided for such property in the Original Report. For Assessor’s Parcels of Developed Property and Update Property, the quarterly updated report will also include the date the building permit was issued, or the date that escrow closed to an end user of a Proposed Custom Lot. Upon approval by the CFD Administrator, such report shall constitute an Updated Report (the “Updated Report”).

In no case shall the Master Developer change the designation of a Proposed Custom Lot after the earlier of the following: (i) a building permit is issued for such lot; or (ii) escrow has closed to the end user of such lot.

3. Initial Letters of Compliance

If, based on the Original Report, the CFD Administrator determines that the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) at Buildout, less estimated annual Administrative Expenses, will provide at least 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, the CFD Administrator shall, within 30 days of the submittal of the Original Report, issue a Letter of Compliance with respect to each Development Product. If the CFD Administrator cannot make this determination then no Letters of Compliance will be issued.

4. Letters of Compliance Based on Updated Reports

Upon the receipt of each Updated Report, the CFD Administrator shall make one of the determinations set forth in the following two paragraphs.

If, based on the Updated Report, the CFD Administrator determines that the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) at Buildout, less estimated annual Administrative Expenses, will provide at least 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, the CFD Administrator shall, within 30 days of the submittal of the Updated Report, issue a Letter of Compliance with respect to each Development Product.

If, based on the Updated Report, the CFD Administrator determines that the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) at Buildout, less estimated annual Administrative Expenses, will not provide at least 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, then the CFD Administrator shall:

- (a) Calculate the Assigned Special Taxes expected to be generated by each Development Product based on the Updated Report immediately preceding the current Updated Report; and
- (b) Calculate the Assigned Special Taxes expected to be generated by each Development Product according to the current Updated Report.

Any previously issued Letters of Compliance will be rescinded for all Development Products that (i) have not reached Buildout (as determined based on the Updated Report immediately preceding the current Updated Report) and (ii) for which the amount computed pursuant to 4.(b) above is less than the amount computed pursuant to 4.(a) above. The CFD Administrator shall, within 30 days of the submittal of an Updated Report, notify the Master Developer, Builder, and City Building Department that such Letters of Compliance have been rescinded. If building permits have already been issued or if escrows on Proposed Custom Lots have closed to end users in a Development Product for which the Letter of Compliance has been rescinded, then the CFD Administrator shall calculate and levy the Backup Special Tax pursuant to Section D.7 below for the Assessor's Parcels for which building permits have been issued or escrows have closed.

5. Issuance of Building Permits for Parcels with a Letter of Compliance

Each time a request for a building permit (or group of permits) is submitted to the City Building Department within a Development Product, the Builder shall provide a copy of the Letter of Compliance for the applicable property, along with either a Builder Certificate or a Certificate of Satisfaction of Backup Special Tax. No building permit shall be issued without (i) a Letter of Compliance and (ii) either a Builder Certificate or a Certificate of Satisfaction of Backup Special Tax.

6. Builder Notification for Parcels without a Letter of Compliance and Builder Certificate

At least 30 days prior to submitting a building permit application for property that

does not have a valid Letter of Compliance, or for property that has received a Letter of Compliance but for which the Builder is unable to provide a Builder Certificate, the Builder shall notify the CFD Administrator of its intent to request building permits for particular lots within a Development Product. The Builder's notification ("Builder Notification") shall include for each Assessor's Parcel for which building permits are being requested the proposed Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

If the CFD Administrator determines based on the calculations in Section D.7 that no Backup Special Tax is required for the Assessor's Parcels included within the Builder Notification, then the CFD Administrator shall, within 30 days of the submittal of the Builder Notification, issue a Letter of Compliance and a Certificate of Satisfaction of Backup Special Tax with respect to such property.

7. Calculation of Backup Special Tax

Upon the receipt of a Builder Notification or determination under Section D.4 that a Backup Special Tax may be required, the CFD Administrator shall determine the Backup Special Tax to be applied to the property identified in the Builder Notification (or by the CFD Administrator) by undertaking the following steps:

- Step 1. Determine the total Special Tax revenues required in each Fiscal Year to generate 115% debt service coverage on all Outstanding Bonds plus estimated Administrative Expenses. For purposes of this calculation, the annual debt service shall be adjusted to reflect the future redemption of Outstanding Bonds with funds on deposit in the Backup Special Tax Account.
- Step 2. Subtract the total Assigned Special Taxes (based on the current Updated Report) for all of CFD No. 2 (IA No. 1) from the amount computed pursuant to step 1. The remainder is the shortfall amount to be allocated to all Development Products that have lost Special Tax revenue since the previous Updated Report and that have not yet reached Buildout (as determined based on the Updated Report immediately preceding the current Updated Report).
- Step 3. For each Development Product that has lost Special Tax revenue since the previous Updated Report and that has not yet reached Buildout (as determined based on the Updated Report immediately preceding the current Updated Report, subtract the Assigned Special Taxes for such Development Product based on the current Updated Report from the Assigned Special Taxes for such Development Product based on the Updated Report immediately preceding the current Updated Report.
- Step 4. Multiply the remainder amount from step 2 by a fraction, the numerator of which is the amount computed for such Development

Product in step 3, and the denominator of which is the total amount computed for all Development Products in step 3. The result is the amount of the shortfall to be allocated to the Development Product in question.

Step 5. Determine the amount of CFD No. 2 (IA No. 1) Bonds that can be supported by the shortfall amount computed under step 4, with 115% debt service coverage.

Step 6. The Backup Special Tax Requirement will be calculated using the prepayment formula described in Section I.1, with the following exceptions: (i) the Bond Redemption Amount in Paragraph 3 of the prepayment formula described in Section I.1 shall equal the amount calculated pursuant to step 5; (ii) no Future Facilities Amount shall be required pursuant to Paragraphs 4 and 5 in Section I.1; (iii) in Paragraph 7 of the prepayment formula described in Section I.1, compute the amount needed to pay interest on the Bond Redemption Amount until the first redemption date that occurs after two years from the initial date of payment of Backup Special Taxes; (iv) no determination of amounts pursuant to Paragraphs 8, 9 and 14 in Section I.1 need be made; (v) any payments of the Backup Special Tax (less Administrative Fees and Expenses) shall be deposited into the Backup Special Tax Account and disbursed pursuant to the Indenture; and (vi) the Maximum Special Taxes applicable to an Assessor's Parcel shall not be reduced or relieved as a result of payment of the Backup Special Tax.

Step 7. The Backup Special Tax for each Assessor's Parcel included in the Builder Notification (or, if the calculation is required pursuant to Section D.4, for which building permits have been issued or escrow has closed) shall be calculated by multiplying the Backup Special Tax Requirement by the quotient of the Acreage of such Assessor's Parcel divided by the Acreage of all Assessor's Parcels of Taxable Property within the Development Product(s) for which the Backup Special Tax is being calculated.

The Backup Special Taxes computed under step 7 shall be billed directly to the owner of each Assessor's Parcel and shall be due within 30 days of the billing date. If Backup Special Taxes are not paid within 45 days of the billing date, a delinquent penalty of 10 percent shall be added to the Backup Special Taxes, and no additional building permits shall be issued for any property owned by the Builder or Master Developer, as applicable, until payment is received. Upon receipt of the Backup Special Tax payment, the CFD Administrator shall issue a Letter of Compliance (if one has not been issued for such Assessor's Parcels) and a Certificate of Satisfaction of Backup Special Tax for the subject property.

8. Use/Release of Backup Special Tax Payments

When CFD No. 2 (IA No. 1) reaches Buildout, the CFD Administrator shall calculate the actual Assigned Special Taxes that will be generated from each Development Product. If the actual Assigned Special Taxes, less estimated annual Administrative Expenses, will provide 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, the balance in the Backup Special Tax Account shall be returned to the payer as established under the Indenture. If Backup Special Taxes have been paid by more than one entity, the amount of Backup Special Taxes returned to each payer shall be in proportion to the amount paid by each entity. If based on such calculation at Buildout, the actual Assigned Special Taxes do not generate sufficient coverage, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 1) Bonds on the next available redemption date. If CFD No. 2 (IA No. 1) has not reached Buildout within two years after the first payment of Backup Special Taxes, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 1) Bonds on the next available redemption date.

E. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2000-01 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property in an amount equal to 100% of the applicable Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Annual Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property or Taxable Public Property at up to the Maximum Annual Special Tax for Taxable Property Owner Association Property or Taxable Public Property.

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two and three above in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 2 (IA No. 1) Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2 (IA No. 1) Bonds (except refunding bonds) to be supported by Special Taxes levied under this Rate and Method of Apportionment; and (iii) all facilities identified on Exhibit A to the Purchase and Financing Agreement have been acquired.

F. EXEMPTIONS

No Special Tax shall be levied on up to 339.5 Acres of Property Owner Association Property and 1,374.4 Acres of Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property, its tax-exempt status will be revoked and such Assessor's Parcel will be assigned to a Land Use Class if it is Developed Property or as Undeveloped Property, as appropriate.

Property Owner Association Property or Public Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the third step in Section E above, at up to 100% of the applicable Maximum Annual Special Tax for Taxable Property Owner Association Property or Taxable Public Property.

G. APPEALS AND INTERPRETATIONS

Any landowner or resident may file a written appeal of the Special Tax on his/her property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall make a recommendation to the City Manager or designee to eliminate or reduce the Special Tax on the appellant's property and/or to provide a refund to the appellant. The approval of the City Manager or designee must be obtained prior to any such elimination or reduction. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the City Manager or designee by filing a written notice of appeal with the City Clerk, provided that the appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination.

Interpretations may be made by the Council by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Rate and Method of Apportionment.

H. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2 (IA No. 1) may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

I. PREPAYMENT OF SPECIAL TAX

1. **Payment in Full**

The following definitions apply to this Section I:

"Certificate of Occupancy" means a certificate of occupancy issued by the City Building Department.

"Construction Fund" means the account (regardless of its name) identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Custom Lot Merchant Builder" means a buyer who (i) is in the regular course of business of building homes for resale as determined by the CFD Administrator, and (ii) owns four or more Proposed Custom Lots.

"Future Facilities Costs" means the CFD No. 2 (IA No. 1) Public Facilities minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance public facilities costs.

"CFD No. 2 (IA No. 1) Public Facilities" means either \$42,337,474 in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2 (IA No. 1) under the authorized Mello-Roos financing program for CFD No. 2 (IA No. 1), or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2 (IA No. 1) Bonds to be supported by Special Taxes.

"Outstanding Bonds" means all Previously Issued Bonds which remain outstanding as of the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all CFD No. 2 (IA No. 1) Bonds that have been issued by CFD No. 2 (IA No. 1) prior to the date of prepayment.

"Total Tax and Assessment Obligation" means for an Assessor's Parcel or portion of an Assessor's Parcel, the sum of the *ad valorem* taxes and any special assessments

or taxes which may be included on the annual property tax bill, including but not limited to: CFD No. 2, general obligation debt of the City or any other public agency, improvement district charges, vector control charges, and standby charges projected by the CFD Administrator to be applicable to the Assessor's Parcel in the Fiscal Year following the issuance of a Certificate of Occupancy as discussed in Section I.3 below.

“Value” means the sales price as established in the escrow documents for the sale to the first private residential owner. If the sales price only reflects the sale of the lot, then Value shall also include the anticipated value of any house to be constructed thereon.

Only an Assessor's Parcel of Developed Property or Undeveloped Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to an Assessor's Parcel may be prepaid and the obligation of the Assessor's Parcel to pay any Special Tax permanently satisfied as described herein, provided that a prepayment may be made with respect to a particular Assessor's Parcel only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 2 (IA No. 1) Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

	Bond Redemption Amount
plus	Future Facilities Amount
plus	Redemption Premium
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
less	<u>Capitalized Interest Credit</u>
Total: equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property for which building permits have already been issued, compute the Assigned Special Tax for the Assessor's Parcel to be prepaid as

though it were already designated as Developed Property, based upon the building permit which has been issued for that Assessor's Parcel.

2. Divide the Assigned Special Tax computed pursuant to paragraph 1 by the estimated Assigned Special Taxes for the entire CFD No. 2 (IA No. 1) based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of the entire CFD No. 2 (IA No. 1), excluding any Assessor's Parcels which have been prepaid.
3. Multiply the quotient computed pursuant to paragraph 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "*Bond Redemption Amount*").
4. Compute the current Future Facilities Costs.
5. Multiply the quotient computed pursuant to paragraph 2 by the amount determined pursuant to paragraph 4 to compute the amount of Future Facilities Costs to be prepaid (the "*Future Facilities Amount*").
6. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium*").
7. Compute the amount needed to pay interest on the Bond Redemption Amount to be redeemed until the earliest redemption date for the Outstanding Bonds, less any amounts collected in such Fiscal Year to pay all or a portion of such interest.
8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the minimum amount the CFD Administrator expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10.
12. Compute the net present value of the amount computed pursuant to paragraph 11, using as a discount rate the rate of return assumed by the CFD Administrator in paragraph 10 (the "*Defeasance Amount*").
13. The administrative fees and expenses of CFD No. 2 (IA No. 1) are as calculated by the CFD Administrator and include the costs of computation of

the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2 (IA No. 1) Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "*Administrative Fees and Expenses*").

14. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, the reserve fund credit shall equal the expected reduction in the reserve requirement, if any, associated with the redemption of Outstanding Bonds as a result of the prepayment (the "*Reserve Fund Credit*"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
15. If any capitalized interest for the Outstanding Bonds will not have been expended as of the first bond interest and/or principal payment date following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the quotient computed pursuant to paragraph 2 by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "*Capitalized Interest Credit*").
16. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 5, 6, 12, and 13, less the amounts computed pursuant to paragraphs 14 and 15 (the "*Prepayment Amount*").

From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 6, and 12 less the amounts computed pursuant to paragraphs 14 and 15 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 5 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 13 shall be retained by CFD No. 2 (IA No. 1).

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 2 (IA No. 1) Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of CFD No. 2 (IA No. 1) Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid in full in accordance with this Section I.1., the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax (including any Backup Special Tax) shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Annual Special Taxes that may be levied on Taxable Property within CFD No. 2 (IA No. 1) after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Special Tax on an Assessor’s Parcel of Developed Property or an Assessor’s Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section I.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

- PP = the partial prepayment
- P_E = the Prepayment Amount calculated according to Section I.1
- F = the percentage by which the owner of the Assessor’s Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor’s Parcel who desires such prepayment shall notify the CFD Administrator of (i) such owner’s intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor’s Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor’s Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section I.1, and (ii) indicate in the records of CFD No. 2 (IA No. 1) that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor’s Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Annual Special Tax, shall continue to be levied on such Assessor’s Parcel pursuant to Section E.

3. Mandatory Partial Prepayment for Custom Lots

If an Assessor’s Parcel identified as a Proposed Custom Lot is sold by a Custom Lot Merchant Builder after the issuance of a building permit for such Assessor’s Parcel, the Special Tax for such Assessor’s Parcel shall be prepaid, at or prior to the close of escrow to the first private residential owner for such Assessor’s Parcel, using the partial prepayment methodologies described in Section I.2, such that the resulting Total Tax and Assessment Obligation after the partial prepayment is less than or equal to 2.00 percent of the Value. No mandatory partial prepayment is required if (i)

the Total Tax and Assessment Obligation is less than or equal to 2.00 percent or (ii) the Assessor's Parcel is sold prior to the issuance of a building permit.

J. TERM OF SPECIAL TAX

The Special Tax shall be levied for a period not to exceed fifty years commencing with Fiscal Year 2000-01, provided however that Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2 (IA No. 1) Bonds have been paid; and (ii) all facilities have been acquired and all reimbursements to the developer have been paid pursuant to the Purchase and Financing Agreement.

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EXHIBIT A

LIST OF GOLF COURSE LOTS WITHIN IA No. 1

Lots 258 through 266 of Map No. 14064
Lot 132 of Map No. 14065
Lots 103 through 106 of Map No. 14223
Lots 133 and 134 of Map No. 14276
Lot 52 of Unit 5 (Portion of Golf Course Lot 1, Unit 17 of the substantial conformance approval granted by the City on October 29, 1999, for Black Mountain Ranch Tentative Map No. VTM-0173)