

*SUPPLEMENT TO OFFICIAL STATEMENT DATED JUNE 20, 2012*

**\$24,795,000**  
**COMMUNITY FACILITIES DISTRICT NO. 1**  
**(MIRAMAR RANCH NORTH)**  
**SPECIAL TAX REFUNDING BONDS SERIES 2012**

This Supplement to Official Statement (the “Supplement”) supplements the Official Statement dated May 31, 2012 (the “Official Statement”) with respect to the above-referenced Bonds. This Supplement constitutes an integral part of the Official Statement and should be read in conjunction with the Official Statement. All capitalized terms not defined herein shall have the meaning set forth in the Official Statement.

The second sentence of the second paragraph under the caption “THE DISTRICT—General Description of the District” is hereby deleted in its entirety and replaced with the following:

“The public improvements to be financed by the District were completed a number of years ago and the final disbursement of proceeds is expected to be made this calendar year to reimburse another governmental agency that constructed one of the road improvements.”

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*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the 2012 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2012 Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS — Tax Exemption" herein.*

**\$24,795,000**  
**COMMUNITY FACILITIES DISTRICT NO. 1**  
**(MIRAMAR RANCH NORTH)**  
**SPECIAL TAX REFUNDING BONDS SERIES 2012**

**Dated: Date of Delivery****Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds Series 2012 (the "2012 Bonds") are being issued and delivered by Community Facilities District No. 1 (Miramar Ranch North) (the "District") to refund the District's outstanding Special Tax Refunding Bonds Series 1998 maturing after September 1, 2012. See "THE REFUNDING PLAN" herein. The District has been formed by and is located in the City of San Diego, California (the "City").

The 2012 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, 2012 by and between the District and U.S. Bank National Association, as trustee (the "Trustee") (together, the "Bond Indenture").

The 2012 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 the District 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 approved by the City Council of the City and the qualified electors within the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS — Special Taxes." The City Council of the City is the legislative body of the District.

The 2012 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 2012 Bonds will not receive certificates representing their beneficial ownership of the 2012 Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2012 Bonds will be payable on March 1, 2013 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the 2012 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 2012 Bonds. See "THE 2012 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 2012 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2012 Bonds. The 2012 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 2012 Bonds are subject to extraordinary mandatory redemption prior to maturity as set forth herein. See "THE 2012 BONDS — Redemption" herein.

**Certain events could affect the ability of the District to pay the principal of and interest on the 2012 Bonds when due. The purchase of the 2012 Bonds involves significant investment risks, and the 2012 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 2012 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 2012 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the 2012 Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriters by Nossaman LLP, Irvine, California, as counsel to the Underwriters. It is anticipated that the 2012 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about June 21, 2012.

**De La Rosa & Co.****BofA Merrill Lynch**

Dated: May 31, 2012

## MATURITY SCHEDULE

(Base CUSIP<sup>†</sup>: 604658)

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>†</sup></i>
2013	\$2,635,000	2.000%	0.670%	AA2
2014	2,865,000	3.000	0.950	AB0
2015	2,955,000	3.000	1.230	AC8
2016	3,040,000	3.000	1.480	AD6
2017	3,130,000	4.000	1.770	AE4
2018	3,260,000	4.000	2.030	AF1
2019	3,390,000	4.000	2.290	AG9
2020	3,520,000	5.000	2.550	AH7

<sup>†</sup> Copyright 2012, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The District takes no responsibility for the accuracy of such data.

**COMMUNITY FACILITIES DISTRICT NO. 1  
(MIRAMAR RANCH NORTH)**

**CITY COUNCIL**

**Serving as the Legislative Body of  
Community Facilities District No. 1 (Miramar Ranch North)**

Sherri S. Lightner (*District 1*)

Kevin Faulconer (*District 2*)

Todd Gloria (*District 3*)

Tony Young (*District 4*)

Carl DeMaio (*District 5*)

Lorie Zapf (*District 6*)

Marti Emerald (*District 7*)

David Alvarez (*District 8*)

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth,  
a Professional Corporation  
Newport Beach, California

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
San Francisco, California

**SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.  
Newport Beach, California

**TRUSTEE**

U.S. Bank National Association  
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriters to give any information or to make any representations in connection with the offer or sale of the 2012 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 Underwriters. 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 2012 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 2012 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 Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters 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 Underwriters 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*

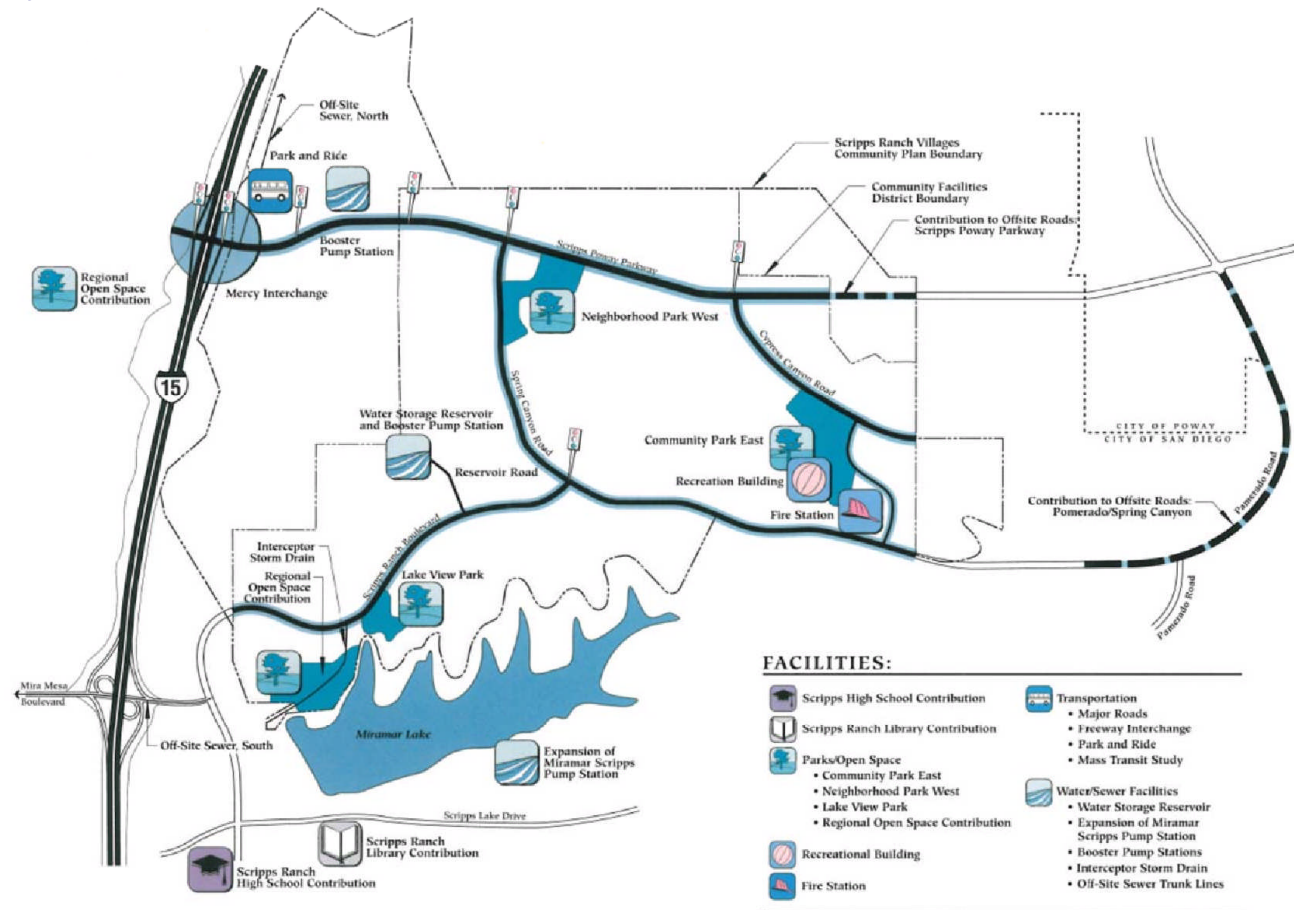
Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 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 Exhibit D, neither the City nor the District 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 2012 Bonds, the Underwriters 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 Underwriters may offer and sell the 2012 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 Underwriters.**

**The 2012 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The 2012 Bonds have not been registered or qualified under the securities laws of any state.**

# District Map





**TABLE OF CONTENTS**

INTRODUCTION ..... 1

General..... 1

The District ..... 1

Security and Sources of Payment for the 2012 Bonds ..... 2

Description of the 2012 Bonds..... 3

Tax Matters ..... 3

Professionals Involved in the Offering ..... 4

Continuing Disclosure..... 4

Bond Owners’ Risks ..... 4

Other Information ..... 4

ESTIMATED SOURCES AND USES OF FUNDS ..... 5

THE REFUNDING PLAN ..... 5

General..... 5

THE 2012 BONDS ..... 6

General Provisions ..... 6

Authority for Issuance..... 6

Debt Service Schedule ..... 7

Redemption ..... 8

Registration, Transfer and Exchange ..... 8

No Additional Bonds ..... 9

SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS ..... 9

Covenants and Warranties ..... 9

Limited Obligations ..... 9

Special Taxes ..... 9

Estimated Debt Service Coverage from Special Taxes..... 13

Reserve Account of the Special Tax Fund..... 13

THE DISTRICT..... 14

General Description of the District ..... 14

Estimated Direct and Overlapping Indebtedness ..... 15

Expected Tax Burden..... 16

Principal Taxpayers..... 20

Delinquency History ..... 20

Estimated Assessed Value-to-Lien Ratios ..... 21

SPECIAL RISK FACTORS ..... 24

Risks of Real Estate Secured Investments Generally..... 24

Risks Related to Current Market Conditions ..... 24

Economic Uncertainty..... 24

Limited Obligations ..... 25

Insufficiency of Special Taxes ..... 25

Depletion of Reserve Account ..... 25

Natural Disasters ..... 26

Hazardous Substances..... 26

Parity Taxes and Special Assessments..... 27

Disclosures to Future Purchasers ..... 27

Special Tax Delinquencies..... 27

Non-Cash Payments of Special Taxes .....	28
Payment of the Special Tax is not a Personal Obligation of the Owners.....	28
Property Values; Value-to-Lien Ratios .....	28
FDIC/Federal Government Interests in Properties.....	29
Bankruptcy and Foreclosure .....	30
No Acceleration Provision .....	31
Loss of Tax Exemption.....	31
Limitations on Remedies .....	31
Limited Secondary Market.....	31
Proposition 218 .....	32
Ballot Initiatives.....	33
 CONTINUING DISCLOSURE.....	 33
 LEGAL MATTERS.....	 34
Tax Exemption.....	34
Litigation.....	35
Legal Opinion .....	35
Rating.....	36
Underwriting.....	36
Financial Interests .....	36
Pending Legislation.....	36
Additional Information .....	37
 APPENDIX A RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES .....	 A-1
APPENDIX B DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY OF SAN DIEGO.....	B-1
APPENDIX C SUMMARY OF BOND INDENTURE .....	C-1
APPENDIX D FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT .....	D-1
APPENDIX E FORM OF OPINION OF BOND COUNSEL.....	E-1
APPENDIX F BOOK-ENTRY ONLY SYSTEM .....	F-1

**\$24,795,000**  
**COMMUNITY FACILITIES DISTRICT NO. 1 (MIRAMAR RANCH NORTH)**  
**SPECIAL TAX REFUNDING BONDS SERIES 2012**

**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 2012 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. 1 (Miramar Ranch North) (the “District”) of the \$24,795,000 Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds Series 2012 (the “2012 Bonds”). The proceeds of the 2012 Bonds, together with certain existing funds of the District, will be used to defease all of the District’s outstanding Special Tax Refunding Bonds Series 1998 (the “1998 Bonds”), originally issued in the aggregate principal amount of \$59,465,000 and now outstanding in the principal amount of \$31,740,000 (the “Refunded Bonds”). A portion of the 2012 Bonds will be used to fund a deposit to the Reserve Account and to pay costs of issuance of the 2012 Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The 2012 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, 2012 (the “Bond Indenture”) by and between the District and U.S. Bank National Association (the “Trustee”). Upon their issuance, the 2012 Bonds will be the only outstanding bonds of the District and will be secured under the Bond Indenture by a pledge of and lien upon Special 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. See “THE 2012 BONDS—No Additional Bonds” herein.

**The District**

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

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.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes on taxable property within the boundaries of, and to have

the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On January 8, 1991, at an election held pursuant to the Act, the landowners who comprised the qualified voters of the District, authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed \$73,000,000 and approved the rate and method of apportionment of the Special Taxes for the District to pay the principal of and interest on the bonds of the District. In 1993, the City Council adopted resolutions to amend the rate and method of apportionment and reduce the authorized bonded indebtedness to \$56,205,000, and these amendments were approved by the landowners as the qualified voters of the District in November 1993. The Rate and Method of Apportionment of Special Taxes, as amended in 1993 (the "Rate and Method"), is set forth in APPENDIX A hereto. The City Council of the City acts as the legislative body of the District.

*Development Status.* The District is located in the City, approximately 15 miles north of downtown San Diego, 10 miles inland from the Pacific Ocean and southwest of the City of Poway. The District encompasses approximately 1,200 acres, of which approximately 50% is developed and the remaining 50% is classified as open space and parks. Development within the District is complete and as of May 1, 2012, consists of 3,125 residential units and approximately 27 acres of commercial development. See "THE DISTRICT" herein.

As of January 1, 2011, the assessed value of the property within the District subject to the levy of the Special Tax was just over \$1.5 billion resulting in an estimated assessed value to lien ratio of 27.47 to 1 for the property subject to the Special Tax levy in Fiscal Year 2011-12 based on the principal amount of the 2012 Bonds and other overlapping debt secured by *ad valorem* taxes, special taxes and assessments on such property. See "THE DISTRICT-Estimated Assessed Value-to-Lien Ratios" herein.

#### **Security and Sources of Payment for the 2012 Bonds**

*General.* The 2012 Bonds are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the 2012 Bonds are payable solely from the Special Taxes to be levied annually against the property in the District, 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 the District, 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 2012 Bonds. The 2012 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.**

*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 land within the District pursuant to the Act and in accordance with the Rate and Method, but excluding penalties and interest imposed upon delinquent installments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS — Special Taxes" and APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." Under the Bond Indenture, the District will pledge to repay the 2012 Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and from 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 2012 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 2012 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 2012 BONDS — Reserve Account of the Special Tax Fund.”

*Foreclosure Proceeds.* The District will covenant for the benefit of the Beneficial Owners of the 2012 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 \$10,000 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. As of May 1, 2012, there were no delinquent parcels within the District in the foreclosure process. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS — Special Taxes — Proceeds of Foreclosure Sales” and Table 6 herein. There is no assurance that the property within the District can be sold for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the 2012 Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the District. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” herein.

### **Description of the 2012 Bonds**

The 2012 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 2012 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 2012 Bonds. In the event that the book-entry only system described herein is no longer used with respect to the 2012 Bonds, the 2012 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 2012 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 2012 Bonds, the Beneficial Owners will become the registered owners of the 2012 Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

The 2012 Bonds are subject to extraordinary mandatory redemption as described herein. For a more complete description of the 2012 Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE 2012 BONDS” and APPENDIX C — “SUMMARY OF BOND INDENTURE” herein.

### **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2012 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It is the further opinion of Bond Counsel that interest (and original issue discount) on the 2012

Bonds is exempt from State of California personal income tax. See “LEGAL MATTERS — Tax Exemption” herein.

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

U.S. Bank National Association will act as Trustee under the Bond Indenture and as the escrow agent under the Escrow Agreement relating to the defeasance of the Refunded Bonds. E. J. De La Rosa & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are the Underwriters of the 2012 Bonds. Certain proceedings in connection with the issuance and delivery of the 2012 Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. See APPENDIX E — FORM OF OPINION OF BOND COUNSEL.” Public Financial Management, Inc. is acting as Financial Advisor to the City in connection with the 2012 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the Underwriters by Nossaman LLP, Irvine, California, as Underwriters’ Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, 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 2012 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 Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See “FORM OF 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 2012 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 2012 Bonds. *The purchase of the 2012 Bonds involves significant investment risks, and the 2012 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 2012 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 2012 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 2012 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 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the expected sources and uses of 2012 Bond proceeds and prior funds:

#### **Sources of Funds**

Principal Amount of 2012 Bonds	\$ 24,795,000.00
Original Issue Premium	2,252,482.55
Prior Funds <sup>(1)</sup>	<u>8,276,117.53</u>
TOTAL SOURCES	<u>\$ 35,323,600.08</u>

#### **Uses of Funds**

Escrow Fund	\$ 32,508,418.75
Reserve Account	2,479,500.00
Cost of Issuance Account <sup>(2)</sup>	245,378.95
Underwriters' Discount	<u>90,302.38</u>
TOTAL USES	<u>\$ 35,323,600.08</u>

<sup>(1)</sup> Funds transferred from Special Tax Fund and the Reserve Fund relating to the Refunded Bonds.

<sup>(2)</sup> Includes legal fees, financial advisor fees, special tax consultant fees, Trustee and Escrow Agent fees and expenses, rating agency fees and other miscellaneous costs.

### **THE REFUNDING PLAN**

#### **General**

A portion of the proceeds from the sale of the 2012 Bonds will be used along with other funds held by the District to defease the Refunded Bonds. The District will enter into an Escrow Agreement with regard to the Refunded Bonds (the "Escrow Agreement"), dated as of June 1, 2012, by and between the District and U.S. Bank National Association (the "Escrow Agent"). An irrevocable escrow fund will be established under the Escrow Agreement (the "Escrow Fund"). The moneys deposited with the Escrow Agent will be sufficient to defease the Refunded Bonds and redeem the Refunded Bonds maturing on and after September 1, 2013 on September 1, 2012. Moneys on deposit in the Escrow Fund will be held uninvested in cash. The amounts in the Escrow Fund will be held by the Escrow Agent and for the benefit of the owners of the Refunded Bonds and will be applied to pay at maturity and redeem, as applicable, the Refunded Bonds which remain outstanding, in whole, on September 1, 2012. Upon the establishment of the Escrow Fund as described above, the Refunded Bonds will be discharged under the Bond Indenture and the owners of the Refunded Bonds will have no rights thereunder except to be paid the principal and interest due on the Refunded Bonds from amounts in the Escrow Fund.

## THE 2012 BONDS

### General Provisions

The 2012 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 on March 1, 2013 (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 2012 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the 2012 Bonds are held in book-entry form, principal and interest on the 2012 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 2012 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2012 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 2012 Bonds; provided, however, that if at the time of authentication of a 2012 Bond, interest is in default, interest on that 2012 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 2012 Bonds will be issued pursuant to the Act and the Bond Indenture. As required by the Act, the City Council of the City has taken the following actions with respect to establishing the District and authorizing the issuance of the 2012 Bonds:

*Resolutions of Intention:* On November 27, 1990, the City Council of the City adopted a resolution stating its intention to establish the District and to authorize the levy of a special tax, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed \$73,000,000 within the District.

*Resolutions of Formation:* Immediately following a noticed public hearing opened on January 8, 1991, the City Council of the City, adopted a resolution which established the District, authorized the levy of a special tax within the District, and declared the necessity to incur bonded indebtedness within the District.

*Resolution Calling Election:* The resolution adopted by the City Council of the City on January 8, 1991 also called for an election by the landowners in the District for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness in the District, and the establishment of an appropriations limit.

*Landowner Election and Declaration of Results:* On January 8, 1991, an election was held at which the landowner within the District approved a ballot proposition authorizing the issuance of up to \$73,000,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for the District. On January 8, 1991, the City Council adopted a resolution approving the canvass of the votes and declaring the District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

*Change Proceedings:* Pursuant to the Act and certain resolutions adopted on November 30, 1993, the City Council (i) deleted the water distribution loop and the interest carry from the Project, (ii) reduced the authorized amount of bonded indebtedness to \$56,205,000 (subject to escalation), and (iii) reduced the



Maximum Special Tax Rates and modified the Rate and Method of Apportionment to include the Extraordinary Special Tax. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.”

*Ordinance Levying Special Taxes:* On January 3, 1994, the City Council adopted Ordinance No. 0-18023 ordering the levy of the Special Tax within the District pursuant to the modified Rate and Method of Apportionment approved on November 30, 1993.

*Special Tax Lien and Levy:* A Notice of Special Tax Lien for the District was recorded in the real property records of the County on January 16, 1991, as a continuing lien against the property in the District. On December 15, 1993, to reflect the November 30, 1993 changes, a Notice of Special Tax Lien and Cancellation of Prior Notice of Special Tax Lien was recorded as a continuing lien against the property in the District.

*Resolution Authorizing Issuance of the 2012 Bonds:* On May 22, 2012, the City Council, acting as the legislative body of the District, adopted a resolution approving the issuance of the 2012 Bonds.

**Debt Service Schedule**

The following table presents the annual debt service on the 2012 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 2012 Bonds on any Interest Payment Date from the proceeds of any prepayments of Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS — Special Taxes” and “THE 2012 BONDS — Redemption.”

<i>Period ending</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
03/01/13		\$ 615,069.44	\$ 615,069.44
09/01/13	\$ 2,635,000	442,850.00	3,077,850.00
03/01/14		416,500.00	416,500.00
09/01/14	2,865,000	416,500.00	3,281,500.00
03/01/15		373,525.00	373,525.00
09/01/15	2,955,000	373,525.00	3,328,525.00
03/01/16		329,200.00	329,200.00
09/01/16	3,040,000	329,200.00	3,369,200.00
03/01/17		283,600.00	283,600.00
09/01/17	3,130,000	283,600.00	3,413,600.00
03/01/18		221,000.00	221,000.00
09/01/18	3,260,000	221,000.00	3,481,000.00
03/01/19		155,800.00	155,800.00
09/01/19	3,390,000	155,800.00	3,545,800.00
03/01/20		88,000.00	88,000.00
09/01/20	<u>3,520,000</u>	<u>88,000.00</u>	<u>3,608,000.00</u>
TOTAL	<u>\$ 24,795,000</u>	<u>\$4,793,169.44</u>	<u>\$ 29,588,169.44</u>

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Source: De La Rosa & Co.

## **Redemption**

*Extraordinary Redemption from Special Tax Prepayments.* The 2012 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 2012 BONDS — Reserve Account of the Special Tax Fund”), at a redemption price equal to 103% of the principal amount to be redeemed, together with accrued interest to the date of redemption.

Prepayments and amounts released from the Reserve Account in connection with Prepayments will be allocated to the redemption of the 2012 Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the 2012 Bonds.

*Notice of Redemption.* So long as the 2012 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 2012 Bonds and the registered Owners of the 2012 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 2012 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the 2012 Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the 2012 Bonds are to be redeemed; (v) in the case of 2012 Bonds to be redeemed only in part, state the portion of such 2012 Bond which is to be redeemed; (vi) state the date of issue of the 2012 Bonds as originally issued; (vii) state the rate of interest borne by each 2012 Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 2012 Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any 2012 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 2012 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 2012 Bonds called for redemption is set aside for that purpose in the Redemption Account, the 2012 Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the 2012 Bonds at the place specified in the notice of redemption, and no interest will accrue on the 2012 Bonds called for redemption from and after the redemption date, and the Beneficial Owners of the redeemed 2012 Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such 2012 Bonds or portions of 2012 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 2012 Bonds. The ownership of the 2012 Bonds will be established by the bond registration books held by the Trustee.

*Transfer or Exchange.* Whenever any 2012 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new 2012 Bond or 2012 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) 2012 Bonds for a period of 15 days next preceding the date of any selection of the 2012 Bonds to be redeemed, or (ii) any 2012 Bonds chosen for redemption.

## **No Additional Bonds**

At the time of the issuance of the 2012 Bonds, the District will have no other indebtedness outstanding secured by a pledge of the Special Taxes. Under the terms of the Bond Indenture, the District will covenant not to issue any bonds or other indebtedness in the future secured by a lien on the Special Taxes.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2012 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 2012 Bonds. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Covenants and Warranty.”

### **Limited Obligations**

The 2012 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 2012 Bonds. Under the Bond Indenture, the District will pledge to repay the 2012 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 2012 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 2012 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 2012 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2012 Bonds. The 2012 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.**

### **Special Taxes**

*Authorization and Pledge.* In accordance with the provisions of the Act, the City Council established the District on January 8, 1991 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on January 8, 1991, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$73,000,000, and approved a rate and method of apportionment of Special Taxes authorizing the Special Tax to be levied to repay indebtedness with respect to the District. On November 30, 1993, the qualified voters in the District approved certain amendments to the rate and method of apportionment, and the Special Taxes are now levied in accordance with the amended rate and method of apportionment (the “Rate and Method”), a copy of which is attached as APPENDIX A to this Official Statement.

The District will covenant in the Bond Indenture that, beginning in Fiscal Year 2012-13, 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 2012 Bonds, to replenish the Reserve Account 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” hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the 2012 Bonds when due. See “SPECIAL RISK FACTORS — Insufficiency of Special Taxes” herein.

*Rate and Method of Apportionment of Special Taxes.* All capitalized terms used in this section shall have the meaning in the Rate and Method, the text of which is set forth in full in APPENDIX A.

The Rate and Method originally authorized the levy of an Annual Special Tax Levy, a Building Permit Special Tax and an Extraordinary Special Tax. Now that development in the District is complete, only the Annual Special Tax Levy is collected. Although under the Rate and Method the Annual Special Tax Levy may include amounts to pay directly for the acquisition or construction of authorized public facilities, the District does not intend to levy any Special Taxes in the future for this purpose.

Set forth in Table 1 below are the Fiscal Year 2011-12 Maximum Special Tax Rates that may be levied for each land use category in computing the Annual Special Tax Levy and the Fiscal Year 2011-12 actual Special Tax Rates for each land use category. These Maximum Special Tax Rates do not escalate.

**TABLE 1**  
**FISCAL YEAR 2011-12 MAXIMUM AND ACTUAL SPECIAL TAXES**  
**COMMUNITY FACILITIES DISTRICT NO. 1**

<i>Land Use Class</i>	<i>Description</i>	<i>Floor Area</i>	<i>Fiscal Year 2011-12 Maximum Special Tax</i>	<i>Fiscal Year 2011-12 Actual Special Tax</i>
			\$ 0.9200/sq.ft. rounded to the nearest hundred square foot	
1	Residential			\$ 0.6547/sq.ft.
2	Commercial		\$ 12,000.00/acre	\$ 8,539.52/acre
3	Industrial		\$ 12,000.00/acre	\$ 0.00/acre <sup>(1)</sup>
4	Other		\$ 12,000.00/acre	\$ 0.00/acre <sup>(1)</sup>
5	Undeveloped		\$ 16,000.00/acre	\$ 0.00/acre <sup>(1)</sup>

<sup>(1)</sup> There were no units/acres in these land use classes in Fiscal Year 2011-12.  
Source: David Taussig & Associates, Inc.

Under the Rate and Method, as of July 1 of each year, the City is to cause each of the Assessor’s Parcels within the District to be classified into one of the Land Use Classes specified in Table 1 above. After classifying the parcels by land use, the Rate and Method provides that the City Council will determine the Annual Special Tax Levy for the fiscal year. “Annual Special Tax Levy” is defined in the Rate and Method as the aggregate amount of special taxes to be levied in any Fiscal Year to (i) pay principal of and interest due and payable on the bonds of the District during the next ensuing Bond Year, and the cost of the registration,

transfer, and exchange of such bonds and/or to pay directly for the acquisition or construction of authorized public capital facilities, (ii) maintain the required amount in the reserve fund for, the bonds, and (iii) pay administrative expenses of the City estimated to be incurred during the Fiscal Year in connection with the levy and collection of special taxes. Items (i) through (iii) shall be reduced by available bond reserve earnings, debt service payments pursuant to Section G of the Rate and Method, and other interest earnings described in the Bond Indenture, except those earnings that may be required for rebate purposes.

In the event that the levy of the Special Tax at the Maximum Special Tax Rates on all Developed Property exceeds the Annual Special Tax Levy, then the Special Tax is proportionately reduced on all parcels. As set forth in Table 1 above, the actual Special Tax levy for Fiscal Year 2011-12 was approximately 71% of the Maximum Special Tax Rates. Under the Rate and Method, the Special Tax shall be levied upon an Assessor's Parcel of Developed Property for a maximum of 25 years. Beginning in fiscal year 2019-20, certain of the Developed Property parcels consisting of 71 residential units and 4.9 acres of commercial property will no longer be subject to the Special Tax; however, even with these parcels no longer being subject to the Special Tax levy, it is expected that, absent delinquencies, the Special Taxes levied in future fiscal years will not be more than 62% of the Maximum Special Tax Rates. See Table 2 below.

*Prepayment of Special Taxes.* Under the Rate and Method, the owner of a parcel of Developed Property may voluntarily prepay the Special Tax obligation for a parcel in whole or in part, as set forth in Section G of the Rate and Method. Any required or voluntary prepayment of Special Taxes will result in an extraordinary redemption of 2012 Bonds. See "THE 2012 BONDS — Redemption — *Extraordinary Redemption from Special Tax Prepayments.*" As of May 1, 2012, no prepayments of Special Taxes had been made in the District.

*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 County of San Diego (the "County") assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for the District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes (including the Special Taxes) to the City, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool (including the Special Taxes), if any, could be temporarily unavailable to the City. The City does not participate in the County's Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan allows counties to allocate 100 percent of property taxes billed to participating taxing entities in exchange for retaining future delinquent tax payments, penalties and interest.

The District will make 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 2012 Bonds and Administrative Expenses when due. First, the District will covenant that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes below the levels described under the caption "*— Permitted Amendments of Rate and Method*" above. See "SPECIAL RISK FACTORS — Proposition 218." Second, the District will covenant not to permit the tender of 2012 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 2012 Bonds Outstanding following such tender. See “SPECIAL RISK FACTORS — Non-Cash Payments of Special Taxes.”

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. In addition to the obligation to pay Special Taxes, properties in the District are subject to other assessments and special taxes as set forth under Table 3 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners in the District. See “SPECIAL RISK FACTORS — Parity Taxes and Special Assessments” herein. There is no assurance that property owners 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. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund. 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 deposit up to an amount equal to the Administrative Expenses Cap of \$50,000 (subject to 2% escalation each fiscal year) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses; (ii) to pay the principal of and interest on the 2012 Bonds when due; (iii) to replenish the Reserve Account to the Reserve Requirement; (iv) to make any required transfers to the Rebate Fund; (v) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX C — “SUMMARY OF BOND INDENTURE.”

*Proceeds of Foreclosure Sales.* The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within the District resulting from a landowner’s failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Special Tax revenues pledged to the payment of principal and interest on the 2012 Bonds under the Bond Indenture.

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 Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property 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 will covenant for the benefit of the Beneficial Owners of the 2012 Bonds that it will commence and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties 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 — Other Covenants of the District” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the 2012 Bonds could be delayed until the foreclosure proceedings have ended with 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 real 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 lot or parcel of 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**

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 to include an amount equal to the debt service on the 2012 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. The Annual Special Tax Levy in Fiscal Year 2011-12 totaled \$4,447,950, with \$47,096 of this amount budgeted to pay Administrative Expenses.

The Annual Special Tax Levy in Fiscal Year 2011-12 was approximately 71% of the Maximum Special Tax Rates set forth in the Rate and Method and future levies, absent delinquencies, are projected not to exceed 62% of the Maximum Special Tax Rates. Based on the land use classifications made under the Rate and Method as of March 1, 2012, if Special Taxes were levied at the Maximum Special Tax Rates, the Special Taxes available to pay debt service on the 2012 Bonds after the payment of Administrative Expenses in an amount equal to the Administrative Expenses Cap would be approximately 167% of the debt service due in each Bond Year except for the final Bond Year in which the coverage would be reduced to approximately 162% of debt service. The reduction occurs in the final Bond Year because of the termination of the Special Tax on 71 residential parcels and 4.9 acres of commercial property as described above.

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

In order to secure further the payment of principal of and interest on the 2012 Bonds, the District is required, upon delivery of the 2012 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 2012 Bonds; (ii) the maximum annual debt service on the then Outstanding 2012 Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding 2012 Bonds. As of the date of issuance of the 2012 Bonds the Reserve Requirement will be fully funded in the amount of \$2,479,500.

Subject to the limits on the maximum annual Special Tax which may be levied within the District 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 2012 Bonds, to the extent other monies are not available therefor; (ii) redeem the 2012 Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of a series of the 2012 Bonds. In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Account will be added to the amount being prepaid and be applied to redeem 2012 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.

**THE DISTRICT**

**General Description of the District**

The District is located in the City, approximately 15 miles north of downtown San Diego, 10 miles inland from the Pacific Ocean and southwest of the City of Poway. The District encompasses approximately 1,200 acres, of which approximately 50% is developed and the remaining 50% is classified as open space and parks. Development within the District is complete and as of March 1, 2012, consists of 3,125 residential units and approximately 27 acres of commercial development. See “THE DISTRICT” herein.

A portion of the proceeds of the bonds originally issued by the District was used to acquire and construct various public facilities authorized to be acquired or constructed within the District. These proceeds have all been expended and the public improvements to be financed by the District are complete. The completed improvements include: various streets and street facilities, including traffic signals; water transmission and distribution facilities; sewage and wastewater collection and transmission facilities; storm drainage facilities; electrical utility facilities; landscaping (including irrigation systems); acquisition of land, rights-of-way and easements for such facilities; acquisition and development of parks and recreational facilities; construction of and equipment for a fire station; and contribution for a library, mass transit study and regional park/open space system.

Development within the District consists of 3,125 residential units and approximately 27.11 acres of commercial development as described in Table 2 below. Development within the District is complete.

**TABLE 2**

**DEVELOPMENT SUMMARY  
COMMUNITY FACILITIES DISTRICT NO. 1**

<i>Land Use<sup>(1)</sup></i>	<i>Taxable Property</i>	<i>Number of Square Feet/Acres</i>	<i>Fiscal Year 2011-12 Actual Special Tax</i>	<i>Average Net Assessed Value<sup>(1)</sup></i>
<b><u>Developed Property<sup>(2)</sup> (as of 3/1/11)</u></b>				
Residential Property (Developed in FY 1994-95)	71 Units	149,100 SF <sup>(3)</sup>	\$ 97,615	\$ 481,782/Unit
Residential Property (Developed after FY 1994-95)	3,054 Units	6,291,200 SF <sup>(3)</sup>	4,118,828	464,517/Unit
Commercial Property (Developed in FY 1994-95)	4.90 Acres	4.90 Acres	41,844	2,898,689/Acre
Commercial Property (Developed after FY 1994-95)	22.21 Acres	22.21 Acres	189,663	2,705,850/Acre

<sup>(1)</sup> Based on Fiscal Year 2011-12 County Assessor's Roll.

<sup>(2)</sup> As defined in the Rate and Method, Developed Property is all property for which a building permit was issued prior to March 1, 2011.

<sup>(3)</sup> Pursuant to the Rate and Method, square footage for each unit is rounded to the nearest 100 feet.

Source: David Taussig & Associates, Inc.



Table 2A below sets forth the net assessed value and the annual change in net assessed value for fiscal years 2006-07 through 2011-12.

**TABLE 2A**

**ANNUAL CHANGE IN ASSESSED VALUE  
COMMUNITY FACILITIES DISTRICT NO. 1**

<i>Year</i>	<i>Taxable Property Net Assessed Value<sup>(1)</sup></i>	<i>% Change</i>
2006-2007	\$ 1,458,643,323	N/A
2007-2008	1,525,474,381	4.58%
2008-2009	1,524,188,741	(0.08)
2009-2010	1,494,502,876	(1.95)
2010-2011	1,492,817,431	(0.11)
2011-2012	1,518,552,934	1.72

<sup>(1)</sup> Net assessed values as of January 1 of each year from the County Assessor's Roll.  
Source: San Diego County Assessor.

**Estimated Direct and Overlapping Indebtedness**

Within the boundaries of the District are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the District and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within the District for Fiscal Year 2011-12 is shown in Table 3 below.

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**TABLE 3**

**DIRECT AND OVERLAPPING DEBT SUMMARY  
COMMUNITY FACILITIES DISTRICT NO. 1 <sup>(1)</sup>**

<i>Overlapping District</i>	<i>Fiscal Year 2011-12 Total Levy<sup>(1)</sup></i>	<i>Amount of Levy on Parcels in the District</i>	<i>Percent of Levy on Parcels in the District</i>	<i>Total Debt Outstanding</i>	<i>District Share of Total Debt Outstanding</i>
Metropolitan Water District G.O. Bonds	\$94,810,471 <sup>(2)</sup>	\$56,186 <sup>(2)</sup>	0.06%	\$225,335,000	\$ 133,538
Palomar Pomerado Health Systems Series G.O. Bonds	14,048,337	55,201	0.39	414,946,525	1,630,464
San Diego Unified Bonds, Prop MM Series A-G1, Prop S Series A-D2	85,233,769	929,051	1.09	1,661,452,313	18,109,881
San Diego Community College Bond Prop N Series 2007 and 2011; Prop S Series 2003A, 2005, 2009C, 2011, and 2011 Refunding	47,604,315	482,795	1.01	963,441,939	9,771,065
Palomar Community College District Series 2006A and 2006B Bonds	12,149,853	31,508	0.26	321,028,901	832,513
Estimated Share of Overlapping Debt Allocable to the District					\$ 30,477,460
Plus CFD No. 1 Refunding Bonds Series 2012					24,795,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$ 55,272,460

<sup>(1)</sup> Based on actual Fiscal Year 2011-12 levy.

<sup>(2)</sup> Of the total levy shown, only a portion of such levy will be used to pay debt service on the bonds.

Source: David Taussig & Associates, Inc.

In addition to the bonded indebtedness set forth in Table 3, new community facilities districts or special assessment districts may be formed which include all or a portion of the District, and, upon approval of the registered voters or landowners in such districts, as applicable, may issue more bonds and levy additional special taxes or other taxes and assessments. In addition to the Special Taxes, the property owners in the District will be required to pay the general *ad valorem* property taxes for their parcels.

**Expected Tax Burden**

Tables 4A, 4B and 4C below set forth an estimated property tax bill for the average residential unit sizes in various tax rate areas in the District. The estimated tax rates are analyzed below by tax rate area because each tax rate area is subject to varying rates of taxation by overlapping taxing entities. The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2011-12. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2011-12, the projected total effective tax rates for all categories are all approximately 1.47% of assessed value and were the Special Taxes levied at the Maximum Special Tax Rates, the total effective tax rate would be approximately 1.58% of assessed value. It is not expected that the maximum percentage will be reached.

TABLE 4A

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2011-12  
FOR RESIDENTIAL PROPERTY  
TAX RATE AREA 08233**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$665,067		
Average Unit Size for Residential Property <sup>(2)</sup> :	2,903 Square Feet		
AD VALOREM PROPERTY TAXES <sup>(3)</sup>			
Basic Levy	1.00000%	\$ 6,650.67	
Metropolitan Water District G.O. Bonds	0.00370	24.61	
Palomar Pomerado Health Systems G.O. Bonds	0.02350	156.29	
San Diego Unified Bonds	0.06670	443.60	
San Diego Community College Bonds	0.03740	248.74	
San Diego City Zoological Exhibits	<u>0.00500</u>	<u>33.25</u>	
Total General Property Taxes and Overrides	1.13630	\$ 7,557.16	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
CWA Water Availability <sup>(4)</sup>		\$ 10.00	
MWD Water Standby Charge <sup>(5)</sup>		11.50	
Vector Disease Control <sup>(6)</sup>		5.86	
Mosquito Surveillance <sup>(7)</sup>		3.00	
Miramar Ranch North Maintenance Assessment District <sup>(8)</sup>		261.28	
CFD No. 1 <sup>(9)</sup>		<u>1,900.65</u>	<u>\$ 2,670.84</u>
Total Assessments and Parcel Charges		\$ 2,192.29	\$ 2,962.48
 PROJECTED TOTAL PROPERTY TAXES		 <u>\$ 9,749.45</u>	 <u>\$ 10,519.64</u>
 Projected Total Effective Tax Rate (as % of Assessed Value)		 1.46593%	 1.58174%

<sup>(1)</sup> Based on average net assessed value plus \$7,000 homeowner's exemption for 11 residential lots in TRA 08233 as of January 1, 2011 provided by the San Diego County Assessor. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 11 residential units in TRA 08233.

<sup>(3)</sup> Based on actual FY 2011-2012 ad valorem rates.

<sup>(4)</sup> Based on the FY 2011-2012 rate of \$10.00 per parcel or per acre, whichever is greater.

<sup>(5)</sup> Based on the FY 2011-2012 rate of \$11.50 per parcel or per acre, whichever is greater.

<sup>(6)</sup> Based on the FY 2011-2012 rate of \$5.86 per single family equivalent.

<sup>(7)</sup> Based on the FY 2011-2012 rate of \$3.00 per parcel.

<sup>(8)</sup> Based on the FY 2011-2012 rate of \$261.28 per parcel.

<sup>(9)</sup> Based on the CFD No. 1 FY 2011-2012 actual Special Tax rate of \$0.6547 per square foot for residential property. Maximum Special Tax is based on the FY 2011-2012 Maximum Special Tax rate of \$0.9200 per square foot for residential property.

Source: David Taussig & Associates, Inc.

**TABLE 4B**  
**SAMPLE PROPERTY TAX BILL**  
**PROJECTED FOR FISCAL YEAR 2011-12**  
**FOR RESIDENTIAL PROPERTY**  
**TAX RATE AREA 08193**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>		\$359,056	
Average Unit Size for Residential Property <sup>(2)</sup> : 1,514 Square Feet			
AD VALOREM PROPERTY TAXES <sup>(3)</sup>			
Basic Levy	1.00000%	\$ 3,590.56	
Metropolitan Water District G.O. Bonds	0.00370	13.29	
Palomar Pomerado Health Systems G.O. Bonds	0.02350	84.38	
San Diego Unified Bonds	0.06670	239.49	
San Diego City Zoological Exhibits	0.00500	17.95	
Palomar Community College Bonds	<u>0.01384</u>	<u>49.69</u>	
Total General Property Taxes and Overrides	1.11274	\$ 3,995.36	
 ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
CWA Water Availability <sup>(4)</sup>		\$ 10.00	
MWD Water Standby Charge <sup>(5)</sup>		11.50	
Vector Disease Control <sup>(6)</sup>		5.86	
Mosquito Surveillance <sup>(7)</sup>		3.00	
Miramar Ranch North Maintenance Assessment District <sup>(8)</sup>		261.28	
CFD No. 1 <sup>(9)</sup>		<u>991.26</u>	<u>\$ 1,392.94</u>
Total Assessments and Parcel Charges		\$ 1,282.90	\$ 1,684.58
 PROJECTED TOTAL PROPERTY TAXES		 \$ 5,278.26	 \$ 5,679.94
 Projected Total Effective Tax Rate (as % of Assessed Value)		 1.47004%	 1.58191%

(1) Based on average net assessed value plus \$7,000 homeowner's exemption for 460 residential lots in TRA 08193 as of January 1, 2011 provided by the San Diego County Assessor. Total Assessed Value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for 460 residential units in TRA 08193.

(3) Based on actual FY 2011-2012 ad valorem rates.

(4) Based on the FY 2011-2012 rate of \$10.00 per parcel or per acre, whichever is greater.

(5) Based on the FY 2011-2012 rate of \$11.50 per parcel or per acre, whichever is greater.

(6) Based on the FY 2011-2012 rate of \$5.86 per single family equivalent.

(7) Based on the FY 2011-2012 rate of \$3.00 per parcel.

(8) Based on the FY 2011-2012 rate of \$261.28 per parcel.

(9) Based on the CFD No. 1 FY 2011-2012 actual Special Tax rate of \$0.6547 per square foot for residential property. Maximum Special Tax is based on the FY 2011-2012 Maximum Special Tax rate of \$0.9200 per square foot for residential property.

Source: David Taussig & Associates, Inc.

TABLE 4C

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2011-12  
FOR RESIDENTIAL PROPERTY  
TAX RATE AREAS 08012 AND 08114**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$490,669		
Average Unit Size for Residential Property <sup>(2)</sup> : 2,152 Square Feet			
<b>AD VALOREM PROPERTY TAXES <sup>(3)</sup></b>			
Basic Levy	1.00000%	\$ 4906.69	
Metropolitan Water District G.O. Bonds	0.00370	18.15	
San Diego Unified Bonds	0.06670	327.28	
San Diego Community College Bonds	0.03740	183.51	
<u>San Diego City Zoological Exhibits</u>	<u>0.00500</u>	<u>24.53</u>	
Total General Property Taxes and Overrides	1.11280	\$ 5,460.16	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
CWA Water Availability <sup>(4)</sup>		\$ 10.00	
MWD Water Standby Charge <sup>(5)</sup>		11.50	
Vector Disease Control <sup>(6)</sup>		5.86	
Mosquito Surveillance <sup>(7)</sup>		3.00	
Miramar Ranch North Maintenance Assessment District <sup>(8)</sup>		261.28	
<u>CFD No. 1 <sup>(9)</sup></u>		<u>1,408.63</u>	<u>\$ 1,979.44</u>
Total Assessments and Parcel Charges		\$ 1,700.27	\$ 2,271.08
<b>PROJECTED TOTAL PROPERTY TAXES</b>		<u>\$ 7,160.43</u>	<u>\$ 7,731.25</u>
Projected Total Effective Tax Rate (as % of Assessed Value)		1.45932%	1.57565%

<sup>(1)</sup> Based on average net assessed value plus \$7,000 homeowner's exemption for 2,654 residential lots in TRAs 08012 and 08114 as of January 1, 2011 provided by the San Diego County Assessor. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 2,654 residential units in TRAs 08012 and 08114.

<sup>(3)</sup> Based on actual FY 2011-2012 *ad valorem* rates.

<sup>(4)</sup> Based on the FY 2011-2012 rate of \$10.00 per parcel or per acre, whichever is greater.

<sup>(5)</sup> Based on the FY 2011-2012 rate of \$11.50 per parcel or per acre, whichever is greater.

<sup>(6)</sup> Based on the FY 2011-2012 rate of \$5.86 per single family equivalent.

<sup>(7)</sup> Based on the FY 2011-2012 rate of \$3.00 per parcel.

<sup>(8)</sup> Based on the FY 2011-2012 rate of \$261.28 per parcel.

<sup>(9)</sup> Based on the CFD No. 1 FY 2011-2012 actual Special Tax rate of \$0.6547 per square foot for residential property. Maximum Special Tax is based on the FY 2011-2012 Maximum Special Tax rate of \$0.9200 per square foot for residential property.

Source: David Taussig & Associates, Inc.

**Principal Taxpayers**

In Fiscal Year 2011-12, 94.8% of the Special Taxes were levied on parcels of residential property and 5.2% on parcels of commercial property. No property tax owner in the District is responsible for more than 2.1% of the Special Tax levy in Fiscal Year 2011-12. A summary of the taxpayers by various categories is set forth in Table 5 below.

**TABLE 5  
COMMUNITY FACILITIES DISTRICT NO. 1  
TAXPAYER SUMMARY  
FISCAL YEAR 2011-12<sup>(1)</sup>**

	<i>Parcels Taxed</i>	<i>Fiscal Year 2011-12 Actual Special Tax</i>	<i>Percent of Fiscal Year 2011-12 Actual Special Tax</i>
<i>Property Owner<sup>(1)</sup></i>			
Commercial Property Owners <sup>(2)</sup>			
Scripps Ranch Marketplace LP	7	\$ 93,508	2.10%
Tres Pinos SR Marketplace LP	3	46,882	1.05
<u>Other Commercial Owners</u>	<u>14</u>	<u>91,117</u>	<u>2.05</u>
Subtotal – Commercial Property Owners	24	231,506	5.20
 Residential Property Owners <sup>(3)</sup>	 <u>3,125</u>	 <u>4,216,444</u>	 <u>94.80</u>
 GRAND TOTAL	 <u>3,149</u>	 <u>\$ 4,447,950</u>	 <u>100.00%</u>

<sup>(1)</sup> Reflects ownership as of January 1, 2011 provided by the San Diego County Assessor.

<sup>(2)</sup> No single commercial owner is responsible for more than 2.10% of special tax levy.

<sup>(3)</sup> No single residential owner is responsible for more than 0.11% of special tax levy.

Source: David Taussig & Associates, Inc.

**Delinquency History**

Table 6 below summarizes the Special Tax delinquencies for property within the boundaries of the District for Fiscal Years 2006-07 through 2010-11. The highest fiscal year end delinquency rate in any of these years was 1.37%. The delinquency rate for Fiscal Year 2011-12 was 1.32% as of May 11, 2012. Currently, there are no foreclosure actions in process in the District. One of the commercial parcels is delinquent in the payment of Special Taxes and the remaining delinquent parcels are residential parcels.

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**TABLE 6  
COMMUNITY FACILITIES DISTRICT NO. 1  
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>
2011-12	3,149	\$ 4,447,950	NA	NA	NA	73	\$ 58,906	1.32%
2010-11	3,149	4,388,493	35	\$ 36,980	0.84%	9	8,430	0.19
2009-10	3,149	4,406,184	42	46,242	1.05	7	11,544	0.26
2008-09	3,149	4,187,400	57	57,361	1.37	4	5,456	0.13
2007-08	3,149	4,174,100	51	46,781	1.12	3	4,056	0.10
2006-07	3,149	4,241,586	39	39,077	0.92	1	593	0.01
Total Amount Delinquent							<u>\$ 88,985</u>	

<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 11, 2012. 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 2012 Bonds.

**Estimated Assessed Value-to-Lien Ratios**

Table 7 below sets forth the estimated assessed value-to-lien ratios for various categories of property ownership within the District based upon ownership status as of January 1, 2011 and the assessed values included on the Fiscal Year 2011-12 Assessor's roll. The assessed value of the taxable parcels within the District for Fiscal Year 2011-12 is \$1,518,552,934. The estimated assessed value-to-lien ratio of the property within the District based upon the principal amount of the 2012 Bonds, overlapping debt payable from other taxes and assessments levied on the property within the District, and the assessed values included on the 2011-12 Assessor's roll is 27.47 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 any of the value-to-lien ratios in Table 7 will be maintained during the period of time that the 2012 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."

Table 8 below sets forth the estimated value-to-lien ratios for parcels within the District by various ranges based upon the direct and overlapping debt information included in Table 7.

**TABLE 7**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**  
**BY LAND USE TYPE**

<i>Property Owner<sup>(1)</sup></i>	<i>Number of Parcels</i>	<i>Fiscal Year 2011-12 Special Tax</i>	<i>Percentages of Fiscal Year 2011-12 Special Tax</i>	<i>2012 Bonds Outstanding<sup>(2)</sup></i>	<i>Metropolitan Water District G.O. Bonds Outstanding<sup>(3)</sup></i>	<i>Palomar Pomerado Health 2005A Bonds Outstanding<sup>(3)</sup></i>	<i>San Diego Unified Bonds Outstanding<sup>(3)</sup></i>	<i>San Diego Community College District Bonds Outstanding<sup>(3)</sup></i>	<i>Palomar Community College District 2006A and 2006B Bonds Outstanding<sup>(3)</sup></i>	<i>Total Direct and Overlapping Debt</i>	<i>Net Assessed Value<sup>(4)</sup></i>	<i>Estimated Assessed Value-to-Lien Ratios<sup>(5)</sup></i>
<b>Developed Property<sup>(6)</sup></b>												
Residential Property <sup>(7)</sup>	3,125	\$ 4,216,444	94.80%	\$ 23,504,473	\$ 127,759	\$1,559,909	\$17,326,219	\$ 9,348,245	\$ 796,488	\$ 52,663,094	\$ 1,452,841,179	27.59
Commercial Property <sup>(8)</sup>												
Scripps Ranch Marketplace LP	7	93,508	2.10	521,257	2,074	25,319	281,218	151,729	12,928	994,523	23,580,720	23.71
Individual Owners	17	137,999	3.10	769,270	3,705	45,236	502,444	271,090	23,097	1,614,843	42,131,035	26.09
Subtotal Commercial Property	24	231,506	5.20	1,290,527	5,779	70,554	783,662	422,820	36,025	2,609,366	65,711,755	25.18
<b>Grand Total</b>	<b>3,149</b>	<b>\$ 4,447,950</b>	<b>100.00%</b>	<b>\$ 24,795,000</b>	<b>\$ 133,538</b>	<b>\$1,630,464</b>	<b>\$18,109,881</b>	<b>\$ 9,771,065</b>	<b>\$ 832,513</b>	<b>\$ 55,272,460</b>	<b>\$ 1,518,552,934</b>	<b>27.47</b>

(1) Reflects ownership as of January 1, 2011 provided by the San Diego County Assessor.

(2) Allocated based on fiscal year 2011-12 levy.

(3) As of September 2, 2011. Allocated based on Fiscal Year 2011-12 levy.

(4) Fiscal Year 2011-2012 net assessed values as of January 1, 2011 provided by the San Diego County Assessor. Net assessed values are inclusive of homeowners' exemptions, which provide for a reduction of \$7,000 off the assessed value of a qualifying residence.

(5) Represents "Net Assessed Value" divided by "Total Direct and Overlapping Debt."

(6) As defined in the Rate and Method, Developed Property is all property for which a building permit was issued prior to March 1, 2011.

(7) As defined in the Rate and Method, Residential Property is all property which has been zoned for residential use

(8) As defined in the Rate and Method, Commercial Property is all property which has been zoned for commercial use.

Source: David Taussig & Associates, Inc.



**TABLE 8**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**  
**BY RANGES**

<i>Estimated Assessed Value-to-Lien Ratio Range</i>	<i>Number of Parcels</i>	<i>Fiscal Year 2011-12 Special Tax</i>	<i>Percentages of Fiscal Year 2011-12 Special Tax</i>	<i>2012 Bonds Outstanding<sup>(1)</sup></i>	<i>Metropolitan Water District G.O. Bonds Outstanding<sup>(2)</sup></i>	<i>Palomar Pomerado Health 2005A Bonds Outstanding<sup>(2)</sup></i>	<i>San Diego Unified Bonds Outstanding<sup>(2)</sup></i>	<i>San Diego Community College District Bonds Outstanding<sup>(2)</sup></i>	<i>Palomar Community College District 2006A and 2006B Bonds Outstanding<sup>(2)</sup></i>	<i>Total Direct and Overlapping Debt</i>	<i>Net Assessed Value<sup>(3)</sup></i>	<i>Estimated Assessed Value-to-Lien Ratios<sup>(4)</sup></i>
0-2.99	0	\$ 0	0.00%	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	NA
3.00-9.99	8	9,428	0.21	52,554	50	390	6,796	3,887	206	63,884	569,832	8.92
10.00-14.99	13	15,058	0.34	83,941	121	1,727	16,441	8,552	910	111,691	1,378,597	12.34
15.00-19.99	22	76,329	1.72	425,495	1,222	84,879	165,718	12,622	44,717	734,653	13,895,827	18.91
20.00-24.99	937	1,449,146	32.58	8,078,236	30,890	542,314	4,189,158	2,103,263	268,412	15,212,272	351,270,012	23.09
25.00-29.99	1,204	1,765,407	39.69	9,841,221	55,513	936,083	7,528,477	3,776,499	483,988	22,621,781	631,279,149	27.91
30.00 or Greater	965	1,132,582	25.46	6,313,553	45,742	65,070	6,203,292	3,866,242	34,281	16,528,180	520,159,517	31.47
<b>Grand Total</b>	<b>3,149</b>	<b>\$ 4,447,950</b>	<b>100.00%</b>	<b>\$ 24,795,000</b>	<b>\$ 133,538</b>	<b>\$1,630,464</b>	<b>\$18,109,881</b>	<b>\$ 9,771,065</b>	<b>\$ 832,513</b>	<b>\$ 55,272,460</b>	<b>\$ 1,518,552,934</b>	<b>27.47</b>

(1) Allocated based on Fiscal Year 2011-2012 levy.

(2) As of September 2, 2011. Allocated based on Fiscal Year 2011-12 levy.

(3) Fiscal year 2011-2012 net assessed values as of January 1, 2011 provided by the San Diego County Assessor. Net assessed values are inclusive of homeowners' exemptions, which provide for a reduction of \$7,000 off the assessed value of a qualifying residence.

(4) Represents "Net Assessed Value" divided by "Total Direct and Overlapping Debt."

Source: David Taussig & Associates, Inc.

## **SPECIAL RISK FACTORS**

The purchase of the 2012 Bonds involves significant investment risks and, therefore, the 2012 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 2012 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 the District 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 2012 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” and “— Limited Secondary Market” below.

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

The Owners of the 2012 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 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 have 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 homes 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 the District and affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency.

### **Economic Uncertainty**

The 2012 Bonds are being issued at a time of economic uncertainty and volatility. Unemployment rates are approximately 8.7% for the City as of April 2012 (not seasonally adjusted) as compared to approximately 10.0% for calendar year 2011 (not seasonally adjusted) and are approximately 10.5% (not seasonally adjusted) for the State as of April 2012 as compared to approximately 11.7% for calendar year 2011 (not seasonally adjusted). The District cannot predict how long these conditions will last or whether to what extent they may affect the ability of homeowners to pay Special Taxes or the marketability of the 2012 Bonds.

## **Limited Obligations**

The 2012 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 2012 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no Owner of the 2012 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 2012 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**

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on whether such parcel is categorized as Undeveloped Property or as Developed Property and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS — Special Taxes — *Rate and Method of Apportionment of Special Taxes.*”

The maximum Special Taxes that may be levied within the District are at least 110% of Maximum Annual Debt Service on the 2012 Bonds. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the 2012 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.

The Rate and Method governing the levy of the Special Tax expressly exempts up to 763 acres of property. As of March 1, 2012, 564 acres of property had been exempted. If for any reason more property within the District becomes exempt from taxation than is specified in the Rate and Method, 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 the District. This would result in the owners of such 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.

**Moreover, if a substantial portion of land within the District 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 the District might not be sufficient to pay principal of and interest on the 2012 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 2012 Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in the District 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 2012 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, 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**

The District, 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 the District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. According to records available from the State of California Department of Conservation and the United States Geological Service, the property within the District is not within an Alquist-Priolo Earthquake Fault Zone. However, Southern California is a seismically active area and the land within the District will likely be subject to seismic shaking at some time in the future. The nearest known active or potentially active fault, the Newport-Inglewood-Rose Canyon Fault, is located approximately 9 miles southwest of the District.

The District is located in an area which the City designates as a Very High Fire Hazard Severity Zone requiring additional building standards and brush management. Within the last ten years there have been two major wildfires in San Diego County. In October 2003, wildfires burned over 250,000 acres and destroyed more than 3,000 homes, and came within a few hundred yards of the District. Although no structures within the District were damaged, a number of nearby homes were destroyed. In October 2007, there were more wildfires in San Diego County, which were several miles from the District and destroyed several hundred homes. There was no damage to any of the property in the District by the 2007 wildfires.

No assurance can be given regarding the extent to which any future natural disasters may impact property in the District.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. 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 the District 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.

## **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 the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See “THE DISTRICT — 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 the District. In addition, the landowners within the District 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 the District 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 has caused an Amended Notice 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 the District 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**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2012 Bonds are derived, are customarily billed to the properties within the District 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 bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 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 “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 2012 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A 2012 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 2012 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 2012 Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other 2012 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 2012 Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of 2012 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 2012 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 2012 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 the District is a critical factor in determining the investment quality of the 2012 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. Although there has been no significant decline in assessed property values in the District during the downturn in the real estate market that began in 2007, there is no assurance that assessed values will not decline in the future. See “THE DISTRICT — Estimated Assessed Value-to-Lien Ratios” herein.

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 Table 7 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 the District. 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 the District or an increase in the indebtedness secured by taxes and amounts with parity liens on property in the District, or both, could result in a lowering of the value-to-lien ratio of the property in the District.

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 2012 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 “this Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding.” 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 the District 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 2012 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 2012 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.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled In re Glasply Marine Industries. In that case, the court held that ad valorem property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be “administrative expenses” of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the “Bankruptcy Reform Act”) included a provision which exempts from the Bankruptcy Code's automatic stay provisions, “the creation of a statutory lien for an ad valorem property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court].” This amendment effectively makes the Glasply holding inoperative as it relates to ad valorem real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as “administrative expenses,” rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court's ruling, as administrative expenses, post petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such



administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current ad valorem taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as ad valorem taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy. Glasply is controlling precedent on bankruptcy courts in the State. If the Glasply precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

The various legal opinions to be delivered concurrently with the delivery of the 2012 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 2012 Bonds do not contain a provision allowing for the acceleration of the 2012 Bonds in the event of a payment default or other default under the 2012 Bonds or the Bond Indenture.

#### **Loss of Tax Exemption**

As discussed under the caption "LEGAL MATTERS — Tax Exemption," the interest on the 2012 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2012 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. Should such an event of taxability occur, the 2012 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 2012 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 2012 Bonds or to preserve the tax-exempt status of the 2012 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2012 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 2012 Bonds.

#### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2012 Bonds or, if a secondary market exists, that the 2012 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 2012 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 2012 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 2012 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 2012 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 the District to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding 2012 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 2012 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 XIIC and XIID 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 or on the ability of the landowners within the District to complete the remaining proposed development. See “SPECIAL RISK FACTORS — Failure to Develop Properties” 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, 2013, 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 2012 Bonds are secured by any resources or property of the City. The 2012 Bonds are not general or special obligations of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 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 OF THE DISTRICT.”

Notwithstanding any provision of the Bond Indenture, failure of the District to comply with the Disclosure Certificate shall not be considered an event of default under the Bond Indenture. However, any holder of the 2012 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 calendar years the District has 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 reports filed for the Fiscal Years 2005-06, 2006-07 and 2009-10 were 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 reports. The audited financial statements for 2006-07 were delayed in principal part due to restatements of prior financial statements that resulted in the auditors undertaking additional procedures. The delay in releasing the audited financial statements for Fiscal Year 2009-10 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 with EMMA upon their release by the City and the District is now in compliance with all previous undertakings.

## LEGAL MATTERS

### Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2012 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2012 Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a 2012 Bond (the first price at which a substantial amount of the 2012 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2012 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner’s basis in the applicable 2012 Bond. The amount of original issue discount that accrues to the Beneficial Owner of the 2012 Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2012 Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriters and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”) that must be satisfied subsequent to the issuance of the 2012 Bonds to assure that interest on the 2012 Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2012 Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2012 Bonds. The District will covenant to comply with all such requirements.

The amount by which a Beneficial Owner’s original basis for determining loss on sale or exchange in the applicable 2012 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner’s basis in the applicable 2012 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a 2012 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2012 Bond to the Beneficial Owner. Purchasers of the 2012 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2012 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2012 Bonds might be affected as a result of such an audit of the 2012 Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or

interpretation thereof) subsequent to the issuance of the 2012 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2012 Bonds or their market value.

It is possible that, subsequent to the issuance of the 2012 Bonds, there might be federal, state or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state or local tax treatment of the 2012 Bonds or the market value of the 2012 Bonds. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the 2012 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2012 Bonds. No assurance can be given that subsequent to the issuance of the 2012 Bonds such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2012 Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2012 Bonds.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Indenture and the Tax Certificate relating to the 2012 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2012 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2012 Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2012 Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the 2012 Bonds.

Should interest on the 2012 Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the 2012 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Bond Indenture.

The proposed form of Bond Counsel's opinion with respect to the 2012 Bonds is attached as APPENDIX E.

### **Litigation**

No litigation is pending or threatened concerning the validity of the 2012 Bonds, the pledge of Special Taxes to repay the 2012 Bonds, the powers or authority of the District with respect to the 2012 Bonds, or seeking to restrain or enjoin development of the land within the District and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the 2012 Bonds.

### **Legal Opinion**

The validity of the 2012 Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto and will accompany the 2012 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation

expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2012 Bonds and expressly disclaims any duty to advise the Beneficial Owners of the 2012 Bonds as to matters related to this Official Statement.

### **Rating**

Standard & Poor's Ratings Services ("S&P"), a Standard & Poor's Financial Services LLC business, has assigned its long-term rating of "A" to the 2012 Bonds. Such rating reflects only the views of the rating agency, and any explanation of the significance of such rating must be obtained from the rating agency. There is no assurance that such rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by the rating agency if in the judgment of the rating agency circumstances so warrant. An explanation of the significance of such rating may be obtained from Standard & Poor's Corporation, 55 Water Street, 45th Floor, New York, New York 10041. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the 2012 Bonds. The District cannot predict the timing or impact of future actions by the rating agency.

### **Underwriting**

The 2012 Bonds are being purchased by E. J. De La Rosa & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriters"). The Underwriters have agreed to purchase the 2012 Bonds at a price of \$26,957,180.17 (being \$24,795,000 aggregate principal amount thereof, less Underwriters' discount of \$90,302.38 plus original issue premium of \$2,252,482.55). The purchase agreement relating to the 2012 Bonds provides that the Underwriters will purchase all of the 2012 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 Underwriters may offer and sell the 2012 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 Underwriters.

E. J. De La Rosa & Co., one of the Underwriters of the 2012 Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these agreements, if applicable to the 2012 Bonds, E. J. De La Rosa & Co. will share a portion of its underwriting compensation with respect to the 2012 Bonds with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.

### **Financial Interests**

The fees being paid to the Underwriters, Underwriters' Counsel and Bond Counsel are contingent upon the issuance and delivery of the 2012 Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the 2012 Bonds and Underwriters' Counsel represents the City on matters unrelated to the 2012 Bonds.

### **Pending Legislation**

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2012 Bonds or the ability of the District to pay the principal of and interest on the 2012 Bonds when due.

**Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the 2012 Bonds. Quotations and summaries and explanations of the 2012 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. 1  
(MIRAMAR RANCH NORTH)

By: /s/ Jay M. Goldstone  
Chief Operating Officer  
of the City of San Diego

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## APPENDIX A

### COMMUNITY FACILITIES DISTRICT NO. 1 (MIRAMAR RANCH NORTH)

#### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

#### INTRODUCTION

Special taxes shall be annually levied on all Assessor's Parcels (as hereinafter defined) in Community Facilities District No. 1 (Miramar Ranch North) of the City of San Diego, County of San Diego, State of California (the "District"), in accordance with the rates and method of apportionment of special taxes hereinafter set forth.

**A. *Definitions.*** The following terms shall have the meaning specified below:

*Acre or Acreage:* The area of an Assessor's Parcel as shown on the latest map of the County Assessor of the County of San Diego, or if the area of an Assessor's Parcel is not shown on such a map, the area shall be as shown on a current recorded subdivision map, parcel map, record of survey or other recorded document creating or describing the Assessor's Parcel. If the preceding maps are not available, the area shall be determined by the City Engineer.

*Annual Special Tax Levy:* The aggregate amount of special taxes to be levied in any Fiscal Year to (i) pay principal of and interest due and payable on the bonds of the District during the next ensuing Bond Year, and the cost of the registration, transfer, and exchange of such bonds and/or to pay directly for the acquisition or construction of authorized public capital facilities, (ii) maintain the required amount in the reserve fund for the bonds, and (iii) pay administrative expenses of the City estimated to be incurred during the Fiscal Year in connection with the levy and collection of special taxes. Items (i) through (iii) shall be reduced by available bond reserve earnings, debt service payments pursuant to Section G. herein, and other interest earnings described in the bond resolution, except those earnings that may be required for rebate purposes.

*Assessor's Parcel:* A parcel of land in the District designated and assigned a discrete identifying number on a map of the County Assessor of the County of San Diego.

*Bond Year:* The period beginning on the day after a bond principal payment date and ending on the bond principal payment date occurring twelve months later.

*Building Permit Special Tax:* The specified dollar amount due and payable to the District at the issuance of a building permit as described in Section C below.

*Commercial Property:* The Acreage of an Assessor's Parcel of Developed Property within the District, the boundaries of which are delineated on a recorded map, which has been zoned for commercial use.

*Community Plan:* The Miramar Ranch North Community Plan approved by the City Council of the City of San Diego on May 21, 1987 and as such plan may be amended from time to time.

*Company:* Miramar Ranch North, a California general partnership.

*Debt Service Requirement:* Means an amount in each Fiscal Year in which the District bonds are outstanding equal to 110% of the scheduled debt service on the District bonds of such Fiscal Year.

*Developed Property:* Assessor's Parcels in the District for which a building permit has been issued prior to March 1 preceding any Fiscal Year. For commercial, industrial, and other land uses, if a permit has not been issued by the time 75 percent of the Residential Property building permits have been issued as shown in the Community Plan, then all of such property shall be classified as Developed Property.

*Exempt Property:* Assessor's Parcels of property existing at the time of the establishment of the District or which will be conveyed, dedicated, or irrevocably offered for dedication to a public agency pursuant to the Community Plan which are exempt from the levy of special taxes, including property owned by a public agency which is in public use; property which is utilized for public utility purposes and which is not occupied on a regular basis by employees of the utility; property irrevocably dedicated to a public agency for public use; property owned by a church and utilized for church purposes; property owned by a homeowners' association; property which is zoned for open space; property used as a golf course other than clubhouse facilities; and property which has no intrinsic value upon foreclosure, such as sliver parcels at entries and perimeter landscape parcels; such Assessor's parcels shall not exceed 763 acres.

*Extraordinary Special Tax:* Represents the difference, in any Fiscal Year, between the Total Projected Special Tax Deficiency and the revenues held by the District in lieu of the Extraordinary Special Tax as described in the Indenture. If, in any Fiscal Year, the Total Projected Special Tax Deficiency is less than or equal to the revenues held by the District in lieu of the Extraordinary Special Tax, then the Extraordinary Special Tax shall not apply.

*Extraordinary Special Tax Account:* Means the amounts deposited, in any Fiscal Year, from the Extraordinary Special Tax levy and amounts withdrawn, in any Fiscal Year, pursuant to the Indenture.

*Fiscal Year:* The period beginning on July 1 and ending on the following June 30.

*Full Buildout:* When there no longer remain Assessor's Parcels classified as Undeveloped Property.

*Industrial Property:* The Acreage of an Assessor's Parcel of Developed Property within the District, the boundaries of which are delineated on a recorded map, which has been zoned for industrial use.

*Indenture:* The Bond Indenture dated as of June 1, 1991, by and between the City of San Diego, on behalf of the District, and Bank of America National Trust and Savings Association, as it may be amended or supplemented from time to time.

*Land Use Category:* A classification of property specified in Section B below.

*Maximum Special Tax Rates:* The amount of special taxes specified in Section C and Section H for Assessor's Parcels within the District.

*Merchant Builder:* Any builder of production homes to be sold to the primary home sale market within the District.

*Neighborhood:* The area included within a final subdivision map or such area mutually agreed upon by the City and a Merchant Builder taking into account such factors as similarity of housing product type within the area and the timing of construction and new home sales.

*Other Property:* The Acreage of any Assessor's Parcel of Developed Property within the District, the boundaries of which are delineated by a recorded map, and the zone and use of which is not Residential, Commercial, Industrial or Exempt Property.

*Projected Special Tax Deficiency:* Means the amount derived by subtracting the Projected Special Taxes from the Debt Service Requirement in the Fiscal Years in which the Projected Special Taxes are less than the Debt Service Requirement.

*Projected Special Taxes:* Means an amount in each Fiscal Year in which the District bonds are outstanding, equal to the summation of special taxes anticipated to be collected from Developed Property and Undeveloped Property in such Fiscal Year. As of July 1, 1992 and annually as of each July 1 thereafter that any District bonds remain outstanding, the District shall cause a Special Tax Consultant to determine the projected maximum special taxes that could be levied on all Taxable Property within the District in each ensuing Fiscal Year in which District bonds are outstanding. The determination by the Special Tax Consultant of the Projected Special Tax shall be based upon the reasonable projections of development provided by the property owners of the Taxable Property within the District (projections to be provided to Special Tax Consultant by the property owners of Undeveloped Property on or before March 15 each Fiscal Year Projected Special Taxes are to be calculated until such time as Full Buildout occurs); provided, however, such development projections may not exceed the maximum development permitted by then applicable final subdivision maps, tentative subdivision maps, the Community Plan, the Development Agreement and the Settlement Agreement.

*Residential Property:* An Assessor's Parcel of Developed Property within the District the boundaries of which are delineated on a recorded map, which has been zoned for residential use.

*Series A Bonds:* The \$35,340,000 principal amount of Community Facility District No. 1 (Miramar Ranch North), Special Tax Bonds, 1991 Series A.

*Square Feet of Improvement:* The livable area of improvement of Residential Property as shown on the building permit initially issued for the property.

*Total Projected Special Tax Deficiency:* Means the present value of the Projected Special Tax Deficiency for each of the remaining Fiscal Years in which the District bonds are outstanding. The discount rate used for purposes of this calculation shall be a fixed reinvestment rate determined at the time of calculation.

*Undeveloped Property.* All Assessor's Parcels in the District not classified as Developed Property or Exempt Property.

**B. *Land Use Categories and Classification of Property.*** The land use categories to which Assessor's Parcels in the District shall be assigned are:

- Land Use Category 1 - Residential Property
- Land Use Category 2 - Commercial Property
- Land Use Category 3 - Industrial Property
- Land Use Category 4 - Other Property

Land Use Category 5 - Undeveloped Property  
 Land Use Category 6 - Exempt Property

As of July 1 of each Fiscal Year, commencing with July 1, 1991, using the definitions in Section A above, the City shall cause each Assessor's Parcel in the District to be classified into one of the Land Use Categories above.

- C. **Maximum Special Tax Rates.** The Maximum Special Tax Rates for Assessor's Parcels in Land Use Categories 1 through 6, commencing with July 1 1994, are specified in Table 1, below:

**TABLE 1  
 MAXIMUM SPECIAL TAX RATES**

<i>LAND USE CATEGORY</i>	<i>DESCRIPTION</i>	<i>MAXIMUM SPECIAL TAX RATE</i>
1	Residential	\$0.92 per Square Foot of Improvement rounded to the nearest hundred square feet
2	Commercial	\$12,000 per Acre
3	Industrial	\$12,000 per Acre
4	Other	\$12,000 per Acre
5	Undeveloped	\$16,000 per Acre and, if applicable, the Extraordinary Special Tax levy per Acre as determined in Section H
6	Exempt	None

1. Beginning with the Fiscal Year 1993/1994 the Building Permit Special Tax will be determined as follows:
  - a. At the time of issuance of building permits within the District, Company, or its successors and assigns, shall pay the Building Permit Special Tax to the District in an amount equal to (i) \$0.92 per Square Foot of Improvement with respect to Residential Property and (ii) \$12,000 per Acre with respect to Commercial, Industrial and Other Property. The equivalent square feet of improvement for Commercial, Industrial, and Other Property shall be computed at 13,000 square feet per Acre. Payment of the Building Permit Special Tax shall be levied until building permits have been issued representing a total of two million (2,000,000) square feet of development within the District. All Building Permit Special Tax proceeds shall be deposited in the Building Permit Special Tax Account (the "Account") and invested and reinvested in Authorized Investments (as defined in the Indenture). Any income realized from such investments shall be deposited in the Account.
  - b. The funds in the Account may be drawn upon only as a result of and to the extent funds in the Bond Service Account (as established by the Indenture), without taking into account transfers from the Reserve Account (as established by the Indenture), are insufficient to pay debt service of the Series A Bonds as a result of nonpayment of special taxes on Undeveloped Property. If the District draws on funds in the Account and thereafter receives payment of the delinquent special taxes or proceeds of a foreclosure sale of the parcel(s) of land for which the special taxes were not paid, such payments and proceeds not required to reimburse the District for its costs of collection shall be deposited in the Account.

- c. Funds in the Account shall be released to the payor(s) of the Building Permit Special Taxes in an appropriate and equitable reimbursement method as determined by the City Manager which release payments shall occur not later than the issuance of building permits representing a total of three million two hundred thousand (3,200,000) square feet of improvement within the District.
2. Beginning with the Fiscal Year 1994/1995 the Maximum Special Tax Rates may be increased annually determined as follows:
  - a. As of March 15, 1991 and each Fiscal Year thereafter, the City Engineer or his designed shall obtain improvement cost information from the Company and all other appropriate sources, and estimate the increase, if any, in the estimated cost of improvements (which cost shall include construction and related incidentals, but exclude financing) of the District over the estimated cost of improvements (which cost shall include construction and related incidentals, but exclude financing) of the District contained in the Report of Engineer, or as last determined, whichever is more recent.
  - b. Divide the estimated increase in improvement cost determined in a. above by the estimated improvement cost for all improvements as last determined to obtain the percentage increase.
  - c. As of July 1, 1994, and each Fiscal Year thereafter, compute the Square Feet of Improvement of Residential, Commercial, Industrial and Other Property for which building permits have been issued, including any units or Acres that have not been classified as Developed Property, but are part of the same subdivision map creating lots or parcels for such Residential, Commercial, Industrial, and Other Property. The equivalent Square Feet of Improvement for Commercial, Industrial, and Other Property shall be computed at 13,000 square feet per Acre. Subtract this sum from the total of Square Feet of Improvement expected to be constructed in the District, which total is 6,500,000 square feet. The result represents the number of Square Feet of Improvement remaining to be constructed (the "Remaining Square Feet of Improvement").
  - d. Divide the Remaining Square Feet of Improvement by 6,500,000 to obtain the percentage remaining to be constructed.
  - e. Divide the percentage increase in construction costs (b. above) by the percentage of Square Feet of Improvement remaining to be constructed, (d. above). This is the percentage by which to increase the Maximum Special Tax Rates (as last increased) to obtain the Maximum Special Tax Rates for properties classified as Developed Property as of July 1 of the next Fiscal Year. However, such Maximum Special Tax Rates shall not be increased (to account for increases in construction costs) above the amounts shown on Table 2, below:

**TABLE 2  
MAXIMUM SPECIAL TAX RATES**

<i>LAND USE CATEGORY</i>	<i>DESCRIPTION</i>	<i>INCREASED MAXIMUM SPECIAL TAX RATE</i>
1	Residential	\$1.37 per Square Foot of Improvement rounded to the nearest hundred square feet
2	Commercial	\$18,000 per Acre
3	Industrial	\$18,000 per Acre
4	Other	\$18,000 per Acre
5	Undeveloped	\$17,000 per Acre and, if applicable, the Extraordinary Special Tax levy per Acre as determined in Section H
6	Exempt	None

3. A Maximum Special Tax Rate will be assigned to Assessor's Parcels classified as Developed Property as of July 1 of the Fiscal Year in which such classification occurs.

4. The Maximum Special Tax rate to be assigned to Assessor's Parcels classified as Developed Property as of July 1 of the Fiscal Year will be determined as follows:

If the Assessor's Parcel is Residential, Commercial, Industrial, and Other Property and part of a subdivision map creating lots or parcels to be developed for similar use, i.e., single family residences, the Maximum Special Tax Rate for all lots or parcels of such subdivision shall be the Maximum Special Tax Rate in effect when the first building permit is issued for a production dwelling unit (as opposed to a permit issued for a model home).

Once the Maximum Special Tax Rate is assigned to an Assessor's Parcel of Developed Property, it shall not be increased.

**D. *Method of Apportionment of Special Taxes.***

1. As of July 1 of each Fiscal Year, commencing with July 1, 1991, all Assessor's Parcels within the District shall be assigned to one of the Land Use Categories specified in Section B.

2. The City Council shall determine for each Fiscal Year, the Annual Special Tax Levy, and, if applicable, the Extraordinary Special Tax levy pursuant to Section H.

3. The City Council shall levy the special taxes for each Fiscal Year, commencing on July 1, 1991 as follows:

(1) Levy the special tax at its Maximum Special Tax Rate upon all Developed Property; however, should this amount exceed the Annual Special Tax Levy and provided all bonds have been issued, the special tax will be proportionally reduced.

(2) Should this amount be insufficient to satisfy the Annual Special Tax Levy, the excess shall be levied uniformly upon all Undeveloped Property.

(3) If applicable, the Extraordinary Special Tax shall be levied uniformly upon all Undeveloped Property according to Section H.

E. ***Number of Years of Levy of Maximum Special Tax.*** The special tax shall be levied upon an Assessor's Parcel of Developed Property for a maximum of 25 years.

F. ***Manner of Collection of Special Taxes.*** The special taxes which shall be levied in each Fiscal Year shall be collected in the same manner as ordinary ad valorem property taxes are collected and shall be subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for ad valorem taxes. The special taxes when levied shall be secured by the lien imposed pursuant to Section 3115.5 of the Streets and Highways Code. This lien shall be a continuing lien and shall secure each levy of special taxes. The lien of the special taxes shall continue in force and effect until the special tax obligation is prepaid, permanently satisfied, and canceled in accordance with Section 53344 of the Government Code or until the special taxes cease to be levied in the manner provided by Section 53330.5 of the Government Code.

G. ***Prepayment of Special Tax Obligation***

1. Any owner of Developed Property subject to the special tax may discharge the special tax obligation in full, or in part at any time, by making payment as follows:

a. If all bonds of the District have not been issued, compute the present value of the remaining payments of special tax, utilizing a term determined in accordance with Section E above, at the weighted average coupon rate of the outstanding bonds using the Maximum Special Tax Rate for the Assessor's Parcel;

If all bonds of the District have been issued, compute the present value of the remaining payments of special tax using (i) the lesser of the remaining term of the outstanding bonds or the years remaining in which the special tax may be levied on the Assessor's Parcel in accordance with Section E above, (ii) the weighted average coupon rate of the outstanding bonds, and (iii) the Maximum Special Tax Rate for the Assessor's Parcel.

b. Based on the development projections made in connection with the determination of the Projected Special Taxes, determine the Assessor's Parcel's special tax per square foot for Residential Property and special tax per acre for Commercial, Industrial and Other Property that will equate to the Debt Service Requirement.

c. Subtract from the Assessor's Parcel's Maximum Special Tax Rate the special tax rate determined in 1.b. above to determine the special tax rate attributable to remaining bond authorization, if any. If no remaining bond authorization exists, skip to 1.f and steps 1.d. and 1.e. will not apply.

d. Determine the Assessor's Parcel's percentage of the Maximum Special Tax Rate attributable to remaining bond authorization by dividing 1.c. above by the Assessor's Parcel's Maximum Special Tax Rate.

e. Multiply the percentage obtained in 1.d. above by the amount determined in 1.a. above to determine the amount of prepayment attributable to remaining bond authorization.

f. Multiply the amount in 1.a. above by the owner's desired prepayment percentage to determine the prepayment amount. A Merchant Builder who

desires to prepay all or part of the special taxes shall be required to use a prepayment percentage necessary to ensure that all Residential units within the same Neighborhood are subject to the same Maximum Special Tax rate as a result of the prepayment. Such uniform Maximum Special Tax rate shall be established at or prior to the issuance of the building permit for the first production Residential Unit within a Neighborhood. Special Tax prepayments to be made by a Merchant Builder shall be made at the issuance of building permits for each production Residential unit within a Neighborhood. Special Tax prepayments for model units shall be made at the time of issuance of the building permit for the first production Residential unit within the Neighborhood.

- g. Subtract from the amount in 1.f. the amount in 1.e. to determine the amount of prepayment attributable to bond redemption.
  - (1) If the result is greater than zero, enter the positive amount at 1.h. and the amount determined in 1.e. at 1.j.
  - (2) If the result is less than or equal to zero, skip to 1.j. and enter the amount determined in 1.f.
- h. Enter the applicable amount from 1.g. and add the following:
  - (1) call premium as required in the bond instrument;
  - (2) interest on the positive amount in 1.g. at the applicable bond rate for each year, if any, to the next bond call date.
- i. To the result of 1.h. above, subtract the following:
  - (1) the Assessor's Parcel's pro rata share of the bond reserve fund allowance, computed at the rate used in establishing the reserve fund for outstanding bonds. This shall be determined by dividing the Assessor's Parcel's applicable square footage by the total square footage as determined in connection with the determination of Projected Special Taxes. For purposes of this determination, the square footage of Commercial, Industrial and Other Property shall be computed at 13,000 square feet per Acre. The Assessor's Parcel's pro rata share shall be multiplied by the quotient obtained by dividing 1.g. by the difference obtained in subtracting from the amount in 1.a. the amount in 1.e.
  - (2) the interest earnings to be generated at the reinvestment rate as determined by the City of San Diego from the discharge date to the next bond call date.
- j. Add the bond redemption amount in 1.i above, if any, to the amount attributable to remaining bond authorization in 1.g. above.
- k. To the result of 1.j. above, add the following items to determine the Assessor's Parcel's total prepayment required



- (1) unpaid special taxes, interest and penalties, if any, which have been entered on the assessor's roll;
  - (2) a \$250 administrative fee, increased by the same percentage increase in the Consumer Price Index, San Diego all urban consumers index, as of January 1st of each year.
2. The Maximum Special Tax Rate for Developed Property applicable to an Assessor's Parcel utilizing a prepayment percentage less than 100% shall be reduced in subsequent Fiscal Years by multiplying the Assessor's Parcel's Maximum Special Tax Rate by the prepayment percentage actually used in Section G. 1.f.

**H. *Extraordinary Special Tax***

1. As of March 1, 1992 and annually' as of each March 1 thereafter, until such time as the Maximum Special Tax Rates which may be levied on Developed Property will equal or exceed the Debt Service Requirement or until Full Buildout, whichever occurs earlier, the District shall cause the special tax consultant to determine if a Projected Special Tax Deficiency exists. If a Projected Special Tax Deficiency exists, then the Total Projected Special Tax Deficiency shall be calculated by the District as specified in Section A.
2. The District shall levy the Extraordinary Special Tax, in any Fiscal Year, under the following circumstances:
  - a. *Initial Levy.* The first time the Extraordinary Special Tax is applicable under Section A, the entire amount determined under such definition shall be levied uniformly on all Undeveloped Property and such amount shall be deposited in the Extraordinary Special Tax Account. Upon determination that the Extraordinary Special Tax is applicable under Section A, the property owners have the opportunity to deposit monies or security for the amount of the Extraordinary Special Tax pursuant to the Official Statement and Indenture of Trust. A determination of whether the property owners will use this opportunity must be made prior to the levy of the Extraordinary Special Tax.
  - b. *Subsequent Levies.* In each Fiscal Year subsequent to the initial levy of the Extraordinary Special Tax as described in H.2.a. above, an additional Extraordinary Special Tax shall be levied uniformly on all Undeveloped Property, to the extent the Extraordinary Special Tax of such Fiscal Year exceeds the Extraordinary Special Tax Account. To the extent the Extraordinary Special Tax Account, in any Fiscal Year, exceeds the Extraordinary Special Tax, then no Extraordinary Special Tax shall be levied in such Fiscal Year. Upon determination that the Extraordinary Special Tax is applicable under Section A, the property owners have the opportunity to deposit monies or security for the amount of the Extraordinary Special Tax pursuant to the Official Statement and Indenture of Trust. A determination of whether the property owners will use this opportunity must be made prior to the levy of the Extraordinary Special Tax.

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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. 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 2012 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. The information and data within this Appendix B are the latest available; however, the current state of the economy at City, County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the District.*

#### **Introduction**

The City, with a total population of approximately 1,321,315 as of January 1, 2012 and a land area of approximately 324 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 2003 through 2012. The City's population increased by approximately 5.6% between 2003 and 2012, with an average annual increase of approximately 7,735.

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**TABLE B-1**  
**CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA**  
**POPULATION GROWTH**  
**Calendar Years 2003 through 2012**

<u>Calendar Year<sup>(1)</sup></u>	<u>City of San Diego</u>	<u>Annual Growth Rate</u>	<u>County of San Diego</u>	<u>Annual Growth Rate</u>	<u>State of California</u>	<u>Annual Growth Rate</u>
2003	1,251,700	1.22	2,927,216	1.28	35,163,609	1.26
2004	1,257,358	0.45	2,953,703	0.90	35,570,847	1.16
2005	1,261,035	0.29	2,966,783	0.44	35,869,173	0.84
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	1,321,315	0.88	3,143,429	0.89	37,678,563	0.67

<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 2007 through 2011, and for April 2012 (Preliminary).

**TABLE B-2**  
**LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE<sup>(1)</sup>**  
**Calendar Years 2007 through 2011, and April 2012**  
**(Not Seasonally Adjusted)**

	Calendar Year					April 2012 <sup>(2)</sup>
	2007	2008	2009	2010	2011	
<b>Civilian Labor Force</b>						
City of San Diego <sup>(1)</sup>						
Employed	647,100	649,600	627,000	622,200	636,600	644,600
Unemployed	30,700	41,200	66,800	73,300	70,400	61,700
<b>Unemployment Rates</b>						
City <sup>(1)</sup>	4.5%	6.0%	9.6%	10.5%	10.0%	8.7%
County <sup>(1)</sup>	4.5	6.0	9.6	10.5	10.0	8.7
California <sup>(1)</sup>	5.3	7.2	11.3	12.4	11.7	10.5
United States <sup>(3)</sup>	4.6	5.8	9.3	9.6	8.9	7.7

<sup>(1)</sup> Estimates are revised annually in March.

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

<sup>(3)</sup> The United States unemployment rates for calendar years 2007-2011 were generated as of March 14, 2012.

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 April of 2012 was 706,300, of which approximately 61,700 persons were unemployed. Based on preliminary estimates of the EDD as of May 18, 2012, the City’s unemployment rate in April of 2012, on a seasonally unadjusted basis, matched that of the County at 8.7% and was below the unemployment rate of the State, which was 10.5%. However, the City’s unemployment rate exceeded that of the United States, which was 7.7%. 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 2007 through 2011. Annual industry employment information is not compiled by sector for the City.

**TABLE B-3**  
**COUNTY OF SAN DIEGO**  
**NONFARM EMPLOYMENT**  
**Calendar Years 2007 through 2011<sup>(1)</sup>**  
**(In Number of Jobs By Industry)**

<b>Industry Category</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Services <sup>(2)</sup>	594,100	603,400	580,900	579,300	588,600
Government	222,400	225,100	224,500	230,400	228,400
Federal	40,900	41,600	43,700	47,000	46,700
State and Local	181,500	183,500	180,800	183,500	181,800
Trade	193,600	186,900	172,200	170,800	172,900
Wholesale	45,500	44,900	40,600	40,100	40,700
Retail	148,100	142,000	131,600	130,700	132,200
Manufacturing	102,500	102,800	95,300	92,900	92,800
Nondurable Goods	25,200	24,700	22,200	21,900	21,900
Durable Goods	77,300	78,100	73,100	71,000	70,800
Financial Activities <sup>(3)</sup>	80,300	75,200	69,800	67,200	66,800
Construction	87,000	76,100	61,100	55,300	55,200
Transportation, Warehousing & Utilities	28,800	29,000	27,400	26,500	26,100
Mining & Logging	400	400	400	400	400
<b>TOTAL NONFARM<sup>(4)</sup></b>	<b><u>1,308,800</u></b>	<b><u>1,298,700</u></b>	<b><u>1,231,400</u></b>	<b><u>1,222,800</u></b>	<b><u>1,231,200</u></b>

<sup>(1)</sup> Estimates are revised annually in March.

<sup>(2)</sup> Includes professional and business, information, educational and health, leisure and hospitality and other services.

<sup>(3)</sup> Includes finance, insurance, and real estate.

<sup>(4)</sup> Line items may not add to totals due to independent calculations.

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.

### **Taxable Sales**

The following Table B-4-1 sets forth taxable transactions in the City for calendar years 2006 through 2010 and the following Table B-4-2 sets forth taxable transactions in the City for the first quarter of calendar years 2010 and 2011, the most recent period for which State Board of Equalization data is available.

**TABLE B-4-1**  
**CITY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**Calendar Years 2006 through 2010**  
**(In Thousands)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>(1)</sup></u>	<u>2010<sup>(1)</sup></u>
Retail and Food Services					
Apparel	\$ 924,301	\$ 959,509	\$ 1,123,736	\$ 1,358,011	\$ 1,476,887
General Merchandise	2,236,087	2,272,494	1,995,887	1,443,341	1,505,694
Food	843,800	881,871	828,471	864,733	874,855
Eating and Drinking	2,466,681	2,617,392	2,682,884	2,582,572	2,674,975
Home Furnishings and Appliances	706,043	655,097	749,808	1,005,324	1,064,083
Building Materials	1,427,987	1,098,559	865,280	707,657	735,040
Motor Vehicles and Parts	2,132,207	2,237,019	1,852,953	1,606,349	1,720,348
Service Stations	1,567,032	1,656,784	1,847,002	1,319,720	1,527,002
Other Retail Stores	2,527,653	2,321,276	2,045,273	1,481,096	1,483,428
Total Retail and Food	<u>\$14,831,791</u>	<u>\$14,700,001</u>	<u>\$13,991,295</u>	<u>\$12,368,802</u>	<u>\$13,062,313</u>
All Other Outlets	5,227,476	5,356,105	5,422,964	4,795,162	4,816,619
<b>TOTAL ALL OUTLETS</b>	<u><u>\$20,059,267</u></u>	<u><u>\$20,056,106</u></u>	<u><u>\$19,414,259<sup>(2)</sup></u></u>	<u><u>\$17,163,965<sup>(2)</sup></u></u>	<u><u>\$17,878,932<sup>(2)</sup></u></u>

(1) In early 2007 the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System (“NAICS”) codes. Beginning in 2009, the California State Board of Equalization reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, industry data for 2009 and 2010 are not comparable with data from prior years.

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

Source: California State Board of Equalization.

**TABLE B-4-2**  
**CITY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**2010 First Quarter and 2011 First Quarter**  
**(in Thousands)**

<u>Type of Business</u>	<u>2010</u> <u>First Quarter</u>	<u>2011</u> <u>First Quarter</u>
Retail and Food Services		
Apparel	\$ 303,864	\$ 334,416
General Merchandise	333,345	343,825
Food	202,412	208,380
Eating and Drinking	626,501	661,905
Home Furnishings and Appliances	253,284	266,620
Building Materials	177,005	190,764
Motor Vehicles and Parts	403,874	461,394
Service Stations	346,978	432,373
Other Retail Stores	341,590	368,610
Total Retail and Food Services	<u>\$2,988,853</u>	<u>\$3,268,287</u>
All Other Outlets	1,115,131	1,251,086
<b>TOTAL ALL OUTLETS</b>	<u><u>\$4,103,984</u></u>	<u><u>\$4,519,373</u></u>

Source: California State Board of Equalization, Taxable Sales in California.

Total taxable sales in the City during the first quarter of calendar year 2011 increased by approximately 10.1%, compared to the same period of the prior year.

**Tourism**

The tourism industry is the County’s third largest industry in terms of business revenue generation, following manufacturing and the military. The following Table B-5 sets forth total visitor spending in the County for the calendar years 2007 through 2011.

**TABLE B-5  
COUNTY OF SAN DIEGO  
TOTAL VISITOR SPENDING  
Calendar Years 2007 through 2011  
(In Millions)**

<u>Calendar Year</u>	<u>Amount</u>
2007 <sup>(1)</sup>	\$7,899
2008	7,916
2009	6,958
2010	7,080
2011 <sup>(2)</sup>	7,485

<sup>(1)</sup> For calendar years 2007-2010, visitor spending is an estimate of total direct and indirect visitor expenditures as derived from the Visitor Activity Model/Visitor Profile Study prepared by CIC Research, Inc. for the San Diego Convention and Visitors Bureau.

<sup>(2)</sup> For calendar year 2011, the estimate of visitor expenditures is derived from the Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau by Tourism Economics.

Source: San Diego Convention and Visitors Bureau.

The following Table B-6 sets forth the City’s transient occupancy tax revenues for Fiscal Years 2007 through 2011.

**TABLE B-6  
CITY OF SAN DIEGO  
TRANSIENT OCCUPANCY TAX<sup>(1)</sup>  
Fiscal Years 2007 through 2011  
(in thousands)**

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$153,574
2008	159,348
2009	140,657
2010	123,879
2011	139,545

<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 2011 Comprehensive Annual Financial Report, Comptroller’s Office, City of San Diego.



The City is the focal point for tourism in the County. Based on the San Diego County Visitor Industry Summary produced by the San Diego Convention and Visitors Bureau, in the first half of calendar year 2011 an average of 66.3% of the County's hotel and motel rooms rented were located in the City. In addition, most of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, 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 the San Diego County Visitor Industry Summary, in the first half of calendar year 2011, there were 4,052,170 airport arrivals and 413,771 Amtrak arrivals in the County; City average hotel occupancy was 69.7%, which represents a 2.17% increase from the same period of 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 has 2.6 million total gross square feet of buildings, including the parking structure. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated over \$20 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

### **Military**

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.

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The following Table B-7 sets forth military and related defense expenditures and personnel in the City for the federal fiscal years ended September 30, 2009 and September 30, 2010.

**TABLE B-7**  
**CITY OF SAN DIEGO<sup>(1)</sup>**  
**DEFENSE EXPENDITURES AND PERSONNEL**  
**Federal Fiscal Years ended September 30, 2009 and September 30, 2010**

<b>Fiscal Year</b>	<b>Expenditures (In Thousands)</b>		<b>Naval &amp; Civilian Personnel<sup>(2)</sup></b>		
	<b>Grants/Contracts<sup>(3)</sup></b>	<b>Payroll Outlays<sup>(4)</sup></b>	<b>Active Duty Military</b>	<b>Civilian<sup>(5)</sup></b>	<b>Total</b>
2009	\$10,347,135	\$3,401,900	51,776	23,409	75,185
2010	10,602,683	3,292,915	43,909	19,962	63,871

<sup>(1)</sup> Data include activity and expenditures which may occur outside the City or in adjacent counties related to County-based sites.

<sup>(2)</sup> Computation for personnel data includes only Active Duty Navy and Civilian Personnel in the following military installations: Naval Base San Diego, the Broadway Complex, Naval Base Point Loma, Naval Base Coronado, Marine Corps Air Station Miramar, Marine Corps Recruit Depot Miramar, and Naval Medical Center.

<sup>(3)</sup> Procurement data include Contracts and Grants for Department of Defense only in Congressional Districts CA-49, CA-50, CA-51, CA-52 and CA-53.

<sup>(4)</sup> Comprised of Salary and Wage Expenditures by the Department of Defense in San Diego County for Active and Inactive Military Employees and Civilian Employees for all branches of the military service.

<sup>(5)</sup> Includes Appropriated and Non-appropriated Funds Civilians Navy employees.

Source: Contracts and Grants data: [www.usaspending.gov](http://www.usaspending.gov).

Payroll Outlays data: U.S. Census Bureau, Governments Division, Federal Programs Branch.

Personnel data: Total Workforce Management System, Commander Navy Region Southwest, Regional Business Office.

### International Trade

The following Table B-8 sets forth the valuation of exports originating in the San Diego Customs District for calendar years 2006 through 2010.

**TABLE B-8**  
**VALUATION OF EXPORTS**  
**ORIGINATING IN SAN DIEGO CUSTOMS DISTRICT<sup>(1)</sup>**  
**Calendar Years 2006 through 2010**  
**(In Millions)**

<b>Calendar Year</b>	<b>Amount</b>
2006	\$15,980
2007	16,002
2008	16,607
2009	14,007
2010	16,252

<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: RAND California, Business and Economic Statistics and US Census Bureau Foreign Trade Statistics.

**Top Ten Principal Employers**

The following Table B-9 sets forth the top 10 principal employers in the City for Fiscal Year 2011.

**TABLE B-9  
CITY OF SAN DIEGO  
TOP TEN PRINCIPAL EMPLOYERS  
Fiscal Year 2011  
(unaudited)**

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment<sup>(1)</sup></u>
United States Navy <sup>(2)</sup>	54,000	7.71%
University of California San Diego <sup>(3)</sup>	27,406	3.91%
San Diego Unified School District	16,158	2.31%
San Diego County	15,063	2.15%
Sharp Healthcare <sup>(4)</sup>	14,924	2.13%
Qualcomm, Inc.	11,500	1.64%
City of San Diego <sup>(5)</sup>	10,051	1.43%
Kaiser Permanente	7,101	1.01%
UC San Diego Medical Center	5,799	0.83%
San Diego Gas & Electric Co. <sup>(6)</sup>	<u>4,643</u>	<u>0.66%</u>
<b>Total Top Employers</b>	<b><u>166,645</u></b>	<b><u>23.8%</u></b>

<sup>(1)</sup> Percentage based on total employment of 700,600 provided by the EDD Labor Force Data.

<sup>(2)</sup> Employee count includes Navy personnel only (civilian/military).

<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 2011 Comprehensive Annual Financial Report, Statistical Section (Unaudited).

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## Personal Income

The following Table B-10 sets forth the per capita personal income in the County, the State and the United States for calendar years 2006 through 2011.

**TABLE B-10**  
**COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES**  
**PER CAPITA PERSONAL INCOME<sup>(1)</sup>**  
**Calendar Years 2006 through 2011**

<u>Calendar Year</u>	<u>County of San Diego</u>	<u>State of California</u>	<u>United States</u>
2006	\$ 43,967	\$ 41,518	\$ 37,725
2007	45,768	43,211	39,506
2008	47,197	44,003	40,947
2009	44,412	41,301	38,846
2010	45,627	42,514	39,937
2011 <sup>(2)</sup>	-	44,481	41,663

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

<sup>(2)</sup> County of San Diego Per Capita Personal Income for calendar year 2011 not yet available as of the date of this Official Statement.

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

## 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. The first half of Fiscal Year 2012 construction permits valuation increased by 83%, or \$325.5 million from the first half of Fiscal Year 2011.

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The following Table B-11 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2007 through 2011.

**TABLE B-11**  
**CITY OF SAN DIEGO**  
**ASSESSED VALUE AND CONSTRUCTION PERMIT VALUATION**  
**Fiscal Years 2007 through 2011**  
**(\$ in thousands)**  
**(unaudited)**

<b>Fiscal Year</b>	<b>Residential<sup>(1)</sup></b>		<b>Non-Residential<sup>(2)</sup></b>		<b>Total Permit Assessed Value Estimate<sup>(3)</sup></b>
	<b>Dwelling Units</b>	<b>Assessed Value<sup>(3)</sup></b>	<b>Permits</b>	<b>Assessed Value<sup>(3)</sup></b>	
2007	3,540	\$ 587,520	217	\$ 1,035,183	\$ 1,622,703
2008	2,228	437,934	175	931,648	1,369,582
2009	1,117	202,268	138	576,879	779,147
2010	1,147	234,868	76	368,098	602,966
2011	2,024	342,598	98	818,627	1,161,225

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

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The following Table B-12 sets forth foreclosure activity in the County for calendar years 2006 through 2011.

**TABLE B-12  
COUNTY OF SAN DIEGO  
FORECLOSURE ACTIVITY  
Calendar Years 2006 through 2011**

<u>Calendar Year</u>	<u>Foreclosures</u>	<u>Total number of Housing Units<sup>(1)</sup></u>	<u>% of Total Housing Units</u>
2006	2,065	1,118,283	0.18%
2007	8,416	1,131,749	0.74
2008	19,575	1,140,654	1.72
2009	15,487	1,145,548	1.35
2010 <sup>(2)</sup>	13,467	1,158,076	1.16
2011 <sup>(3)</sup>	12,216 <sup>(4)</sup>	—	—

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

<sup>(2)</sup> County of San Diego Total Number of Housing Units for calendar year 2010 was calculated based on 2010 census data.

<sup>(3)</sup> County of San Diego Total Number of Housing Units for calendar year 2011 not yet available as of the date of this Official Statement.

<sup>(4)</sup> Total foreclosures for the County of San Diego during calendar year 2011 declined by approximately 9%, compared to the same period of the prior year.

Source: County of San Diego, Assessor's Records; InnoVest Resource Management's Foreclosure Forum; and SANDAG.

According to the San Diego County Recorder's Office, there was a decrease in the number of notices of loan defaults recorded in the County in calendar year 2011 compared to calendar year 2010. In addition, foreclosures dropped during this time frame as well. There were 24,835 notices of default recorded in 2010 in the County, which decreased to 22,101 notices recorded in 2011. Furthermore, there were 13,467 foreclosures in the County in 2010, which decreased to 12,216 foreclosures in 2011. In the first quarter of calendar year 2012, there were 4,808 notices of default recorded in the County, and 2,263 foreclosures.

## 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

"Account" means any account created pursuant to the Bond Indenture.

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

"Administrative Expenses" means the administrative costs with respect to the calculation 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 Bond Indenture.

"Administrative Expenses Cap" means \$50,000 per Fiscal Year, increased on July 1 of each year by two percent (2%) of the amount in effect for the prior Fiscal Year.

"Alternate Penalty Account" means the account by that name created and established in the Rebate Fund pursuant to the Bond Indenture.

"Annual Debt Service" means the principal amount of any Outstanding Bonds payable in a Bond Year at maturity and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

"Authorized 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) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"); (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above 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 government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

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

- Federal Home Loan Mortgage Corporation (FHLMC)  
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)  
Senior Debt obligations
- Federal Farm Credit Banks  
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)  
Senior debt obligations  
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(4) Unsecured certificates of deposit, time deposits, bank deposits, demand deposits and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated "A-1" or "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(7) Money market funds rated "AAM" or "AAM-G" by Standard & Poor's, or better (including those of the Trustee or its affiliates).

(8) "State Obligations," which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA-" or better by Standard & Poor's and "Aa3" or better by Moody's.

(9) Pre-refunded municipal obligations rated by S & P and by Moody's not lower than United States Treasury Obligations meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has



covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by Standard & Poor’s and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by Standard & Poor’s and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by Standard & Poor’s and Moody’s, provided that:

(a) The market value of the collateral is maintained at levels equal to 102% of the amount of cash transferred by the Trustee to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;

(b) The Trustee or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) The repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or Standard & Poor’s is withdrawn or suspended or falls below “A-“ by Standard & Poor’s or “A3” by Moody’s, as appropriate, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction,

repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

(11) Investment agreements with a domestic or foreign bank or corporation the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by Standard & Poor's and "Aa3" by Moody's; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Costs of Issuance Fund, construction draws) on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(C) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(D) the District and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the District;

(E) the investment agreement shall provide that if during its term.

(1) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(2) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee; and

(F) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted

collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(G) the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate, and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep monies available for the purposes of this Indenture.

"Authorized Representative of the City" means the Mayor of the City, the Chief Operating Officer of the City, the Chief Financial Officer of the City, any Interim 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, any Interim 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.

"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, any Interim Chief Financial Officer 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, any Interim 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 Indenture" means the Bond Indenture, together with any Supplemental Indenture approved pursuant to the Bond Indenture.

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

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

"Bonds" means the District's Special Tax Refunding Bonds, Series 2012 issued on June 21, 2012 in the aggregate principal amount of \$24,795,000.

"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 March 1, 2013; 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, 2012.

“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 City.

“Certificate of the Special Tax Administrator” means a certificate of an Authorized Representative of the District, or any successor entity appointed by the City, to administer the calculation and collection of the Special Taxes.

“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” together, means that certain Continuing Disclosure Certificate dated as of June 1, 2012, executed and delivered by the District, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds, including the acceptance and initial annual fees and expenses of the Trustee, the Financial Advisor to the City, the Special Tax Consultant, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

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

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

“Depository” shall mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under the Bond Indenture.

“Developed Property” means real property within the District for which a building permit has been issued.

“District” means Community Facilities District No. 1 (Miramar Ranch North) established pursuant to the Act and the Resolution of Formation.

“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.

“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 Bond Indenture for the delinquency of such Special Taxes remaining after the payment of all costs and expenses related to such foreclosure actions.

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

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

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2013; 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 by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds payable in such Bond Year at maturity; and
- (2) the interest payable on the aggregate principal amount of all Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“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 Bond Indenture.

“Ordinance” Ordinance No. O-18023 adopted by the legislative body of the District on January 3, 1994 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” means all Bonds theretofore issued by the District, except:

- (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with the Bond Indenture;
- (2) 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), provided that,

if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture; and

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

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

“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 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 Bond Indenture.

“Principal Office of the Trustee” means the corporate trust 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.

“Rebate Account” means the account by that name created and established in the Rebate Fund pursuant to the Bond Indenture.

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

“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 Paying Agent to the Depository as described in the Bond Indenture.

“Reserve Account” means the account by that name created and established in the Special Tax Fund pursuant to the Bond 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; (ii) Maximum Annual Debt Service on the then Outstanding Bonds; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds.

“Resolution of Formation” means Resolution No. R-277111 adopted by the City Council of the City on January 8, 1991, pursuant to which the City formed the District.

“RMA” means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at the November 30, 1993 election, as amended from time to time.

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

“Special Taxes” means the taxes levied by the legislative body of the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Resolution of Change, the Act and the voter approvals obtained at the January 8, 1991 and November 30, 1993 elections 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” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and its successors and assigns.

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

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

“Trustee” means U.S. Bank National Association a national banking association duly organized and existing under the laws of the United States of America, with a 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 Bond Indenture and any successor thereto.

“Underwriters” means E. J. De La Rosa & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith, Incorporated.

“Verification” shall have the meaning contained in the definition of Authorized Investments.

## **BOND TERMS**

**Type and Nature of Bonds.** Neither the faith and credit nor the taxing power of the City, the State of California, or any political subdivision thereof other than the District is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described therein. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District’s property, or upon any of its income, receipts, revenues or assets, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the

Administrative Expense Account) which are, under the terms of the Bond Indenture and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the legislative body of the District or the City Council of the City nor any persons executing the Bonds, are liable personally on the Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the Bond Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds, or for the performance of any covenants contained therein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

**Equality of Bonds and Pledge of Net Taxes.** Pursuant to the Act and the Bond Indenture, the Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are hereby set aside for the payment of the Bonds. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Bond Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Bond Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds, and none of the Rebate Fund, the Surplus Fund, the Acquisition and Construction Fund or the Administrative Expense Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

**Validity of Bonds.** The validity of the authorization and issuance of the Bonds shall not be affected in any way by any defect in any proceedings taken by the District with respect to the issuance of the Bonds, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

**Transfers Outside Book-Entry System.** In the event (i) the Depository determines not to continue to act as securities depository for the Bonds, or (ii) the District determines that the Depository shall no longer so act, then the District will discontinue the book-entry system with the Depository. If the District fails to identify another qualified securities depository to replace the Depository then the Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but shall be registered in whatever name or names Persons transferring or exchanging Bonds shall designate, in accordance with the provisions of the Bond Indenture.

**Payments to the Nominee.** Notwithstanding any other provisions of the Bond Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest due with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

**Conditions to Issuance of Bonds.** The Bonds shall not be issued unless and until the conditions for the issuance of the Bonds pursuant to the Bond Indenture shall have been satisfied.



## **CREATION OF FUNDS AND APPLICATION OF PROCEEDS**

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

(a) The Trustee has established the following funds and accounts:

(1) The Community Facilities District No. 1 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).

(2) The Community Facilities District No. 1 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(3) The Community Facilities District No. 1 Costs of Issuance Fund (the "Costs of Issuance Fund").

(4) The Community Facilities District No. 1 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 Bond Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Bond Indenture.

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.

(b) The proceeds of the sale of the Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as set forth in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

### **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 following Sections, 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, after all principal and interest then due on the 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 in the Bond Indenture 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 Certificate of an Authorized Representative of the District; 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 in the Bond Indenture, that is sufficient to pay the interest and principal on all 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 shall be invested in any Authorized Investments as directed in writing by an Authorized Representative of the Water 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 until maturity, other than principal due upon 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 will be made when due, after making the transfer required by the Bond Indenture, 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 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 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 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, 2013, shall equal the principal payment due on the 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 as the same become due at maturity.

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

(a) 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 established pursuant to the Bond Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the 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.

(b) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of principal of and

premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and in the case of 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, other than Prepayments, may be used to purchase Outstanding Bonds in the manner provided in the next sentence. Purchases of Outstanding 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 the premium applicable at the next following call date according to the premium schedule established pursuant to the Bond Indenture. Any accrued interest payable upon the purchase of 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 and interest on the 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 or interest on any 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, the Principal Account and the Redemption Account, 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 include the amount necessary fully 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 in accordance with the Bond Indenture, or a defeasance of Bonds, amounts in the Reserve Account may be applied to such redemption or defeasance so long as the amount on deposit in the Reserve Account following such redemption or any 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 Bond 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, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds 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 of this section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and transferred to the Fees Account and the Project Account of the Acquisition and Construction Fund in the

percentages specified in the Bond Indenture until all amounts have been disbursed from the Acquisition and Construction Fund and thereafter to the Interest Account of the Special Tax Fund.

**Rebate Fund.** The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Bond Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account in the Bond Indenture. The District shall cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund with respect to the Bonds shall be governed by the Bond Indenture and the Tax Certificate.

**Surplus Fund.** After making the foregoing transfers required by the Bond 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 Bond 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 or the Principal Account of the Special Tax Fund to pay the principal of and interest on the 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 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, 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 Authorized Investments, the interest on which is excludable from gross income under 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 Authorized Investments at a yield not in excess of the yield on the issue of Bonds, 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.

**Investments.** Moneys held in any of the Funds, Accounts and Subaccounts under the Bond Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized 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 applied as set forth in the Bond Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Bond Indenture shall be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund shall be invested in Authorized 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 Authorized 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 as the same become due.

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

(d) Moneys in the Rebate Fund shall be invested only in Authorized 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 or in Authorized Investments of the type described in clause (7) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (7) of the definition thereof.

#### **COVENANTS AND WARRANTY**

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

**Covenants.** So long as any of the Bonds issued under the Bond Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Bond 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 tend to make them more marketable; 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 Bond Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Bond 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 issued under the Bond Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Bond Indenture to the extent that Net Taxes and other amounts pledged under the Bond Indenture are available therefor, and that the payments into the Funds and Accounts created under the Bond Indenture will be made, all in strict conformity with the terms of the Bonds and the Bond Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Bond Indenture and all Supplemental Indentures and of the Bonds issued under the Bond 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 Bond Indenture, and will not issue any obligation or security having a lien or charge upon the Special Taxes other than the Bonds.

(b) Levy of Special Tax. Beginning in Fiscal Year 2012-13 and so long as any Bonds are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available for such purpose, to pay (i) the principal of and interest on the Bonds when due; (ii) the Administrative Expenses; and (iii) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the “Annual Special Tax Levy”). 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 are Outstanding.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each 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 on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid.

The District covenants that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds.

(d) 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 as set forth in the Bond Indenture), or which might impair the security of the Bonds then Outstanding; provided, however, that nothing contained in the Bond 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.

(e) 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 then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds 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 and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other monies or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and will comply with the covenants and requirements stated in the Bond Indenture and incorporated by reference in the Bond Indenture.

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(g) Reduction of Maximum Special Taxes. The District covenants 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 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. 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.

(h) 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 minimum or the maximum Special Tax below the levels specified in the Bond Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Bond Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Limitation on Right to Tender Bonds. The District covenants that it will not adopt any policy pursuant to the Act permitting the tender of 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 when due.

(j) 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 Bonds to assist the Underwriters in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission.

(k) Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or

to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Bond 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 Bond Indenture which may be inconsistent with any other provision in the Bond Indenture, or to make any other provision with respect to matters or questions arising under the Bond 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 Bond Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Bond Indenture as theretofore in effect or which further secure Bond payments;

(c) to modify, amend or supplement the Bond 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 under the Bond Indenture, 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 then Outstanding;

(d) to 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 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 Outstanding as of the date of such amendment; or

(e) to modify, alter, amend or supplement the Bond Indenture in any other respect which is not materially adverse to the Bondowners.

**Supplemental Indentures or Orders Requiring Bondowner Consent.** Exclusive of the Supplemental Indentures described in the preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the 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 Bond Indenture; provided, however, that nothing in the Bond 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; (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon; (c) a preference or priority of any Bond over any other Bond; or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section 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 Outstanding as required by the Bond 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 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. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, 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 in instances where such consent is required pursuant to the provisions of this section, the Bond Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Bond Indenture of the District and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Bond Indenture, subject in all respects to such modifications and amendments.

#### **TRUSTEE**

**Trustee.** U.S. Bank National Association has been appointed the Trustee for the Bonds unless and until another Trustee is appointed by the District under the Bond Indenture. The Trustee represents that it has a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000. The District may, at any time, appoint a successor Trustee satisfying certain requirements under the Bond Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Bond Indenture and to allocate, use and apply the same as provided in the Bond Indenture.

**Removal of Trustee.** The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

**Resignation of Trustee.** The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in the Bond Indenture by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

## 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 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 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 Bond Indenture, the 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.

The Trustee has agreed 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 30 days of the Trustee’s knowledge of an Event of Default under (c) above.

**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 to enforce any rights of the Trustee under or with respect to the Bond 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 Bond 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 25% in aggregate principal amount of Outstanding 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 Bond Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds.

No remedy conferred in the Bond Indenture 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 Bond 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 Bond Indenture relating to the Bonds shall be applied by the Trustee in the following order upon presentation of the several 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 Bond 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 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; 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 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 of the 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 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 Bond Indenture, whether upon its own discretion or upon the request of the Owners of 25% in aggregate principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the 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 under the Bond Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Bond Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds issued under the Bond 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 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 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 Bond 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 under the Bond 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 Bond Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

**Non-Waiver.** Nothing in the Bond Indenture or in any other provision of the Bond Indenture, or in the 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 to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Bond Indenture, out of the Net Taxes and other moneys pledged in the Bond Indenture for such payment.

**Limitations on Rights and Remedies of Owners.** No Owner of any Bond issued under the Bond Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Bond 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 then Outstanding shall have made written request upon the Trustee to exercise the powers in the Bond Indenture before 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, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Bond Indenture; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Bond Indenture, except in the manner provided in the Bond Indenture, and that all proceedings at law or in equity to enforce any provision of the Bond Indenture shall be instituted, had and maintained in the manner provided in the Bond Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Bond 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.

**Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under the Bond 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 Bond Indenture, respectively, with regard to the property subject to the Bond Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

## **DEFEASANCE**

**Defeasance.** If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Bond Indenture or any Supplemental Indenture, then the Owner of such 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 under the Bond Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to this Section, 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's general fund all money or securities held by it pursuant to the Bond Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such 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, 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, 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, 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 shall not have been surrendered for payment, all obligations of the District under the Bond Indenture and any Supplemental Indenture with respect to such 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 not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District 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 (b) or (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 to be defeased in accordance with this Section, 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 being defeased have been legally defeased in accordance with the Bond Indenture and any applicable Supplemental Indenture.

#### MISCELLANEOUS

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

**Unclaimed Moneys.** Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the written request of the District or the Trustee shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

**Provisions Constitute Contract.** The provisions of the Bond 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 Bond Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Bond Indenture, but to no greater extent and in no other manner.

**Future Contracts.** Nothing contained in the Bond Indenture shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge under the Bond 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 Bond 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 proper to carry out the intention or to facilitate the performance of the Bond Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Bond Indenture.

**Severability.** If any covenant, agreement or provision, or any portion thereof, contained in the Bond Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Bond 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 Bond Indenture, the 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

### CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of June 1, 2012 (the “Disclosure Certificate”) is executed and delivered by Community Facilities District No. 1 (Miramar Ranch North) (the “Issuer”) in connection with the issuance and delivery by the Issuer of its \$24,795,000 Special Tax Refunding Bonds Series 2012 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of June 1, 2012 by and between the Issuer and U.S. Bank National Association 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 Underwriters 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.

“Disclosure Representative” shall mean the Chief Operating Officer or the Chief Financial Officer of the City of San Diego, or their designees, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“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. 1 (Miramar Ranch North) 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 31, 2012.

“Participating Underwriters” shall mean E. J. De La Rosa & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

“Rate and Method of Apportionment” means together, the Rate and Method of Apportionment of Special Taxes for the Issuer as described in City of San Diego Ordinance No. O-18023, as 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, 2012, 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 Issuer 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 other than the Issuer and 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.

(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) 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 Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below.

(b) 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 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture as of the September 2 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 summary of the facts related to the collection of any Backup Special Tax 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 6 of the Official Statement including a list of all taxpayers which own property within the Issuer's 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;

(v) an update to Tables 7 and 8 of the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report; 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.

(c) 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 Significant 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;
4. substitution of credit or liquidity providers, or their failure to perform;
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 proceedings.

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. notices of redemption; and
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.

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; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners; and (v) 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 Underwriters and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices with respect to this Disclosure Certificate should be sent in writing to:

Disclosure Representative: City of San Diego  
202 C Street, MS 7B  
San Diego, California 92101  
Attention: Chief Financial Officer

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

COMMUNITY FACILITIES DISTRICT NO. 1  
(MIRAMAR RANCH NORTH)

By: \_\_\_\_\_  
Disclosure Representative

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

\_\_\_\_\_, 2012

Community Facilities District No. 1 (Miramar Ranch North)  
San Diego, California

**Re: \$24,795,000 Community Facilities District No. 1 (Miramar Ranch North) Special Tax  
Refunding Bonds Series 2012**

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of San Diego taken in connection with the authorization and issuance by the Community Facilities District No. 1 (Miramar Ranch North) (the "District") of its Special Tax Refunding Bonds Series 2012 in the aggregate principal amount of \$24,795,000 (the "2012 Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the 2012 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2012 Bonds have been issued pursuant to the Mello Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of June 1, 2012 (the "Indenture") between the District and U.S. Bank National Association, as Trustee (the "Bond Indenture"). All capitalized terms not defined herein shall have the meaning set forth in the Bond Indenture.

The 2012 Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Bond Indenture. The 2012 Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2013, at the rates per annum set forth in the Bond Indenture. The 2012 Bonds are registered 2012 Bonds in the form set forth in the Bond Indenture, redeemable in the amounts, at the times and in the manner provided for in the Bond Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The 2012 Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Bond Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California. The 2012 Bonds are limited obligations of the District but are not a debt of the City of San Diego, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the City of San Diego, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Bond Indenture has been duly authorized by the District, and the Bond Indenture is valid and binding upon the District and is enforceable in accordance with its terms,

except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Bond Indenture to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Bond Indenture creates a valid pledge of that which the Bond Indenture purports to pledge, subject to the provisions of the Bond Indenture, except to the extent that enforceability of the Bond Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2012 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest (and original issue discount) on the 2012 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a 2012 Bond (the first price at which a substantial amount of the 2012 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2012 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable 2012 Bond. Original issue discount that accrues for the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

(7) The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable 2012 Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2012 Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable 2012 Bond premium reduces the Bondowner's basis in the applicable 2012 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2012 Bond premium may result in a Bondowner realizing a taxable gain when a 2012 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2012 Bond to the owner.

The opinion expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2012 Bonds is subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2012 Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2012 Bonds to be included in gross income for federal income tax



purposes retroactive to the date of issuance of the 2012 Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the 2012 Bonds.

Certain requirements and procedures contained or referred to in the Bond Indenture may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Bond Indenture, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the 2012 Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Bond Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2012 Bonds and expressly disclaim any duty to advise the owners of the 2012 Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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## 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.

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FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272