

*In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing law, and assuming compliance with the tax covenants described herein, interest on the 2015 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the 2015 Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.*

**\$3,385,000\***

**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)  
IMPROVEMENT AREA NO. 3  
SPECIAL TAX REFUNDING BONDS SERIES 2015**

**Dated: Date of Delivery**

**Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Refunding Bonds Series 2015 (the "2015 Bonds") are being issued and delivered by Community Facilities District No. 2 (Santaluz) (the "District") to refund the District's outstanding Improvement Area No. 3 Special Tax Bonds, Series B of 2000. See "THE REFUNDING PLAN" herein. The District has been formed by and is located in the City of San Diego, California (the "City").

The 2015 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Bond Indenture, dated as of June 1, 2015 by and between the District and MUFG Union Bank, N.A., as trustee (the "Trustee") (together, the "Bond Indenture").

The 2015 Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within Improvement Area No. 3 of the District ("Improvement Area No. 3") subject to the Special Tax and from certain other funds pledged under the Bond Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment for Improvement Area No. 3, which was approved by the City Council of the City and the qualified electors within Improvement Area No. 3. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Taxes." The City Council of the City is the legislative body of the District.

The 2015 Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof in book-entry form only. Purchasers of 2015 Bonds will not receive certificates representing their beneficial ownership of the 2015 Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2015 Bonds will be payable semiannually on each March 1 and September 1, commencing March 1, 2016. Principal of and interest on the 2015 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the beneficial owners of the 2015 Bonds. See "THE 2015 BONDS — General Provisions" and APPENDIX F — "BOOK-ENTRY ONLY SYSTEM" herein.

*Neither the faith and credit nor the taxing power of the City, the County of San Diego, the State of California or any political subdivision thereof is pledged to the payment of the 2015 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2015 Bonds. The 2015 Bonds are special tax obligations of the District payable solely from Special Taxes and certain other amounts held under the Bond Indenture as more fully described herein.*

The 2015 Bonds are subject to redemption prior to maturity as set forth herein. See "THE 2015 BONDS — Redemption" herein.

**Certain events could affect the ability of the District to pay the principal of and interest on the 2015 Bonds when due. The purchase of the 2015 Bonds involves significant investment risks, and the 2015 Bonds may not be suitable investments for many investors. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2015 Bonds.**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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**MATURITY SCHEDULE**

**(See Inside Cover Page)**

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*The 2015 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, and subject to certain other conditions. Norton Rose Fulbright US LLP is serving as Disclosure Counsel to the District with respect to the 2015 Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriter by Nossaman LLP, Irvine, California, as counsel to the Underwriter. It is anticipated that the 2015 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about June \_\_\_\_, 2015.*

**STIFEL**

Dated: May \_\_, 2015

\* Preliminary; subject to change.

**MATURITY SCHEDULE**

(Base CUSIP<sup>†</sup>: \_\_\_\_\_)

| <i>Maturity Date<br/>(September 1)</i> | <i>Principal Amount</i> | <i>Interest Rate</i> | <i>Yield</i> | <i>CUSIP<sup>†</sup></i> |
|--|-------------------------|----------------------|--------------|--------------------------|
|--|-------------------------|----------------------|--------------|--------------------------|

|          |         |  |               |                          |
|----------|---------|--|---------------|--------------------------|
| \$ _____ | _____ % | <b>Term Bond due September 1, 20__</b> | Yield _____ % | CUSIP <sup>†</sup> _____ |
| \$ _____ | _____ % | <b>Term Bond due September 1, 20__</b> | Yield _____ % | CUSIP <sup>†</sup> _____ |

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**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)**

**CITY COUNCIL**

**Serving as the Legislative Body of  
Community Facilities District No. 2 (Santaluz)**

Sherri S. Lightner (*District 1*)

Lorie Zapf (*District 2*)

Todd Gloria (*District 3*)

Myrtle Cole (*District 4*)

Mark Kersey (*District 5*)

Chris Cate (*District 6*)

Scott Sherman (*District 7*)

David Alvarez (*District 8*)

Marti Emerald (*District 9*)

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Norton Rose Fulbright US LLP  
Los Angeles, California

**MUNICIPAL ADVISOR**

Fieldman, Rolapp & Associates, Inc.  
Irvine, California

**SPECIAL TAX CONSULTANT**

Willdan Financial Services  
Temecula, California

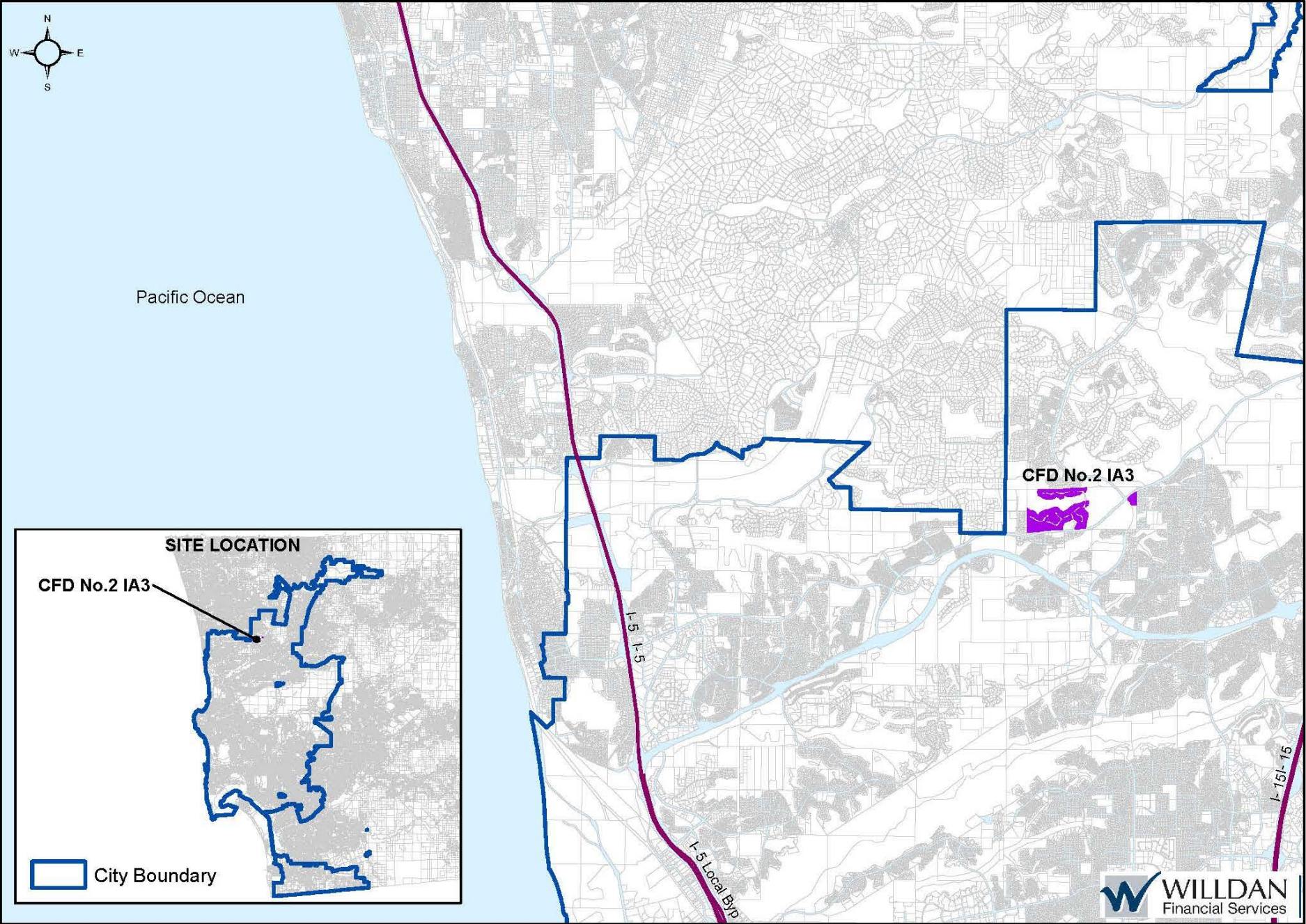
**TRUSTEE**

MUFG Union Bank, N.A.  
Los Angeles, California

**VERIFICATION AGENT**

Causey Demgen & Moore P.C.  
Denver, Colorado

City of San Diego  
Community Facilities District No. 2 Improvement Area 3



No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the 2015 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District, the Trustee or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2015 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Beneficial Owners of the 2015 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board, or a nationally recognized municipal securities depository.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information in APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the District or the City or the Underwriter as to the accuracy or completeness of such information.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the City or the District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the District or any other parties described herein since the date hereof. All summaries of the Bond Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

A wide variety of other information, including financial information, concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

*Cautionary Information Regarding Forward-Looking Statements in the Official Statement*

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as set forth in the Continuing Disclosure Certificate, a form of which is attached as APPENDIX D, the District has no plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

**In connection with the offering of the 2015 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of such bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2015 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof, and such public offering prices may be changed from time to time by the Underwriter.**

**The 2015 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The 2015 Bonds have not been registered or qualified under the securities laws of any state.**

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**\$3,385,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)**  
**IMPROVEMENT AREA NO. 3**  
**SPECIAL TAX REFUNDING BONDS SERIES 2015**

**INTRODUCTION**

**General**

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of 2015 Bonds (defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX C — “SUMMARY OF BOND INDENTURE — Definitions” herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 2 (Santaluz) (the “District”) of the \$3,385,000\* Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Refunding Bonds Series 2015 (the “2015 Bonds”). The proceeds of the 2015 Bonds, together with certain existing funds of the District, will be used to defease all of the District’s outstanding Improvement Area No. 3 Special Tax Bonds Series B of 2000, originally issued in the aggregate principal amount of \$4,350,000 and now outstanding in the principal amount of \$3,350,000 (the “2000 Bonds”). A portion of the 2015 Bonds will be used to fund a deposit to the Reserve Account and to pay costs of issuance of the 2015 Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The 2015 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and a Bond Indenture dated as of June 1, 2015 (the “Bond Indenture”) by and between the District and MUFJ Union Bank, N.A. (the “Trustee”). Upon their issuance, the 2015 Bonds will be the only outstanding bonds of Improvement Area No. 3 and will be secured under the Bond Indenture by a pledge of and lien upon Net Taxes (as defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Bond Indenture. The District will covenant in the Bond Indenture not to issue any other bonds or indebtedness secured by the Special Taxes except for refunding bonds as described herein. See “THE 2015 BONDS—Issuance of Parity Bonds” herein.

**The District**

*Formation Proceedings.* The District was formed by the City of San Diego (the “City”) pursuant to the Act on March 14, 2000.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners within such district and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

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\* Preliminary, subject to change.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to designate within it Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3, to authorize the levy of special taxes on taxable property within the boundaries of the respective improvement areas of the District, and to have the District incur bonded indebtedness for each of the respective improvement areas. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District, designating within it Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3, authorizing the levy of special taxes on property within Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3 and calling special elections to submit the levy of the special taxes and the incurring of bonded indebtedness to the qualified voters of Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3, respectively. On March 14, 2000, at elections held pursuant to the Act, the landowners who comprised the qualified voters of Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3 authorized the District to incur bonded indebtedness on behalf of Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3 in aggregate principal amounts not to exceed \$62,200,000, \$3,000,000 and \$4,800,000, respectively. At the elections held on March 14, 2000, and in order to provide a source of funds to pay the principal of and interest on the respective authorized bonds, the qualified voters of Improvement Area No. 1 approved a rate and method of apportionment of special taxes for Improvement Area No. 1, the qualified voters of Improvement Area No. 2 approved a rate and method of apportionment of special taxes for Improvement Area No. 2 and the qualified voters of Improvement Area No. 3 approved a rate and method of apportionment of special taxes for Improvement Area No. 3.

Pursuant to the Act, the City Council undertook proceedings to annex Improvement Area No. 4 into the District including calling a special election to submit the levy of the special taxes and the incurring of bonded indebtedness to the qualified voters of Improvement Area No. 4. At the election held pursuant to the Act, the landowners who comprised the qualified voters of Improvement Area No. 4 authorized the District to incur bonded indebtedness on behalf of Improvement Area No. 4 in an aggregate principal amount not to exceed \$10,500,000. In order to provide a source of funds to pay the principal of and interest on the authorized bonds, the qualified voters of Improvement Area No. 4 approved a rate and method of apportionment of special taxes for Improvement Area No. 4.

The rate and method of apportionment of special taxes for Improvement Area No. 3 (the “Rate and Method”) is attached hereto as APPENDIX A. See “THE 2015 BONDS—Authority for Issuance.” The 2015 Bonds are not secured by any special taxes of other improvement areas of the District.

***Description of Improvement Area No. 3.*** Improvement Area No. 3 consists of approximately 387 gross acres containing 93 single family homes and a church. Improvement Area No. 3 is located in the City in the northern portion of the City in northwestern San Diego County, roughly halfway between Interstate 5 and Interstate 15, approximately 20 miles north of downtown San Diego, and approximately 6 miles north of the La Jolla/Golden Triangle Area.

As of January 1, 2014, the net assessed value of the property within Improvement Area No. 3 subject to the levy of the Special Tax (as defined herein) in Fiscal Year 2014-15 was just over \$157 million, resulting in an estimated assessed value to lien ratio of 46.6 to 1\* for the property subject to the Special Tax levy in Fiscal Year 2014-15 based on the principal amount of the 2015 Bonds, and an estimated assessed value to lien ratio of 30.7 to 1\* based upon the principal amount of the 2015 Bonds and the direct and overlapping debt payable from other taxes and assessments levied on the property within Improvement Area No. 3 as of January 1, 2015. See “THE DISTRICT-Estimated Assessed Value-to-Lien Ratios” herein.

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\* Preliminary, subject to change.

## Security and Sources of Payment for the 2015 Bonds

*General.* The 2015 Bonds are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the 2015 Bonds are payable solely from the Special Taxes to be levied annually against the taxable property in Improvement Area No. 3, or, to the extent necessary, from the moneys on deposit in the Reserve Account. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of San Diego County. Although the Special Taxes will constitute a lien on the property subject to taxation in Improvement Area No. 3, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

***Limited Obligations.* Except for the Special Taxes, no other taxes are pledged to the payment of the 2015 Bonds. The 2015 Bonds are not general or special obligations of the City nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Bond Indenture as more fully described herein. The 2015 Bonds are only secured by the Special Taxes from taxable property within Improvement Area No. 3.**

*Special Taxes.* As used in this Official Statement, the term “Special Tax” is that tax which has been authorized pursuant to the Act to be levied against certain interests in property within Improvement Area No. 3, including any scheduled payments and any prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien, but excluding therefrom penalties and interest. The Special Tax will be levied on property within Improvement Area No. 3 in accordance with the Rate and Method. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Taxes” and APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Bond Indenture, the District has pledged to repay the 2015 Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Bond Indenture.

The Special Taxes are the primary security for the repayment of the 2015 Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the 2015 Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Reserve Account of the Special Tax Fund.”

*Foreclosure Proceeds.* The District will covenant for the benefit of the Beneficial Owners of the 2015 Bonds that it will commence, and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against Assessor’s Parcels (as defined in the Rate and Method) with delinquent Special Taxes in excess of \$7,500 by the October 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence, and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against all Assessor’s Parcels with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. The District may treat any delinquent Special Taxes sold to an independent third-party or to any funds of the City for at least 100% of the delinquent amount as having been paid. Proceeds of any such sale up to 100% of the delinquent amount shall be deposited in the Special Tax Fund. As of May 4, 2015, there were two delinquent parcels within Improvement Area No. 3. Although certain parcels have been delinquent in the payment of Special Taxes in the past, the District has never been required to proceed to a foreclosure sale for delinquent Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” and Table 6 herein.

There is no assurance that the property interests within Improvement Area No. 3 against which the Special Taxes are levied can be sold at foreclosure or otherwise for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the 2015 Bonds in the event of a default in payment of Special Taxes by the current or future landowners within Improvement Area No. 3. See “SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios.”

**EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2015 BONDS. THE 2015 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.**

*Parity Bonds and Liens.* The District may, without the consent of the Owners of the 2015 Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the 2015 Bonds (“Parity Bonds”), but only for the purpose of refunding all or a portion of the 2015 Bonds or Parity Bonds issued for refunding purposes. See “THE 2015 BONDS—Issuance of Parity Bonds.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within Improvement Area No. 3 which could adversely affect the willingness of the owners of the taxable parcels in Improvement Area No. 3 to pay the Special Taxes when due. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” herein.

### **Description of the 2015 Bonds**

The 2015 Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the 2015 Bonds (the “Beneficial Owners”) in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2015 Bonds. In the event that the book-entry only system described herein is no longer used with respect to the 2015 Bonds, the 2015 Bonds will be registered and transferred in accordance with the Bond Indenture. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

Principal of, premium, if any, and interest on the 2015 Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the 2015 Bonds, the Beneficial Owners will become the registered owners of the 2015 Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

The 2015 Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption as described herein. For a more complete description of the 2015 Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE 2015 BONDS” and APPENDIX C — “SUMMARY OF BOND INDENTURE” herein.

### **Professionals Involved in the Offering**

MUFG Union Bank, N.A. will act as Trustee under the Bond Indenture. Stifel, Nicolaus & Company, Incorporated is the Underwriter of the 2015 Bonds. Certain proceedings in connection with the issuance and delivery of the 2015 Bonds are subject to the approval of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel and Disclosure Counsel. See APPENDIX E — FORM OF OPINION OF BOND COUNSEL.” Fieldman, Rolapp & Associates, Inc. is acting as Municipal Advisor to the City in connection with the 2015 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the Underwriter by Nossaman LLP, Irvine, California, as Underwriter’s Counsel. Other

professional services have been performed by Willdan Financial Services, Temecula, California, as Special Tax Consultant.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the 2015 Bonds, see “LEGAL MATTERS — Financial Interests” herein.

### **Continuing Disclosure**

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system certain annual financial information and operating data. The District will further agree to provide notice of certain material events. These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” herein and APPENDIX D hereto for a description of the specific nature of the annual reports to be filed by the District and notices of material events to be provided by the District. Within the last five years, the District failed to timely comply with certain of its prior continuing disclosure obligations under Rule 15c2-12(b)(5) as described herein; however, the District is now current on all required filings. See “CONTINUING DISCLOSURE.”

### **Bond Owners’ Risks**

Certain events could affect the timely repayment of the principal of and interest on the 2015 Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2015 Bonds. *The purchase of the 2015 Bonds involves significant investment risks, and the 2015 Bonds may not be suitable investments for many investors.* See “SPECIAL RISK FACTORS” herein.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the 2015 Bonds and the Bond Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Bond Indenture, the 2015 Bonds and the constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the 2015 Bonds, by reference to the Bond Indenture.

Copies of the Bond Indenture, the Continuing Disclosure Certificate and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the Trustee at 120 South San Pedro Street, 4<sup>th</sup> Floor, Los Angeles, California 90012.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the expected sources and uses of 2015 Bond proceeds and prior funds:

**Sources of Funds**

|                                 |          |
|---------------------------------|----------|
| Principal Amount of 2015 Bonds  | \$ _____ |
| Original Issue Premium/Discount | _____    |
| Prior Funds <sup>(1)</sup>      | _____    |
| TOTAL SOURCES                   | \$ _____ |

**Uses of Funds**

|  |          |
|--|----------|
| Defeasance of 2000 Bonds                 | \$ _____ |
| Reserve Account                          | _____    |
| Costs of Issuance Account <sup>(2)</sup> | _____    |
| Underwriter's Discount                   | _____    |
| TOTAL USES                               | \$ _____ |

<sup>(1)</sup> Funds transferred from the special tax fund including the reserve account relating to the 2000 Bonds.

<sup>(2)</sup> Includes legal fees, municipal advisor fees, special tax consultant fees, verification agent fees, Trustee fees and expenses and other miscellaneous costs.

**THE REFUNDING PLAN**

A portion of the proceeds from the sale of the 2015 Bonds will be used along with other funds held by the District to defease the 2000 Bonds. The District will transfer to the trustee for the 2000 Bonds (the "Prior Trustee") moneys which, together with other amounts held by the Prior Trustee, will be sufficient to defease the 2000 Bonds and redeem the 2000 Bonds maturing on and after September 1, 2016 on September 1, 2015. Upon deposit of the proceeds of the 2015 Bonds with the Prior Trustee, the 2000 Bonds will be discharged under the Bond Indenture pursuant to which they were issued and the 2000 Bonds will no longer be secured by a pledge of and lien on the Special Taxes.

**THE 2015 BONDS**

**General Provisions**

The 2015 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2016 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The 2015 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the 2015 Bonds are held in book-entry form, principal and interest on the 2015 Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM."

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any 2015 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2015 Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest

Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the date of the 2015 Bonds; provided, however, that if at the time of authentication of a 2015 Bond, interest is in default, interest on that 2015 Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

**Authority for Issuance**

The 2015 Bonds will be issued pursuant to the Act and the Bond Indenture. On April 27, 2015, the City Council, acting as the legislative body of the District, adopted a resolution (the “Resolution”) approving the issuance of the 2015 Bonds. The date of final passage of the Resolution was May 12, 2015.

**Debt Service Schedule**

The following table presents the annual debt service on the 2015 Bonds, assuming there are no extraordinary redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part and the Bond Indenture permits redemption of 2015 Bonds on any date from the proceeds of any prepayments of Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Taxes” and “THE 2015 BONDS — Redemption.”

| <i>Period ending</i> | <i>Principal</i> | <i>Interest</i> | <i>Total</i> |
|----------------------|------------------|-----------------|--------------|
|                      | \$               | \$              | \$           |
| <b>TOTAL</b>         | <u>\$</u>        | <u>\$</u>       | <u>\$</u>    |

Source: \_\_\_\_\_

**Redemption**

*Optional Redemption.* The Bonds maturing on or after September 1, 20\_\_ may be redeemed, at the option of the District from any source of funds on any date on or after September 1, 20\_\_, in whole, or in part from such maturities as are selected by the District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

*Mandatory Sinking Payment Redemption.* The Term Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 20\_\_, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20\_\_ Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed 20\_\_ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

**Term Bonds Maturing September 1, 20\_\_**

|                                     |                         |
|-------------------------------------|-------------------------|
| <i>Sinking Fund Redemption Date</i> | <i>Sinking Payments</i> |
|                                     | \$                      |

(maturity)

If the District purchases Term Bonds during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above, the District is required to notify the Trustee at least 45 days prior to the redemption date as to the principal amount purchased, and the amount purchased will be credited at the time of purchase, to the extent of the full principal amount of the purchase. In the event of a partial optional redemption or mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis in the amount of \$5,000 or any integral multiple thereof.

*Extraordinary Redemption from Special Tax Prepayments.* The 2015 Bonds are subject to extraordinary redemption as a whole, or in part, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Reserve Account of the Special Tax Fund”), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption;

|   |                         |
|---|-------------------------|
| <i>Redemption Date</i>                    | <i>Redemption Price</i> |
| September 1, 20__ through August 31, 20__ | %                       |
| September 1, 20__ through August 31, 20__ |                         |
| September 1, 20__ through August 31, 20__ |                         |
| September 1, 20__ and thereafter          |                         |

Prepayments and amounts released from the Reserve Account in connection with Prepayments will be allocated to the redemption of the 2015 Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the 2015 Bonds.



*Notice of Redemption.* So long as the 2015 Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner. The Trustee is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the original purchasers of the 2015 Bonds and the registered Owners of the 2015 Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the 2015 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the 2015 Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the 2015 Bonds are to be redeemed; (v) in the case of 2015 Bonds to be redeemed only in part, state the portion of such 2015 Bond which is to be redeemed; (vi) state the date of issue of the 2015 Bonds as originally issued; (vii) state the rate of interest borne by each 2015 Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 2015 Bonds being redeemed as shall be specified by the Trustee.

With respect to any notice of optional redemption of the 2015 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium if any, and interest on the 2015 Bonds to be redeemed and upon other conditions set forth therein and that, if such money shall not have been so received and such other conditions shall not have been satisfied, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2015 Bonds. If any condition in the notice of redemption is not satisfied, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any 2015 Bond of notice of such redemption is not a condition precedent to redemption. Neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of such 2015 Bonds or the cessation of interest on the date fixed for redemption.

*Effect of Redemption.* When notice of redemption has been given, and when the amount necessary for the redemption of the 2015 Bonds called for redemption is set aside for that purpose in the Redemption Account, the 2015 Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the 2015 Bonds at the place specified in the notice of redemption, and no interest will accrue on the 2015 Bonds called for redemption from and after the redemption date, and the Beneficial Owners of the redeemed 2015 Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such 2015 Bonds or portions of 2015 Bonds only to the Redemption Account and shall have no rights, except with respect to the payment of the redemption price from the Redemption Account.

### **Registration, Transfer and Exchange**

*Registration.* The Trustee will keep sufficient books for the registration and transfer of the 2015 Bonds. The ownership of the 2015 Bonds will be established by the bond registration books held by the Trustee.

*Transfer or Exchange.* Whenever any 2015 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new 2015 Bond or 2015 Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) 2015 Bonds for a period of 15 days next preceding the date of any selection of the 2015 Bonds to be redeemed, or (ii) any 2015 Bonds chosen for redemption.

### **Issuance of Parity Bonds**

Subject to the limitations set forth in the Bond Indenture, the District may, at any time after the issuance and delivery of the 2015 Bonds, and without the consent of the Owners of the 2015 Bonds, issue

additional bonds (“Parity Bonds”) payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the 2015 Bonds and any Parity Bonds theretofore issued pursuant to the Bond Indenture or under any Supplemental Indenture; provided that Parity Bonds may be issued only to refund outstanding 2015 Bonds or Parity Bonds, and only if such refunding results in a reduction of Annual Debt Service in each Bond Year.

The District will covenant in the Bond Indenture not to issue any indebtedness having a lien, charge, pledge or encumbrance on the Net Taxes senior or superior to the 2015 Bonds. The District may issue indebtedness that has a lien, charge, pledge or encumbrance on the Net Taxes junior and subordinated to that for the 2015 Bonds.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS**

### **Covenants and Warranties**

The District will covenant in the Bond Indenture to comply with the covenants and warranties therein, which will be in full force and effect upon the issuance of the 2015 Bonds. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Covenants and Warranty.”

### **Limited Obligations**

The 2015 Bonds are special, limited obligations of the District payable only from amounts pledged under the Bond Indenture and from no other sources.

The Special Taxes are the primary security for the repayment of the 2015 Bonds. Under the Bond Indenture, the District will pledge to repay the 2015 Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses of up to the Administrative Expenses Cap) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, but excluding therefrom penalties and interest imposed upon delinquent installments of Special Taxes.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the 2015 Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Beneficial Owners of the 2015 Bonds.

**Neither the faith and credit nor the taxing power of the City, the County of San Diego, the State of California or any political subdivision thereof is pledged to the payment of the 2015 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2015 Bonds. The 2015 Bonds are not general or special obligations of the City but are special, limited obligations of the District payable solely from the Special Taxes and other amounts pledged under the Bond Indenture as more fully described herein. The 2015 Bonds are only secured by the Special Taxes from taxable property within Improvement Area No. 3.**

### **Special Taxes**

*Levy and Pledge.* The District has covenanted in the Bond Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding

Bonds and Parity Bonds, to replenish the Reserve Account to an amount equal to the Reserve Requirement and to pay the estimated Administrative Expenses.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the 2015 Bonds when due. See “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” herein.

*Rate and Method of Apportionment of Special Taxes.* Special Taxes are levied each fiscal year pursuant to the Rate and Method in order to meet the Special Tax Requirement, as described below. All capitalized terms used in this section shall have the meaning set forth in APPENDIX A.

Under the Rate and Method, all Taxable Property in Improvement Area No. 3 will be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Sections C and D of the Rate and Method.

The Taxable Property within Improvement Area No. 3 consists of 93 residential units that have been classified under the Rate and Method as Residential Property and one church that has been classified under the Rate and Method as Institutional Property.

The Maximum Special Tax for an Assessor’s Parcel of Developed Property will be the sum of the Assigned Special Tax and any Backup Special Tax due on such Assessor’s Parcel.

#### Method and Calculation of Annual Levy

After classifying the parcels, the City Council will determine the Special Tax Requirement (as defined in the Rate and Method for the fiscal year. “Special Tax Requirement” is defined in the Rate and Method as the amount required after taking into account amounts held in funds and accounts under the Bond Indenture which are intended to be used to pay debt service on Outstanding 2015 Bonds and Parity 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 2015 Bonds and Parity Bonds, including, but not limited to, credit enhancement and rebate payments on the 2015 Bonds and Parity Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for any 2015 Bonds and Parity Bonds; (v) pay directly for authorized facilities; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

The Rate and Method requires Special Taxes be levied in accordance with the following three steps: (1) Special Taxes are levied first on Developed Property in an amount equal to 100% of the applicable Assigned Special Tax; (2) if additional monies are needed to satisfy the Special Tax Requirement, then Special Taxes are to be levied proportionately on Undeveloped Property up to 100% of the Maximum Annual Special Tax for Undeveloped Property; and (3) if additional monies are still needed to satisfy the Special Tax Requirement, then Special Taxes are to be levied Proportionately on 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. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.”

Notwithstanding the above, the City Council may, in any Fiscal Year, levy proportionately less than 100% of the Assigned Special Tax under step (1) of the preceding paragraph when (i) the City Council is no longer required to levy a Special Tax, (ii) all authorized bonds of the Improvement Area No. 3 of District have been issued or the City Council has covenanted not to issue other Parity Bonds (other than refunding bonds), and (iii) all Facilities identified in the Purchase and Financing Agreement have been acquired.

Improvement Area No. 3 is currently fully developed with no parcels classified as Undeveloped Property. The District is currently levying Special Taxes in an amount less than 100% of the applicable Assigned Special Tax. See Table 1 below.

Notwithstanding the provisions of the Rate and Method allowing Residential Property to be taxed at the Maximum Special Tax rate, the Act provides that under no circumstances will the Special Taxes levied against any parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of Special Taxes by any other parcel in Improvement Area No. 3.

*Prepayment of Special Taxes.* Under the Rate and Method, the owner of a parcel which is Developed Property or Undeveloped Property for which a building permit has been issued may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes will result in an extraordinary redemption of the 2015 Bonds and any Parity Bonds. See “THE 2015 BONDS—Redemption—*Extraordinary Redemption.*”

*Collection and Application of Special Taxes.* The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The District has made certain covenants in the Bond Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District’s ability to collect sufficient Special Taxes to pay debt service on the 2015 Bonds and any Parity Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will only reduce the maximum Special Tax rates in accordance with the Bond Indenture and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes payable from Developed Property to less than 110% of the sum of estimated Administrative Expenses and Maximum Annual Debt Service on Outstanding 2015 Bonds and Parity Bonds. See “SPECIAL RISK FACTORS—Proposition 218.” Second, the District has covenanted not to permit the tender of Bonds or any Parity Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the 2015 Bonds and any Parity Bonds remaining Outstanding following such tender. See “SPECIAL RISK FACTORS—Non-Cash Payments of Special Taxes.”

Although the Special Taxes constitute liens on Assessor’s Parcels taxed within Improvement Area No. 3, they do not constitute a personal indebtedness of the owners of property within Improvement Area No. 3. Moreover, other liens for taxes and assessments already exist on the property located within Improvement Area No. 3 and others could come into existence in the future in certain situations without the consent or knowledge of the City or the taxpayers in Improvement Area No. 3. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” herein. There is no assurance that the owners of interests in property subject to the Special Tax will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled “SPECIAL RISK FACTORS.”

Under the terms of the Bond Indenture, all Special Tax revenues received by the District, other than Prepayments, are to be deposited in the Special Tax Fund. Special Taxes do not include any penalties and interest relating to delinquent payments of Special Taxes. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund and will be applied on a pro rata basis to redeem Bonds and Parity Bonds. Special Tax revenues deposited in the Special Tax Fund are to be applied by the Trustee under the Bond Indenture in the following order of priority: (i) to pay Administrative Expenses up to an amount equal to the Administrative Expenses Cap for the current Bond Year; (ii) to pay the principal of and interest on the 2015

Bonds when due; (iii) to make required deposits in the Redemption Account; (iv) to replenish the Reserve Account to the Reserve Requirement; (v) to make any required transfers to the Rebate Fund; (vi) to pay any Administrative Expenses not paid under (i) above; and (vii) for any other lawful purpose of the District. See APPENDIX C—“SUMMARY OF BOND INDENTURE.”

*Special Taxes Are Not Within Teeter Plan.* Section 4701 et seq. of the California Revenue and Taxation Code allows a county to adopt a tax distribution procedure which distributes taxes to taxing agencies on the basis of the amount of the tax levy, rather than on the basis of actual tax collections. This mechanism is known as a “Teeter Plan.” The Special Taxes are not subject to the County of San Diego Teeter Plan. The amount of Special Taxes available to pay debt service on the 2015 Bonds will depend on actual tax collections.

*Proceeds of Foreclosure Sales.* The Special Tax revenues pledged to the payment of principal of and interest on the 2015 Bonds under the Bond Indenture include the net proceeds, exclusive of penalties and interest, received following a judicial foreclosure sale of an interest in a parcel within Improvement Area No. 3 resulting from a taxpayer’s failure to pay the Special Taxes when due.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that any delinquent Special Taxes be collected by a superior court action to foreclose the lien of the Special Tax within specified time limits. In such an action, the real property or leasehold interest therein subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the Owners of the 2015 Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) Assessor’s Parcels with delinquent Special Taxes in excess of \$7,500 or more by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all Assessor’s Parcels with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C—“SUMMARY OF BOND INDENTURE” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the 2015 Bonds could be delayed until the foreclosure proceedings result in the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure” herein. Moreover, no assurances can be given that the interests in the property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See “SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios” herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any interest in the property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

## Estimated Debt Service Coverage from Special Taxes

Set forth in Table 1 below are the Fiscal Year 2014-15 Assigned/Maximum Special Tax rates that may be levied on Developed Property and the Fiscal Year 2014-15 actual Special Tax Rates for each land use category. The Maximum Special Tax rate for each parcel of Developed Property is the greater of the Assigned Special Tax or the amount calculated through the application of the Backup Special Tax. The Backup Special Tax will not be levied unless the Special Tax Requirement cannot be funded in full when Special Taxes are levied at the Assigned Special Tax rates for Developed Property and the Maximum Special Tax rates for Undeveloped Property. The Backup Special Tax has never been levied in Improvement Area No. 3 and is not expected to be levied in the future. These Assigned Special Tax rates and the Maximum Special Tax rates do not escalate.

**TABLE 1**  
**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)**  
**IMPROVEMENT AREA NO. 3**  
**FISCAL YEAR 2014-15 ASSIGNED/MAXIMUM AND ACTUAL SPECIAL TAX RATES**

| Land Use Classification <sup>(1)</sup> | Number of Parcels | Assigned/Maximum Special Tax | FY 2014-2015 Actual Special Tax Levied | % of Assigned/Maximum Special Tax |
|--|-------------------|------------------------------|--|-----------------------------------|
| 5 Residential 3,750 to 4,049 sq. ft.   | 12                | \$4,622                      | \$3,460                                | 74.86%                            |
| 6 Residential 4,050 to 4,499 sq. ft.   | 34                | 4,911                        | 3,676                                  | 74.86                             |
| 7 Residential 4,500 to 4,999 sq. ft.   | 12                | 5,200                        | 3,892                                  | 74.86                             |
| 8 Residential 5,000 to 5,499 sq. ft.   | 30                | 5,431                        | 4,065                                  | 74.86                             |
| 9 Residential 5,500 to 5,999 sq. ft.   | 2                 | 5,951                        | 4,455                                  | 74.86                             |
| 10 Residential 6,000 to 6,499 sq. ft.  | 3                 | 6,468                        | 4,842                                  | 74.86                             |
| 13 Institutional Property per Acre     | 1                 | 124                          | 93                                     | 74.86                             |

<sup>(1)</sup> Per the Rate and Method. In the Rate and Method, there are land use class designations of 1 through 13. However, there is no parcel in Improvement Area No. 3 in the land use class designations 1 through 4 and 11 through 12.

Special Taxes will be levied each year in an amount equal to the Annual Special Tax Levy determined in accordance with the Rate and Method. The Annual Special Tax Levy is calculated (taking into consideration anticipated delinquencies) to include an amount equal to the debt service on the 2015 Bonds in the ensuing Bond Year plus the amount required to maintain the Reserve Account at the Reserve Requirement plus the amount needed to pay Administrative Expenses, less the amount of earnings on deposit in the Reserve Account in excess of the Reserve Requirement and other available funds of the District. The Annual Special Tax Levy in Fiscal Year 2014-15 totaled \$359,260 with \$36,268 of this amount budgeted to pay Administrative Expenses, of which \$18,286 represents the Administrative Expense Cap, which is senior in priority to debt service on the Bonds and the remainder junior in priority to the debt service on the Bonds.

The Annual Special Tax Levy in Fiscal Year 2014-15 was approximately 75% of the Assigned Special Tax Rates set forth in the Rate and Method and future levies, absent delinquencies, are projected not to exceed 75% of the Assigned Special Tax Rates.

Based on the land use classifications made under the Rate and Method as of March 1, 2014, if Special Taxes were levied on the Taxable Property at the Assigned Special Tax Rates, the Special Taxes available to pay debt service on the 2015 Bonds after the payment of Administrative Expenses in an amount equal to the Administrative Expenses Cap (\$18,286 in each year) would be at least 110% of the debt service due in each Bond Year commencing after September 1, 2015. Notwithstanding the foregoing, the Act provides that under no circumstances will the Special Taxes levied against any parcel of Residential Property for which an

occupancy permit for private residential use has been issued be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of Special Taxes by any other parcel in Improvement Area No. 3.

**TABLE 2**  
**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)**  
**IMPROVEMENT AREA NO. 3**  
**ESTIMATED DEBT SERVICE COVERAGE**

| <i>Bond Year<br/>Ending<br/>September 1</i> | <i>Estimated Special<br/>Tax Revenues<sup>(1)</sup></i> | <i>Annual<br/>Administrative<br/>Expenses</i> | <i>Special Tax<br/>Revenues Available<br/>for Debt Service</i> | <i>2015 Bonds<br/>Debt Service*</i> | <i>Estimated Debt<br/>Service<br/>Coverage</i> |
|---|---|---|--|-------------------------------------|--|
| 2016  | \$343,086   | \$18,286                                      | \$324,800  | \$295,272                           | 1.10   |
| 2017  | 338,867   | 18,286  | 320,581  | 291,438                             | 1.10   |
| 2018  | 343,927   | 18,286  | 325,641  | 296,038                             | 1.10   |
| 2019  | 341,067   | 18,286  | 322,781  | 293,438                             | 1.10   |
| 2020  | 343,487   | 18,286  | 325,201  | 295,638                             | 1.10   |
| 2021  | 339,967   | 18,286  | 321,681  | 292,438                             | 1.10   |
| 2022  | 341,727   | 18,286  | 323,441  | 294,038                             | 1.10   |
| 2023  | 343,047   | 18,286  | 324,761  | 295,238                             | 1.10   |
| 2024  | 338,427   | 18,286  | 320,141  | 291,038                             | 1.10   |
| 2025  | 336,172   | 18,286  | 317,886  | 288,988                             | 1.10   |
| 2026  | 339,252   | 18,286  | 320,966  | 291,788                             | 1.10   |
| 2027  | 336,502   | 18,286  | 318,216  | 289,288                             | 1.10   |
| 2028  | 338,737   | 18,286  | 320,451  | 291,319                             | 1.10   |
| 2029  | 335,127   | 18,286  | 316,841  | 288,038                             | 1.10   |
| 2030  | 341,975   | 18,286  | 323,689  | 294,263                             | 1.10   |

\* Preliminary; subject to change.

<sup>(1)</sup> Amount represents the maximum expected Special Tax levy as allowed under the Rate and Method and subject to the limitation set forth in the Act.

Source: Willdan Financial Services and Underwriter.

### **Reserve Account of the Special Tax Fund**

In order to secure further the payment of principal of and interest on the 2015 Bonds, the District is required, upon delivery of the 2015 Bonds, to deposit in the Reserve Account an amount equal to the Reserve Requirement and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Bond Indenture provides that the amount in the Reserve Account shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the 2015 Bonds; (ii) the maximum annual debt service on the then Outstanding 2015 Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding 2015 Bonds; provided, however, the Reserve Requirement on any calculation date will not be greater than the Reserve Requirement amount on the date of delivery of the 2015 Bonds. As of the date of issuance of the 2015 Bonds, the Reserve Requirement will be fully funded in the amount of \$296,037.50\*.

Subject to the limits on the maximum annual Special Tax which may be levied within Improvement Area No. 3 as described in APPENDIX A, the District will covenant to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the 2015 Bonds, to the extent other monies are not available therefor; (ii) redeem the 2015 Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of the 2015 Bonds. In the event of a prepayment of Special Taxes, under certain circumstances, a

\* Preliminary, subject to change.

portion of the Reserve Account will be added to the amount being prepaid and be applied to redeem 2015 Bonds; provided, however, that no such transfer shall be made if it would result in the amount in the Reserve Account being less than the Reserve Requirement. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Reserve Account” herein.

### **IMPROVEMENT AREA NO. 3**

#### **General Description of Improvement Area No. 3**

Improvement Area No. 3 consists of approximately 387 gross acres located in the northern portion of the City in northwestern San Diego County, roughly halfway between Interstate 5 and Interstate 15 approximately 20 miles northeast of the City’s downtown area and 6 miles north of the La Jolla/Golden Triangle Area.

The residential development within Improvement Area No. 3 is known as “Fairbanks Highlands.” Improvement Area No. 3 is fully built out with 93 single family residential homes and a church. The last residential building permit for new construction was issued on June 6, 2000. The single family homes range in size from 3,750 square feet to 6,499 square feet with lot sizes ranging from 30,056 square feet to 301,870 square feet. The assessed values of such homes for Fiscal Year 2014-15 range from \$1,092,887 to \$2,461,123 with an average net assessed value of \$1.7 million.

Table 3 below sets forth the net assessed value and the annual change in net assessed value for taxable property within Improvement Area No. 3 for Fiscal Years 2010-11 through 2014-15.

**TABLE 3  
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)  
IMPROVEMENT AREA NO. 3  
ANNUAL CHANGE IN NET ASSESSED VALUE**

| Year    | Net Assessed Value <sup>(1)</sup> | % Change in Assessed Value |
|---------|-----------------------------------|----------------------------|
| 2010/11 | \$140,651,435                     | N/A                        |
| 2011/12 | 144,686,866                       | 2.87%                      |
| 2012/13 | 140,568,955                       | -2.85                      |
| 2013/14 | 140,120,154                       | -0.32                      |
| 2014/15 | 157,686,624                       | 12.54                      |

<sup>(1)</sup> Net Assessed Values as of January of each year from the San Diego County Assessor's Roll. Net assessed values are net of homeowners’ exemptions, which provide for a reduction of \$7,000 off the assessed value of a qualifying residence. Amounts do not include the assessed value of one religious property. Significant increase in Fiscal Year 2014-15 is due to 20 parcels whose assessed value increased between \$400,000 to \$875,000 primarily due to Proposition 8 reassessments.

Whether assessed values decrease or increase in the future will depend on conditions in the real estate market and other factors. See” SPECIAL RISK FACTORS—Risks of Real Estate Secured Investments Generally,” “—Risks Related to Current Market Conditions” and “—Property Values; Value-to-Lien Ratios.”

#### **Estimated Direct and Overlapping Indebtedness**

Within the boundaries of Improvement Area No. 3 are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on parcels within Improvement Area No. 3 and others have authorized but have not yet issued



bonds which, if issued, will be secured by taxes and assessments levied on parcels within Improvement Area No. 3. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within Improvement Area No. 3 for Fiscal Year 2014-15 is shown in Table 4 below.

**TABLE 4  
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)  
IMPROVEMENT AREA NO. 3  
DIRECT AND OVERLAPPING DEBT SUMMARY**

2014-15 Local Secured Assessed Valuation: \$166,780,577\*

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>                   | <u>% Applicable</u> | <u>Debt 1/1/15</u>          |
|--|---------------------|-----------------------------|
| Metropolitan Water District General Obligation Bonds                     | 0.007%              | \$ 8,708                    |
| Palomar Community College District General Obligation Bonds              | 0.159               | 496,704                     |
| Poway Unified School District Community Facilities District No. 7        | 100.                | 1,240,000                   |
| <b>City of San Diego Community Facilities District No. 2, I.A. No. 3</b> | <b>100.</b>         | <b><u>3,350,000</u></b> (1) |
| <b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>              |                     | <b>\$5,095,412</b>          |
| <br><u>OVERLAPPING GENERAL FUND DEBT:</u>                                |                     |                             |
| San Diego County General Fund Obligations                                | 0.038%              | \$ 139,920                  |
| San Diego County Pension Obligation Bonds                                | 0.038               | 257,611                     |
| San Diego County Superintendent of Schools Obligations                   | 0.038               | 6,030                       |
| Palomar Community College District Certificates of Participation         | 0.159               | 7,043                       |
| Poway Unified School District Certificates of Participation              | 0.430               | 268,532                     |
| City of San Diego General Fund Obligations                               | 0.080               | <u>434,584</u>              |
| <b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>                               |                     | <b>\$1,113,720</b>          |
| <br><b>COMBINED TOTAL DEBT</b>   |                     | <br><b>\$6,209,132 (2)</b>  |

(1) Excludes refunding issue to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2014-15 Assessed Valuation:

|   |              |
|---|--------------|
| <b>Direct Debt (\$3,350,000)</b> .....                    | <b>2.01%</b> |
| Total Direct and Overlapping Tax and Assessment Debt..... | 3.06%        |
| Combined Total Debt.....                                  | 3.72%        |

\* Amount represents gross value.

Source: California Municipal Statistics, Inc.

On April 8, 2015, Palomar Community College District issued its \$220,000,000 General Obligation Bonds, Election of 2006, Series C, which is not reflected in Table 4 above. In addition to the bonded indebtedness set forth in Table 4, any general obligation bonds currently authorized but not issued within Improvement Area No. 3 will likely be issued and new general obligation bonds may be authorized at future elections. New community facilities districts or special assessment districts may be formed which include all or a portion of Improvement Area No. 3, resulting in the issuance of more bonds and the levy of additional special taxes or other taxes and assessments on parcels within Improvement Area No. 3. In addition to the Special Taxes, the property owners in Improvement Area No. 3 will be required to pay the general *ad valorem* property taxes for their parcels. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” and “—Property Values; Value-to-Lien Ratios.”

### **Sample Effective Tax Rates**

Table 5 below sets forth examples of property tax bills for three different land use class single family detached units in Improvement Area No. 3 representing a cross sample of tax rates in Improvement Area No. 3. The actual tax rate for any particular parcel may vary from the tax rates shown in Table 5. The tax rates and amounts presented are based on information for Fiscal Year 2014-15. The actual amounts charged may vary and may increase in future years.

*[Remainder of Page Intentionally Left Blank]*

**TABLE 5  
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)  
IMPROVEMENT AREA NO. 3  
SAMPLE PROPERTY TAX BILLS  
FOR FISCAL YEAR 2014-15**

| <b>Assessed Valuations and Property Taxes</b>              | <b>Residential<br/>Land Use<br/>Class 5</b> | <b>Residential<br/>Land Use<br/>Class 8</b> | <b>Residential<br/>Land Use<br/>Class 10</b> |                    |
|--|---|---|--|--------------------|
| Land   | \$344,177                                   | \$512,315                                   | \$376,134                                    |                    |
| Improvements   | 978,399                                     | 1,349,951                                   | 1,200,850                                    |                    |
| Total Land & Improvements                                  | 1,322,576                                   | 1,862,266                                   | 1,576,984                                    |                    |
| Homeowner's Exemption                                      | -7,000                                      | 0   | -7,000                                       |                    |
| <b>Net Taxable Value<sup>(1)</sup></b>                     | <b>\$1,315,576</b>                          | <b>\$1,862,266</b>                          | <b>\$1,569,984</b>                           |                    |
|  | <u>Rate</u>                                 | <u>Tax Amount</u>                           | <u>Tax Amount</u>                            |                    |
| <b>1% on Net Value</b>                                     | 1.00000%                                    | \$13,155.75                                 | \$18,622.65                                  |                    |
|  |   |   | <u>Tax Amount</u>                            |                    |
|  |   |   | \$15,699.83                                  |                    |
| <b>Voter Approved Bonds:</b>                               |   |   |  |                    |
| Palomar Community Coll Prop M 11/07/06 2006A               | 0.00874%                                    | 114.98                                      | 162.76                                       | 137.22             |
| Palomar Community Coll Prop M 11/07/06 2006B               | 0.00414%                                    | 54.46                                       | 77.10  | 65.00              |
| San Diego City Open Space Facility Dist. No. 1 D/S         | 0.00000%                                    | 0.00  | 0.00   | 0.00               |
| San Diego City Zoological Exhibits – maintenance           | 0.00500%                                    | 65.78                                       | 93.11  | 78.50              |
| MWD D/S Remainder of SDCWA 15019999                        | 0.00350%                                    | 46.05                                       | 65.18  | 54.95              |
| <b>Total Ad Valorem Property Taxes</b>                     |   | <b>\$13,437.02</b>                          | <b>\$19,020.80</b>                           | <b>\$16,035.50</b> |
| <b>Fixed Charge Assessments:</b>                           |   |   |  |                    |
| Mosquito Surveillance                                      |   | \$3.00                                      | \$3.00                                       | \$3.00             |
| Poway Unified CFD #7                                       |   | 1,547.36                                    | 1,547.36                                     | 1,547.36           |
| Vector Disease Control                                     |   | 5.92  | 5.86   | 5.92               |
| MWD Water Standby Charge                                   |   | 17.94                                       | 15.64  | 22.78              |
| Torrey Highlands Maintenance                               |   | 100.42                                      | 100.42                                       | 100.42             |
| Santaluz CFD #2 IA#3                                       |   | 3,459.90                                    | 4,065.38                                     | 4,841.76           |
| CWA Water Availability                                     |   | 15.60                                       | 13.60  | 19.80              |
| <b>Total Assessments, Special Taxes and Parcel Charges</b> |   | <b>\$5,150.14</b>                           | <b>\$5,751.26</b>                            | <b>\$6,541.04</b>  |
| <b>Total Property Taxes</b>                                |   | <b>\$18,587.16</b>                          | <b>\$24,772.06</b>                           | <b>\$22,576.54</b> |
| <b>Total Effective Tax Rate</b>                            |   | <b>1.41%</b>                                | <b>1.33%</b>                                 | <b>1.44%</b>       |

<sup>(1)</sup> Net Assessed Value reflects estimated total assessed value for the parcel net of homeowner's exemption. Not all residences qualify for the exemption.

Source: San Diego County Tax Collector, as compiled by Willdan Financial Services.

**Principal Taxpayers**

In Fiscal Year 2014-15, except for one parcel designated for institutional use, 100% of the Special Taxes were levied on parcels of residential property. As of January 1, 2014, the San Diego County secured roll showed no property owner owning more than two parcels and only one property owner who owned two parcels. No property tax owner in Improvement Area No. 3 is responsible for more than 2.15% of the Special Tax levy in Fiscal Year 2014-15.

## Delinquency History

Table 6 below summarizes the Special Tax delinquencies for property within the boundaries of the District for Fiscal Years 2010-11 through 2014-15. The highest fiscal year end delinquency rate in any of these years was 1.02%. As of May 4, 2015, there were two delinquent parcels in Improvement Area No. 3. The District has never been required to sell a parcel within Improvement Area No. 3 at a foreclosure sale for delinquent Special Taxes.

**TABLE 6  
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)  
IMPROVEMENT AREA NO. 3  
SPECIAL TAX DELINQUENCY HISTORY**

| <i>Fiscal Year</i>      | <i>Parcels Taxed</i> | <i>Total Levy</i> | <i>Delinquent Parcels at Fiscal Year End</i> | <i>Delinquent Installments at Fiscal Year End<sup>(1)</sup></i> | <i>Percent Delinquent in Fiscal Year of Levy</i> | <i>Parcels Remaining Delinquent<sup>(2)</sup></i> | <i>Amount Remaining Delinquent<sup>(2)</sup></i> | <i>Percent Remaining Delinquent</i> |
|-------------------------|----------------------|-------------------|--|---|--|---|--|-------------------------------------|
| 2014-15                 | 94                   | \$359,258         | N/A  | N/A   | N/A  | 2   | \$3,871  | 1.08%                               |
| 2013-14                 | 94                   | 378,698           | 0  | \$ 0  | 0.00%  | 0   | 0  | 0.00                                |
| 2012-13                 | 94                   | 364,172           | 1  | 3,726   | 1.02   | 0   | 0  | 0.00                                |
| 2011-12                 | 94                   | 341,641           | 1  | 3,496   | 1.02   | 0   | 0  | 0.00                                |
| 2010-11                 | 94                   | 372,814           | 0  | 0   | 0.00   | 0   | 0  | 0.00                                |
| Total Amount Delinquent |                      |                   |  |   |  |   | \$3,871  |                                     |

<sup>(1)</sup> Reflects final fiscal year end data reported in August of each year; does not include penalties and interest.

<sup>(2)</sup> As of May 4, 2015. Amount remaining delinquent does not include penalties and interest.

Source: City of San Diego.

The County has adopted a Teeter Plan for the collection and payment of taxes pursuant to which it pays 100% of the amount levied to participating agencies without regard to the actual amount of collections. The District does not participate in the County's Teeter Plan and, as a result, the District receives only the Special Taxes actually collected. Penalties and interest received on the collection of delinquent Special Taxes are paid to the City but are not pledged under the Bond Indenture to repay the 2015 Bonds.

## Estimated Assessed Value-to-Lien Ratios

Based on the assessed values included on the Fiscal Year 2014-15 Assessor's roll, the estimated assessed value-to-lien ratio of the property within Improvement Area No. 3 based upon the principal amount of the 2015 Bonds is 46.6 to 1\*, and the estimated assessed value-to-lien ratio of the property within Improvement Area No. 3 based upon the principal amount of the 2015 Bonds and the direct and overlapping debt payable from other taxes and assessments levied on the property within Improvement Area No. 3 as of January 1, 2015 is 30.7 to 1\*. As of January 1, 2015, there was no parcel within Improvement Area No. 3 with an assessed value-to-lien ratio of less than 20 to 1. Because a parcel's assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel's market value. No assurance can be given that such value-to-lien ratio will be maintained during the period of time that the 2015 Bonds are outstanding. The District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See "SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios" and "—Parity Taxes and Special Assessments."

\* Preliminary, subject to change.

## **SPECIAL RISK FACTORS**

The purchase of the 2015 Bonds involves significant investment risks and, therefore, the 2015 Bonds may not be suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the 2015 Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 3 to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the 2015 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area No. 3. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” and “— Limited Secondary Market” below.

### **Validity of Landowner Election**

On August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the “Court”), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The case involved a Convention Center Facilities District (the “CCFD”) established by the City. The CCFD is a financing district established under San Diego’s charter (the “Charter”) and was intended to function much like a community facilities district established under the provisions of the Mello-Roos Community Facilities Act of 1982 (Section 53311 et seq. of the Government Code of the State of California), as amended (the “Mello-Roos Act”). The CCFD is comprised of the entire City. However, the special tax to be levied within the CCFD was to be levied only on property improved with a hotel located within the CCFD.

At the election to authorize such special tax, the San Diego Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was an election limited to owners and lessees of properties on which the special tax would be levied, and not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Mello-Roos Act, which generally provides that, if a special tax will not be apportioned in any tax year on any portion of property in residential use in that tax year, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax if it were levied at the time of the election. Notwithstanding Section 53326(c) of the Mello-Roos Act, the Court held that the CCFD special tax election did not comply with applicable requirements of Article XIII A, Section 4 of the California Constitution (which states “Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district”) and Article XIII C, Section 2 of the California Constitution (which provides “No local government may impose, extend or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote”), or with applicable provisions of San Diego’s Charter, because the electors in such an election were not the registered voters residing within such district.

In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (i.e., all of the registered voters in the city of San Diego). In the case of the District, there were no registered voters within Improvement Area No. 3 at the time of the election to authorize the District special tax. In *City of San Diego*, the Court expressly stated that it was not addressing the validity of landowners voting to impose special taxes pursuant to the Mello-Roos Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court’s holding does not apply to the special tax election in Improvement Area No. 3. Moreover, Section 53341 of the Mello-Roos Act provides that any “action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters.” Similarly, Section 53359 of the Mello-Roos Act provides that any action to determine the validity of bonds issued pursuant to the Mello-Roos Act or the levy of special taxes authorized pursuant to the Mello-Roos Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the special tax and the issuance of bonds for Improvement Area No. 3 in compliance with all applicable requirements of the Mello-Roos Act on March 14,

2000. Therefore, under the provisions of Section 53341 and Section 53359 of the Mello-Roos Act, the statute of limitations period to challenge the validity of the special tax has expired.

### **Risks of Real Estate Secured Investments Generally**

The Owners of the 2015 Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or commercial buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

### **Risks Related to Current Housing Market Conditions**

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. Beginning in 2007, home developers, appraisers and market absorption consultants reported weak housing market conditions due to factors including but not limited to the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures, (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new home orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts, (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. One or more of these factors may negatively impact home values in Improvement Area No. 3 and affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency. No assurance can be made that Improvement Area No. 3 will not experience a similar weakness in the housing market in the future.

### **Limited Obligations**

The 2015 Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of the 2015 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no Owner of the 2015 Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the 2015 Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon any of the City's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Bond Indenture.

### **Insufficiency of Special Taxes**

Given limitations in the Act regarding increases in Special Taxes on residential parcels to address Special Tax delinquencies, the potential coverage to respond to delinquencies is approximately 110% of Annual Debt Service. See Table 2 above. Notwithstanding that the maximum Special Taxes that may be levied in Improvement Area No. 3 exceeds debt service due on the 2015 Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

If for any reason property within Improvement Area No. 3 becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or other organization determined to be exempt, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within Improvement Area No. 3. This could result in certain owners of property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Act provides that, if any property within Improvement Area No. 3 not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within Improvement Area No. 3 became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Taxes which could be levied upon the remaining property within those areas might not be sufficient to pay principal of and interest on the 2015 Bonds when due and a default could occur with respect to the payment of such principal and interest.

**Moreover, if a substantial portion of land within Improvement Area No. 3 became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within Improvement Area No. 3 might not be sufficient to pay principal of and interest on the 2015 Bonds when due and a default could occur with respect to the payment of such principal and interest.**

#### **Depletion of Reserve Account**

The Reserve Account is maintained in an amount equal to the Reserve Requirement. See “Reserve Account of the Special Tax Fund.” Funds in a Reserve Account may be used to pay principal of and interest on the 2015 Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in Improvement Area No. 3 is not sufficient. If the Reserve Account is depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the 2015 Bonds. However, no replenishment of the Reserve Account from the proceeds of the Special Taxes can occur as long as the proceeds that are collected from the levy of the Special Taxes at the maximum tax rates (subject to the limitations of the Act), together with available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Account will be depleted and not replenished by the levy of the Special Taxes.

#### **Natural Disasters**

Improvement Area No. 3, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity, wildfires and other natural disasters represents a potential risk for damage to buildings, roads, bridges and property within Improvement Area No. 3. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. Improvement Area No. 3 is located in San Diego County which was the locus of a major wildfire disaster in October 2003. The wildfires burned over 250,000 acres and destroyed more than 3,000 homes. The wildfire damage occurred approximately 5 miles from Improvement Area No. 3. In October 2007 and in May of 2014, there were more wildfires in San Diego County, which came close to the District and destroyed several hundred homes in the case of the October 2007 wildfires. There was no damage to any of the property in the District by such wildfires.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Improvement Area No. 3. As a result, a substantial portion of

the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area No. 3 could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

According to certain geotechnical reports, Improvement Area No. 3 is located in an area characterized by potential slope instability – slide prone formation and level or sloping terrain, unfavorable geologic structure – variable slope stability. The relative risk of geologic hazards in areas with such characterization is considered to be low to moderate. Active or potential active faults have not been mapped within Improvement Area No. 3. North-northwest trending faults have been mapped immediately to the north and may project or trend into the area. As identified in the City’s seismic safety study, the risk of surface fault rupture associated with these faults is low to moderate. Improvement Area No. 3 is located in a seismically active region and will likely experience occasional moderate to very strong earthquake ground shaking.

No assurance can be given that there will be no natural disasters in the future that will impact Improvement Area No. 3 or to the extent to which any future natural disasters may impact the property in Improvement Area No. 3.

### **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

### **Parity Taxes and Special Assessments**

Property within Improvement Area No. 3 is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within Improvement Area No. 3. See “IMPROVEMENT AREA NO. 3 — Estimated Direct and Overlapping Indebtedness.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below.



**Neither the City nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, ad valorem taxes or assessments payable from all or a portion of the property within Improvement Area No. 3. In addition, the landowners within Improvement Area No. 3 may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within Improvement Area No. 3 described herein.**

### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax, even if the value of the parcel is sufficient, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City caused Notices of Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within Improvement Area No. 3 or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

### **Special Tax Delinquencies**

Special Taxes are the primary source for the repayment of the 2015 Bonds, and delinquencies could result in a draw on the Reserve Fund and, if the Reserve Fund were depleted, in a default in payment on the 2015 Bonds.

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2015 Bonds are derived, are customarily billed to the properties within Improvement Area No. 3 on the ad valorem property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable and are subject to the same lien priority in the case of delinquency as are *ad valorem* property tax installments.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Bond Indenture, in the event of delinquencies in the payment of Special Taxes. See “IMPROVEMENT AREA No. 3—Delinquency History” for a history of Special Tax delinquency rates in Improvement Area No. 3. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessments and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

## **Non-Cash Payments of Special Taxes**

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a 2015 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A 2015 Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if 2015 Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a 2015 Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other 2015 Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other 2015 Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of 2015 Bonds in payment of Special Taxes, the Bond Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of 2015 Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Special Tax revenues to pay the principal of and interest on all Outstanding 2015 Bonds when due.

## **Payment of the Special Tax is not a Personal Obligation of the Owners**

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

## **Property Values; Value-to-Lien Ratios**

The value of the property within Improvement Area No. 3 is a critical factor in determining the investment quality of the 2015 Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events may adversely impact the security underlying the Special Taxes.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the San Diego County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

No assurance can be given that the estimated value-to-lien ratios as set forth in "IMPROVEMENT AREA NO. 3 — Estimated Assessed Value-to-Lien Ratios" will be maintained over time. As discussed herein, many factors which are beyond the control of the District could adversely affect the property values within Improvement Area No. 3. The District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in Improvement Area No. 3 or an increase in the indebtedness secured by taxes and amounts with parity liens on property in Improvement Area No. 3, or both, could result in a lowering of the value-to-lien ratios of the property in Improvement Area No. 3. See "IMPROVEMENT AREA NO. 3 — Estimated Assessed Value-to-Lien Ratios" herein.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent

Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Tax — Proceeds of Foreclosure Sales.”

### **FDIC/Federal Government Interests in Properties**

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the FDIC, or other federal government entities such as Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other federal agency, has or obtains an interest.

In the case of FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the District may be constrained. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. For a discussion of risks associated with taxable parcels within Improvement Area No. 3 becoming

owned by the federal government, federal government entities or federal government sponsored entities, see “— Insufficiency of Special Taxes.”

The District’s remedies may also be limited in the case of delinquent Special Taxes with respect to parcels in which other federal agencies (such as the Internal Revenue Service and the Drug Enforcement Administration) have or obtain an interest.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors’ rights could adversely impact the interests of Beneficial Owners of the 2015 Bonds. The payment of property owners’ taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*” In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the 2015 Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Moreover, the ability of the District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) and by the laws of the State relating to judicial foreclosure.

### **No Acceleration Provision**

The 2015 Bonds do not contain a provision allowing for the acceleration of the 2015 Bonds in the event of a payment default or other default under the 2015 Bonds or the Bond Indenture.

### **Loss of Tax Exemption**

As discussed under the caption “TAX MATTERS,” the interest on the 2015 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or a change in legislation. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2015 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2015 Bonds. Should such an event of taxability occur, the 2015 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Bond Indenture.

## **Limitations on Remedies**

Remedies available to the Beneficial Owners of the 2015 Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2015 Bonds or to preserve the tax-exempt status of the 2015 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2015 Bonds and of the Bond Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Beneficial Owners of the 2015 Bonds.

## **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2015 Bonds or, if a secondary market exists, that the 2015 Bonds can be sold at all or for any particular price. Although the District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **Proposition 218**

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the 2015 Bonds as described below.

Among other things, Section 3 of Article XIII states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

"Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution."

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2015 Bonds.

It may be possible, however, for voters or the City Council acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2015 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2015 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District will covenant in the Bond Indenture that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within Improvement Area No. 3 to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding 2015 Bonds in each future Bond Year. In connection with the foregoing covenant, the District has made a finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the 2015 Bonds. The District also will covenant in the Bond Indenture that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “SPECIAL RISK FACTORS — Limitations on Remedies.”

### **Ballot Initiatives**

Articles XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations. See “SPECIAL RISK FACTORS — Risks of Real Estate Secured Investments Generally” herein.

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate (the “Disclosure Certificate”), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning the District. The Annual Report to be filed by the District is to be filed not later than April 1 of each year, beginning April 1, 2016, and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the 2015 Bonds are secured by any resources or property of the City. The 2015 Bonds are not general or special obligations of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS” and “SPECIAL RISK FACTORS — Limited Obligations.” The full text of the Disclosure Certificate is set forth in APPENDIX D — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Notwithstanding any provision of the Bond Indenture, failure of the District to comply with the Disclosure Certificate will not be considered an event of default under the Bond Indenture. However, any

holder of the 2015 Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the Disclosure Certificate.

During the last five years, there was one instance in which the District failed to comply in all material respects with certain of its previous undertakings with regard to Rule 15c2-12. The District filed on time that portion of its annual report regarding the specified operating data. However, the report filed for Fiscal Year 2010 was incomplete due to the unavailability of the City's audited financial statements as of the date that the District was required to file the annual report. The delay in releasing the audited financial statements for Fiscal Year 2010 was principally due to the implementation of a new accounting reporting system for the City. The District subsequently filed the audited financial statements of the City for Fiscal Year 2010 with EMMA on October 17, 2011 after their release by the City, which was approximately seven months after the deadline under the District's continuing disclosure undertakings. The District timely filed its annual operating data and the City's audited financial statements for Fiscal Years 2011, 2012, 2013 and 2014 in compliance with its continuing disclosure undertakings.

## **TAX MATTERS**

### **Tax Exemption**

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2015 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2015 Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds. Each of the District and the City has covenanted to maintain the exclusion of the interest on the 2015 Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, a member of Norton Rose Fulbright, under existing law, interest on the 2015 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the 2015 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. It is the further opinion of Bond Counsel that under existing law, the 2015 Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and for that reason that interest on the 2015 Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2015 Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. 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.

Pursuant to the Bond Indenture the District, and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the District and the City in connection with the issuance of the 2015 Bonds, the District and the City will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the 2015 Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by each of the City and the District with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the 2015 Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the 2015 Bonds, or the interest thereon, if any action is taken with respect to the 2015 Bonds or the proceeds

thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the 2015 Bonds may affect the tax status of interest on the 2015 Bonds or the tax consequences of the ownership of the 2015 Bonds.

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 City and the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2015 Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer", and the owners 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 2015 Bonds, the District may have different or conflicting interest from the owners. Public awareness of any future audit of the 2015 Bonds could adversely affect the value and liquidity of the 2015 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 exemption of interest on the 2015 Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2015 Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the 2015 Bonds. Prospective purchasers of the 2015 Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in APPENDIX E.

#### **Tax Accounting Treatment of Bond Premium and Original Issue Discount on Bonds**

To the extent that a purchaser of a 2015 Bond acquires that 2015 Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. 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 the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its 2015 Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2015 Bond to the owner.

The excess, if any, of the stated redemption price at maturity of 2015 Bonds of a maturity over the initial offering price to the public of the 2015 Bonds of that maturity is "original issue discount." Original issue discount accruing on a 2015 Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that 2015 Bond. Original issue discount on any 2015 Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2015 Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2015 Bond accruing during each period is added to the adjusted basis of such 2015 Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2015 Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2015 Bonds who purchase such 2015 Bonds other than at the initial offering price and pursuant to the initial offering.



Persons considering the purchase of 2015 Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such 2015 Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2015 Bonds. Bond Counsel will express no opinion regarding such determination or such tax consequences.

### **Other Federal Income Tax Consequences**

Although interest on the 2015 Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2015 Bonds. The nature and extent of these other tax consequences will depend, *inter alia*, upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2015 Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2015 Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2015 Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2015 Bonds, (iii) interest on the 2015 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2015 Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2015 Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2015 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequence.

## **LEGAL MATTERS**

### **Litigation**

No litigation is pending or threatened concerning the validity of the 2015 Bonds, the pledge of Special Taxes to repay the 2015 Bonds, the powers or authority of the District with respect to the 2015 Bonds, and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the 2015 Bonds.

### **Legal Opinion**

The validity of the 2015 Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, a member of Norton Rose Fulbright, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto and will accompany the 2015 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Norton Rose Fulbright US LLP, as Disclosure Counsel. Norton Rose Fulbright US LLP expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2015 Bonds and expressly disclaims any duty to advise the Beneficial Owners of the 2015 Bonds as to matters related to this Official Statement.

### **No Rating**

The District has not made, and does not contemplate making, application to any rating agency for the assignment of a rating for the 2015 Bonds.

**Underwriting**

The 2015 Bonds are being purchased by Stifel Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the 2015 Bonds at a price of \$\_\_\_\_\_ (being \$\_\_\_\_\_ aggregate principal amount thereof, less Underwriter’s discount of \$\_\_\_\_\_ [plus original issue premium/less original issue discount] of \$\_\_\_\_\_). The purchase agreement relating to the 2015 Bonds provides that the Underwriter will purchase all of the 2015 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the 2015 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

**Financial Interests**

The fees being paid to the Underwriter, Underwriter’s Counsel, Bond Counsel, the Municipal Advisor, the Special Tax Consultant and the Trustee are contingent upon the issuance and delivery of the 2015 Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the 2015 Bonds and Underwriter’s Counsel represents the City on matters unrelated to the 2015 Bonds.

**Pending Legislation**

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2015 Bonds or the ability of the District to pay the principal of and interest on the 2015 Bonds when due.

**Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the 2015 Bonds. Quotations and summaries and explanations of the 2015 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by an authorized representative of the District has been duly authorized by the City Council acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2  
(SANTALUZ)

By: \_\_\_\_\_

**APPENDIX A**

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES**

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**RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)  
(IMPROVEMENT AREA NO. 3)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2 (Santaluz) - (Improvement Area No. 3) ("CFD No. 2 (IA No. 3)") 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. 3), 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. 3): 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. 3) or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2 (IA No. 3) or any designee thereof of complying with disclosure requirements of the City, CFD No. 2 (IA No. 3) 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, of CFD No. 2 (IA No. 3) 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. 3) for any other administrative purposes of CFD No. 2 (IA No. 3), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

**"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. 3)"** means CFD No. 2 (Improvement Area No. 3), as identified on the boundary map for CFD No. 2.

**"CFD No. 2 (IA No. 3) 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. 3) under the Act.

**"City"** means the City of San Diego.

**"Council"** means the City Council of the City, acting as the legislative body of CFD No. 2 (IA No. 3).

**"County"** means the County of San Diego.

**"Developed Property"** means, for each Fiscal Year, 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.

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

**"Indenture"** means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2 (IA No. 3) 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 7 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 Fairbanks Highlands, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 2 (IA No. 3).

**"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 Institutional Property, for which a building permit(s) was issued for a non-residential use.

**"Outstanding Bonds"** means all CFD No. 2 (IA No. 3) 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. 3) 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.

**"Public Property"** means any property within the boundaries of CFD No. 2 (IA No. 3) 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.

**"Residential Property"** means 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. 3) Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 2 (IA No. 3) Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for any CFD No. 2 (IA No. 3) 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. 3) 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 11 as listed in the table below based upon the type of structure or the Residential Floor Area for each unit. Non-Residential Property shall be assigned to Land Use Class 12. Institutional Property shall be assigned to Land Use Class 13.

(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. 3)**

| <b>Land Use Class</b> | <b>Description</b>       | <b>Residential Floor Area/Unit Type</b> | <b>Assigned Special Tax Per unit/Acre</b> |
|-----------------------|--------------------------|---|---|
| 1                     | Residential Property     | < 2,250 sq. ft                          | \$2,390.97 per unit                       |
| 2                     | Residential Property     | 2,250 to 2,749 sq. ft.                  | \$2,891.19 per unit                       |
| 3                     | Residential Property     | 2,750 to 3,149 sq. ft.                  | \$3,080.78 per unit                       |
| 4                     | Residential Property     | 3,150 to 3,749 sq. ft.                  | \$3,459.95 per unit                       |
| 5                     | Residential Property     | 3,750 to 4,049 sq. ft.                  | \$3,791.72 per unit                       |
| 6                     | Residential Property     | 4,050 to 4,499 sq. ft.                  | \$4,028.71 per unit                       |
| 7                     | Residential Property     | 4,500 to 4,999 sq. ft.                  | \$4,265.69 per unit                       |
| 8                     | Residential Property     | 5,000 to 5,499 sq. ft.                  | \$4,455.28 per unit                       |
| 9                     | Residential Property     | 5,500 to 5,999 sq. ft.                  | \$4,882.05 per unit                       |
| 10                    | Residential Property     | 6,000 to 6,499 sq. ft.                  | \$5,306.10 per unit                       |
| 11                    | Residential Property     | ≥ 6,500 sq. ft.                         | \$5,732.87 per unit                       |
| 12                    | Non-Residential Property | Not Applicable                          | \$5,066.55 per Acre                       |
| 13                    | 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. 3), 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. 3).

(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.

**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 \$4,327.50 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. 3), 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. 3).

**D. BACKUP SPECIAL TAX**

The following definitions apply to this Section D:

**"Aggregate Credits"** means the total Assigned Special Taxes from all Developed Property and Update Property within all Built Out Development Products minus the total Assigned Special Taxes that would have been levied in these Built Out Development Products as projected in the Original Report.

**"Excess Aggregate Credits"** means the total Aggregate Credits minus the Aggregate Credits previously allocated to Development Products with shortfalls, as computed under step 4 of Section D.7, below.

**"Backup Special Tax Account"** means, for each Development Product, the fund or account (regardless of its name) identified in the Indenture to hold payments of Backup Special Taxes received from property owners within such Development Product.

**"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 CFD Administrator stating that the Development Product will generate at least the amount of Assigned Special Taxes that was projected for such Development Product in the Original Report, or that the Development Product's Assigned Special Taxes plus Excess Aggregate Credits currently available will generate at least the amount of Assigned Special Taxes that was projected for such Development Product in the Original Report.

**"Buildout"** means, for any Development Product, that all expected building permits have been issued.

**"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. The initial Updated 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 at least the amount of Assigned Special Taxes that was established for such property in the Original Report.

**"Update Property"** means an Assessor's Parcel of Undeveloped Property for which a building permit has been issued, 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**

Prior to the issuance of the first series of CFD No. 2 (IA No. 3) Bonds the Master Developer shall submit a report (the "Original Report") to the CFD Administrator containing a lot-by-lot listing for each of the 93 expected taxable dwelling units 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. 3) are reduced by such changes.

## **2. Updated Report**

Not less than 30 days prior to the submission (by the Master Developer or any Builder) of an application for the building permits within CFD No. 2 (IA No. 3) after the issuance of the first series of CFD No. 2 (IA No. 3) Bonds, the Master Developer shall submit a report to the CFD Administrator containing 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. Upon approval by the CFD Administrator, such report shall constitute an Updated Report (the "Updated Report").

After the submittal of the initial Updated Report, the Master Developer shall submit additional 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. 3) reaches Buildout for all Development Products. For Assessor's Parcels of Developed Property and Update Property, the quarterly Updated Report will also include the date the building permit was issued.

### **3. Initial Letters of Compliance**

If, based on the initial Updated Report, the CFD Administrator determines that a Development Product will generate at least the amount of Assigned Special Taxes that was established for such Development Product in the Original Report, the CFD Administrator shall, within 30 days of the submittal of the initial Updated Report, issue an initial Letter of Compliance with respect to such Development Product. If the CFD Administrator determines that a Development Product will not generate at least the amount of Assigned Special Taxes that was established for such Development Product in the Original Report, then a Letter of Compliance will not be issued for such Development Product at such time.

### **4. Letters of Compliance Based on Subsequent Updated Reports**

Upon the receipt of each Updated Report, the CFD Administrator shall compare the data provided for each Development Product to the data included in the Original Report and make one of the determinations set forth in the following two paragraphs.

If the CFD Administrator determines that a Development Product will generate at least the amount of Assigned Special Taxes that was established for such Development Product in the Original Report, then, if a Letter of Compliance is not currently in effect for such Development Product, the CFD Administrator shall, within 30 days of the submittal of an Updated Report, issue a Letter of Compliance with respect to such Development Product.

If the CFD Administrator determines that a Development Product will not generate the amount of Assigned Special Taxes that was established for such Development Product in the Original Report, then any Letter of Compliance previously issued for such Development Product will be rescinded. 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 Letter of Compliance has been rescinded. If building permits have already been issued for such Development Product, 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.

### **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 has not yet received a Letter of Compliance, or for property that has received a Letter of Compliance but for which the Builder is unable to provide the certification required by Section D.5 above, 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 Parcel 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. If the CFD Administrator determines based on the calculations in Section D.7 that a Backup Special Tax is required, then the CFD Administrator shall calculate and levy the Backup Special Tax pursuant to Section D.7 below.

**7. Calculation of Backup Special Tax**

Upon the receipt of a Builder Notification or determination under Section D.4 or Section D.6 that a Backup Special Tax is required, the CFD Administrator shall determine the Backup Special Tax to be applied to the property identified in the Builder Notification by undertaking the following steps:

- Step 1. Compute the sum of the Assigned Special Taxes from all Developed Property and Update Property within the Development Product in which the property is located, plus the Assigned Special Taxes from the property described in the Builder Notification (assuming such property is taxed as Developed Property).
- Step 2. Compute the sum of the expected Assigned Special Taxes from all Developed Property and Update Property within the Development Product in which the property is located, plus the Assigned Special Taxes from the property described in the Builder Notification (assuming such property is taxed as Developed Property), assuming that all such property was developed as set forth in the Original Report.
- Step 3. If the amount computed pursuant to step 1 is greater than or equal to the amount computed pursuant to step 2, then no Backup Special Tax will be required. If the amount computed pursuant to step 1 is less than the amount computed pursuant to step 2, then continue to Step 4.
- Step 4. If there are Excess Aggregate Credits currently available, assign a sufficient

number of such Excess Aggregate Credits to the Development Product to cover the shortfall calculated under step 3, so that the sum of the Assigned Special Taxes as computed under step 1 plus the Excess Aggregate Credits assigned to the Development Product is equal to the Assigned Special Taxes as computed under step 2. If the total number of Excess Aggregate Credits currently available are not sufficient to cover the shortfall calculated under step 3, then assign all of the available Excess Aggregate Credits to the Development Product.

- Step 5. If the sum of the Assigned Special Taxes and the Excess Aggregate Credits assigned pursuant to step 4 is greater than or equal to the amount computed pursuant to step 2, then no Backup Special Tax will be required. If the sum of the Assigned Special Taxes and the Excess Aggregate Credits assigned pursuant to step 4 is less than the amount computed pursuant to step 2, then continue to Step 6.
- Step 6. (i) After subtracting such Development Product's share of estimated Administrative Expenses from the Assigned Special Taxes and Excess Aggregate Credits determined under Step 4, determine the amount of CFD No. 2 (IA No. 3) Bonds that can be supported by the Assigned Special Taxes plus the Excess Aggregate Credits assigned to the Development Product as computed under step 4, with 110% debt service coverage; and
- (ii) After subtracting such Development Product's share of estimated Administrative Expenses from the Assigned Special Taxes determined under Step 2, determine the amount of CFD No. 2 (IA No. 3) Bonds that can be supported by the remaining Assigned Special Taxes computed under step 2, with 110% debt service coverage.
- Step 7. 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 difference between the amount calculated pursuant to paragraph 6(ii) and the amount calculated pursuant to paragraph 6(i); (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 for a Development Product; (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 8. 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) 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 for which the Backup Special Tax is being calculated.

The Backup Special Taxes computed under step 8 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 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 a Development Product reaches Buildout, the CFD Administrator shall calculate the actual Assigned Special Taxes that will be generated from such Development Product. If the actual Assigned Special Taxes are greater than or equal to the amount of Assigned Special Taxes established for such Development Product in the Original Report, 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 are less than the amount of Assigned Special Taxes established for such Development Product in the Original Report, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 3) Bonds on the next available redemption date, such that the actual Assigned Special Taxes remaining after subtracting such Development Product's share of estimated Administrative Expenses will generate 110% debt service coverage. Any remaining balance in the Backup Special Tax Account shall be returned to the payer as established under the Indenture. If a Development Product has not reached Buildout within two years after the first payment of Backup Special Taxes for such Development Product, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 3) 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. 3) Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2 (IA No. 3) Bonds (except refunding bonds) to be supported by Special Taxes levied under this Rate and Method of Apportionment; and (iii) and 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 28.5 Acres of Property Owner Association Property and 235.4 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. 3) 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:

**"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.

**"Future Facilities Costs"** means the CFD No. 2 (IA No. 3) 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. 3) Public Facilities"** means either \$3,273,515 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. 3) under the authorized Mello-Roos financing program for CFD No. 2 (IA No. 3), or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2 (IA No. 3) 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. 3) Bonds that have been issued by CFD No. 2 (IA No. 3) prior to the date of prepayment.

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. 3) 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                |
| <u>less</u>   | <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. 3) 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. 3), 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 from the first bond interest and/or principal payment date following the current Fiscal Year 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. 3) 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. 3) 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. 3).

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 2 (IA No. 3) 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. 3) 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. 3) 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<sub>E</sub> = 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. 3) 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.

## **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. 3) 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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## APPENDIX B

### DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY OF SAN DIEGO

*Set forth below is certain demographic information regarding the City of San Diego (the “City”) and the County of San Diego (the “County”). This information is provided for informational purposes only and general background. The information set forth herein has been obtained from third party sources believed to be reliable, but such information is not guaranteed by the District as to accuracy or completeness. The information and data within this Appendix B speak only as of the dates indicated and may have changed, perhaps materially, from such time. Neither the delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in any information contained in this Appendix B since the date of the Official Statement. The 2015 Bonds are not a debt of the City, the County, the State of California (the “State”), or any of its political subdivisions, and none of the City, the County, the State nor any of its political subdivisions is liable thereon.*

#### **Introduction**

The City, with a total population of approximately 1,368,061 as of January 1, 2015 and a land area of approximately 342 square miles, is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City’s diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City’s economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

#### **Population**

The following Table B-1 sets forth annual population figures for the City, the County and the State for calendar years 2006 through 2015. The City’s population increased by approximately 8.44% between 2006 and 2015, with an average annual increase of approximately 11,825.

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**TABLE B-1**  
**CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA**  
**POPULATION GROWTH**  
**Calendar Years 2006 through 2015**

| <i>Calendar Year<sup>(1)</sup></i> | <i>City of San Diego</i> | <i>Annual Growth Rate (%)</i> | <i>County of San Diego</i> | <i>Annual Growth Rate (%)</i> | <i>State of California</i> | <i>Annual Growth Rate (%)</i> |
|------------------------------------|--------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| 2006                               | 1,261,633                | 0.05                          | 2,976,492                  | 0.33                          | 36,116,202                 | 0.69                          |
| 2007                               | 1,266,978                | 0.42                          | 2,998,477                  | 0.74                          | 36,399,676                 | 0.78                          |
| 2008                               | 1,279,505                | 0.99                          | 3,032,689                  | 1.14                          | 36,704,375                 | 0.84                          |
| 2009                               | 1,294,031                | 1.14                          | 3,064,436                  | 1.05                          | 36,966,713                 | 0.71                          |
| 2010                               | 1,304,482                | 0.81                          | 3,091,579                  | 0.89                          | 37,223,900                 | 0.70                          |
| 2011                               | 1,309,784                | 0.41                          | 3,115,810                  | 0.78                          | 37,427,946                 | 0.55                          |
| 2012                               | 1,315,173                | 0.41                          | 3,128,734                  | 0.41                          | 37,668,804                 | 0.64                          |
| 2013                               | 1,328,073                | 0.98                          | 3,154,574                  | 0.83                          | 37,984,138                 | 0.84                          |
| 2014                               | 1,347,954                | 1.50                          | 3,192,457                  | 1.20                          | 38,357,121                 | 0.98                          |
| 2015                               | 1,368,061                | 1.49                          | 3,227,495                  | 1.10                          | 38,714,725                 | 0.93                          |

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

Source: State of California Department of Finance, Demographic Research Unit.

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**Employment**

The following Table B-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City, the County, the State and the United States for calendar years 2010 through 2014, and for March 2015.

**TABLE B-2**  
**LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE<sup>(1)</sup>**  
**Calendar Years 2010 through 2014, and March 2015<sup>(2)</sup>**  
**(Not Seasonally Adjusted)**

|                              | <i>Calendar Year</i> |             |             |             |             |                                 |
|------------------------------|----------------------|-------------|-------------|-------------|-------------|---------------------------------|
|                              | <i>2010</i>          | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> | <i>March 2015<sup>(2)</sup></i> |
| <b>Civilian Labor Force</b>  |                      |             |             |             |             |                                 |
| City of San Diego            |                      |             |             |             |             |                                 |
| Employed                     | 625,800              | 633,100     | 648,400     | 656,200     | 648,500     | 661,100                         |
| Unemployed                   | 74,100               | 70,900      | 63,600      | 53,500      | 42,200      | 33,600                          |
| <b>Unemployment Rates</b>    |                      |             |             |             |             |                                 |
| City                         | 10.6%                | 10.1%       | 8.9%        | 7.5%        | 6.1%        | 4.8%                            |
| County                       | 10.6                 | 10.1        | 8.9         | 7.5         | 6.4         | 5.1                             |
| California                   | 12.4                 | 11.8        | 10.4        | 8.9         | 7.5         | 6.5                             |
| United States <sup>(3)</sup> | 9.6                  | 8.9         | 8.1         | 7.4         | 6.2         | 5.5                             |

<sup>(1)</sup> City, County and State 2010-2013 data based on March 2013 Benchmark Report, 2014 and 2015 data based on March 2014 Benchmark Report.

<sup>(2)</sup> Preliminary, subject to change.

<sup>(3)</sup> The United States unemployment rates for calendar years 2010-2014 and March 2015 were generated as of April 29, 2015.

Source: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

The State of California Employment Development Department, Labor Market Information Division (the “EDD”), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in March of 2015 was 694,700, of which approximately 33,600 persons were unemployed. Based on preliminary estimates of the EDD as of May 1, 2015, the City’s unemployment rate of 4.8% in March of 2015, on a seasonally unadjusted basis, was below that of the County at 5.1% and was below the unemployment rate of the State, which was 6.5%. The City’s unemployment rate was below the United States, which was 5.5%. The following Table B-3 sets forth estimates of total annual civilian nonfarm employment by number of employees in each major industry category in the County for calendar years 2010 through 2014, and for March 2015. Annual industry employment information is not compiled by sector for the City.

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**TABLE B-3**  
**COUNTY OF SAN DIEGO**  
**NONFARM EMPLOYMENT**  
**Calendar Years 2010 through 2014,<sup>(1)</sup> and March 2015<sup>(1)(2)</sup>**  
**(In Number of Jobs By Industry)**

| <i>Industry Category</i>                   | <i>2010</i>             | <i>2011</i>             | <i>2012</i>             | <i>2013</i>             | <i>2014</i>             | <i>March<br/>2015<sup>(2)</sup></i> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------------------|
| Services <sup>(3)</sup>                    | 593,200                 | 600,500                 | 622,600                 | 648,000                 | 670,600                 | 688,600                             |
| Government                                 | 230,500                 | 229,000                 | 227,800                 | 229,500                 | 231,900                 | 237,600                             |
| Federal                                    | 47,000                  | 46,700                  | 46,800                  | 46,500                  | 45,800                  | 45,500                              |
| State and Local                            | 183,500                 | 182,200                 | 181,100                 | 183,000                 | 186,100                 | 192,100                             |
| Trade                                      | 170,900                 | 174,900                 | 180,700                 | 185,200                 | 188,100                 | 187,800                             |
| Wholesale                                  | 40,200                  | 41,500                  | 43,500                  | 43,900                  | 43,900                  | 44,600                              |
| Retail                                     | 130,700                 | 133,400                 | 137,200                 | 141,300                 | 144,200                 | 143,200                             |
| Manufacturing                              | 93,100                  | 93,400                  | 94,500                  | 95,200                  | 96,400                  | 97,300                              |
| Nondurable Goods                           | 21,900                  | 22,200                  | 23,100                  | 24,100                  | 24,900                  | 24,700                              |
| Durable Goods                              | 71,200                  | 71,100                  | 71,400                  | 71,100                  | 71,400                  | 72,600                              |
| Financial Activities <sup>(4)</sup>        | 67,200                  | 67,600                  | 70,200                  | 71,400                  | 70,500                  | 64,500                              |
| Construction                               | 55,400                  | 55,200                  | 57,000                  | 60,900                  | 63,500                  | 66,400                              |
| Transportation, Warehousing &<br>Utilities | 26,500                  | 26,100                  | 27,300                  | 27,200                  | 26,800                  | 27,000                              |
| Mining & Logging                           | 400                     | 400                     | 400                     | 400                     | 400                     | 400                                 |
| <b>TOTAL NONFARM<sup>(5)</sup></b>         | <u><b>1,237,100</b></u> | <u><b>1,247,000</b></u> | <u><b>1,280,500</b></u> | <u><b>1,317,800</b></u> | <u><b>1,348,000</b></u> | <u><b>1,375,400</b></u>             |

(1) Based on March 2014 Benchmark Report.

(2) Preliminary, subject to change.

(3) Includes professional and business, information, educational and health, leisure and hospitality and other services.

(4) Includes finance, insurance, and real estate.

(5) Line items may not add to totals due to independent rounding.

Source: State of California Employment Development Department, Labor Market Information Division.

Since the industry employment data referenced above are organized by standard industrial classification codes, employment in the various high tech categories, such as telecommunications, software and biotechnology may not fall into a single employment section alone. For example, some telecommunications firms appear in Manufacturing while others appear in Services.

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**Taxable Sales**

The following Table B-4 sets forth taxable transactions in the City for calendar years 2009 through 2013. Annual figures are not yet available for 2014.

**TABLE B-4  
CITY OF SAN DIEGO  
TAXABLE TRANSACTIONS  
Calendar Years 2009 through 2013  
(In Thousands)**

|                                  | <i>2009</i>          | <i>2010</i>          | <i>2011</i>          | <i>2012</i>          | <i>2013</i>       |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|-------------------|
| Retail and Food Services         |                      |                      |                      |                      |                   |
| Apparel                          | \$ 1,358,011         | \$ 1,476,887         | \$ 1,608,393         | \$ 1,719,615         | \$1,837,605       |
| General Merchandise              | 1,443,341            | 1,505,694            | 1,571,106            | 1,612,806            | 1,638,426         |
| Food                             | 864,733              | 874,855              | 909,541              | 950,005              | 1,007,085         |
| Eating and Drinking              | 2,582,572            | 2,674,975            | 2,888,953            | 3,168,490            | 3,305,281         |
| Home Furnishings and Appliances  | 1,005,324            | 1,064,083            | 1,132,638            | 1,137,855            | 1,199,791         |
| Building Materials               | 707,657              | 735,040              | 795,649              | 848,388              | 904,729           |
| Motor Vehicles and Parts         | 1,606,349            | 1,720,348            | 1,884,077            | 2,124,016            | 2,293,742         |
| Service Stations                 | 1,319,720            | 1,527,002            | 1,850,576            | 1,916,674            | 1,916,253         |
| Other Retail Stores              | <u>1,481,096</u>     | <u>1,483,428</u>     | <u>1,550,568</u>     | <u>1,549,302</u>     | <u>1,634,088</u>  |
| Total Retail and Food Services   | \$ 12,368,802        | \$ 13,062,313        | \$ 14,191,502        | \$ 15,027,152        | 15,737,000        |
| All Other Outlets                | <u>4,795,162</u>     | <u>4,816,619</u>     | <u>5,306,003</u>     | <u>5,517,501</u>     | <u>5,757,505</u>  |
| TOTAL ALL OUTLETS <sup>(1)</sup> | <u>\$ 17,163,965</u> | <u>\$ 17,878,932</u> | <u>\$ 19,497,504</u> | <u>\$ 20,544,652</u> | <u>21,494,505</u> |

<sup>(1)</sup> Line items may not add to totals due to independent rounding.

Source: California State Board of Equalization, Research & Statistics Section, Taxable Sales in California.

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## Tourism

The following Table B-5 sets forth total visitor spending in the County for the calendar years 2010 through 2014.

**TABLE B-5**  
**COUNTY OF SAN DIEGO**  
**TOTAL VISITOR SPENDING**  
**Calendar Years 2010 through 2014**  
**(In Millions)**

| <i>Calendar Year</i> | <i>Amount</i> |
|----------------------|---------------|
| 2010                 | \$7,080       |
| 2011                 | 7,485         |
| 2012                 | 7,979         |
| 2013                 | 8,394         |
| 2014                 | 9,209         |

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Source: Visitor Industry Summary compiled by the San Diego Tourism Authority from data prepared by CIC Research, Inc., Oxford Economics.

The following Table B-6 sets forth the City's transient occupancy tax revenues for Fiscal Years 2010 through 2014.

**TABLE B-6**  
**CITY OF SAN DIEGO**  
**TRANSIENT OCCUPANCY TAX<sup>(1)</sup>**  
**Fiscal Years 2010 through 2014**  
**(in thousands)**

| <i>Fiscal Year</i> | <i>Amount</i> |
|--------------------|---------------|
| 2010               | \$123,879     |
| 2011               | 139,545       |
| 2012               | 148,795       |
| 2013               | 159,494       |
| 2014               | 170,475       |

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<sup>(1)</sup> Includes both the General Fund portion of TOT (5.5¢ of 10.5¢) and the balance (5¢ of 10.5¢) allocated to Special Promotional Programs. Special Promotional Programs are intended to: advance the City's economy by promoting the City as a visitor destination; develop, maintain, and enhance visitor-related facilities; and support the City's cultural amenities and natural attractions.

Source: Fiscal Year 2014 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego.

The City is the focal point for tourism in the County. According to the San Diego Tourism Authority in its annual San Diego County Visitor Industry Performance summary, in calendar year 2014, 67.6% of hotel rooms in the County were located within the City. For calendar year 2014, the San Diego Tourism Authority reported that hotel occupancy in the City averaged 76.7%, up 4.1% compared to the prior year.

In addition, most of the County's major tourist attractions, including the world-renowned San Diego Zoo and SeaWorld San Diego, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, Balboa Park and a host of other cultural and recreational activities.

Based on information provided by the San Diego Tourism Authority in its annual San Diego County Visitor Industry Performance summary, in calendar year 2014 there were more than 33.8 million visitors to San Diego County, and they spent more than \$9 billion. About half of the 33.8 million visitors stayed overnight in private homes or hotels. In calendar year 2014, there were 9,378,868 airport arrivals and 758,697 Amtrak arrivals, up 6.1% and down 0.1%, respectively, compared to the same time for the prior year.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major sporting events. The City annually hosts the Farmers Insurance Open, a Professional Golfers' Association Tour Event played at the world renowned Torrey Pines Golf Course. In addition, the City has annually hosted a pair of post season contests of elite college football teams, the Holiday Bowl and the Poinsettia Bowl.

The San Diego Convention Center (the "Convention Center") has 2.6 million total gross square feet of buildings, including the parking structure. According to the San Diego Convention Center Corporation Annual Report for Fiscal Year ended June 30, 2014, events in the Convention Center generated over \$1.3 billion in economic impact for the San Diego regional economy through direct attendee spending, tax revenues, and hotel room nights in Fiscal Year 2014.

## **Military**

*The information set forth below is taken from the San Diego Military Economic Impact Study released in September 2014 (the "Military Study") prepared by the San Diego Military Advisory Council ("SDMAC"). Neither the Authority nor the City has independently verified the information in the Military Study.*

Military and related defense spending are significant factors in the County economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot; Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

There are approximately 133,000 uniformed military personnel and Department of Defense civilians employed in the County including approximately 100,000 active duty military personnel, 8,600 reserves and 24,000 full-time civilian workers. These totals are expected to decline to approximately 130,300 in the current federal fiscal year ending September 30, 2015. The estimated direct defense-related spending by the military in the County for the fiscal year ending September 30, 2014 fell approximately 2% to \$25.2 billion from \$25.8 billion for the federal fiscal year ending September 30, 2013.

The direct spending by the military results in additional jobs and spending in the local economy. Approximately 22% (317,000) of the jobs in the County were directly and indirectly related to the military in the fiscal year ended September 30, 2014 and the gross regional product in the County related to the military was estimated at \$38.7 billion up from \$32.2 billion in the prior federal fiscal year. It is estimated that the military's total impact on the region represents about 20% of the County's total gross regional product.

Efforts by the federal government to reduce the federal deficit have negatively impacted military spending throughout the country. Automatic across-the-board spending cuts (referred to as sequestration) to numerous federal programs began to be implemented in Fiscal Year 2013; however, Congress approved at the end of 2013 a plan to suspend sequestration for two years. Uncertainty about the return of sequestration in Fiscal Year 2016 again makes forecasts for the coming years difficult, according to SDMAC.

## International Trade

The following Table B-7 sets forth the valuation of exports originating in the San Diego Customs District for calendar years 2010 through 2014.

**TABLE B-7**  
**VALUATION OF EXPORTS**  
**ORIGINATING IN SAN DIEGO CUSTOMS DISTRICT<sup>(1)</sup>**  
**Calendar Years 2010 through 2014**  
**(In Millions)**

| <i>Calendar Year</i> | <i>Amount</i> |
|----------------------|---------------|
| 2010                 | \$16,252      |
| 2011                 | 18,559        |
| 2012                 | 19,896        |
| 2013                 | 20,631        |
| 2014                 | 22,176        |

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<sup>(1)</sup> The San Diego Customs District includes the ports of San Diego, Andrade, Calexico, San Ysidro, Tecate, Otay Mesa Station, and Calexico-East.

Source: U.S. Census Bureau, Foreign Trade Statistics.

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**Top Ten Principal Employers**

The following Table B-8 sets forth the top 10 principal employers in the City for Fiscal Year 2014.

**TABLE B-8  
CITY OF SAN DIEGO  
TOP TEN PRINCIPAL EMPLOYERS  
Fiscal Year 2014  
(unaudited)**

| <i>Employer</i>                                   | <i>Number of<br/>Employees</i> | <i>Percentage of<br/>Total Employment<sup>(1)</sup></i> |
|---|--------------------------------|---|
| United States Navy <sup>(2)</sup>                 | 30,588                         | 4.31%   |
| University of California San Diego <sup>(3)</sup> | 28,672                         | 4.04  |
| Sharp Healthcare <sup>(4)</sup>                   | 16,446                         | 2.32  |
| County of San Diego                               | 16,215                         | 2.28  |
| Qualcomm, Inc.                                    | 13,725                         | 1.93  |
| San Diego Unified School District                 | 13,071                         | 1.84  |
| City of San Diego <sup>(5)</sup>                  | 10,411                         | 1.47  |
| Kaiser Permanente                                 | 8,172                          | 1.15  |
| UC San Diego Medical Center                       | 6,302                          | 0.89  |
| San Diego Gas & Electric Co. <sup>(6)</sup>       | <u>4,457</u>                   | <u>0.63</u>   |
| Total Top Employers                               | <u>148,059</u>                 | <u>20.86%</u>   |

<sup>(1)</sup> Percentage based on total employment of 709,800 provided by the EDD Labor Force Data.

<sup>(2)</sup> Employee count includes Navy, Marine and Civic Services personnel.

<sup>(3)</sup> Employee count includes full and part time, academic and support staff.

<sup>(4)</sup> Employee count is companywide.

<sup>(5)</sup> Employee count is provided by the City of San Diego, Office of the Comptroller – Payroll Division.

<sup>(6)</sup> Employee count does not include Sempra Energy or other affiliate companies.

Source: Fiscal Year 2014 Comprehensive Annual Financial Report, Statistical Section (Unaudited), Comptroller’s Office, City of San Diego.

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**Personal Income**

The following Table B-9 sets forth the per capita personal income in the County, the State and the United States for calendar years 2010 through 2014.

**TABLE B-9  
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES  
PER CAPITA PERSONAL INCOME<sup>(1)</sup>  
Calendar Years 2010 through 2014**

| <i>Calendar Year</i> | <i>County of San Diego</i> | <i>State of California</i> | <i>United States</i> |
|----------------------|----------------------------|----------------------------|----------------------|
| 2010                 | \$45,501                   | \$42,282                   | \$40,144             |
| 2011                 | 48,260                     | 44,749                     | 42,332               |
| 2012                 | 50,664                     | 47,505                     | 44,200               |
| 2013                 | 51,384                     | 48,434                     | 44,765               |
| 2014                 | N/A <sup>(2)</sup>         | 50,109                     | 46,129               |

<sup>(1)</sup> Amounts for County and State may not be comparable based on different source methodology.

<sup>(2)</sup> Not available.

Source: U.S. Bureau of Economic Analysis and Bureau of the Census.

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## Property Value and Construction

Residential and non-residential construction declined after peaking in 2005, in part due to the subprime mortgage crisis and the resulting significant increase in the number of foreclosures. However, residential and non-residential construction activity has increased since 2010. Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. In Fiscal Year 2014, construction permits valuation increased by 15.2%, or \$307.2 million, from Fiscal Year 2013.

The following Table B-10 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2010 through 2014.

**TABLE B-10**  
**CITY OF SAN DIEGO**  
**Assessed Value and Construction Permit Valuation**  
**Fiscal Years 2010 through 2014**  
**(\$ in thousands)**  
**(unaudited)**

| <i>Fiscal Year</i> | <i>Residential<sup>(1)</sup></i> |  | <i>Non-Residential<sup>(2)</sup></i> |  | <i>Total Permit Assessed Value Estimate<sup>(3)</sup></i> |
|--------------------|----------------------------------|--|--------------------------------------|--|---|
|                    | <i>Dwelling Units</i>            | <i>Permit Assessed Value<sup>(3)</sup></i> | <i>Permits</i>                       | <i>Permit Assessed Value<sup>(3)</sup></i> |   |
| 2010               | 1,147                            | \$234,868                                  | 76                                   | \$ 368,098                                 | \$ 602,966  |
| 2011               | 2,024                            | 342,598                                    | 98                                   | 818,627                                    | 1,161,225   |
| 2012               | 2,406                            | 518,091                                    | 113                                  | 1,142,674                                  | 1,660,765   |
| 2013               | 4,629                            | 854,489                                    | 111                                  | 1,162,254                                  | 2,016,743   |
| 2014               | 4,258                            | 836,074                                    | 136                                  | 1,487,835                                  | 2,323,909   |

<sup>(1)</sup> Residential reflects construction of new structures.

<sup>(2)</sup> Non-residential reflects construction of new structures whose intended use includes commercial, industrial, and other uses. Each permit is a separate structure.

<sup>(3)</sup> Valuation figures only include valuation of newly created structures. These figures do not include minor modification work such as interior remodels, reroofs, etc. Total Permit Assessed Value is an estimate determined at time of permit issuance; actuals may vary.

Source: Permit Tracking System Database, Development Services Department, City of San Diego.

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## Foreclosure Activity

The following Table B-11 sets forth foreclosure activity in the County for calendar years 2010 through 2014.

**TABLE B-11  
COUNTY OF SAN DIEGO  
FORECLOSURE ACTIVITY  
Calendar Years 2010 through 2014**

| <i>Calendar Year</i> | <i>Foreclosures</i> | <i>Total Number of<br/>Housing Units<sup>(1)</sup></i> | <i>% of Total<br/>Housing Units</i> |
|----------------------|---------------------|--|-------------------------------------|
| 2010                 | 13,467              | 1,158,076  | 1.16%                               |
| 2011                 | 12,216              | 1,161,720  | 1.05                                |
| 2012                 | 7,195               | 1,165,970  | 0.62                                |
| 2013                 | 3,236               | 1,169,095  | 0.28                                |
| 2014                 | 2,036               | 1,176,046  | 0.17                                |

<sup>(1)</sup> 2010 data based on 2010 census. All other data are estimates provided by SANDAG as of January 1 of the indicated year. Source: County of San Diego, Assessor's Records; and SANDAG.

According to the San Diego County Recorder's Office, there has been a decrease in the number of notices of loan defaults recorded in the County in calendar year 2014 compared to calendar year 2013. In addition, foreclosures have dropped during this time frame as well. There were 7,614 notices of default recorded in the County in calendar year 2013, which decreased to 5,855 notices recorded in 2014. Furthermore, there were 3,236 foreclosures in the County in calendar year 2013, which decreased by 37% to 2,036 foreclosures in 2014. As of April 30, 2015, there were 1,899 notices of default and 650 foreclosures thus far in calendar year 2015, decreases of 7% from 2,040 notices of default and 24% from 857 foreclosures in the same period of 2014.

## APPENDIX C

### SUMMARY OF BOND INDENTURE

*The following is a summary of certain definitions and provisions of the Bond Indenture (the “Bond Indenture”) which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Bond Indenture for a full and complete statement of their provisions.*

### DEFINITIONS

**Definitions.** Unless the context otherwise requires, the following terms shall have the following meanings:

“Account” means any account created pursuant to the Indenture.

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 *et seq.* of the California Government Code.

“Administrative Expenses” means the administrative costs with respect to the calculation, levying and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee and any Special Tax Consultant to the District, any fees and related costs for credit enhancement for the Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by the City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“Administrative Expenses Cap” means \$18,286.

“Annual Debt Service” means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

“Authorized Representative of the District” means the Mayor of the City, the Chief Operating Officer of the City, the Chief Financial Officer of the City, the Treasurer of the City or any other person or persons designated by the Mayor of the City, the Chief Operating Officer of the City, the Chief Financial Officer of the City or the Treasurer of the City by a written certificate signed by one of such officers of the City and containing the specimen signature of each such person.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Register” means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

“Bondowner” or “Owner” means the person or persons in whose name or names any Bond or Parity Bond is registered.

“Bonds” means the District’s Improvement Area No. 3 Special Tax Refunding Bonds, Series 2015 issued on June \_\_\_\_, 2015 in the aggregate principal amount of \$\_\_\_\_\_.

“Bond Year” means (i) for purposes of Annual Debt Service and Maximum Annual Debt Service, the twelve-month period ending on September 1 of each year; provided, however, that the first Bond Year shall begin on the Closing Date and end on September 1, 2015; and (ii) for federal income tax purposes; the one year period beginning on March 1 in any year and ending on the last day of the next succeeding February, both dates inclusive, except that for such purposes the first Bond Year shall begin on the Closing Date and end on February 28, 2016.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

“Certificate of an Authorized Representative” means a written certificate or warrant request executed by an Authorized Representative of the District.

“City” means the City of San Diego, California.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate dated as of June 1, 2015, executed and delivered by the District, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants, fees of special tax consultant and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the District.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Delivery Date” means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

“District” means Community Facilities District No. 2 (Santaluz) established pursuant to the Act and the Resolution of Formation.

“Event of Default” shall mean the “event of default” described in the Indenture.

“Federal Certificates” means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Federal Securities” means any of the following: (a) non-callable direct obligations of the United States of America (“Treasuries”), (b) evidence of ownership of proportionate interests in future interest and

principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (c) pre-refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s and Moody’s, respectively (or any combination thereof).

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Fitch” means Fitch Ratings, New York, New York, or its successors, and if such organization shall for any reason no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

“Indenture” means the Bond Indenture, together with any Supplemental Indenture approved pursuant to the Indenture.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

- (1) is in fact independent and not under the domination of the District or the City;
  - (2) does not have any substantial interest, direct or indirect, in the District or the City;
- and
- (3) is not connected with the District or the City as a member, officer or employee of the District or the City, but who may be regularly retained to make annual or other reports to the District or the City.

“Interest Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2016; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and
- (2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

“Moody’s” means Moody’s Investors Service, New York, New York, or its successors, and if such organization shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

“Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses.

“Nominee” shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Ordinance” means Ordinance No. O-18788 adopted by the legislative body of the District providing for the levying of the Special Tax, as it may be amended from time to time, or any other ordinance adopted by the City Council levying the Special Taxes.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;

(2) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds as securities depository.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) Federal Securities or Federal Certificates;

(2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

(c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations

(d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest Rating Category by two Rating Agencies;

(4) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated “AA” or better by a Rating Agency;

(5) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are rated, at the time of purchase, by “A1/P1/F1” by two Rating Agencies or, if the term of such indebtedness is longer than one year, rated in the highest Rating Category by two Rating Agencies;

(6) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, which are rated, at the time of purchase, “A1/P1/F1” by two Rating Agencies;

(7) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts shall be either (a) continuously insured by the Federal Deposit Insurance Corporation; or (b) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated, at the time of purchase, in the highest short term rating by two Rating Agencies;

(8) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category, and which bankers acceptances mature not later than 365 days from the date of purchase;

(9) Any repurchase agreement: (a) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars (\$100,000,000) and having short-term debt which is rated, at the time of the purchase, by two Rating Agencies in one of the three highest short-term Rating Categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (b) which agreement is secured by any one or more of the securities and obligations described in clause (i) or (ii) of this definition and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and shall be placed with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Trustee shall be entitled to rely on each such undertaking;

(10) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2) (3) and (9) of this definition and which money market fund is rated, at the time or purchase, by at least one Rating Agency in the highest Rating Category;

(11) Any guaranteed investment contract, including forward delivery agreements (“FDAs”) and forward purchase agreements (“FPAs”), with a financial institution or insurance company which has (or which is unconditionally guaranteed by a legal entity which has), at the date of execution thereof, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability which is rated, at the time of purchase, by two Rating Agencies in one of two highest long-term Rating Categories. Only Permitted Investments described in clause (i) and (ii) above and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(12) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category or within one of the three highest long-term Rating Categories, but excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date;

(13) For amounts less than \$250,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(14) Investments in Constant Net Asset Value taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are: (a) rated, at the time of purchase, by two Rating Agencies in one of the two highest Rating Categories; or (b) have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(15) Investments in the City’s pooled investment fund;

(16) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) of this definition and which companies are: (a) rated, at the time of purchase, by two Rating Agencies in the highest Rating Category; or (b) have an investment advisor registered with the Securities and Exchange Commission with not less than five years’ experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000);

(17) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended; and

(18) Any other investment, with confirmation (or other action, satisfactory to the City) from each rating agency that has a current rating on the Bonds at the time of initial purchase thereof, that its rating on the Bonds will not be lowered or withdrawn as a result of such investment.

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Prepayments” means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in of the District made in accordance with the RMA.

“Principal Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.



“Principal Office of the Trustee” means the office of the Trustee located in Los Angeles, California, or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

“Prior Trustee” means MUFG Union Bank, N.A., f/k/a Union Bank of California, N.A., as trustee for the Refunded Bonds.

“Rating Agency” means Fitch, Moody’s and Standard & Poor’s, or any one of such entities, as the context requires.

“Rebate Fund” means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Refunded Bonds” means the District’s Improvement Area No. 3 Special Tax Bonds, Series B of 2000.

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Representation Letter” shall mean the Blanket Letter of Representations from the District and the Trustee to the Depository as described in the Indenture.

“Reserve Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Reserve Requirement” means that amount as of any date of calculation equal to the lesser of (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds. Provided, however, the Reserve Requirement on any calculation date shall not be greater than the Reserve Requirement amount on the Delivery Date of the Bonds.

“Resolution of Formation” means Resolution No. R-292868 adopted by the City Council of the City on March 14, 2000 pursuant to which the City formed the District.

“RMA” means, as applicable, the Rate and Method of Apportionment of Special Taxes for Improvement Area No. 3 in the form attached to the Resolution of Formation.

“Sinking Fund Payment” means the annual payment to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedules set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

“Special Tax Fund” means the fund by that name created and established pursuant to the Indenture.

“Special Taxes” means the taxes authorized to be levied by the legislative body of the District on property within Improvement Area No. 3 the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the March 14, 2000 election in the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien, but excluding therefrom penalties and interest imposed upon delinquent installments of Special Taxes, which shall be applied in accordance with Chapter VI, Article 1, Division 23 of the San Diego Municipal Code.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business or its successors and if such organization shall no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

“Subordinated Bonds” means any bonds or indebtedness of the District that have a lien, charge, pledge or encumbrance on the Net Taxes junior and subordinated to the lien, charge, pledge and encumbrance thereon for the Bonds and any Parity Bonds.

“Supplemental Indenture” means any supplemental indenture amending or supplementing the Indenture.

“Surplus Fund” means the fund by that name created and established pursuant to the Indenture.

“Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Term Bonds” means the Bonds maturing on September 1, 20\_\_\_\_, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Trustee” means MUFG Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

“Underwriter” means Stifel, Nicolaus & Company, Incorporated, with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

## **CREATION OF FUNDS**

### **Creation of Funds; Application of Proceeds.**

There is created and established and shall be maintained by the Trustee the following funds and accounts:

(1) The Community Facilities District No. 2 Improvement Area No. 3 Proceeds Fund (the “Proceeds Fund”).

(2) The Community Facilities District No. 2 Improvement Area No. 3 Special Tax Fund (the “Special Tax Fund”) (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).

(3) The Community Facilities District No. 2 Improvement Area No. 3 Rebate Fund (the “Rebate Fund”).

(4) The Community Facilities District No. 2 Improvement Area No. 3 Costs of Issuance Fund (the “Costs of Issuance Fund”).

(5) The Community Facilities District No. 2 Improvement Area No. 3 Surplus Fund (the “Surplus Fund”).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

In connection with the issuance of any Parity Bonds, the Trustee, at the direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

**Deposits to and Disbursements from Special Tax Fund.**

(a) Except for Prepayments which shall be deposited to the Redemption Account as specified in a Certificate of an Authorized Representative, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

- (1) the Administrative Expense Account of the Special Tax Fund;
- (2) the Interest Account of the Special Tax Fund;
- (3) the Principal Account of the Special Tax Fund;
- (4) the Redemption Account of the Special Tax Fund;
- (5) the Reserve Account of the Special Tax Fund;
- (6) the Rebate Fund; and
- (7) the Surplus Fund.

(b) At maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

**Administrative Expense Account of the Special Tax Fund.** The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a requisition, substantially in the form attached as Exhibit D, executed by an Authorized Representative of the District, and all payments shall be made by check or wire transfer in accordance with the payment instructions set forth in such requisition and the Trustee may rely on such payment instructions with no duty to investigate or inquire as to their authenticity or the authority under which they were given; provided, however, that, except as set

forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Permitted Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

**Interest Account and Principal Account of the Special Tax Fund.** The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon optional or extraordinary redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer to the Administrative Expense Account, at least one Business Day prior to each March 1 and September 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2016, shall equal the principal payment due (including Sinking Fund Payments) on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity (including Sinking Fund Payments).

**Redemption Account of the Special Tax Fund.**

(a) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Indenture, and in accordance with the District's election to call Bonds for optional redemption, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Prepayments deposited to the Redemption Account, along with any amounts that an Authorized Officer of the District directs to be transferred from the Reserve Account to the Redemption Account in connection with any Prepayments, shall be applied on the redemption date to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments; provided that amounts shall be transferred from the Reserve Account only if immediately following such redemption the amount in the Reserve Account will meet the Reserve Requirement.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

**Reserve Account of the Special Tax Fund.** There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. If funded, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account or the Principal Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account or the Principal Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expense Account, the Interest Account and Principal Account and the Redemption Account as provided in the Indenture, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall, subject to limitations contained in the Act, if any, include the amount necessary to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with a redemption of Bonds pursuant to the Indenture or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Indenture, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and shall be transferred to the Interest Account of the Special Tax Fund.

**Surplus Fund.** After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses; or (iv) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Permitted Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Permitted Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

**Investments.** Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Permitted Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Permitted Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds and Accounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in the Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Indenture shall be invested by the Trustee as directed in writing by the District, from time to time, in Permitted Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund shall be invested in Permitted Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Permitted Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Permitted Investments; provided that no such Permitted Investment of amounts in the Reserve Account shall mature later than the earlier of the final maturity date of the Bonds or any Parity Bonds.

(d) Moneys in the Rebate Fund shall be invested only in Permitted Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Indenture or in Permitted Investments of the type described in clause (10) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Permitted Investments specified in clause (10) of the definition thereof as the District shall designate on forms provided by the Trustee.

The Trustee shall sell, or present for redemption, any Permitted Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof within 5 Business Days prior to each March 1 and September 1. In making any valuations, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Trustee may sell at the best market price obtainable, or present for redemption, any Permitted Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

The Trustee shall furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

## COVENANTS AND WARRANTY

**Warranty.** The District warrants that it shall preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

**Covenants.** So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment: Against Encumbrances. The District covenants that it will receive all Special Taxes in trust for the Owners and will instruct the Treasurer to deposit all Special Taxes with the Trustee as soon as reasonably practicable following their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes and other amounts pledged under the Indenture are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Special Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien, charge, pledge or encumbrance upon the Net Taxes senior or superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Levy of Special Tax. Beginning in Fiscal Year 2015-16 and so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, and subject to the limitations set forth in the Act, the legislative body of the District covenants to levy the Special Tax in an amount sufficient (taking into consideration reasonably anticipated delinquencies), together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

(c) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

(d) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the improvements constructed with the proceeds of bonded indebtedness issued by the District, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of



not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(e) Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income.

(f) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property within the District to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

Notwithstanding the foregoing, the District may modify, alter or amend the RMA in any manner, so long as the Trustee receives a certificate of an Independent Financial Consultant stating that such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment.

(g) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(h) Limitation on Right to Tender Bonds. The District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(i) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Certificate and with the terms of any agreement executed by the District with respect to any Parity Bonds to assist the Underwriters in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission.

(j) Further Assurances. The District shall preserve and protect the security pledged to the Bonds and any Parity Bonds against all claims and demands as long as the Bonds or Parity Bonds are Outstanding

and shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or desirable to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Indenture.

## **AMENDMENTS TO INDENTURE**

**Supplemental Indentures or Orders Not Requiring Bondowner Consent.** The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding; or

(e) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners or that is contrary to the rules and regulations of the Municipal Securities Rulemaking Board.

**Supplemental Indentures or Orders Requiring Bondowner Consent.** Exclusive of the Supplemental Indentures described in the Indenture, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the

Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

**Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds.** After the effective date of any action taken to adopt any Supplemental Indenture, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

## **EVENTS OF DEFAULT; REMEDIES**

**Events of Default.** Any one or more of the following events shall constitute an “Event of Default”:

(a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or

(c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The Trustee agrees to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within 10 days of the Trustee's knowledge of a default of the type described in (c) above which, if not cured, with the passage of time would become an Event of Default.

**Remedies of Owners.** Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

(b) by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) by a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

**Application of Revenues and Other Funds After Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing;

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing; and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the Bonds and Parity Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

**Appointment of Receivers.** Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds and Parity Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

**Non-Waiver.** Nothing in the Indenture, or in the Bonds or the Parity Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, out of the Net Taxes and other moneys pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds or Parity Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

**Limitations on Rights and Remedies of Owners.** No Owner of any Bond or Parity Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and

liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture.

**Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

## **DEFEASANCE AND PARITY BONDS**

**Defeasance.** If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Indenture, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid if such Bond or Parity Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or
- (c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special

Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for certain covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance of all Outstanding Bonds and Parity Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

**Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness.** The District may at any time after the issuance and delivery of the Bonds issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien, charge, pledge and encumbrance upon such amounts equal to the lien, charge, pledge and encumbrance securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such

Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an September 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) the denominations and method of numbering of such Parity Bonds;

(6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (i) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (ii) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the



issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

(6) such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

## MISCELLANEOUS

**Cancellation of Bonds and Parity Bonds.** All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds and Parity Bonds, as provided by law, and furnish to the District a certificate of such destruction.

**Provisions Constitute Contract.** The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

**Future Contracts.** Nothing contained in the Indenture shall be deemed to restrict or prohibit the District from making contracts or issuing Subordinated Bonds or creating other indebtedness payable from a pledge, lien, charge and encumbrance upon the Net Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged under the Indenture.

**Further Assurances.** The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or desirable to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in the Indenture.

**Severability.** If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be

affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of June 1, 2015 (the “Disclosure Certificate”) is executed and delivered by Community Facilities District No. 2 (Santaluz) (the “Issuer”) in connection with the issuance and delivery by the Issuer of its \$\_\_\_\_\_ Improvement Area No. 3 Special Tax Refunding Bonds Series 2015 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of June 1, 2015 by and between the Issuer and MUFG Union Bank, N.A., as Trustee thereto (the “Indenture”). The Issuer covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income purposes.

“Dissemination Agent” shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Issuer” shall mean the Community Facilities District No. 2 (Santaluz) established by the City of San Diego.

“Listed Events” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement for the Bonds dated May \_\_\_\_, 2015.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated.

“Rate and Method of Apportionment” means the Rate and Method of Apportionment of Special Taxes for Improvement Area No. 3 as described in City of San Diego Ordinance No. O 18788, as it may be amended from time to time.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or

the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Rule” shall mean Rule 15c2 12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

### SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than the April 1 after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2015, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the Repository of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository, in the form required by the Repository, on a timely basis.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to the Repository and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB’s EMMA system or in another manner approved under the Rule.

### SECTION 4. Content of Annual Reports.

(a) The Annual Report shall consist of the financial statements described in (b) below and the financial and operating data described in (c) below.

(b) Financial Statements. The audited financial statements of the City for the most recent fiscal year then ended shall be provided in the Annual Report. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the City shall be audited by such auditor as shall then be required or permitted by State law and shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below.

(c) Financial and Operating Data. In addition to the financial statements, the Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 30 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture as of the September 30 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(iv) an update of Table 3 of the Official Statement;

(v) an update of Table 6 of the Official Statement including a list of all taxpayers which own property within the Issuer's Improvement Area No. 3 boundaries upon which 5% or more of the total Special Taxes for the current fiscal year have been levied, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes; and

(vi) any information not already included under (i) through (v) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

(d) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Certain Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties<sup>(1)</sup>;
4. substitution of credit or liquidity providers, or their failure to perform<sup>(1)</sup>;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. bond calls<sup>(2)</sup>; and

<sup>(1)</sup> The Issuer has not obtained or provided, and does not expect to obtain or provide, any credit enhancements or credit or liquidity providers for the Bonds.

<sup>(2)</sup> Any scheduled redemption of Bonds pursuant to mandatory sinking fund redemption requirements and any extraordinary redemption of Bonds from Prepayments deposited to the Redemption Account does not constitute a bond call within the meaning of the Rule.

7. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5, which notice may be in the form of a notice of defeasance.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby; (ii) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) the Issuer shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (ii) above; and (iv) the Issuer shall have delivered copies of such opinion and amendment to the Repository.

(b) This Disclosure Certificate also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Bond Indenture for amendments to the Bond Indenture with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (v) have been satisfied.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the

basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Certificate. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.



SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, this Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2  
(SANTALUZ)

By: \_\_\_\_\_  
Authorized Representative

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**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

June \_\_, 2015

Community Facilities District No. 2 (Santaluz)  
San Diego, California

*Re:       \$\_\_\_\_\_ Community Facilities District No. 2 (Santaluz) Improvement Area No. 3  
              Special Tax Refunding Bonds Series 2015*

Ladies and Gentlemen:

We have acted as Bond Counsel to the Community Facilities District No. 2 (Santaluz) (the “District”), in connection with the issuance of its \$\_\_\_\_\_ Improvement Area No. 3 Special Tax Refunding Bonds Series 2015 (the “Bonds”). The Bonds are being issued under the provisions of Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the “Act”), and pursuant to a Bond Indenture, dated as of June 1, 2015 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., as trustee (the “Trustee”).

The Bonds are limited obligations of the District secured under the Indenture by a pledge of Net Taxes and certain other moneys held under the Bond Indenture.

In our capacity as Bond Counsel, we have reviewed the Bond Indenture, certifications of the District, the Trustee and others, opinions of counsel to the District and the Trustee, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

Based upon the foregoing, we are of the opinion that:

1. The Bonds constitute valid and binding limited obligations of the District as provided in the Bond Indenture, and are entitled to the benefits of the Bond Indenture.
2. The Bond Indenture has been duly and validly authorized, executed and delivered by the District and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms. The Trustee Agreement creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Special Taxes and certain other amounts held by the Trustee in certain funds and accounts established pursuant to the Bond Indenture, subject to the provisions of the Bond Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.
3. Under existing law, and assuming compliance with the covenants mentioned below, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the “Code”) from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing law, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, receipt or accrual of interest on Bonds owned by a corporation may affect the computation of its alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed. We are further of the opinion that under existing law interest on the Bonds is exempt from personal income taxes of the State of California.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. Pursuant to the Bond Indenture the District, and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986* being delivered by the District and the City in connection with the issuance of the Bonds, the District and the City are making representations relevant to the determination of, and are undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by each of the District and the City with its covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bond or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Bonds and the Bond Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Bond Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Respectfully submitted,

## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to [www.dtcc.com](http://www.dtcc.com) is presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial

Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.