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 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. The difference between the issue price of a Bond (the first price at which a substantial amount of Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. See

"LEGAL MATTERS-Tax Exemption" herein.

<u>NEW ISSUE—BOOK-ENTRY-ONLY</u> COUNTY OF SAN DIEGO NO RATING STATE OF CALIFORNIA

\$4,350,000

COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ) IMPROVEMENT AREA NO. 3 SPECIAL TAX BONDS SERIES B OF 2000

Dated: Date of Delivery

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

The Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000 (the "Bonds") are being issued and delivered to finance various public improvements needed to develop property located within Improvement Area No. 3 of Community Facilities District No. 2 (Santaluz) (the "District"). The District has been formed by and is located in the City of San Diego, California (the "City").

The 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 October 1, 2000 (the "Bond Indenture"), by and between the District and Union Bank of California, N.A. as trustee (the "Trustee"). The 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 certain taxable land within the District 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 "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes." The City Council of the City is the legislative body of the District.

The 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 and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on March 1, 2001 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See "THE BONDS—General Provisions" and "—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 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special tax obligations of the District payable solely from Special Taxes and certain other amounts beld under the Bond Indenture as more fully described herein.

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS—Redemption" herein.

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. THE PURCHASE OF THE BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE BONDS ARE NOT SUITABLE INVESTMENTS FOR MANY INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATE-MENT 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 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.

MATURITY SCHEDULE (See Inside Cover Page)

The 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. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, as counsel to the Underwriters. It is anticipated that the Bonds in bookentry form will be available for delivery to DTC in New York, New York, on November 2, 2000.

PaineWebber Incorporated

Morgan Stanley Dean Witter

E. J. De La Rosa & Co., Inc.

MATURITY SCHEDULE

\$855,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP No.	Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP No.
2002	\$ 25,000	4.50%	100%	802808AP0	2008	\$ 70,000	5.20%	100%	802808AV7
2003	30,000	4.65	100	802808AQ8	2009	85,000	5.30	100	802808AW5
2004	40,000	4.80	100	802808AR6	2010	95,000	5.40	100	802808AX3
2005	45,000	4.90	100	802808AS4	2011	105,000	5.50	100	802808AY1
2006	55,000	5.00	100	802808AT2	2012	110,000	5.60	100	802808AZ8
2007	65,000	5.10	100	802808AU9	2015	130,000	5.90	100	802808BB0

\$240,000 5.80% Term Bonds due September 1, 2014 Price: 100% CUSIP No. 802808BA2
\$965,000 6.10% Term Bonds due September 1, 2021 Price: 100% CUSIP No. 802808BC8
\$2,290,000 6.20% Term Bonds due September 1, 2030 Price: 100% CUSIP No. 802808BD6

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CITY OF SAN DIEGO, CALIFORNIA CITY COUNCIL

Susan Golding, Mayor

Harry Mathis Byron Wear Christine Kehoe George Stevens Valerie Stallings Judy McCarty Juan Vargas Philip C. Blair

CITY OFFICIALS

Michael T. Uberuaga City Manager

Ed Ryan City Auditor and Comptroller

> Charles Abdelnour City Clerk

Casey Gwinn City Attorney

Patricia T. Frazier Deputy City Manager

Conny M. Jamison City Treasurer

BOND COUNSEL

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

FINANCIAL ADVISORS

Fieldman Rolapp & Associates Irvine, California

> The Knight Group, Inc. Chicago, Illinois

SPECIAL TAX CONSULTANT

REAL ESTATE APPRAISER

David Taussig & Associates, Inc. Newport Beach, California D.F. Davis Real Estate, Inc. San Diego, California

TRUSTEE

Union Bank of California, N.A. Los Angeles, California Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. 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 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 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 Owners of the 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 a nationally recognized municipal securities depository.

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. In accordance with their respective responsibilities under the federal securities laws, the Underwriters have reviewed the information in this Official Statement but do not guarantee its accuracy or completeness. 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.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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\$4,350,000 COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ) IMPROVEMENT AREA NO. 3 SPECIAL TAX BONDS SERIES B OF 2000

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 Bonds 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 E - "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 of the \$4,350,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000 (the "Bonds"). The proceeds of the Bonds will be used to construct and acquire various public improvements needed with respect to the proposed development within Improvement Area No. 3 of Community Facilities District No. 2 (Santaluz) (the "District"), to fund the Reserve Account securing the Bonds, to pay costs of administration and issuance of the Bonds, and to provide capitalized interest to September 1, 2001.

In addition to Improvement Area No. 3, Community Facilities District No. 2 (Santaluz) also includes Improvement Area No. 1 and Improvement Area No. 2, which are authorized to issue bonds secured by special taxes levied on all property within those improvement areas. Improvement Area No. 1 is issuing bonds simultaneously with the issuance of the Bonds in the amount of \$56,020,000 which, together with the proceeds of the Bonds, will be used to finance a portion of the public facilities being constructed in and around the District. Unless otherwise noted, all references herein to the District refer to Improvement Area No. 3 only.

The 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 October 1, 2000 (the "Bond Indenture") by and between the District and Union Bank of California, N.A. (the "Trustee"). The Bonds are 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) under the Bond Indenture.

Changes Since the Preliminary Official Statement

This Official Statement contains changes to the Preliminary Official Statement, including: (a) revisions to the principal amounts of the Bonds to reflect the final sizing, (b) insertions and changes reflecting the interest rates, maturity dates and amounts, redemption provisions and yields or prices of the Bonds, (c) changes in the description of certain provisions of the Bond Indenture in order to reflect changes made to those provisions, including provisions added therein not to disburse any Bond proceeds held under the Bond Indenture until certain preconditions described below are satisfied, and (d) changes in Tables 4, 5 and 6 resulting from the final sizing.

The master developer of the property within Improvement Area No. 1, Santaluz LLC, a Delaware Limited Liability Company, whose members include DMB Realco, LLC, an Arizona limited liability company and Santaluz TM LLC, a California limited liability company (collectively "Santaluz") has notified the District

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that a violation has occurred under the Army Corps of Engineers 404 Permit for the project as a result of the grading of approximately 0.7 acres of area which had been designated for wetlands and non-wetlands habitat conservation purposes. The violation and the 404 Permit are unrelated to development activities in the District which are continuing. The designated area within Improvement Area No. 1 was encroached upon during mass grading. The 404 Permit provides that if an encroachment into the preserved wetlands occurs, all work shall cease, the Army Corps of Engineers shall be notified immediately and any wetland impacts that occur shall be mitigated at a minimum 6 to 1 ratio. Santaluz has ceased work in the designated area. On or about October 17, 2000, Santaluz notified the Army Corps of Engineers of the encroachment and proposed to mitigate the impact by restoring the 0.7 acres encroached upon, restoring an existing 1.0 acre degraded wetland area and creating 2.5 acres of new wetlands at an estimated cost to Santaluz of approximately \$500,000. The Army Corps of Engineers has not yet responded to the Santaluz proposal.

The Army Corps of Engineers has a range of remedies that it is permitted to implement as a result of the 404 Permit violation, including accepting additional acreage for habitat conservation purposes, issuing an order requiring compliance, fining Santaluz for noncompliance with the permit, suspending or revoking the permit and ordering Santaluz to stop any activities being done in reliance on the 404 Permit, and commencing a legal action to seek other appropriate relief. Santaluz has certified to Improvement Area No. 1 that there are no additional grading or other activities remaining to be done in reliance on the 404 Permit in the designated wetlands area. However, Santaluz confirms that there is some ongoing development activity in close proximity to the designated wetlands areas.

No assurance can be given as to what remedy will be sought by the Army Corps of Engineers. While it is possible that the Army Corps of Engineers could issue an order or seek other relief through a legal action that may have some impact on the development activity in areas adjacent to the designated wetlands, the City, Santaluz and its environmental consultant believe that the likely remedy will be to require Santaluz to provide additional mitigation acres for wetlands and non-wetlands habitat conservation purposes. This conclusion is based upon the relatively small amount of acreage encroached upon and the language in the 404 Permit contemplating additional mitigation for encroachments into the protected areas. Santaluz and its environmental consultant believe that, although the 404 Permit requires a minimum offer at a ratio of 6 to 1, the Army Corps of Engineers is not likely to require mitigation substantially in excess of the 4.2 acres offered by Santaluz.

The Bond Indenture provides that no Bond proceeds will be disbursed from the Acquisition and Construction Fund until (1) the District receives evidence satisfactory to it that the Army Corps of Engineers has approved a remedy for the violation that does not have an adverse effect on the planned development within Improvement Area No. 1, and (2) Santaluz has delivered to Improvement Area No. 1 an updated pro forma for its project demonstrating that the sources of funds listed in Table 6 of the Official Statement for Improvement Area No. 1, together with any commercial loans or lines of credit secured by Santaluz and acceptable to Improvement Area No. 1, remain sufficient to complete the development being undertaken by Santaluz.

In the event that the District does not authorize the release of amounts in the Acquisition and Construction Fund by July 1, 2007, then such amounts will be applied to optionally redeem Bonds on September 1, 2007.

One of the assumptions relied upon by the Appraiser in arriving at the appraised value of the property in the District was that money on deposit in the Acquisition and Construction Fund and proceeds of the Improvement Area No. 1 bonds will be made available to finance the facilities listed in Table 1 of this Official Statement. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Appraisal." Thus, if money on deposit in the Acquisition and Construction Fund and the proceeds of the Improvement Area No. 1 bonds are not released and made available to finance facilities at the times and in the amounts assumed in the Appraisal, the value of the property within the District could be adversely affected. See "SPECIAL RISK FACTORS – Land Values." The opinion of Bond Counsel provides that 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. Bond Counsel expresses no opinion as to the exclusion of interest on the 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 another counsel. The District has added a covenant to the Bond Indenture that, if it obtains a subsequent opinion permitting such a change or action from counsel other than Bond Counsel, it will obtain an opinion substantially to the effect originally delivered by Bond Counsel that interest on the Bonds is excluded from gross income for federal income tax purposes.

Forward Looking Statements

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. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE DISTRICT" and "THE DEVELOPMENT AND PROPERTY OWNERSHIP."

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. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The District

Formation Proceedings. The District has been 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 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 the District, 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 March 14, 2000, 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 \$4,800,000 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 which is set

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forth in APPENDIX A hereto (the "Rate and Method"). The City Council of the City acts as the legislative body of the District.

Development Status. There are two entities which own the developable property in the District. Fairbanks Highlands, LLC, a Delaware Limited Liability Company ("Fairbanks"), whose members include Taylor Woodrow Homes, Inc. and Signal Landmark, is developing 93 single family homes in the District. Signal Landmark also owns for its own account an additional 7 acres of land within the District, which is zoned A-1, Agriculture, which permits institutional uses. Signal Landmark has recently entered into an agreement of purchase and sale to sell the 7-acre parcel. For certain information concerning the developers, see "THE DEVELOPMENT AND PROPERTY OWNERSHIP - The Developers."

The District consists of approximately 387 gross acres. The District is located in the City in the north coastal area of San Diego County, roughly halfway between Interstate 5 and Interstate 15, approximately 20 miles north of downtown San Diego, and approximately 6 miles north of the La Jolla/Golden Triangle Area. Based on current land use approvals and projections, the land within the District is expected to be developed into 93 single family homes and nonresidential use on the 7-acre Signal Landmark site. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP - Potential Limitations on Development."

Development of the land within the District is ongoing. As of September 1, 2000, Fairbanks had closed escrow on 23 single family homes, had entered into contracts to sell an additional 45 homes and had 48 homes under construction. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – The Developers."

D.F. Davis Real Estate, Inc. (the "Appraiser") has conducted an appraisal (the "Appraisal") of the land within the District and has concluded, based upon the assumptions and limiting conditions contained in the Appraisal that as of June 1, 2000, the value of land within the District was \$49,019,650, assuming the public improvements to be financed by the Bonds are complete. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP - Appraisal" and APPENDIX C - "APPRAISAL REPORT."

Sources of Payment for the Bonds

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. See "SOURCES OF PAYMENT FOR THE BONDS - Special Taxes" and APPENDIX A – "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." Under the Bond Indenture, the District has pledged to repay the Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Bond Indenture.

The Special Taxes are the primary security for the repayment of the 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 Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein. See "SOURCES OF PAYMENT FOR THE BONDS - Reserve Account of the Special Tax Fund."

Upon satisfaction of the preconditions set forth in the Bond Indenture for the release of funds from the Acquisition and Construction Fund, amounts deposited to the Cost of Issuance Account on the date of issuance of the Bonds will be released to reimburse Santaluz for the costs of issuance of the Bonds paid by Santaluz and amounts deposited to the Project Account will be available to finance the facilities listed in Table 1. In the event that the preconditions to release of amounts in the Acquisition and Construction Fund are not satisfied prior to July 1, 2007, the amounts will be applied to optionally redeem Bonds on September 1, 2007. See "INTRODUCTION – Changes Since Preliminary Official Statement," "THE BONDS – Redemption" and

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APPENDIX E – "SUMMARY OF THE BOND INDENTURE – CREATION OF FUNDS AND APPLICATION OF BOND PROCEEDS – Acquisition and Construction Fund."

Foreclosure Proceeds. The District has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor's 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 it will commence and diligently pursue to completion 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. See "SOURCES OF PAYMENT FOR THE BONDS - Proceeds of Foreclosure Sales" herein. There is no assurance that the property within the District can be sold for the appraised value or assessed values described herein, or for a price sufficient to pay the principal of and interest on the 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 - Land Values" and APPENDIX C - "APPRAISAL REPORT" herein.

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 SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Parity Bonds and Liens. The District may, without the consent of the Owners of the Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the Bonds ("Parity Bonds"); provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. See "SOURCES OF PAYMENT FOR THE BONDS - Issuance of Parity Bonds." Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within the District which could adversely affect the willingness of the landowners to pay the Special Taxes when due. See "SPECIAL RISK FACTORS – Parity Taxes, Special Assessments and Land Development Costs" herein.

Description of the Bonds

The 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 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 Bonds. In the event that the Book-Entry Only System described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Bond Indenture. See "THE BONDS - Book-Entry Only System" herein.

Principal of, premium, if any, and interest on the 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 Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Trustee, all as described herein. See "THE BONDS - Book-Entry Only System" herein.

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption as described herein. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE BONDS" and APPENDIX E - "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 on the 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 on the Bonds is exempt from State of California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount, and, in the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from gross income of such 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 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. See "LEGAL MATTERS - Tax Exemption" herein.

Professionals Involved in the Offering

Union Bank of California, N.A. will act as Trustee under the Bond Indenture and as the initial Dissemination Agent under the Continuing Disclosure Agreement of the District and the Continuing Disclosure Agreement of the Developer. See APPENDICES F and G. PaineWebber Incorporated, Morgan Stanley Dean Witter and E. J. De La Rosa & Co., Inc. are the Underwriters of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Fieldman Rolapp & Associates and The Knight Group, Inc. are acting as Financial Advisors to the City in connection with the Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, as Underwriters' Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, and D.F. Davis Real Estate, Inc., San Diego, California, as Appraiser.

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 Bonds, see "LEGAL MATTERS - Financial Interests" herein.

Continuing Disclosure

Each of the District and Fairbanks has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data. The District and Fairbanks each has further agreed to provide notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE" herein and APPENDIX F and APPENDIX G hereto for a description of the specific nature of the annual reports to be filed by the District and the Developer and notices of material events to be provided by the District and Fairbanks.

Bond Owners' Risks

Certain events could affect the timely repayment of the principal of and interest on the 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 Bonds. The Bonds are not rated by any nationally recognized rating agency. *The purchase* of the Bonds involves significant investment risks, and the Bonds are not 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 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 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 Bonds, by reference to the Bond Indenture.

Copies of the Bond Indenture, the Continuing Disclosure Agreements 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 City at the Office of the City Clerk at 202 C Street, San Diego, CA 92101, Attention: City Clerk.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Bonds \$4,350,000.00 TOTAL SOURCES \$4,350,000.00 **Uses of Funds** Interest Account⁽¹⁾ \$ 210,330.76 Project Account⁽²⁾ 3,641,364.24 **Reserve Account** 341,980.00 Cost of Issuance Account⁽²⁾⁽³⁾ 115.000.00 Underwriters' Discount⁽³⁾ 41,325.00 **TOTAL USES** <u>\$4,350,000.00</u>

(1) Represents capitalized interest on the Bonds until September 1, 2001.

⁽²⁾ The Project Account and the Cost of Issuance Account are established in the Acquisition and Construction Fund.

(3) The costs of issuance will be paid for by Santaluz, the developer within Improvement Area No. 1, at closing. In the event that the conditions to the release of amounts in the Cost of Issuance Account set forth in the Bond Indenture are satisfied, such developer will be reimbursed from amounts in the Cost of Issuance Account, otherwise such amounts will be applied to optionally redeem Bonds on September 1, 2007.

THE BONDS

General Provisions

The 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, 2001 (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 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 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 Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Bondowner at its address on the registration books. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States.

Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

Authority for Issuance

The Bonds are 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 the Bonds:

Resolutions of Intention: On February 8, 2000, 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 \$4,800,000.

Resolutions of Formation: Immediately following a noticed public hearing opened on March 14, 2000, the City Council of the City, adopted resolutions which established the District, authorized the levy of a special tax within the District, and declared the necessity to incur bonded indebtedness of \$4,800,000 within the District.

Resolution Calling Election: The resolutions adopted by the City Council of the City on March 14, 2000 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, and the establishment of an appropriations limit.

Landowner Election and Declaration of Results: On March 14, 2000, an election was held at which the landowners within the District approved a ballot proposition authorizing the issuance of up to \$4,800,000 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 March 14, 2000, 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.

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 March 24, 2000, as a continuing lien against the property in the District.

Ordinance Levying Special Taxes: On April 10, 2000, the City Council adopted an ordinance levying the Special Tax within the District.

Resolution Authorizing Issuance of the Bonds: On September 12, 2000, the City Council adopted a resolution approving issuance of the Bonds.

Debt Service Schedule

The following table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional or 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 requires redemption of Bonds from the proceeds of any Special Tax prepayments. See "SOURCES OF PAYMENT FOR THE BONDS – Special Taxes" and "THE BONDS - Redemption."

Date			
(September 1)	Principal	Interest	<u>Total</u>
2001	0	\$216,240	\$216,240
2002	\$ 25,000	260,355	285,355
2003	30,000	259,230	289,230
2004	40,000	257,835	297,835
2005	45,000	255,915	300,915
2006	55,000	253,710	308,710
2007	65,000	250,960	315,960
2008	70,000	247,645	317,645
2009	85,000	244,005	329,005
2010	95,000	239,500	334,500
2011	105,000	234,370	339,370
2012	110,000	228,595	338,595
2013	115,000	222,435	337,435
2014	125,000	215,765	340,765
2015	130,000	208,515	338,515
2016	140,000	200,845	340,845
2017	145,000	192,305	337,305
2018	155,000	183,460	338,460
2019	165,000	174,005	339,005
2020	175,000	163,940	338,940
2021	185,000	153,265	338,265
2022	200,000	141,980	341,980
2023	210,000	129,580	339,580
2024	225,000	116,560	341,560
2025	235,000	102,610	337,610
2026	250,000	88,040	338,040
2027	265,000	72,540	337,540
2028	285,000	56,110	341,110
2029	300,000	38,440	338,440
2030	320,000	<u> 19,840 </u>	339,840
Total	<u>\$4,350,000</u>	<u>\$5,428,595</u>	<u>\$9,778,595</u>

Redemption

Optional Redemption. The Bonds maturing on or after September 1, 2008 may be redeemed, at the option of the District from any source of funds on any Interest Payment Date on or after September 1, 2007, in whole, or in part from such maturities as are selected by the District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption.

Mandatory Sinking Payment Redemption. The Bonds maturing on September 1, 2014, 2021 and 2030 (the "Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 2013, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2014

Sinking Fund Redemption Date	Sinking Payments
September 1, 2013	\$115,000
September 1, 2014	125,000

Term Bonds Maturing September 1, 2021

Sinking Payments
\$140,000
145,000
155,000
165,000
175,000
185,000

Term Bonds Maturing September 1, 2030

Sinking Fund Redemption Date	Sinking Payments		
September 1, 2022	\$200,000		
September 1, 2023	210,000		
September 1, 2024	225,000		
September 1, 2025	235,000		
September 1, 2026	250,000		
September 1, 2027	265,000		
September 1, 2028	285,000		
September 1, 2029	300,000		
September 1, 2030	320,000		

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

Extraordinary Redemption. The 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 "SOURCES OF PAYMENT FOR THE BONDS - Reserve Account of the Special Tax Fund"), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

Redemption Date	Redemption Price
Interest Payment Dates prior to September 1, 2007	103%
Interest Payment Dates on or after September 1, 2007	100%

Notice of Redemption. 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 Bonds and the respective registered Owners of the 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 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 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 Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such 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 Bonds called for redemption is set aside for that purpose in the Redemption Account, the Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Bonds at the place specified in the notice of redemption, and no interest will accrue on the Bonds called for redemption from and after the redemption date, and the Owners of the redeemed Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Bonds or portions of 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 Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Trustee.

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

Book-Entry Only System

The following description of The Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Although the District believes DTC to be a reliable source of information, no representations can be made by the District concerning these matters

and neither the DTC Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond 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.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a Banking organization within the meaning of the laws of the State of New York, 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, as amended. DTC holds securities of its participants ("DTC Participants") and facilitates the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the Book-Entry System is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC System must be made by or through DTC Participants, which will receive a credit balance in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of a DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase providing certain details of the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Bond Indenture in the event participation in the Book-Entry System is discontinued (see "Discontinuance of DTC Services" below).

To facilitate subsequent transfers, all Bonds deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and the registration in the name of Cede & Co. effect no 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 DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. DTC Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, Bond certificates are required to be delivered as described in the Bond Indenture. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

The District may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered as described in the Bond Indenture.

Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Redemption notices and all other notices to Bondowners shall be sent only to Cede & Co., as registered owner of the Bonds. 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 DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent to vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the Bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made solely to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of monies, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing rules and regulations governing municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Trustee or the District, subject to any statutory and regulatory requirements as may be in effect from time to time.

The District, the Underwriters and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered Bondowners under the Bond Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Bond Indenture. The District, the City, the Underwriters and the Trustee cannot and do not give any assurances that DTC Participants or others will distribute payments of principal of or interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

Discontinuance of DTC Services. In the event that (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) the District determines that DTC shall no longer so act and delivers a written certificate to the Trustee to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Bond Indenture. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but

shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the registration, transfer and payment the Bonds would be governed by the Bond Indenture, as described above.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The 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 Bonds. Under the Bond Indenture, the District has pledged to repay the 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) established under the Bond Indenture. Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof and the net proceeds of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, and penalties and interest thereon.

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 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 Owners of the 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 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 BUT ARE SPECIAL 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 March 14, 2000 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 March 14, 2000, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$4,800,000, and approved the Rate and Method which authorizes the Special Tax to be levied to repay District indebtedness, including the Bonds.

The District has covenanted in the Bond Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds and Parity Bonds, to replenish the Reserve Account and the amount estimated to be sufficient to pay 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 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 set forth in APPENDIX A.

Under the Rate and Method, all Taxable Property in the District will be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Sections C, D and E of the Rate and Method.

A parcel will be classified as Developed Property if it is Taxable Property (other than Taxable Property Owner Association Property and Taxable Public Property) for which a building permit for new construction or renovations was issued prior to March 1 of the fiscal year preceding the Special Tax levy. Developed Property will be further assigned to land use classes for Residential Property, Non-Residential Property and Institutional Property. The Maximum Annual Special Tax for Developed Property will be the sum of the Assigned Special Tax and any Backup Special Tax due on such property. The Assigned Special Tax rates are set forth in Table 1 of the Rate and Method and beginning on July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied, escalate by 2% of the rate in effect for the previous year. On July 1 of the eleventh and twelfth Fiscal Year, the Assigned Special Taxes may be increased by up to 2% of the amount in effect for the prior Fiscal Year to the extent necessary to meet the Special Tax Requirement. For Fiscal Year 2000-01, the Assigned Special Tax rates range from \$2,390.97 for a residential unit of less than 2,250 square feet to \$5,732.87 for residential units greater than 6,500 square feet. The Fiscal Year 2000-01 rate for Non-Residential Property is \$5,066.55 per acre and for Institutional Property is \$102 per acre. The Fiscal Year 2000-01 maximum Special Tax rate for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property is \$4,327.50 per acre, and this maximum rate will increase at the same rate of increase as described above for Developed Property. The maximum Special Tax rates do not increase after the twelfth Fiscal Year in which Special Taxes are levied.

After classifying the parcels, the City Council will determine the Special Tax Requirement (as defined in the Rate and Method) for the fiscal year. "Special Tax Requirement" is defined in the Rate and Method as the amount required in any Fiscal Year after taking into account amounts held in funds and accounts under the Bond Indenture which are intended to be used to pay debt service on the Bonds in the calendar year beginning in such Fiscal Year to: (i) pay annual debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including, but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any Reserve Accounts for all Outstanding Bonds; (v) pay directly for authorized facilities; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year. The Special Tax will be levied first on Developed Property up to the applicable maximum rate. If additional monies are needed to satisfy the Special Tax Requirement after levying on all Developed Property at the applicable maximum rate, the Special Tax will be levied next on Undeveloped Property up to the maximum rate and finally on Taxable Property Owner Association Property and Taxable Public Property up to the maximum rate. See APPENDIX A - "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Prepayment of Special Taxes. There are certain events that will result in a required prepayment of Special Taxes. In addition, under the Rate and Method, the owner of a parcel for which a building permit has been issued may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any required or voluntary prepayment of Special Taxes will result in an extraordinary redemption of Bonds. See "THE BONDS - Redemption - Extraordinary Mandatory Redemption from Special Tax Prepayment."

A required prepayment of Special Taxes will occur in certain situations where a Backup Special Tax is levied under the Rate and Method as a result of a reduction in the total expected number of dwelling units or

if smaller residential units than was originally anticipated in the Rate and Method are constructed in a geographic area designated for a certain Development Product. The Backup Special Tax paid with respect to a Development Product will be held in a Backup Special Tax Account of the Special Tax Fund under the Bond Indenture. If at buildout of the geographic area for a Development Product the Assigned Special Taxes that can be levied within the geographic area are less than originally projected, then the balance in the Backup Special Tax Account attributable to that Development Project will be used to redeem Bonds. If a Development Product does not reach full buildout within two years after the first payment of Backup Special Taxes, then all moneys in the Backup Special Tax Account for such Development Product will be applied to redeem Bonds. Based on the existing development plan, the Developer does not expect any prepayments to occur under the foregoing provisions of the Rate and Method. No assurance can be given, however, that future development plans will not change and result in a prepayment of Special Taxes and an extraordinary redemption of Bonds.

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

The District has made certain covenants in the Bond Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District has covenanted 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 payable from Developed Property to less than 110% of Maximum Annual Debt Service on Outstanding Bonds and Parity Bonds. See "SPECIAL RISK FACTORS - Proposition 218." Second, the District has covenanted not to permit the tender of 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 Bonds and any Parity Bonds remaining Outstanding following such tender. See "SPECIAL RISK FACTORS - Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners therein. See "SPECIAL RISK FACTORS - Parity Taxes, Special Assessments and Land Development Costs" 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 and Backup Special Taxes, 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 \$15,000 to the Administrative Expense Fund to pay Administrative Expenses; (ii) to pay the principal of and interest on the 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 \$15,000 referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX E - "SUMMARY OF BOND INDENTURE."

Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Taxes when due are included

within the Special Tax revenues pledged to the payment of principal of and interest on the 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 has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$10,000 or more 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 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 E - "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 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 - Land Values" 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.

Reserve Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account 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 Bonds and any Parity Bonds; (ii) the maximum annual debt service on the Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds and any Parity Bonds (the "Reserve Requirement").

Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in APPENDIX A, the District has covenanted 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 Bonds, to the extent other monies are not available therefor; (ii) redeem the Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of the 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 Bonds. As described in the Rate and Method, the Reserve Account Credit will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Account Credit if the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX E - "SUMMARY OF BOND INDENTURE - Reserve Account" herein.

Issuance of Parity Bonds for Refunding Purposes

Subject to the limitations set forth in the Bond Indenture, the District may, at any time after the issuance and delivery of the Bonds, and without the consent of the Owners of the Bonds, issue additional bonds ("Parity Bonds") payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued pursuant to the Bond Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds issued to effect a partial refunding may only be issued in accordance with the specific conditions precedent to the issuance of any such Parity Bonds as set forth in the Bond Indenture. See APPENDIX E - "SUMMARY OF BOND INDENTURE - Conditions for the Issuance of Parity Bonds" herein.

THE DISTRICT

General Description of the District

The District consists of approximately 387 gross acres located in the northern portion of the City in northwestern San Diego County, roughly halfway between Interstate 5 and Interstate 15 approximately 20 miles northeast of the City's downtown area and 6 miles north of the La Jolla/Golden Triangle Area.

Description of Authorized Facilities

The facilities authorized to be acquired or constructed by the District with the proceeds of the Bonds and Parity Bonds consist of various public improvements described in Table 1 below.

Fairbanks has entered into an agreement with Santaluz, LLC (the owner of the property in Improvement Area No. 1) to participate in the costs of funding infrastructure necessary to serve the property located within the District and Improvement Area No. 1. Table 1, as shown below, lists each infrastructure improvement and its estimated cost. The improvement costs will be paid with bond proceeds of Improvement Area No. 1, the proceeds of the District's Bonds and, to the extent that costs exceed those amounts, from other funds to be provided by Santaluz, LLC.

TABLE 1

ESTIMATED COSTS OF PROJECTS

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Project	Cost Estimate
Carmel Valley Road from Via Abertura to Black Mountain Road and Black Mountain Road from Carmel Valley Road southerly to existing Black Mountain Road ⁽¹⁾	\$ 13,400,036
Carmel Valley Road Segments 1, 2 and 3 from North of SR56 to Via Abertura ⁽¹⁾	4,373,343
Camino Ruiz South ⁽¹⁾	6,223,386
Camino Ruiz from CR South Northerly to San Dieguito and Extension to Stn. 213 ⁽¹⁾	13,320,524
San Dieguito Road from Camino Ruiz to existing San Dieguito Road ⁽¹⁾	5,037,163
Median and Parkway Landscaping of Carmel Valley Road from Via Abertura to Black Mountain Road and Black Mountain Road from Carmel Valley Road southerly to existing Black Mountain Road	1,696,595
Water and Sewer Facilities, including Pump Stations, Sewer Trunk Lines and Water Lines	6,869,385
25 Million Gallon Reservoir	3,525,108
South Fire Station and Equipment (Fair Share)	1,024,643
Offsite Traffic Signals and Intersection Improvements	1,561,259
Onsite Traffic Signals	775,500
Regional Park Land Acquisition and Grading	551,441
Preliminary Design Costs for Public Improvements	490,000
Total	\$ 58,848,383
Less Paid by Improvement Area No. 1 Bond Proceeds and Other Sources	(55,208,383)
Amount Expected to be Financed by District Bonds	\$ 3,640,000

(1) Roadway projects include street improvements, water and sewer improvements as indicated, utilities (joint trench, electric, gas, cable TV, telephone) included within the roadway right-of-way or within a designated easement, if eligible for funding by the District.

Source: District.

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Estimated Direct and Overlapping Indebtedness

Within the District's boundaries 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 unissued 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 assessment on the parcels within the District for fiscal year 2000-01 is shown in Table 2 below (the "Debt Report").

The Debt Report has been derived from data assembled and reported to the District by David Taussig and Associates, Inc. Neither the District, the City nor the Underwriters have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

TABLE 2

DIRECT AND OVERLAPPING DEBT SUMMARY CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2 IMPROVEMENT AREA NO. 3

Overlapping District	Fiscal Year 2000-01 Total Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding ⁽¹⁾	Share of Total Debt Outstanding ⁽¹⁾
Poway Unified School District CFD No. 7 ⁽²⁾	None	None	None	None	None
Metropolitan Water District G.O. Bond ⁽³⁾	\$111,265,357	\$1,221	0.0011%	\$549,615,000	\$6,030
•		Estimated Share District	e of Overlapping D	ebt Allocable to the	\$6,030
		Plus: Series B o	of 2000 Bonds	ĩ	\$4,350,000
			e of Direct and Ove o the District	rlapping Debt	\$4,356,030

⁽¹⁾ As of June 30, 2000.

⁽²⁾ Authorized to issue up to \$15 million.

⁽³⁾ Estimated levy based on Fiscal Year 2000-01 assessed value.

Source: David Taussig & Associates, Inc.

The Poway Unified School District Community Facilities District No. 7 ("Poway CFD No. 7") is authorized to issue up to \$15,000,000 of bonds, a portion of which will be paid from special taxes levied on developed property within the District. The District is informed that Poway CFD No. 7 has no current plans to issue bonds, but expects to issue approximately \$15,000,000 in bonds as development occurs in the District and on property in other portions of the Poway Unified School District.

Expected Tax Burden

It is expected that the total tax burden on residential units in the District will be less than 1.6% of the initial sales price of the units. Table 3 below sets forth an estimated property tax bill for single family detached units of 3,883 square feet and 5,463 square feet. The estimated tax rates and amounts presented herein are based on currently available information. The actual amounts charged may vary and may increase in future years.

TABLE 3

SAMPLE PROPERTY TAX BILL PROJECTED FOR FISCAL YEAR 2000-01 FOR TYPICAL SINGLE FAMILY DETACHED UNITS

	Percent of Total Assessed	Expected	Expected
Assessed Valuation and Property Taxes	Valuation	Amount	Amount
HOUSE SQUARE FOOTAGE ⁽¹⁾		3,883	5,463
SALES PRICE ⁽¹⁾		\$970,530	\$1,128,990
TOTAL ASSESSED VALUE ⁽²⁾		\$963,530	\$1,121,990
AD VALOREM PROPERTY TAXES ⁽³⁾			
Basic Levy	1.00000%	\$ 9,635.30	\$ 11,219.90
San Diego City Zoological Exhibits	0.00500%	48.18	56.10
San Diego City Public Safety Communication Systems	0.00243%	23.41	27.26
San Diego County Water Authority	0.00100%	9.64	11.22
Metropolitan Water District	0.00880%	84.79	98.74
Total Ad Valorem Property Taxes	1.01723%	\$ 9,801.32	\$11,413.22
ASSESSMENTS AND SPECIAL TAXES			
City of San Diego CFD No. 2 (Santaluz)	,	\$ 3,791.72	\$ 4,455.28
Poway Unified School District CFD No. 7 ⁽⁴⁾		1,172.71	1,172.71
County Mosquito/Rat Control ⁽⁵⁾		3.00	3.00
Metropolitan Water District Standby Charge		11.50	11.50
San Diego County Water Authority Water Availability Charge ⁽⁶⁾		10.00	10.00
Total Assessments and Special Taxes		\$ 4,988.93	\$ 5,652.49
TOTAL, ALL PROPERTY TAXES		\$14,790.25	\$17,065.71
Total Effective Tax Rate		1.52393%	1.51159%

⁽¹⁾ House square footage and sales prices provided by Fairbanks. Prices include locational and view premiums but exclude options.

For residential properties only, assessed value and *ad valorem* taxes incorporate owner-occupied assessed valuation exemption of \$7,000. Sales price is used to determine Total Effective Tax Rate.

⁽³⁾ Based on projected rates for Fiscal Year 2000-01.

(4) Fiscal Year 2000-01 Special Tax rates for Poway USD CFD No. 7.

⁽⁵⁾ Based on per parcel amount and will remain the same for an indefinite term unless voted upon.

⁽⁶⁾ Based on amount per parcel or amount per acre, whichever is greater.

Source: David Taussig and Associates, Inc.

Principal Taxpayers

Table 4 below sets forth the percentage of the Special Tax that Fairbanks, Signal Landmark and the individual homeowners taken as a group would pay in Fiscal Year 2001-02 based on the ownership and land use status in the District as of September 1, 2000. Since interest on the Bonds has been capitalized through September 1, 2001, no Special Taxes will be levied for the current fiscal year ending June 30, 2001.

TABLE 4

PROJECTED PRINCIPAL TAXPAYERS FOR FISCAL YEAR 2001-02⁽¹⁾

Owner	Estimated Special Tax Levy	Percentage of Special Tax Levy	
Individual Owners	\$ 69,497	24.74%	
Fairbanks	211,410	75.26%	
Signal Landmark	0	0.00%	
Total	\$280,907	100.00%	

⁽¹⁾ Based on landowners and development status as of September 1, 2000.

Source: David Taussig & Associates, Inc.

Estimated Appraised Value-to-Lien Ratios

The value of the land within the District is significant because in the event of a delinquency in the payment of Special Taxes the District may foreclose only against delinquent parcels. Table 5 below sets forth the estimated value-to-lien ratios for the parcels owned by the individual homeowners as a group and by Fairbanks and Signal Landmark based upon the land ownership status and the values within the Appraisal as of June 1, 2000. The estimated value-to-lien ratio for taxable parcels within the District based upon the principal amount of the Bonds and the land values as set forth in the Appraisal is 11.27 to 1. The lien for each group of landowners has been assigned by multiplying each landowner's estimated percentage share of the estimated fiscal year 2001-02 Special Tax levy by the principal amount of the Bonds. As set forth in Table 2 above, there is approximately \$6,030 of additional overlapping debt which if included in the calculation of value-to-lien would lower slightly the estimated value-to-liens set forth in Table 5 below.

The amount of Special Tax allocated to each ownership in Table 5 differs from Table 4 because Table 5 is based on the ownership status as of the June 1, 2000 date of the Appraisal and Table 4 contains ownership information updated to September 1, 2000.

TABLE 5

Property Owner ⁽¹⁾	Acreage	Allocable Special Tax ⁽²⁾	Percentage Share of Special Tax	Share of Bond Amount ⁽³⁾	Values in Appraisal ⁽⁴⁾	Estimated Value-to-Lien Ratios ⁽⁵⁾
Individual Homeowners	13.69	\$ 36,843	13.12%	\$ 570,535	\$13,189,650	23.12:1
Fairbanks	102.08	244,064	86.88%	3,779,465	34,000,000	9.00:1
Signal Landmark	7.00	0	0.00%	0	1,830,000	N/A
TOTAL:	122.77	\$280,907	100.00%	\$4,350,000	\$49,019,650	11.27:1

ESTIMATED VALUE-TO-LIEN RATIOS BASED ON APPRAISAL VALUES

⁽¹⁾ Based on landowners and development status in the District as of June 1, 2000.

(2) Estimated Special Tax levy for Fiscal Year 2001-02. No Special Taxes will be levied until Fiscal Year 2001-02.

⁽³⁾ This represents the share by property owner of the Bond amount. Each property owner's share of the Bonds is based on the proportion of Special Taxes estimated as indicated in the previous two columns.

(4) The values are from the Appraisal which includes appraised values for most property and a reporting of sales prices for the individual homes. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP — The Appraisal."

⁽⁵⁾ Represents Values in Appraisal column divided by Share of Bond Amount column.

Source: David Taussig & Associates, Inc.

Estimated Assessed Value-to-Lien Ratios

Table 6 below sets forth the estimated assessed value-to-lien ratios for property ownerships within the District based upon ownership status as of September 1, 2000 and the assessed values included on the fiscal year 2000-01 Assessor's roll. The assessed value of the taxable land within the District for fiscal year 2000-01 is \$13,713,754. The estimated assessed value-to-lien ratio of the property within the District calculated as described in Table 6 below is 3.15 to 1. The lien for individual homeowners as a group and for Fairbanks and Signal Landmark has been assigned by multiplying each of these owner's estimated percentage share of an assumed fiscal year 2000-01 Special Tax levy that would have been levied if there had been no capitalized interest on the Bonds by the principal amount of the Bonds. As set forth in Table 2 above, there currently is approximately \$6,030 of additional overlapping debt which if included in the calculation of value-to-lien would slightly lower the estimated value-to-liens set forth in Table 6 below.

Property Owner ⁽¹⁾	Acreage	Assumed FY 2000-01 Special Tax ⁽²⁾	Share of FY 2000-01 Special Tax	Share of Bon Amount ⁽³⁾	d Assessed Values ⁽⁴⁾	Estimated Assessed Value- to-Lien Ratios ⁽⁵⁾
Individual Homeowners	25.72	\$ 53,856	24.74%	\$ 1,076,201	\$ 8,085,200	7.51:1
Fairbanks	90.06	163,830	75.26%	3,273,799	5,498,554	1.68:1
Signal Landmark	7.00	0	0.00%	0	130,000	N/A
TOTAL:	122.77	\$217,686	100.00%	\$4,350,000	\$13,713,754	3.15:1

ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS

⁽¹⁾ Current landowners in the District as of September 1, 2000.

(2) Assumed Special Tax levy for Fiscal Year 2000-01. Because of capitalized interest, no Special Taxes will be levied until Fiscal Year 2001-02.

(3) This represents the share by property owner of the Bond amount. Each property owner's share of the Bonds is based on the proportion of Special Taxes as indicated in the previous two columns.

⁽⁴⁾ Assessed values for Fiscal Year 2000-01.

⁽⁵⁾ Represents Assessed Values column divided by Share of Bond Amount column.

Source: David Taussig & Associates, Inc.

As a part of its Annual Report delivered pursuant to its Continuing Disclosure Agreement, the District will provide the estimated assessed value-to-lien ratio for all Developed Property in the aggregate and for each owner of Undeveloped Property.

THE DEVELOPMENT AND PROPERTY OWNERSHIP

Except for the information under the captions "Appraisal," Fairbanks has provided the information in this section.

The information herein regarding ownership of property in the District has been included because it is considered relevant to an informed evaluation of the Bonds. The inclusion in this Official Statement of information related to existing owners of property should not be construed to suggest that the Bonds, or the Special Taxes that will be used to pay the Bonds, are recourse obligations of the property owners. A property owner may sell or otherwise dispose of land within the District or a development or any interest therein at any time.

No assurance can be given that the proposed development within the District will occur as described below. As the proposed development progresses and homes are sold, it is expected that the ownership of the land within the District will become more diversified. No assurance can be given that additional development of the land within the District will occur, or that it will occur in a timely manner or in the configuration or intensity described herein, or that the existing owners of property will retain ownership of any of the land within the District. The Bonds and the Special Taxes are not personal obligations of any property owners and, in the event that a property owner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any property owner. As a result, other than as provided herein, no financial statements or information is, or will be, provided about the property owners in the District. The Bonds are secured solely by the Special Taxes and other amounts pledged under the Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS."

General Description

The residential development within the District is known as "Fairbanks Highlands." Fairbanks Highlands, which comprises most of the District, consists of approximately 380 acres (including 216 acres already dedicated as open space to the City) situated in the City. The development is in northwestern San Diego County approximately 20 miles north of the City's downtown area and 6 miles north of the La Jolla/Golden Triangle area. The vesting tentative tract map for the development was approved by the City on December 5, 1995 and was recorded on June 3, 1999.

Fairbanks Highlands is characterized by gently rolling terrain. The land use plan provides for the development of 93 residential units and part (9.6 acres) of a 26.6 acre middle school site. The balance of the middle school site (17.0 acres) is located on land adjacent to the District which is owned by another owner.

A seven acre parcel owned by Signal Landmark adjacent to Fairbanks Highlands is also included in the District. This property is presently zoned A-1, which allows for institutional uses with the approval by the City of a conditional use permit. Signal Landmark has recently entered into an agreement of purchase and sale with a buyer to sell the property for \$765,000.

The Developers

The developer of the residential units in Fairbanks Highlands is Fairbanks Highlands LLC, a Delaware limited liability company. Fairbanks Highlands LLC was formed by Taylor Woodrow Homes, Inc. and Signal Landmark for the sole purpose of acquiring the property and constructing and marketing the Fairbanks Highlands homes. The Fairbanks Highlands property was purchased by Fairbanks Highlands LLC from Signal Landmark in December 1996.

Taylor Woodrow Homes, Inc. is a wholly-owned subsidiary of Taylor Woodrow plc. Taylor Woodrow plc is a diversified international real estate construction and development company with activities in the United Kingdom, Canada, Spain, Australia, Florida and California. Shares of Taylor Woodrow plc are traded on the London Stock Exchange. Taylor Woodrow Homes, Inc. and Taylor Woodrow plc are collectively referred to herein as Taylor Woodrow.

Taylor Woodrow is active in the California real estate market, with 12 communities currently under development in Southern California and 8 communities under development in Northern California. Taylor Woodrow is recognized nationally as a leading and innovative builder of moveup and luxury homes. Over the past 5 years, Taylor Woodrow has sold an average of over 300 homes per year in California. Sales prices for the communities currently under development range from \$275,000 to \$2.9 million in Southern California, with square footages for the homes ranging from approximately 1,500 to 5,900 square feet. In Northern California, sales prices for the communities currently under development range from \$250,000 to \$1.3 million with square footages for the homes range from approximately 1,400 to 4,500 square feet. Following is a summary of selected developments in California by Taylor Woodrow:

Amberly Lane, Ladera Ranch, Orange County, CA: Amberly Lane is located in the planned community of Ladera Ranch in Orange County, California. It consists of 97 single-family detached homes on lots averaging 6,000 square feet. The homes in Amberly Lane average 2,993 square feet with an average selling price of \$491,000. As of July 1, 2000, 31 homes had been sold, 14 of which have closed escrow.

Cambria, Orange County, CA: Cambria is also located in the Northpark development in the Irvine Ranch. It consists of 53 single-family detached homes on lots averaging 8,500 square feet. The homes in Cambria average 4,071 square feet with an average selling price of \$769,000. As of July 1, 2000, 25 homes had been sold, 9 of which had closed escrow.

Watermark, Orange County, CA: Watermark is located in the Crystal Cove community at Newport Coast, a luxury home community located in Orange County, California being developed by The Irvine Company. It consists of 33 single-family detached homes on lots averaging 16,200 square feet. The homes in Watermark average 5,066 square feet with an average selling price of \$2.6 million. As of July 1, 2000, 6 homes had been sold with none having closed escrow.

Woodlands at Valencia, Los Angeles County, CA: Taylor Woodrow is the managing member of a limited liability company developing a 316 home development known as Woodlands. Woodlands consists of four projects located in a gated enclave in the planned community of Valencia. The 316 units in Woodlands range in size from 1,537 square feet to 4,740 square feet with home prices ranging from \$275,000 to \$879,990. The average lot sizes in Woodlands range from 3,500 square feet to 6,500 square feet. As of July 1, 2000, 165 homes have been sold; 133 have closed escrow.

Traditions; Marin County, CA: Traditions is located in the Hamilton Town planned community in the City of Novato, Marin County. The 143 homes in Traditions are located on lots averaging 3,800 square feet in size. The homes in Traditions average 2,039 square feet with an average sales price of \$554,000. As of July 1, 2000, all 141 homes had been sold, with 117 having closed escrow.

In addition to Fairbanks Highlands, Taylor Woodrow is the managing member of Santaluz TM LLC, a limited liability company which is the managing member of Santaluz, LLC, the developer of Santaluz, the 1,093-unit planned community on approximately 2,500 acres comprising Improvement Area No. 1 of Community Facilities District No. 2 (Santaluz) ("Improvement Area No. 1"). Taylor Woodrow is also the Operations Supervisor of a 1750 unit planned community on 400 acres in Newport Beach, California. In its role as Operations Supervisor, Taylor Woodrow is responsible for the management of the day-to-day operations of the development. The project is currently in the process of obtaining its entitlement approvals; construction is currently expected to commence in 2002.

Signal Landmark is a wholly-owned subsidiary of California Coastal Communities, Inc., formerly known as Koll Real Estate Group, Inc., The Bolsa Chica Company and Henley Properties, Inc. Shares of California Coastal Communities, Inc. are traded on NASDAQ.

California Coastal Communities, Inc. is the developer of a proposed planned community in Orange County, California, known as Warner Mesa and is currently developing a 112 home subdivision in Escondido, California, a 16 home subdivision in Huntington Beach, California and an 86 home subdivision in Yucaipa, California.

Signal Landmark owns a 7-acre parcel within the District located adjacent to Fairbanks Highlands. The parcel is located at the intersection of Camino Ruiz and Carmel Valley Road. Utilities (electric, gas, water, sewer, telephone) will be available to the site with the completion of certain improvements by Santaluz, LLC, the developer of the land within Improvement Area No. 1. The Signal Landmark parcel is zoned A-1, Agriculture, which allows institutional uses with the issuance by the City of a conditional use permit. Signal Landmark does not intend to develop the property itself. A buyer of the parcel may elect to obtain a conditional use permit consistent with the current zoning or attempt to obtain a zone change to permit other uses. There is no assurance that a zone change would be approved.

Proposed Development and Fairbanks' Pro-forma

At Fairbanks Highlands, four model homes have been constructed and sales commenced in Spring 1999. Fairbanks Highlands is anticipated to consist of 93 homes. All building permits for Fairbanks Highlands have been received. As of September 1, 2000, 68 homes had been sold and 23 of those homes had closed escrow. The closings include the four model homes which have been leased back from the home purchasers. Fairbanks had 48 homes under construction as of September 1, 2000. The planned development

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also includes a portion (9.6 acres) of a middle school site, the remaining 17 acres of which are located on property adjacent to the District.

The homes in Fairbanks Highlands are expected to range in size from 3,883 square feet to 5,463 square feet As of September 1, 2000, base sales prices for the homes offered for sale ranged from \$970,530 to \$1,128,890, including locational and view premiums. Options are available to add amenities to the homes and to increase the home sizes by 415 to 1,231 square feet depending on the model. The lots in Fairbanks Highlands range in size from 30,100 square feet to 3.7 acres with a minimum net pad size of 20,866 square feet.

Based on current economic and market conditions, Fairbanks expects to complete its development of Fairbanks Highlands by the end of 2001. Fairbanks' development expectations could change, however, due to economic and market conditions, or other factors.

The full development of Fairbanks Highlands requires the expenditure of substantial amounts both directly related to the property and for other infrastructure improvements located outside the District. Table 7 below has been provided by Fairbanks to indicate its present projection of the sources and uses associated with the development of Fairbanks Highlands. There can be no assurance that Fairbanks will have timely access to the sources of funds (as shown below) which will be necessary to construct the various public facilities and other capital improvements necessary to accommodate the proposed development. There may be substantial changes in the sources and uses of funds shown below. Although Table 7 reflects Fairbanks' current projections, many factors beyond Fairbanks' control, or a decision by Fairbanks to alter its current plans, makes it likely that actual sources and uses will differ from the projections. Table 7 is presented to show that expected revenues make the development proposed feasible and not to guarantee a particular cash flow to Fairbanks.

TABLE 7

FAIRBANKS' PROJECTED SOURCES AND USES OF FUNDS (As of June 1, 2000) (Dollar Amounts in Thousands)

	Year 2000 (Starting June 1)	Year 2001	Year 2002	Totals
Sources of Funds				
Beginning Cash Balance Net Home Sale Proceeds Total Sources	\$ 1,609 36,251 \$37,860	\$47,187 \$47,187		\$ 1,609 83,438 \$85,047
Uses of Funds				
Sitework and House Construction Costs	\$16,300	\$19,192	\$924	\$36,416
Marketing Costs	1,257	2,235		3,492
Member Management Fee	1,249	1,602		2,851
Property Taxes	70	119		189
Total Uses	\$18,876	\$23,148	\$924	\$42,948
Sources in Excess of or (Less Than) Uses	\$18,984	\$24,039	\$(924)	\$42,099
Aggregate Annual Sources Over Uses	\$18,984	\$43,023	\$42,099	\$42,099

Source: The Developer.

As of June 1, 2000, Fairbanks had expended over \$30 million developing the land and constructing the homes within Fairbanks Highlands, and had recorded sales revenues of \$14,334,000 for 12 homes closed. As shown above, Fairbanks expects to expend approximately an additional \$36,416,000 to complete the development of the land and construct the homes within the District. From June 1, 2000 to September 1, 2000, Fairbanks expended approximately an additional \$8,000,000 in developing the property and recorded \$11,076,000 in sales revenues on 11 additional home closings. No bank loans or other debt exists as an encumbrance on the property owned by Fairbanks within the District. Fairbanks intends to fund future cash requirements through proceeds from escrow closings.

The projected sources and uses of funds in Table 7 has been prepared based upon assumptions of future sales revenues, development costs, operating costs, property taxes, and other items. The sales revenues shown have been derived from internal estimates and a review of sales prices for homes currently in escrow. There can be no assurance that any of these sales will occur, or if they do occur that they will occur on the dates projected. Therefore, there can be no assurance that the projected revenues will not be less than projected or occur later than projected by Fairbanks.

Construction has not been completed for all of the work required with respect to the development of Fairbanks Highlands. Therefore, there can be no assurance that the actual development costs will not be greater than projected or occur sooner than projected by Fairbanks. There can be no assurance that any of the other assumptions made by Fairbanks in Table 7 will occur or that other matters not considered in the

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projections will not occur that have an adverse impact on cash available to Fairbanks for construction of improvements. There can be no assurance that projected sources of revenue will, in fact, be available as projected by Fairbanks.

To the extent that actual revenues are less than projected in Table 7 or are received more slowly than projected in Table 7, other needed financing mechanisms are not put into place or actual expenses are greater than or occur earlier than projected above, there could be a shortfall in the cash required to complete the Fairbanks Highlands development.

Status of Entitlement Approvals

The vesting tentative tract map for the Fairbanks Highlands residential development was approved by the City on December 5, 1995 and the final map was recorded on June 3, 1999. No additional discretionary approvals are necessary for development of the 93 residential units. Building permits have been issued by the City for all homes to be built in Fairbanks Highlands.

A buyer of Signal Landmark's 7-acre parcel will need to obtain a conditional use permit from the City to undertake development on that parcel.

Infrastructure Requirements and Construction Status

The infrastructure requirements related to the Fairbanks Highlands development are discussed below.

Backbone Infrastructure. The backbone infrastructure for Fairbanks Highlands consists of the dedication of right-of-way for Carmel Valley Road through the project, construction of two lanes of Carmel Valley Road from east of Black Mountain Road to Via Abertura, dedication of right-of-way for the future construction of Carmel Valley Road, and traffic signal improvements. These infrastructure improvements are being constructed by the 2,500-acre Santaluz development being undertaken in Improvement Area No. 1. Simultaneous with the sale of the Bonds, Improvement Area No. 1 expects to sell bonds to fund approximately \$46 million of the costs of these facilities with partial funding being provided from Bond proceeds. As of June 1, 2000, construction of Carmel Valley Road from east of Black Mountain Road to Via Abertura and construction of the traffic signal improvements when required. Dedication of right-of-way for the construction of Carmel Valley Road is substantially complete.

Intract Infrastructure and Home Construction. As of September 1, 2000 intract infrastructure (other than landscaping) has been completed for all of the 93 lots within Fairbanks Highlands, escrows had closed on 23 homes, and construction was underway on 48 additional homes. 68 homes including the 23 homes which have closed escrow, had been sold as of September 1, 2000.

Appraisal

The Appraiser has appraised the property within the District based upon a number of assumptions and limiting conditions contained in the Appraisal and set forth in APPENDIX C. Based on these assumptions and limiting conditions, in the opinion of the Appraiser, the market value of the fee simple interest of the property in the District, assuming that the improvements to be financed with the Bonds and the Improvement Area No. 1 Bonds are complete, was \$49,019,650 as of June 1, 2000. The Appraisal states separate values for three categories of property within the District. The improved lots owned by individual homeowners were valued at \$13,189,650, the remaining lots owned by Fairbanks at \$34,000,000 and the Signal Landmark property at \$1,830,000. The value of the land concluded by the Appraiser takes into account all existing special assessments and special tax liens as well as the proposed Special Taxes to be levied by the District.

The improved individually owned homes were valued by adding the aggregate sales prices of the 12 individual lots that had closed escrow to individual home buyers as of June 1, 2000. These homes were not appraised on an individual basis. Instead, the model units were inspected and the sales prices were reviewed relative to the asking prices including builder options. Homeowner paid upgrades or subsequent landscaping and site improvements (pools, cabanas, etc.) were not included.

The Signal Landmark property was appraised pursuant to a sales comparison approach where recent sales of comparable properties were used to arrive at the value. Although the Appraiser valued the Signal Landmark property at \$1,830,000, Signal Landmark has recently signed an agreement of purchase and sale to sell the property for \$765,000.

The Appraiser valued the remaining property within the District owned by Fairbanks based upon a discounted cash flow analysis. Under the discounted cash flow analysis, the Appraisal took into account the revenues to be derived by the sale of the residential lots to homeowners, the absorption time needed to sell these properties and the costs associated with developing the property. The resulting cash flow of land sale revenues and expenses was then discounted based on a discount rate which takes into account the time value of money, the risk associated with the development and a profit due to the landowner. This calculation results in a net present value for the land which is the subject of the discounted cash flow analysis, assuming that it is all under a single ownership.

The Appraisal is based on Fairbank's development plan for the remaining 81 single family homes and the sale of the 9.6 acre school site. In computing the present value of the property, the Appraiser projected an absorption period for Fairbank's property based upon a review of the market conditions, with the 81 homes being sold by December 2001, and the school site by September 2000. For purposes of the discounted cash flow analysis, the Appraisal projects total sales revenues from Fairbank's parcels of \$83,659,291 and concludes that the total cost to finish the planned development will be \$41,707,581. The costs to complete include direct and indirect costs of construction of \$34,624,000 and indirect costs for sales and marketing, overhead, homeowner association fees and taxes of \$7,083,581. The Appraiser has deducted from the total costs the cost of the public improvements expected to be financed with the proceeds of the Bonds. In calculating the appraised value, the Appraiser assumes no inflation between now and December 2001 in either revenues or costs.

According to Fairbanks, sale of the school site has been delayed until the end of 2000 to allow the Poway Unified School District to conduct additional testing on the site. The Appraiser has advised the District that, if the Appraisal had assumed a sale of the school site at the end of 2000, the appraised value of the Fairbanks parcel, as of June 1, 2000, would have been reduced by approximately \$100,000 to \$33,900,000.

The Appraisal uses a discount rate of 22.5% per year in the discounted cash flow. The Appraiser selected the 22.5% figure based upon a review of current market conditions, the construction and economic risk associated with the current condition of the property, and the profit due to the landowner.

Certain of the other assumptions in the Appraisal are that (i) there are no hazardous waste or toxic chemicals on the property that render it more or less valuable; (ii) the property is free of adverse soil conditions that would prohibit development to its highest and best use; (iii) the expenses presented by Fairbanks as the costs to develop the property are accurate; (iv) all required licenses, certificates of occupancy or other legislative or administrative authorizations from governmental agencies or private entities or organizations have been or can be obtained; and (v) the improvements to be funded with the proceeds of the Bonds and the Improvement Area No. 1 Bonds are completed.

No assurance can be given that the assumptions made by the Appraiser will, in fact, be realized, which is one reason that no assurance can be given that the property within the District could be sold at the values stated in the Appraisal. See "SPECIAL RISK FACTORS - Land Values."

SPECIAL RISK FACTORS

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds are not 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 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 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 - Land Values" and "- Limited Secondary Market" below.

Concentration of Ownership

Based on the ownership status of the land within the District as of September 1, 2000, approximately 25% of the Special Taxes for fiscal year 2001-02 would be payable by the owners of individual homes, and 75% by Fairbanks. Until the sale of additional residential units by Fairbanks, and the development of the undeveloped parcel by Signal Landmark, the receipt of the Special Taxes is dependent on the willingness and the ability of Fairbanks to pay the Special Taxes when due. Failure of Fairbanks, or any successor, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Bonds, when due. See "SPECIAL RISK FACTORS - Failure to Develop Properties" below.

No assurance can be made that Fairbanks or Signal Landmark, or their successors, will complete the intended construction and development in the District. See "SPECIAL RISK FACTORS - Failure to Develop Properties" below. No assurance can be given that Fairbanks or its successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "SPECIAL RISK FACTORS - Bankruptcy and Foreclosure" below, for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The 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 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no Owner of the 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 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 "SOURCES OF PAYMENT FOR THE 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 Bonds. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the 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 235.4 acres of property owned by public agencies and 28.5 acres owned by a property owners association. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or a religious organization, 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 Bonds when due and a default could occur with respect to the payment of such principal and interest.

Failure to Develop Properties

Significant development has occurred in the District. Building permits have been issued for all 93 of the planned residential units and, as of September 1, 2000, 23 units have closed escrow to individual owners and an additional 48 units were under construction. Portions of the District remain undeveloped.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for development in the District as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within the District and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within the District to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Bondowners should assume that any event that significantly impacts the ability to develop land in the District would cause the property values within the District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due.

The payment of the principal of and interest on the Bonds currently depends, in part, upon the receipt of Special Taxes levied on undeveloped property. See "SPECIAL RISK FACTORS - Concentration of Ownership" above. Undeveloped property is less valuable per unit of area than developed land, especially if

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there are no plans to develop such land or if there are severe restrictions on the development of such land. The undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on undeveloped property for a longer period of time than projected. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the owners of the undeveloped property to make Special Tax payments on undeveloped property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See "SPECIAL RISK FACTORS - Land Values" below.

Future Land Use Regulations and Growth Control Initiatives

It is possible that future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the portions of the District not yet developed with the effect of negatively impacting the ability of the owner of such land to complete the development of such land if they should desire to develop it. See "SPECIAL RISK FACTORS - Endangered Species" below. This possibility presents a risk to prospective purchasers of the Bonds in that an inability to complete desired development increases the risk that the Bonds will not be repaid when due. The owners of the Bonds should assume that any reduction in the permitted density, significant increase in the cost of development of the vacant land or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within the District to decrease. A reduction in land values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the Bonds when due.

Completion of construction of any proposed structures on the vacant land within the District is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. As of September 1, 2000, 71 of the 93 residential units planned for the District were either complete or under construction. It is possible that the construction of the remaining 22 units and development of the 7-acre Single Landmark parcel could be impacted by future land use regulations which could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the vacant property and the ability or willingness of owners of such land to pay Special Taxes when due, and also could cause land values of such land within the District to decrease substantially from those in the Appraisal.

Endangered Species

To mitigate the possible effects of the proposed development on endangered and threatened species, the Developer agreed to donate 216 acres of land to be preserved as open space. Fairbanks does not believe that any threatened or endangered species are located on the developable land within the District. Certain endangered and threatened species such as the California gnatcatcher are known to exist in surrounding areas.

The absence of known endangered or threatened species within the District does not entirely eliminate the possibility that development in the District is delayed or altered due to environmental issues related to endangered or threatened species. In recent years there has been an increase in activity at the State and federal levels related to the possible listing of certain plant and animal species found in San Diego County as endangered species. The identification of an endangered or threatened species on property adjacent to the District could curtail development in the District. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively impact the ability of Fairbanks, Signal Landmark and any subsequent owners to develop the land within the District that remains undeveloped. This, in turn, could reduce the likelihood of timely payment of the Special Taxes levied against such land and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent Special Taxes. See "SPECIAL RISK FACTORS - Failure to Develop Land" above.

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 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.

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.

In the event of a major earthquake, the site could be subject to moderate to severe ground shaking. According to recent geotechnical reports, the nearest known major active faults to the site are the Rose Canyon Fault zone approximately 9 miles west-southwest of the site, and the Elsinore and San Jacinto Fault zones approximately 27 and 50 miles northeast of the site, respectively. No evidence of active faulting (less than 11,000 years) was observed within the property boundaries and none was indicated in the literature reviewed in conjunction with the preparation of the geotechnical reports. A 1998 geotechnical report for Fairbanks Highlands noted that a previous study of the area in 1975 had referenced the presence of a short, minor fault segment immediately north of the District. However, detailed geologic mapping of the area of the suspected fault did not reveal geological features to support its existence.

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, Special Assessments and Land Development Costs

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.

Development of land within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, schools, parks and street lighting, as well as local in-tract improvements and on-site grading and related improvements. Certain of these improvements have been acquired and/or completed; however, there can be no assurance that the remaining improvements will be constructed or will be constructed in time for development to proceed as currently expected. The cost of these additional improvements plus the public and private in-tract, on-site and off-site improvements could increase the public and private debt for which the land within the District is security. This increased debt could reduce the ability or desire of the property owners to pay the annual Special Taxes levied against the property. In that event there could be a default in the payment of principal of, and interest on, the Bonds when due.

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, and *ad valorem* taxes or assessments. Any such special taxes, and *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 a notice of the 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 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 "SOURCES OF PAYMENT FOR THE BONDS - 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 assessment and limitations on the District's ability to foreclosure 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 Bond or Parity Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond or Parity 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 Bonds or Parity 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 Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds or Parity 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 Bonds or Parity Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds or Parity 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 Bonds or Parity 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 Bonds and any Parity 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.

Land Values

The value of the property within the District is a critical factor in determining the investment quality of the 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 will adversely impact the security underlying the Special Taxes. See "THE DISTRICT - Estimated Appraised 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.

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that as of June 1, 2000, the value of the land within the District was \$49,019,650. The Appraisal is based on a number of assumptions and limiting conditions as stated in APPENDIX C - "APPRAISAL REPORT." The Appraisal does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, an economic downturn, any potential limitations on development occurring due to time delays, an inability of any landowner to obtain any needed development approval or permit, the presence of hazardous substances or other adverse soil conditions within the District, the listing of endangered species or the determination that habitat for endangered or threatened species exists within the District, or other similar situations. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP - Appraisal."

Prospective purchasers of the Bonds should not assume that the land within the District could be sold for the amount stated in the Appraisal at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See APPENDIX C for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser's assumptions to be untrue could result in a reduction of the value of the land within the District from that estimated by the Appraiser.

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 "SOURCES OF PAYMENT FOR THE BONDS - Special Tax - *Proceeds of Foreclosure Sales*."

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition,

the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The FDIC has filed claims against the County of Orange, California in the United States Bankruptcy Court and in Federal District Court contending, among other things, that special taxes are not ad valorem taxes, and therefore not payable by the FDIC, and any special taxes previously paid by the FDIC must be refunded. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC's positions and, on March 22, 1999, the United States Bankruptcy Appellate Panel of the Ninth Circuit affirmed the decision of the Bankruptcy Court. The County of Orange has appealed such ruling to the United States Court of Appeals for the Ninth Circuit and the FDIC has cross-appealed. The Ninth Circuit has not yet issued a ruling on the matter. The FDIC does not currently own any of the property in the District nor have any FDIC-insured institutions made loans on property in the District.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District 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 could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of owners of the Bonds in at least two ways. First, 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 "SOURCES OF PAYMENT FOR THE 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.

Secondly, the Bankruptcy Code might prevent moneys on deposit in the Project Account of the Acquisition and Construction Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against Fairbanks, Signal Landmark or their successors and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

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 <u>In re Glasply Marine Industries</u>. 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 excepts 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 <u>Glasply</u> holding inoperative as it relates to ad valorem real property taxes. However, it is possible that the original rationale of the <u>Glasply</u> 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. <u>Glasply</u> is controlling precedent on bankruptcy courts in the State. If the <u>Glasply</u> 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 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.

No Acceleration Provision

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

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 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 owners of the 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 Bonds or to preserve the tax-exempt status of the Bonds.

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

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District and Fairbanks have committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Bondowners 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 XIIIC and Article XIIID 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 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 XIIIC 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 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

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 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 has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District to less than an amount equal to 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted 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

Article XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. On March 6, 1995 in the case of <u>Rossi v. Brown</u>, 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 Agreement (the "Disclosure Agreement") with the Trustee, as dissemination agent, the District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") 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, 2001, 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 Agreement solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the City. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS - Limited Obligations." The City has never failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. The full text of the Disclosure Agreement is set forth in APPENDIX F.

To assist the Underwriters in complying with Rule 15c2-12(b)(5), Fairbanks will enter into a Continuing Disclosure Agreement (the "Developer Disclosure Agreement") covenanting to provide an Annual Report not later than March 1 of each year beginning March 1, 2001, a Semiannual Report on each September 1 and notice of certain material events as they occur. The Annual Report provided by Fairbanks is to contain the audited financial statements of Fairbanks, if prepared, and the additional financial and operating data outlined in Section 4 of the Developer Disclosure Agreement attached in APPENDIX G. Fairbanks does not currently prepare audited financial statements and has no plans to have them prepared in the future.

Semiannual Report will contain certain operating data as set forth in Section 4 of the Developer Disclosure Agreement.

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Fairbanks' obligations under the Developer Disclosure Agreement will terminate upon the earliest to occur of: (i) the legal defeasance, prior redemption or payment in full of all the Bonds; (ii) the date on which Fairbanks and all affiliates of Fairbanks are no longer responsible for the payment of more than 20 percent of the annual Special Tax levy; or (iii) the date on which Fairbanks delivers to the District an opinion of nationally-recognized bond counsel to the effect that the continuing disclosure is no longer required under the Rule. Fairbanks has also agreed that if it sells or transfers an ownership interest in any property in the District which will result in the transferee becoming responsible for the payment of 20 percent or more of the annual Special Tax levy in the fiscal year following such transfer, Fairbanks will cause any such transferee to enter into a disclosure agreement described in Section 12 of the Developer Disclosure Agreement attached hereto in APPENDIX G.

The Developer Disclosure Agreement will inure solely to the benefit of the District, any Dissemination Agent, the Underwriters and Bondowners or Beneficial Owners from time to time of the Bonds.

LEGAL MATTERS

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds (including any 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 such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. The amount of original issue discount that accrues to the Owner of the Bonds is excluded from the gross income of such 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 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 Bonds to assure that interest on the 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 Bonds (including any original issue discount) to be included in gross income for federal income tax purposes. The District has covenanted to comply with all such requirements.

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

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. Although Bond Counsel has rendered an opinion that interest on the 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 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 Bonds.

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

Litigation

No litigation is pending or threatened concerning the validity of the Bonds, the pledge of Special Taxes to repay the Bonds, the powers or authority of the District with respect to the 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 Bonds.

No Rating

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

Underwriting

The Bonds are being purchased by PaineWebber Incorporated, Morgan Stanley & Co. Incorporated and E. J. De La Rosa & Co., Inc. (the "Underwriters"). The Underwriters have agreed to purchase the Bonds at a price of \$4,308,675 (being \$4,350,000 aggregate principal amount thereof, and less Underwriters' discount of \$41,325). The purchase agreement relating to the Bonds provides that the Underwriters will purchase all of the 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 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriters.

Financial Interests

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

Pending Legislation

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

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the 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.

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

COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)

By: 15/ Patricia T. Frazier Patricen T. Maijer Deputy City Manager

Additional Information

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COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)

By: <u>/s/ Patricia T. Frazier</u> Deputy City Manager

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2 (Santaluz) - (Improvement Area No. 3) ("CFD No. 2 (IA No. 3)") and collected each Fiscal Year commencing in Fiscal Year 2000-01, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2 (IA No. 3), unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. <u>DEFINITIONS</u>

The terms hereinafter set forth have the following meanings:

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

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2 (IA No. 3): the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2 (IA No. 3) or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2 (IA No. 3) or any designee thereof of complying with disclosure requirements of the City, CFD No. 2 (IA No. 3) or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, of CFD No. 2 (IA No. 3) or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2 (IA No. 3) for any other administrative purposes of CFD No. 2 (IA No. 3), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

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

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

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

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

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

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

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

"CFD No. 2 (IA No. 3) Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2 for CFD No. 2 (IA No. 3) under the Act.

"City" means the City of San Diego.

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

"County" means the County of San Diego.

"Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Property Owner Association Property or Taxable Public Property, for which a building permit for new construction or renovations was issued after January 1, 1999, but prior to March 1 of the prior Fiscal Year.

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

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2 (IA No. 3) Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Institutional Property" means Assessor's Parcels of Developed Property, including up to 7 Acres, for which the building permit was issued for the following institutional uses: day care center, recreation center, seniors center, private school or church. If the Acreage of institutional uses exceeds the amount stated above, then the Acres exceeding such total shall not be considered Institutional Property but shall be classified as Non-Residential Property.

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

"Master Developer" means Fairbanks Highlands, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 2 (IA No. 3).

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

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

"Outstanding Bonds" means all CFD No. 2 (IA No. 3) Bonds which are deemed to be outstanding under the Indenture.

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"Property Owner Association Property" means any property within the boundaries of CFD No. 2 (IA No. 3) owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association.

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

"Public Property" means any property within the boundaries of CFD No. 2 (IA No. 3) that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to any agency of the federal government, the State of California, the County, the City or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

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

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

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

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

"Special Tax Requirement" means, for any Fiscal Year, the amount required after taking into account amounts held in funds and accounts under the Indenture which are intended to be used to pay debt service on Outstanding Bonds in the calendar year beginning in such Fiscal Year, to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 2 (IA No. 3) Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 2 (IA No. 3) Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for any CFD No. 2 (IA No. 3) Bonds; (v) pay directly for authorized facilities in accordance with the Purchase and Financing Agreement; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2 (IA No. 3) which are not exempt from the Special Tax pursuant to law or Section F below.

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

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

Union Bank of California, N.A. means the trustee or fiscal agent under the Indenture.

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

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C, D and E below.

C. MAXIMUM ANNUAL SPECIAL TAX

1. Developed Property

Residential Property shall be assigned to Land Use Classes 1 through 11 as listed in the table below based upon the type of structure or the Residential Floor Area for each unit. Non-Residential Property shall be assigned to Land Use Class 12. Institutional Property shall be assigned to Land Use Class 13.

(a) <u>Maximum Annual Special Tax</u>

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

(b) Assigned Special Tax

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

TABLE 1

Land Use Class	Description	Residential Floor Area/Unit Type	Assigned Special Tax Per Unit/Acre
1	Residential Property	< 2,250 sq. ft.	\$2,390.97 per unit
2	Residential Property	2,250 to 2,749 sq. ft.	\$2,891.19 per unit
3	Residential Property	2,750 to 3,149 sq. ft.	\$3,080.78 per unit
4	Residential Property	3,150 to 3,749 sq. ft.	\$3,459.95 per unit
5	Residential Property	3,750 to 4,049 sq. ft.	\$3,791.72 per unit
6	Residential Property	4,050 to 4,499 sq. ft.	\$4,028.71 per unit
7	Residential Property	4,500 to 4,999 sq. ft.	\$4,265.69 per unit
8	Residential Property	5,000 to 5,499 sq. ft.	\$4,455.28 per unit
9	Residential Property	5,500 to 5,999 sq. ft.	\$4,882.05 per unit
10	Residential Property	6,000 to 6,499 sq. ft.	\$5,306.10 per unit
11	Residential Property	≥ 6,500 sq. ft.	\$5,732.87 per unit
12	Non- Residential Property	Not Applicable	\$5,066.55 per Acre
13	Institutional Property	Not Applicable	\$102.00 Per Acre

Fiscal Year 2000-01 Assigned Special Taxes for Developed Property CFD No. 2 (Improvement Area No. 3)

(c) Increase in the Assigned Special Tax

On each July 1, commencing July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 3), the Assigned Special Tax for Developed Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2, the Assigned Special Tax for Developed Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Assigned Special Tax that may be levied after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 3).

(d) <u>Multiple Land Use Classes</u>

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

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

(a) <u>Maximum Annual Special Tax</u>

The Fiscal Year 2000-01 Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property shall be \$4,327.50 per Acre.

(b) Increase in the Maximum Annual Special Tax

On each July 1, commencing July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 3), the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2, the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Maximum Annual Special Tax for Undeveloped Property, Taxable Property, Taxable Property Owner Association Property and Taxable Public Property after the twelfth Fiscal Year in which Special Tax for Undeveloped Property after the twelfth Fiscal Year in which Special Tax are levied in CFD No. 2 (IA No. 3).

D. BACKUP SPECIAL TAX

The following definitions apply to this Section D:

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

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

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

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

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

"Builder Certificate" means a certificate from the Builder stating that the Development Product will generate at least the amount of Assigned Special Taxes that was projected for such Development Product in the Original Report, or that the Development Product's Assigned Special Taxes plus Excess Aggregate Credits currently available will generate at least the amount of Assigned Special. Taxes that was projected for such Development Product in the Original Report.

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

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

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

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

"Letter of Compliance" means a letter from the CFD Administrator stating that the property described in such letter will generate at least the amount of Assigned Special Taxes that was established for such property in the Original Report.

"Update Property" means an Assessor's Parcel of Undeveloped Property for which a building permit has been issued, but which has not yet been classified as Developed Property because such events occurred after the March 1 cutoff for the current Fiscal Year. For purposes of all calculations in Section D, Update Property shall be taxed as if it were Developed Property.

1. Original Report

Prior to the issuance of the first series of CFD No. 2 (IA No. 3) Bonds the Master Developer shall submit a report (the "Original Report") to the CFD Administrator containing a lot-by-lot listing for each of the 93 expected taxable dwelling units that identifies for each expected taxable lot the expected Builder, Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

At the request of the Master Developer, the CFD Administrator may amend the Original Report to reflect changes approved by the City, provided that changes in the Original Report shall not be permitted if the total Assigned Special Taxes for all of CFD No. 2 (IA No. 3) are reduced by such changes.

2. Updated Report

Not less than 30 days prior to the submission (by the Master Developer or any Builder) of an application for the building permits within CFD No. 2 (IA No. 3) after the issuance of the first series of CFD No. 2 (IA No. 3) Bonds, the Master Developer shall submit a report to the CFD Administrator containing a lot-by-lot listing for each Development Product that lists for each expected taxable lot the expected or actual Builder, Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage, and compares such information to the information provided for such property in the Original Report. Upon approval by the CFD Administrator, such report shall constitute an Updated Report (the "Updated Report").

After the submittal of the initial Updated Report, the Master Developer shall submit additional Updated Reports to the CFD Administrator quarterly (within 45 days after each March 31, June 30, September 30, and December 31) until CFD No. 2 (IA No. 3) reaches Buildout for all Development Products. For Assessor's Parcels of Developed Property and Update Property, the quarterly Updated Report will also include the date the building permit was issued.

3. Initial Letters of Compliance

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

4. Letters of Compliance Based on Subsequent Updated Reports

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

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

If the CFD Administrator determines that a Development Product will not generate the amount of Assigned Special Taxes that was established for such Development Product in the Original Report, then any Letter of Compliance previously issued for such Development Product will be rescinded. The CFD Administrator shall, within 30 days of the submittal of an Updated Report, notify the Master Developer, Builder, and City Building Department that such Letter of Compliance has been rescinded. If building permits have already been issued for such Development Product, then the CFD Administrator shall calculate and levy the Backup Special Tax pursuant to Section D.7 below for the Assessor's Parcels for which building permits have been issued.

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

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

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

At least 30 days prior to submitting a building permit application for property that has not yet received a Letter of Compliance, or for property that has received a Letter of Compliance but for which the Builder is unable to provide the certification required by Section D.5 above, the Builder shall notify the CFD Administrator of its intent to request building permits for particular lots within a Development Product. The Builder's notification ("Builder Notification") shall include for each Assessor's Parcel for which building permits are being requested the proposed Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

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

7. Calculation of Backup Special Tax

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

- Step 1. Compute the sum of the Assigned Special Taxes from all Developed Property and Update Property within the Development Product in which the property is located, plus the Assigned Special Taxes from the property described in the Builder Notification (assuming such property is taxed as Developed Property).
- Step 2. Compute the sum of the expected Assigned Special Taxes from all Developed Property and Update Property within the Development Product in which the property is located, plus the Assigned Special Taxes from the property described in the Builder Notification (assuming such property is taxed as Developed Property), assuming that all such property was developed as set forth in the Original Report.
- Step 3. If the amount computed pursuant to step 1 is greater than or equal to the amount computed pursuant to step 2, then no Backup Special Tax will be required. If the amount computed pursuant to step 1 is less than the amount computed pursuant to step 2, then continue to Step 4.
- Step 4. If there are Excess Aggregate Credits currently available, assign a sufficient number of such Excess Aggregate Credits to the Development Product to cover the shortfall calculated under step 3, so that the sum of the Assigned Special Taxes as computed under step 1 plus the Excess Aggregate Credits assigned to the Development Product is equal to the Assigned Special Taxes as computed under step 2. If the total number of Excess Aggregate Credits currently available are not sufficient to cover the shortfall calculated under step 3, then assign all of the available Excess Aggregate Credits to the Development Product.
- Step 5. If the sum of the Assigned Special Taxes and the Excess Aggregate Credits assigned pursuant to step 4 is greater than or equal to the amount computed pursuant to step 2, then no Backup Special Tax will be required. If the sum of the Assigned Special Taxes and the Excess Aggregate Credits assigned pursuant to step 4 is less than the amount computed pursuant to step 2, then continue to Step 6.
- Step 6. (i) After subtracting such Development Product's share of estimated Administrative Expenses from the Assigned Special Taxes and Excess Aggregate Credits determined under Step 4, determine the amount of CFD No. 2 (IA No. 3) Bonds that can be supported by the Assigned Special Taxes plus the Excess Aggregate Credits assigned to the Development Product as computed under step 4, with 110% debt service coverage; and

- (ii) After subtracting such Development Product's share of estimated Administrative Expenses from the Assigned Special Taxes determined under Step 2, determine the amount of CFD No. 2 (IA No. 3) Bonds that can be supported by the remaining Assigned Special Taxes computed under step 2, with 110% debt service coverage.
- The Backup Special Tax Requirement will be calculated using the prepayment Step 7. formula described in Section I.1, with the following exceptions: (i) the Bond Redemption Amount in Paragraph 3 of the prepayment formula described in Section I.1 shall equal the difference between the amount calculated pursuant to paragraph 6(ii) and the amount calculated pursuant to paragraph 6(i); (ii) no Future Facilities Amount shall be required pursuant to Paragraphs 4 and 5 in Section I.1; (iii) in Paragraph 7 of the prepayment formula described in Section I.1, compute the amount needed to pay interest on the Bond Redemption Amount until the first redemption date that occurs after two years from the initial date of payment of Backup Special Taxes for a Development Product; (iv) no determination of amounts pursuant to Paragraphs 8, 9 and 14 in Section I.1 need be made; (v) any payments of the Backup Special Tax (less Administrative Fees and Expenses) shall be deposited into the Backup Special Tax Account and disbursed pursuant to the Indenture; and (vi) the Maximum Special Taxes applicable to an Assessor's Parcel shall not be reduced or relieved as a result of payment of the Backup Special Tax.
- Step 8. The Backup Special Tax for each Assessor's Parcel included in the Builder Notification (or, if the calculation is required pursuant to Section D.4, for which building permits have been issued) shall be calculated by multiplying the Backup Special Tax Requirement by the quotient of the Acreage of such Assessor's Parcel divided by the Acreage of all Assessor's Parcels of Taxable Property for which the Backup Special Tax is being calculated.

The Backup Special Taxes computed under step 8 shall be billed directly to the owner of each Assessor's Parcel and shall be due within 30 days of the billing date. If Backup Special Taxes are not paid within 45 days of the billing date, a delinquent penalty of 10 percent shall be added to the Backup Special Taxes, and no additional building permits shall be issued for any property owned by the Builder or Master Developer until payment is received. Upon receipt of the Backup Special Tax payment, the CFD Administrator shall issue a Letter of Compliance (if one has not been issued for such Assessor's Parcels) and a Certificate of Satisfaction of Backup Special Tax for the subject property.

8. Use/Release of Backup Special Tax Payments

When a Development Product reaches Buildout, the CFD Administrator shall calculate the actual Assigned Special Taxes that will be generated from such Development Product. If the actual Assigned Special Taxes are greater than or equal to the amount of Assigned Special Taxes established for such Development Product in the Original Report, the balance in the Backup Special Taxes have been paid by more than one entity, the amount of Backup Special Taxes returned to each payer shall be in proportion to the amount paid by each entity. If based on such calculation at Buildout, the actual Assigned Special Taxes are less than the amount of Assigned Special Taxes established for such Development Product in the Original Report, then the balance in the Backup Special Taxes established for such Development Product in the Original Report, then the balance in the Backup Special Taxes established for such Development Product in the Original Report, then the balance in the Backup Special Taxes are less than the amount of Assigned Special Taxes are less than the amount of Assigned Special Taxes are stabilished for such Development Product in the Original Report, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 3) Bonds on the next available redemption date. If a Development Product has not reached Buildout within two years after the first payment of Backup Special Taxes for such

Development Product, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 3) Bonds on the next available redemption date.

E. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

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

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

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

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

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two and three above in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 2 (IA No. 3) Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2 (IA No. 3) Bonds (except refunding bonds) to be supported by Special Taxes levied under this Rate and Method of Apportionment; and (iii) and all facilities identified on Exhibit A to the Purchase and Financing Agreement have been acquired.

F. <u>EXEMPTIONS</u>

No Special Tax shall be levied on up to 28.5 Acres of Property Owner Association Property and 235.4 Acres of Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property, its tax-exempt status will be revoked and such Assessor's Parcel will be assigned to a Land Use Class if it is Developed Property or as Undeveloped Property, as appropriate.

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

G. <u>APPEALS AND INTERPRETATIONS</u>

Any landowner or resident may file a written appeal of the Special Tax on his/her property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet

with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall make a recommendation to the City Manager or designee to eliminate or reduce the Special Tax on the appellant's property and/or to provide a refund to the appellant. The approval of the City Manager or designee must be obtained prior to any such elimination or reduction. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the City Manager or designee by filing a written notice of appeal with the City Clerk, provided that the appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination.

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

H. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 2 (IA No. 3) may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

I. <u>PREPAYMENT OF SPECIAL TAX</u>

1. Payment in Full

The following definitions apply to this Section I:

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

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

"Future Facilities Costs" means the CFD No. 2 (IA No. 3) Public Facilities minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance public facilities costs.

"CFD No. 2 (IA No. 3) Public Facilities" means either \$3,273,515 in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2 (IA No. 3) under the authorized Mello-Roos financing program for CFD No. 2 (IA No. 3), or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2 (IA No. 3) Bonds to be supported by Special Taxes.

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

"Previously Issued Bonds" means all CFD No. 2 (IA No. 3) Bonds that have been issued by CFD No. 2 (IA No. 3) prior to the date of prepayment.

Only an Assessor's Parcel of Developed Property or Undeveloped Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to an Assessor's Parcel may be prepaid and the obligation of the Assessor's Parcel to pay any Special Tax permanently satisfied as described herein, provided that a prepayment may be made with respect to a particular Assessor's Parcel only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 2 (IA No. 3) Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

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

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

Paragraph No.:

- 1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property for which building permits have already been issued, compute the Assigned Special Tax for the Assessor's Parcel to be prepaid as though it were already designated as Developed Property, based upon the building permit which has been issued for that Assessor's Parcel.
- 2. Divide the Assigned Special Tax computed pursuant to paragraph 1 by the estimated Assigned Special Taxes for the entire CFD No. 2 (IA No. 3) based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of the entire CFD No. 2 (IA No. 3), excluding any Assessor's Parcels which have been prepaid.
- 3. Multiply the quotient computed pursuant to paragraph 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

- 4. Compute the current Future Facilities Costs.
- 5. Multiply the quotient computed pursuant to paragraph 2 by the amount determined pursuant to paragraph 4 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
- 6. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
- 7. Compute the amount needed to pay interest on the Bond Redemption Amount to be redeemed from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds, less any amounts collected in such Fiscal Year to pay all or a portion of such interest.
- 8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
- 9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
- 10. Compute the minimum amount the CFD Administrator expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
- 11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10.
- 12. Compute the net present value of the amount computed pursuant to paragraph 11, using as a discount rate the rate of return assumed by the CFD Administrator in paragraph 10 (the "Defeasance Amount").
- 13. The administrative fees and expenses of CFD No. 2 (IA No. 3) are as calculated by the CFD Administrator and include the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2 (IA No. 3) Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
- 14. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, the reserve fund credit shall equal the expected reduction in the reserve requirement, if any, associated with the redemption of Outstanding Bonds as a result of the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
- 15. If any capitalized interest for the Outstanding Bonds will not have been expended as of the first bond interest and/or principal payment date following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the quotient computed pursuant to paragraph 2 by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

16. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 5, 6, 12, and 13, less the amounts computed pursuant to paragraphs 14 and 15 (the "Prepayment Amount").

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

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 2 (IA No. 3) Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of CFD No. 2 (IA No. 3) Bonds or to make debt service payments.

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

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Annual Special Taxes that may be levied on Taxable Property within CFD No. 2 (IA No. 3) after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

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

 $PP = P_E \times F$.

These terms have the following meaning:

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

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner

with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section I.1, and (ii) indicate in the records of CFD No. 2 (IA No. 3) that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Annual Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section E.

J. <u>TERM OF SPECIAL TAX</u>

The Special Tax shall be levied for a period not to exceed fifty years commencing with Fiscal Year 2000-01, provided however that Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2 (IA No. 3) Bonds have been paid; and (ii) all facilities have been acquired and all reimbursements to the developer have been paid pursuant to the Purchase and Financing Agreement.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

October __, 2000

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

Re:

\$4,350,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000

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 formation of Community Facilities District No. 2 (Santaluz) (the "District") and the authorization and issuance of the District's Improvement Area No. 3 Special Tax Bonds Series B of 2000 in the aggregate principal amount of \$4,350,000 (the "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 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 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 October 1, 2000 (the "Indenture") between the District and Union Bank of California, N.A. as Trustee (the Union Bank of California, N.A.). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2001, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the 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 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 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 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 Indenture has been duly authorized by the District, and the 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 Indenture to levy Special Taxes for the payment of Administrative Expenses.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the 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 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 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner 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.

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 Bonds 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 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 Bonds to be included in gross income for federal income tax purposes. Failure to the District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5) and (6) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the 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 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 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 Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,
APPENDIX C

APPRAISAL REPORT

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APPRAISAL REPORT

VOLUME I OF II

PROPOSED MELLO-ROOS COMMUNITY FACILITIES DISTRICT NO. 2

(FAIRBANKS HIGHLANDS - IMPROVEMENT AREA 3)

Both sides of Carminito Vistana, both sides of Carmel Valley Road, both sides of Carmino Ruiz, north of the future extension of Ted Williams Parkway (State Route 56); San Diego, California, 92127 and 92129

APPRAISED FOR

City of San Diego Mail Station MS7B 202 C Street San Diego, CA 92101

DATE OF VALUATION

June 1, 2000

APPRAISED BY

D.F. Davis Real Estate, Inc. David F. Davis, MAI 16835 West Bernardo Drive, Sulte 213 San Diego, California 92127-1613 File No. 00-02B



18835 West Bernardo Drive, Suite 213 San Diego, CA 92127 • Tel. (858) 485-5000 • Fax (858) 485-5502

July 26, 2000

Mr. Chuck Wilcox Senior Management Analyst City of San Diego Mail Station MS7B 202 C Street San Diego, CA 92101

Re: Proposed Mello-Roos Community Facilities District No. 2 (Fairbanks Highlands - Improvement Area 3)

Dear Mr. Wilcox:

At your request and authorization, the above-referenced property and its environs were inspected for the purpose of formulating an opinion of the market value of the property as of the date of value.

The following report, of which this letter is a part, describes the facts and reasoning upon which the opinions are supported. The valuation is based on market data and economic trends present as of the date of value and is subject to the attached Assumptions and Limiting Conditions. This is a complete appraisal report in a self-contained format pursuant to the Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 1 and Standards Rule 2-2(a). It was also prepared in accordance with the Appraisal Standards For Land Secured Financings published by the California Debt and Investment Advisory Commission.

Based upon investigation and analysis, the market value of the fee simple interest of the subject property, assuming Mello-Roos financed improvements complete, as of June 1, 2000, subject to the attached assumptions and limiting conditions, was:

1. Improved lots (lots owned by individual homeowners):	\$ 13,189,650
2. Developer owned lots (lots still owned by the developer):	\$ 34,000,000
3. Signal Landmark "Koll Property":	<u>\$ 1,830,000</u>
Total (as the sum of the three valuations):	\$ 49,019,650

Note that this is not an "as-is" value as it assumes that Mello-Roos financed improvements are complete.



The estimated marketing time is 12 months or less.

Thank you for this opportunity to be of service.

Very truly yours,

Jam /in

David F. Davis, MAI President #AG002752

DFD/mim

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David F Davis, MAI



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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

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ADDENDUM (under separate cover)

- A. Individual Lot Summary
- B. Subject Property Legal Description
 C. Reeb Development Consulting Market Absorption Analysis Cover Letter and Executive Summary
- D. Assessor's Maps
- E. Fairbanks Highlands Marketing Brochure
- F. Tentative Map Substantial Conformance Exhibit and Final Map
- G. Comparable Sales Location Maps
- H. Comparable Sales Data Sheets and Plat Maps
- I. Certification
- J. Qualifications of David F. Davis, MAI



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

SUMMARY OF SALIENT FACTS AND CONCLUSIONS						
Owner	:	Improved Lots: 12 Individual Owners (names withheld) Developer Owned Lots: Fairbanks Highlands, LLC Signal Landmark "Koll Property": Signal Landmark Corporation				
Developer	:	Fairbanks Highlands, LL member); Signal Landmar		Homes, managing		
Property Appraised	:	Mello-Roos Community Facilities District No. 2, Fairbanks Highlands Improvement Area 3:				
		Residential Lots/Units	Non-Residential Sites/Uses	Total <u>Acreage</u>		
		93	2	387		
		Land to be secured with Taxes	h Mello-Roos Special	116		
Location	:	Both sides of Caminito Vist sides of Camino Ruiz, nor Parkway (State Route 56);	th of the future extensi			
Thomas Map Code	:	San Diego County 1189-A/B-1/2				
Purpose of the Appraisal	:	To estimate the market value of the property, as of the date of value, assuming Mello-Roos financed improvements are complete.				
Function of the Appraisal	:	To evaluate the security placed on the land.	for potential Mello-R	oos bond debt to be		
Property Rights Appraised	:	Fee simple				
Date of Valuation	:	June 1, 2000				
Date of Report	:	July 26, 2000				
Estimated Value	:	Improved Lots: Developer Owned Lots: Signal Landmark "Koll Pri Total (as the sum of the th		\$ 13,189,650 \$ 34,000,000 <u>\$ 1,830,000</u> \$ 49,019,650		

This is not an "as is" value as the above value is based on the property in its present condition assuming Mello-Roos financed improvements are complete.



The Retail Value is the valuation sought for the improved lots in this appraisal.

The Bulk Sale Value is the valuation sought for the developer owned portion in this appraisal. For the Signal Landmark "Koll Property", a Bulk Sale Value is also required, according to the Appraisal Standards for Land Secured Financing prepared by the California Debt and Investment Advisory Commission. Pursuant to those standards:

Retail Value should be estimated for all fully improved and occupied properties. Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale. Appraisers estimate retail value through the conventional appraisal methods (principally the Sales Comparison Approach to Value). Investment bankers or other parties to the financing may request from the appraiser the aggregate retail value, which simply is the sum total of the retail values estimated for each parcel.

Bulk Sale Value should be estimated for all vacant properties, both unimproved properties and improved or partially improved but unoccupied properties. Bulk sale value is derived by discounting retail values to present value by an appropriate discount rate, through a procedure called *Discounted Cash Flow Analysis*. Bulk sale value is defined as follows:

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self-interest, and assuming that neither is under undue duress.

The estimated marketing time and exposure time are 12 months or less.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is made expressly subject to the assumptions and limiting conditions, as follows:

- 1. The appraiser assumes no responsibility for matters legal in character; title is assumed to be good and marketable.
- 2. Unless otherwise specified in this report, the property is valued as a fee simple title, free and clear of all liens and encumbrances except easements and rights of way of record. A title insurance report was not submitted for review. A preliminary title insurance report for a portion of the property was submitted for review. On this basis, the property is assumed free and clear of all leases and financing and under responsible ownership and competent management.
- 3. Any sketches, maps, and photographs in this report are included to assist the reader in visualizing the property. There has been no survey of the property by or under the direction of the appraiser, and the appraiser assumes no responsibility in these matters.
- 4. Information furnished by others is believed to be reliable, but the appraiser assumes no responsibility for its accuracy.
- 5. The distribution of the total valuation between land and improvements (if any), applies only under the program of utilization stated in this report. The reported market value is for the total property as appraised and no attempt has been made to evaluate any fractional interest, should they exist.
- 6. The existence of potentially hazardous material used in the construction or maintenance of the building or on the property, such as urea formaldehyde foam insulation, and/or existence of toxic waste, which may or may not be present on the property, has not been considered in this appraisal assignment. The appraiser is not qualified to detect such substances. The client is urged to retain an expert in this field if desired.
- 7. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraises.
- Except as noted, this appraisal assumes the land to be free of adverse soil conditions which would prohibit development of the property to its highest and best use.
- This appraisal is made of surface rights only. No analysis has been made of subsurface rights, if any.



- 10. The submission of this report does not obligate the appraiser to give testimony or attend any court, governmental or other agency proceedings, without prior arrangements having been made for such additional employment.
- 11. The possession of this report, and/or a copy thereof, does not carry with it the right of publication (except by the principal(s) to whom it is addressed), nor may it be used for any purpose by any but the principal to whom it is addressed, without said principal's previous consent.
- 12. All estimates of value are presented as the appraiser's considered opinions, based upon the facts and data set forth in this report. The appraiser assumes no responsibility for changes in market conditions nor the inability of the owner to locate a purchaser within a reasonable time at the appraised value.
- 13. Various information consisting of business plans and documents relating to revenue and expenses was submitted for review under a confidentiality agreement. Included were purchase contracts for five production builder lot groups and excerpts from a purchase contract for one production builder lot group at the neighboring Santaluz project to the north. This information was considered in the valuation with details held confidential at the developer's request.
- 14. The developer's projection of income and expenses was based upon a revised business plan issued as of June 1, 2000 which was submitted for review. The plan included a "go forward" calculation from June 1, 2000 and expenses were programmed into the valuation accordingly. Not considered in the valuation were accounts receivable and accounts payable as of May 31, 2000.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

DISCLOSURE OF COMPETENCY

David F. Davis has appraised numerous residential tract properties (land, finished lots and proposed residences) and planned communities over the past 22 years in San Diego County and southern California. Recent planned community appraisals (most of which have included Mello-Roos or other bond financing) include: a prior appraisal of the subject property (as of September 1, 1998); Stonecrest; Rancho del Rey; Encinitas Ranch; Rancho Cielo; Salt Creek I/Salt Creek Ranch; Eastlake Greens; Tecate USA; Carmel Mountain Ranch; Rancho San Diego; Steele Canyon; Magellan Carlsbad Option Property; and Sublow II.

The Carmel Mountain Ranch, Eastlake Greens and Steele Canyon Estates projects have golf courses. Many of the planned communities appraised also have commercial, industrial and hotel-recreation uses.

Prior appraisal experience of properties subject to Mello-Roos or assessment district financing (or contemplated bond financing) include:

Otay International Center, San Diego Otay Rio Business Park, Chula Vista Parkway Business Centre, Poway Rancho del Rey Business Center, Chula Vista 4S Ranch Lots (TCW), San Diego County Sunbow II, Chula Vista Honey Springs Ranch, Jamul Tecate Water District, Tecate, USA Eastlake Greens, Chula Vista Rancho del Rey, Chula Vista Rancho San Diego, San Diego County Salt Creek I/Salt Creek Ranch, Chula Vista Encinitas Ranch, Encinitas Mareya at Paloma, San Marcos

The subject property was previously appraised as a portion of a larger property as of September 1, 1998.





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DESCRIPTIVE SECTION

INTRODUCTION

D.F. DAVIS REAL ESTATE

INC

The subject property of this appraisal is the Fairbanks Highlands project consisting of a 93 residential lot subdivision, a 9.6 acre school site and open space. Not a part of the original tentative map but within the boundaries of the larger Fairbanks Highlands parcel, and also part of the subject property of this appraisal, that is a 7.0 acre unentitled site owned by Signal Landmark referred to as the "Koll Property".

As of the date of valuation, twelve of the homes at Fairbanks Highlands have closed escrow. This represents one of the three components of the subject property valued in this appraisal. The second component is the builder owned lots which are under construction with homes or represent lots in future phases for which homes have yet to begin construction. This portion consists of 81 lots for which 56 homes are sold (closed) or are under contract to be sold and all building permits have been issued. The builder owned portion also includes the Middle School site which has a contract for sale and is expected to close escrow in three months. The final portion of the subject property is the Signal Landmark "Koll Property" which is under a different ownership than the remainder of the property.

Community Facilities District No. 2 (Santaluz) consists of three Improvement Areas and will provide for public improvements for the subject property and two other groups of properties as follows:

CFD No. 2 - Improvement Area 1 (Santaluz) - being developed by Santaluz, LLC, a California limited liability company. The property was purchased on June 16, 1998 by Black Mountain Ranch Developers, LLC with the name subsequently being changed to Santaluz. The developer is Santaluz, LLC of which Taylor Woodrow Homes is the managing member. The project was originally entitled for 942 market rate single family residences; 179 affordable housing units; an 18-hole golf course and non-residential "institutional" uses including two churches, a police station/security office, Post Office/mail center, recreation center, property owners association offices, day care center, senior center, meeting hall/community center and schools. Additional land uses consist of open space, public parks and school sites (one of which straddles the lot lines between Improvement Area 3 and this property).

CFD No. 2 - Improvement Area 2 (Black Mountain Ranch Phase I) - Owned by Black Mountain Ranch Limited Partnership and developed by Potomac Sports Properties, this project is planned to include an 18-hole golf course; a 300-unit hotel site; and a commercial site for approximately 60,000 square feet of building area. Additional land uses consist of open space, public parks and a fire station. Development is on hold.

CFD No. 2 - Improvement Area 3 (Fairbanks Highlands) - Being developed by Fairbanks Highlands, LLC and Signal Landmark Corporation, the residential portion consists of 93 single family residential lots being constructed by Fairbanks Highlands, LLC of which Taylor Woodrow Homes is the managing member. The commercial portion consists of a seven acre site requiring entitlements owned by Signal Landmark Corporation (the "Koll" property). In addition, there is a middle school site which straddles the lot lines between Improvement Area 1 and this property.

Improvement Area 3 (Fairbanks Highlands) is the subject property of this appraisal.

David F. Davis, MAI





North City Future Urbanizing Area

The Future Urbanizing Area was established by the City of San Diego as an urban reserve, an area intended for future planning and development. Proposition A was adopted by City voters in 1985, mandating a public vote to change the area designated for future urbanizing. The change from Future Urbanizing Area to Planned Urbanizing Area is commonly referred to as a "phase shift," and it is the necessary first step to permit other than primarily rural use and development within the Future Urbanizing Area.

The subject property is located within the Future Urbanizing Area of the City of San Diego (subject property approved and does not require voter approval). This area is also commonly referred to as the North City Future Urbanizing Area, and consists of approximately 12,000 acres stretching from Interstate 5 on the west, to the Rancho Penasquitos community on the east, with the Los Penasquitos Canyon to the south and the Santa Fe Valley to the north.

The Future Urbanizing Area has been divided into five sub-areas, each planned according to land use patterns, and policies regarding the long-term use and development of each area. The Black Mountain Ranch component is located within Subarea I, which is a 5,081 acre site bound on the west, north and the east by unincorporated areas of San Diego County. On the east, southeast and south, Subarea I is bound by the Rancho Penasquitos community planning area, and the Fairbanks Highlands planned residential development (presently under development in Subarea IV). Subarea I is the northeasternmost portion of the North City Future Urbanizing Area (see map in Neighborhood Description section).

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate market value of the subject property in its present condition assuming Mello-Roos financed improvements are complete.

DEFINITION OF MARKET VALUE

According to the Uniform Standards of Professional Practice (USPAP), 2000, "'Market Value' means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1. Buyer and seller are typically motivated.
- 2. Both parties are well informed or well advised, and each acting in what they consider their own best interest.
- 3. A reasonable time is allowed for exposure in the open market.
- 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.



5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

According to the Appraisal Standards For Land Secured Financing prepared by the California Debt and Investment Advisory Commission, *Market Value* is defined as follows:

The most probable price is cash or in terms equivalent to cash for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self-interest, and assuming that neither is under undue duress.

This definition of *market value*, though helpful, does not adequately reflect the dynamics of the real estate development industry which affect value. The market for detached single family houses is very different from the market for large tracts of undeveloped land. At any point in time, one or both of these markets will be at work in a CFD or assessment district. The appraiser's estimate of *market value*, therefore, needs to be further refined into *retail value* and *bulk sale value*. The development status of the subject property at the time of the appraisal will determine which definition applied.

Retail Value should be estimated for all fully improved and occupied properties. Retail value is an estimate of what an end user would pay for finished property under the conditions requisite to a fair sale. Appraisers estimate retail value through the conventional appraisal methods (principally the Sales Comparison Approach to Value). Investment bankers or other parties to the financing may request from the appraiser the aggregate retail value, which simply is the sum total of the retail values estimated for each parcel.

Bulk Sale Value should be estimated for all vacant properties, both unimproved properties and improved or partially improved by unoccupied properties. Bulk sale value is derived by discounting retail values to present value by an appropriate discount rate, through a procedure called *Discounted Cash Flow Analysis*. Bulk sale value is defined as follows:

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self-interest, and assuming that neither is under undue duress.

Retail Value and Bulk Sale Values are the valuations sought in this appraisal.

PROPERTY RIGHTS APPRAISED

The property rights appraised are those of the fee simple unencumbered estate, subject to covenants, conditions, restrictions, zoning, present entitlements as set forth in this report and other matters of record.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

DATE OF VALUATION

The date of valuation of this appraisal is June 1, 2000. Portions of the subject property were physically inspected at various times over the past eight months beginning in November, 1999 and photographs were taken on May 23, 2000.

FUNCTION OF THE APPRAISAL

To evaluate the security for potential Mello-Roos bond debt to be placed on the land.

SCOPE OF THE APPRAISAL

This appraisal report is intended to communicate the results of an "appraisal assignment," as defined in the Standards of Professional Appraisal Practice of the Appraisal Institute; i.e., it is intended that the appraisal service be performed in such a manner that the results of the analysis, opinion, or conclusion be that of a disinterested third party. It is intended that all appropriate data deemed pertinent to the solution of the appraisal problem be collected, confirmed, and reported in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Code of Professional Ethics of the Appraisal Institute. The scope of the analysis is intended to be appropriate in relation to the significance of the appraisal problem. To develop the opinion of value, the appraiser performed a complete appraisal process, as defined by the Uniform Standards of Professional Appraisal Practice. This means that no departures from Standard 1 were invoked.

Comparable data, researched through Comps, Inc. (a professional data service), brokers, sales representatives, and public records, was verified with parties to obtain prices, terms, and units of comparison.

Specifically, the scope included a comprehensive survey of data necessary to complete the valuation. A reasonable effort was made to verify all data relied upon with a party to the transaction, i.e., buyer, seller or broker. The improved lots (lots owned by individual homeowners) were appraised by using the aggregate sum of the retail sales prices without consideration for improvements made by the homeowners at their expense after the close of escrow. Individual finished lot value estimates were completed using the Sales Comparison Approach. The value in its present condition, assuming Mello Roos financed improvements complete, was then estimated using the Development Method (discounted cash flow analysis). These terms are further explained in the Valuation Methodology Section.

MARKETING TIME/EXPOSURE TIME

The definition of market value specifies that a reasonable time is allowed for exposure in the open market, i.e. marketing time/exposure time. This analysis includes an estimate of the cash equivalent price that might be received upon exposure to the open market for reasonable time, considering the property type, and market conditions relating to that property. Additional considerations include the depth of the market for a particular type of property. An exposure time estimate is, therefore, implicit in the definition of market value.

Exposure time and marketing time are two distinct time periods. Exposure time is always presumed to have occurred before (and up to) the effective date of value, while marketing time occurs after the date of market value.



Marketing period is defined in The Dictionary of Real Estate Appraisal, Third Edition, as:

- 1. The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.
- 2. Reasonable marketing time is an estimate of the amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions.

Exposure is defined in The Dictionary of Real Estate Appraisal, Third Edition, as:

- 1. The time a property remains on the market.
- 2. The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.

Since 1996, residential real estate transactions have been on the rise. This includes sales of land in the path of development. Demand for finished lots has been keen, and while most market participants are primarily interested in building houses, it has occasionally been necessary to do some land development in order to secure lots. A number of firms would be interested in buying the subject in its current condition. The house sales market is strong, at least for the short term, and though there is still risk associated with developing the subject, there is also upside potential. There are more financing options than at any time since 1990. Potential developer/homebuilder buyers are familiar with the property and performing due diligence (typical review of documents, surveys, tests, etc.) would not take very long.

Based upon this analysis, the time to close escrow after the property is exposed to the market would not be unusually lengthy. Therefore, based on all of this information, it is the appraiser's judgement that 12 months is a sufficient marketing time.

PROPERTY IDENTIFICATION

Legal Description

Several documents relating to the Legal Description of the subject property were submitted for review and are included in the Addendum.

Location

The subject property is located in the North City Future Urbanizing Area of the City of San Diego. More specifically, the project is located on both sides of Caminito Vistana, both sides of Carmel Valley Road, both sides of Carmino Ruiz and north of the future extension of Ted Williams Parkway (State Route 56). The residential lots are situated on both sides of Carmel Valley Road and Camino Ruiz. The location is approximately 20 miles north of the San Diego Civic Center.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Owner of Record - History

According to the Assessor's records; Metroscan Property Profiles; and documents submitted for review (grant deed). Title to the subject property is presently vested in the name of Fairbanks Highlands, LLC; Signal Landmark Corporation; and the individual homeowners for the twelve lots that have closed escrow prior to the date of value.

The subject property was purchased for \$7,550,000 from Signal Landmark on December 6, 1996. The Fairbanks Highlands, LLC consists of Taylor Woodrow Homes, Inc. and Signal Landmark Corporation.

A grant deed dated August 2, 1999 that transferred the Signal Landmark "Koll Property" from Fairbanks Highlands, LLC to Signal Landmark Corporation was submitted for review. The documentary transfer tax on this transaction was \$143 which indicates a value of \$130,000. No further details were provided on this transaction.



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AREA DESCRIPTION

San Diego County is located in the extreme southwestern corner of the United States, bounded on the south by Mexico and on the west by the Pacific Ocean.

The county covers 4,266 square miles and has three different zones: the coastal plain is cut and divided by canyons and valleys; the central zone contains irregular foothills and mountains to a 6,500 foot elevation; and the northeastern portion of the county drops down to low desert. It is the western coastal area that is urbanized, leaving the rest of the county fairly sparse in population. The region is known for its mild climate and attractive high quality of life.

The county population was 2,853,258 as of January 1, 1999, currently the state's third largest county. The population estimate for 2000 is 2,946,500 and 3,223,474 for 2,005. In recent years San Diego's growth appeared to be slowing from high growth rates enjoyed during the 1970s when annual growth averaged 3.7%. During the 1980s, population growth averaged 2.98% per year, making San Diego's population growth rate the fastest among the 15 largest metropolitan areas in the nation. However, the growth rate slowed in the first half of the 1990s to 1.20% (1990-1997).

The City of San Diego contains the largest portion of the county's residents at approximately 1,254,858 as of January 1, 1999 and is the nation's sixth largest city. Because the city is the largest and oldest urban area, it has an overall growth rate less than the county. The city's 1980-1990 average growth of 2.4% per year, however, made it the fastest growing of the 20 largest cities in the United States. The most rapid population growth is occurring in the northern fringes of the City of San Diego and in both north and south communities, largely due to the availability of suitable residential land.

Transportation facilities within the county include an efficient and still expanding freeway system, various railroad lines, and a public transit system featuring a light rail trolley. To date, the trolley connects from just past Qualcomm Stadium (immediately north of Interstate 5) to downtown San Diego and then on to the San Ysidro border crossing into Mexico, providing service to the many communities along the route. Another line currently provides service between Santee, El Cajon and Lemon Grove. The Metropolitan Transit Development Board anticipates construction to begin on a six-mile extension between the stadium then heading east to Fletcher Parkway sometime late in the Year 2000. It is estimated it will take approximately 3.5 years to complete this section, ultimately providing a complete loop from Santee down to the Mexican border. Eventually, the line will be extended northward from Old Town up to University City then east through Mira Mesa and finally, connecting with the Interstate 15 corridor. In addition to these routes, there are plans to add a similar rail line onto the existing freight tracks between Oceanside and Escondido. The well-developed and relatively uncongested freeway system consists of five major north/south routes and three major east/west routes serving the local area and points beyond. Expansion and new construction are ongoing, enhancing the existing excellent road network in the area.

Transportation via water and air is provided by the deep water port of San Diego, Lindbergh Field International Airport, and eight smaller general aviation airports.

San Diego County has substantially broadened its employment and economic base from the early 1960s when aerospace and defense activities dominated the economy. Manufacturing has shifted toward electronics, computers, instrumentation, and other high technology items. Additional diversification has been the development of such sectors as services, research and development,



domestic and international trade, and health services. Some of San Diego's emerging industries include bioscience, software, telecommunications, electronics and recreational goods. San Diego is now recognized as a world leader in bioscience with more than 250 bioscience companies and 23,000 people employed in this sector. The software industry in San Diego comprises more than 500 firms and includes internationally recognized companies such as: SAIC, Intuit and HNC Software. This industry has grown by 45% over the last five years with a total employment of more than 11,000 jobs in the region.

Due to the large number of communications companies, San Diego is becoming known as the "Wireless Communications Capital of the World." There has been an increase of 65% of people employed in telecommunications in the last several years, bringing the total to more than 19,000 jobs. Some of the companies located here include: Qualcomm, Hughes Network Systems, Nokia, Sony Wireless and Viasat. The electronics sector now employs a workforce of more than 51,000 people and provides continual innovation of new products and technologies. Some of the manufacturers include: Hewlett Packard, Unisys, Encad, Rockwell Semiconductor Systems, Sony, Sanyo, Samsung and Matsushita.

At the same time, local, state and federal government employment, including military personnel, has declined from 28% in 1970 to approximately 19% as of December 1998, but still contributes heavily to the size and overall vitality of the economy. Annually, the Defense industry provides \$9.6 billion to the region's economy and provides a home for one-half of the Navy's Pacific Fleet. Tourism continues to be a major contributor to the local economy, drawing visitors from throughout the world who spend approximately \$3.8 billion per year.

Overall, employment has grown with an increase of 141,500 jobs from January 1992 to January 1999. Employment has remained relatively stable, with increases every year except for 1995, which experienced a slight downward move. Manufacturing jobs, on the other hand, peaked at 138,000 jobs in September of 1990 dropped steadily through 1995 and have been slowly climbing back ever since and now total 126,000 jobs, an 8.7% decrease from the record high. According to the Employment Development Department of the State of California, total jobs and job growth since January 1992 are as follows:

	Jan 1 Total	Annual	Jan 1 Manufacturing	Annual
<u>Year</u>	Jobs	Growth	Jobs	<u>Growth</u>
1992	1,201,000		124,100	
1993	1,226,300	2,1%	117,500	<5.3%>
1994	1,236,500	0.8%	114,100	<2.9%>
1995	1,233,900	<0.2%>	114,900	0.7%
1996	1,241,200	0.6%	117,500	2.5%
1997	1,285,000	3.5%	123,100	4.8%
1998	1.319.400	2.6%	127,300	3.4%
1999	1,342,500	1.7%	126,000	<1.0%>

At the beginning of 1996, the Economic Research Bureau of the Chamber of Commerce projected job growth for the remainder of the 1990s of 20,000 to 25,000 jobs per year. In 1997 there was an increase of 43,800 jobs, in 1998 an increase of 34,400 and in 1999 an increase of 15,600 jobs.



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Previously, employment had been growing at 5% annually. The decline in Federal employment was accompanied by a substantial expansion of the local industrial base with emphasis on high technology and research and development activity. The growth of this diverse labor force is attributed to expanding employment opportunities and the relatively high quality of life, which attracts people to the area. The current San Diego unemployment rate is 3.4% (December 1999), 3.5% for the County, 4.5% for the nation and 5.3% for the state.

January 1996 was the first period since 1990 that the unemployment rate for San Diego County was below that for the state and the nation. Because of the region's reliance on defense related manufacturing which has been curtailed significantly, this sector of the civilian job force was hard hit in the recession. In addition, construction was down in the region in the first half of the 1990s due to the recession causing a substantial loss in jobs (construction).

The following table shows the trend in the Gross Regional Product (GRP) of San Diego County according to the Economic Research Bureau of the San Diego Chamber of Commerce for the years 1990 through 1999 and projections for 2000. GRP is an estimate of the value of all goods and services produced in the county. The San Diego region now ranks as the $38^{\circ0}$ largest economy in the world and is estimated to grow to 100.4 billion in 2000, an increase of 6.4% over 1999.

Year	Gross Regional Product (Billions)	Percent Change
<u>A Cat</u>	(APHA(V163)	Change
1990	\$63.1	
1991	\$65.3	3.5%
1992	\$66.3	1.5%
1993	\$67.9	2.4%
1994	\$70.6	4.0%
1995	\$73.3	3.9%
1996	\$77.4	5.6%
1997	\$82.6	6.7%
1998	\$86.0	4.1%
1999(Estimated)	\$94.4	9.8%
2000(Projected)	\$100.4	6.4%

According to the Economic Research Bureau of the San Diego Chamber of Commerce, the real change in gross regional product after adjustment for inflation is much lower. The Bureau projects a "real" GRP growth for 2000 of 3.7%. The rate of change adjusted for inflation for 1991 through 2000 (Projection) is as follows:



Year	Percentage Change Gross Regional Product Adjusted for Inflation
1991	<0.3%>
1992	<1.1%>
1993	<0.5%>
1994	2.1%
1995	2.0%
1996	3.1%
1997	4.7%
1998	4.5%
1999(Estimate)	3.7%
2000 (Projection)	3.7%

In other areas of the economy, the commercial/industrial construction industry had flourished in the 1980s, along with significant growth in the tourist/visitor and retail trade sectors. The residential construction industry slowed down in the early 1990s as shown by the employment/job loss figures above. The slowdown was a result of several factors, but primarily due to an overall economic slowdown which decreased housing demand. Some slowing in construction has been occurring due to a dwindling supply of developable land, local legislative actions enacted in cities throughout the county to limit either new construction or adding fees and taxes that inhibited construction. These additional fees and taxes made housing less affordable to the consumer, which further slowed sales. Commercial/industrial construction began to rebound from the recession in mid-1995.

Growth has begun again in most sectors of the economy, and there are new opportunities ahead due to the attraction of domestic growth industries and proximity to the Pacific Basin and the U.S.-Mexican border.

The general outlook is for San Diego County to continue as a leader in the national trend toward service, high technology communications, biotechnology and information-oriented industries and away from traditional heavy industry. The North American Free Trade Agreement (NAFTA) passed by Congress in the early 1990s will benefit San Diego County in terms of growth of free trade, but will also likely further erode the remaining heavy industry creating a greater need for expansion of high technology or biotech industries. Although the long-term effects are still unknown, it is likely that more job growth will result from increased free trade than are lost to heavy industry moving across the border.

In summary, San Diego County is a dynamic community with an economy that is more diversified than ever before. The traditional reliance on the military and defense related industries have been reduced over the past 20 years, however, those portions of the local economy are still significant. Current market conditions are improving in a majority of the economy. The regional economic diversification and natural amenities, such as the weather and attractive coastal characteristics, will continue to attract people to the area. The city, county and state governments are demonstrating policies toward controlling leapfrog growth, preserving the area's agreeable lifestyle, attracting clean industries and have begun to address the region's water shortage. D.F. DAVIS REAL ESTATE INC.

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For the foregoing reasons, it is believed that San Diego County is a good place to own property, that it will continue to grow and prosper over the long term, and as it does property owners will be rewarded with appreciation of both values and incomes.





NEIGHBORHOOD/DISTRICT DESCRIPTION

The subject property is located within the North City Future Urbanizing Area of the City of San Diego.

The surrounding areas are generally raw or undeveloped with nursery operations, commercial agriculture, grazing operations, large-lot single family residences, and equestrian activities. There are also temporary encampments by migrant farm workers and day laborers. However, this is changing fast as developers rush to meet the needs of the marketplace for housing and supporting commercial uses.

North City Future Urbanizing Area

The Future Urbanizing Area of the City of San Diego consists of approximately 12,000 acres stretching from Interstate 5 on the west, to the Rancho Penasquitos community on the east, with the Los Penasquitos Canyon to the south and the Santa Fe Valley to the north.

The North City Future Urbanizing Area has been divided into five sub-areas, each planned according to land use patterns, and policies regarding the long-term use and development of each area. The subject property is located in Subarea I-A of the North City Future Urbanizing Area.

The Future Urbanizing Area was established by the City of San Diego as an urban reserve, an area intended for future planning and development. The Future Urbanizing Area was established in the City's 1979 Progress Guide and General Plan and has been refined in subsequent City policies. The City of San Diego's Progress Guide and General Plan classifies all land within the City as belonging in one of four tiers: Urbanized, Planned Urbanizing, Future Urbanizing, and Environmental. These tier designations are intended not only to regulate the type and timing of development in urban expansion areas, but also to strengthen the older and geographically central parts of the City to comprise the urbanized area. The Future Urbanizing designation is an interim designation designed to prevent premature urban development.

Within the Future Urbanizing Area there are four development alternatives: development pursuant to the A-1 zone regulations (one dwelling unit per 10 acres with the open space available for future development or one dwelling unit per four acres with the open space permanently dedicated per City of San Diego Council Policy 600-29) with the open space available for rezone after a phase shift; rural clustering at the same density; conditional uses which are non-urban in character; or clustered residential development at a density of one dwelling unit per four acres with the open space to be permanently dedicated.

Subsequent to the establishment of the Future Urbanizing Area in 1979, there have been two landmark ballot measures affecting development. Proposition A was adopted by City voters in 1985, mandating a public vote to change the area designated Future Urbanizing. The change from Future Urbanizing Area to Planned Urbanizing Area is commonly referred to as a "phase shift," and it is the necessary first step to permit other than primarily rural use and development within the Future Urbanizing Area. In June of 1994, another ballot measure was placed before the voters of the City of San Diego to decide whether or not to shift the entire Future Urbanizing Area to a Planned Urbanizing classification. That measure was rejected by voters.





The ballot measure in 1994 would have permitted land in the Future Urbanizing Area to be developed at significantly higher densities, and more rapidly, than would have been the case under the four options shown above. The vote in 1994, however, was rejected by the voters, which means that all of the land within the Future Urbanizing Area must be developed in accordance with a Framework Plan which was adopted October 26, 1993 with subsequent updates in February 22, 1994 and March 7, 1994. The Framework Plan provides the vision or blueprint/framework for development of the Future Urbanizing Area and identifies Subareas within the Future Urbanizing Area. The Subarea Plans describe in greater detail land use patterns and policies as well as locations of major circulation elements that guide the long-term use and development of the area.

Prior to completion of the Framework Plan, most development in the urban reserve had been prohibited since approximately 1985 by Proposition A, an initiative which requires a city-wide vote prior to any approvals for projects requesting densities greater than those allowed by the existing agricultural zoning. The adoption of the Framework Plan lifts the moratorium and allows processing on a development to continue within the context of both the Framework Plan and the Subarea Plans.

Subarea IV (Torrev Highlands)

The subject property (Pairbanks Highlands portion of the City of San Diego CFD No. 2, Improvement Area 3) is located in Subarea IV and adjoins the subject property to the south. It is positioned at the northerly portion of this subarea which is immediately south of Subarea I and east of Subarea III. Subarea IV of the North City Future Urbanizing Area was renamed Torrey Highlands after adoption by the City Council. Initial development of single family residences began in the first quarter of 2000 at the northerly portion of this subarea.

4S Ranch SPA

The 4S Ranch Specific Plan Area is located within San Diego County (northwest of the subject property), adjacent to the west to the existing community of Rancho Bernardo and bisected north/south by Rancho Bernardo Road. The 4S Ranch property was originally being developed by the Ralph's family, founders of the Ralph's Food Stores chain. The Ralph's family has formed a partnership with a Canadian developer Kelwood Financial to develop the property under the name of Kelwood General partnership. The project will ultimately contain over 5,000 housing units, retail services, office/professional uses and numerous parks and recreational services. The first phase of the 3,600 acre 4S Ranch Master Planned Community included the development of the 235 acre business park. Housing and commercial/retail uses will follow in subsequent phases over approximately a 20-year buildout. Construction of the current phase began in 1999.

Rancho Cielo SPA

The Rancho Cielo SPA consists of 2,815 acres of land immediately north and west of the Del Dios Highway in the vicinity of Del Dios and Elfin Forest (north of the subject property). The specific plan was originally approved by the County of San Diego in 1983 with amendments approved in 1984. The project is planned for approximately 770 dwelling units, an equestrian center, a village center consisting of civic and commercial uses, neighborhood commercial center and an interconnecting system of local space corridors and greenbelts. Development planning commenced in August, 1979 when the Rancho Cielo Association, comprised of 16 individual ownerships, was formed. The Association was formed to obtain approval from the County Board of Supervisors to prepare a specific plan.



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Rancho Santa Fe

EAL ESTAT

Rancho Santa Fe (postal zip code 92067) is located to the west of the subject property and is one of the most exclusive communities in Southern California with numerous million dollar homes sold every year. Rancho Santa Fe was formed by a protective covenant in 1927 providing for rigidly controlled residential home development with 200 miles of equestrian trails and an 18-hole private golf course in a rural residential setting. The lot development in the Ranch is guided by the most prevalent zone, R-R-1, allowing one residence per minimum lot area of one acre together with private restrictions of the covenant requiring parcel sizes of two acres or larger.

The subject property is located east of Rancho Santa Fe. Currently there is no improved roadway providing access through the region directly surrounding the subject property and Rancho Santa Fe community. Therefore, the subject property is currently more oriented toward and more closely identified with properties to the east and west where roadway improvements and access is provided. However, that will change as San Dieguito Road has its terminus currently at the easterly portion of Fairbanks Ranch and will be extended east to provide access to the subject property. Thus, there will be a significantly stronger link between the westerly portions of the subject property and the Rancho Santa Fe Community.

Rancho Bernardo

Rancho Bernardo, located northeast of the subject property, which began to develop in the early 1960s, is a good example of a successful master-planned community. When completed, this community is planned to have +/-19,500 dwelling units, with 80% of the units being single-family homes. The community encompasses approximately 12 square miles and has a population of approximately 40,000 persons. The Rancho Bernardo High School was completed in 1989. The Bernardo Heights Middle School also opened in 1989. Children from Rancho Bernardo, Carmel Mountain Ranch, Poway and Rancho Penasquitos use the new facilities. Rancho Bernardo has an excellent supply of community shopping facilities, but does not have a regional shopping center.

The community of Rancho Bernardo is basically divided into four areas delineated by the four quadrants formed by the intersection of Interstate 15 and Rancho Bernardo Road. These four quadrants are each characterized with different development trends and patterns.

The northwestern quadrant of Rancho Bernardo is basically characterized by single-family and multiple-family residential development. This area features more multiple-family/condominium type development than the other areas, however, the area is still predominantly single-family oriented. The area includes few shopping facilities and only one neighborhood shopping center, Westwood Center. The area borders to the west on a portion of the County of San Diego and the 4S Ranch masterplanned community. To the north, Lake Hodges separates Rancho Bernardo from Escondido.

Transportation

The subject property is oriented toward the Interstate 5 and 15 corridors via existing and planned transportation routes. Interstate 15, which extends from the San Diego metropolitan area north through San Diego County and beyond to Riverside County, is the primary north/south traffic artery in this area. Interstate 5 is the coastal route. Initially, primary access will be via Interstate 5.



Recently adopted State Route 56, which is located in Subarea III and IV of the North City Future Urbanizing Area, will eventually provide a much needed link between Interstate 5 and Interstate 15 across the Future Urbanizing Area from Carmel Valley to Rancho Penasquitos. Construction was completed in 1989 on a portion of this roadway between Interstate 15 and Rancho Penasquitos Boulevard to help relieve traffic congestion in Rancho Penasquitos. In the eastern portion of the route, a four-lane freeway is complete from Rancho Penasquitos Boulevard to Black Mountain Road. In the west, a similar freeway segment from Interstate 5 to one-half mile east of Carmel Country Road was completed in 1996. The remaining three-mile segment began construction in 1999 and is scheduled to be completed in the next several years.

Another major circulation element planned for the Future Urbanizing Area is the extension of Camino Ruiz. This roadway is generally planned as a six-lane roadway bisecting the subject property and a major portion of the Black Mountain Ranch property, from north to south. Camino Ruiz is planned to extend northerly from State Route 56 in the south to the extension of Rancho Bernardo Road and Camino del Norte. Camino Ruiz will not extend north of Camino del Norte into Santa Fe Valley. This is a major future planned transportation node within the Future Urbanizing Area and represents a critical link for the circulation system within the northeasterly portion of the Future Urbanizing Area.



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MARKET CONDITIONS

Finished lots are at a premium in San Diego County. There are several reasons for this, some more obvious than others.

- Most predictable is that subdivision processing ceased for a great many projects during the recession. The period of economic stagnation was so long that most of those projects which did continue toward lot development in the early 1990s are by now completed and sold out.
- 2. Both developers and house builders, forced by their lenders, learned to keep inventories low during the recession. As a result, few firms began this upswing armed with an abundance of lots or houses to sell.
- 3. The ranks of land developers in San Diego County thinned years ago. For several years, the only serious contenders for a large, unentitled land parcel were McMillin and Pardee. This situation has changed, but the shortage of land developers with expertise and financial connections probably contributed to the current shortage of lots.
- 4. There are relatively few locations left in suburban San Diego County in which to build. The single-largest resource, Otay Ranch, was paralyzed for a time during the Baldwin bankruptcy. Even now, its development is phased according to completion of infrastructure. The timing of much of this infrastructure is not in the control of the owners.
- 5. For many years, the large builders who were eager to buy finished lots and build houses on slim profit margins could not afford to be holders of raw land. This had to do with their status as publicly-held companies. Builders on the stock exchange stood to have their credit rating downgraded if they bought raw land. They could be classified as land speculators instead of house builders, and their stock value could slip. Recently this problem has been overcome by creating separate land development entities, but the lack of their involvement in processing entitlements during the recession is seen now in low lot inventories.

Even without a comprehensive survey of projects and their expected delivery of finished lots, there are two blatant signs that demand overtook supply in the past three years. The first is that builders have gone back to buying all the lots in a tract in one transaction. (Gone are "phased takedowns" in which the seller took the risk of a market turndown.) The second is the cost of finished lots which increased rapidly in 1997-1999.

During the recession, most builders scaled back on features, construction costs, and even profit in order to provide lower-cost product and keep their companies going. The current sentiment is that it is time to make up for the sacrifices of the recession. Hence home builders will likely attempt to return to the 10% to 12% profit target previously used rather than the 4% to 6% that had become commonplace during the recession.

Reeb Development Consulting Absorption Analysis

In conjunction with this appraisal, the client commissioned a market absorption analysis site specific to the subject property based upon the proposed product profiles submitted by representatives of Fairbanks Highlands, LLC.



The absorption analysis is a companion document to this appraisal and, due to its large size, it is referenced herein. The report cover letter and Executive Summary are included in the Addendum.

The absorption conclusions by Reeb indicate that the entire project should be sold out in approximately February, 2001. Although sold, this would not reflect units being closed and the developer's projection for closings, based upon anticipated construction completions, was used in the valuation.

MarketPoint Realty Advisors

The following data is from Residential Trends (April, 2000), a publication of MarketPoint Realty Advisors, formerly Market Profiles:

General Market Trends

With the expectation that San Diego County would have another spectacular year as seen in 1999, the region posted the second highest sales volume ever. With over 2,754 total sales posted in the first quarter of 2000, the region witnessed more than a 56% increase from last quarter's 1,756 net sales. This marks more than a 31% increase in sales from the first quarter of 1999 when there were 2,103 sales recorded. The detached sector constituted the majority of sales with over 90% of the market. This housing segment also recorded the largest sales volume in San Diego history with over 2,502 sales. With 217 projects out in the market this quarter, the remainder of this year should continue to witness increased sales activity.

As long as the market continues to show a supply-demand imbalance, prices will rise until the market settles down. Over the past year, demand has grown to record proportions and this has lead to huge increases in the equity value of one's home. Starting with the first quarter of 1998, new homebuyers were paying on average \$286,209 for a detached home. The weighted average price for a new detached home then increased by almost 12% to \$320,823 in the second quarter of 1998 prices then cooled off during the second half of 1998 when the average dipped below \$310,000. Average prices have since then increased on a consistent basis from \$324,253 the first quarter of 1999 finally ending out this first quarter of 2000 to \$370,609. This new weighted average price, which increased over 14% from the first quarter of last year, is the highest ever reported by **Residential Trends**. These increases in the detached housing sector are a result of over 76% of sales coming from above \$200,000. Interestingly to note, the attached sector witnessed a 10% decline from the record \$273,926 reported last quarter to \$248,244 this quarter.

Inventory levels in the San Diego County marketplace have remained relatively stable in the first quarter of 2000, declining only 42 units from last quarter. Supply remaining to be developed, however, declined to 5,966 total units, almost an 8% drop from last quarter. Analyzing supply from a historical perspective reveals that 6,487 units of detached supply, which includes units remaining to be developed, should be exhausted in less than 10 months, while the 919 units of attached supply will provide for less than 9.5 months given the increased levels of absorption seen over the past couple of quarters.



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\$200-250,000. This segment of the market captured the majority of sales last year. In the \$150-200,000 price range. There were 109 net sales to report with zero sales reported under \$150,000.

Tabulated Market Analysis

With 2000 being no different from last year, the San Diego County marketplace continues to witness the majority of sales occurring in two submarkets. With a combined market share of 63%, the two regions of North County Coastal and South Bay have distinguished themselves as having the highest concentration of sales activity. According to the first quarter audit, these two submarkets have recorded a total of 862 and 692 detached sales each, respectively. Coming in not too far behind are the Vista/Escondido and Interstate 15 Corridor submarkets. They reported 387 and 249 detached sales each, respectively, capturing more than 25% of the market. Eastern San Diego and Occanside have increased their market share over the last quarter with 157 and 152 net sales each, respectively. The San Diego Central submarket captured only three net sales this quarter for the detached market stipulating that limited land and supply constraints are having an impact on consumer choice for a home in this submarket.

In analyzing which submarkets reported the highest and lowest weighted average prices for the region, Residential Trends noticed that the North County Coastal submarket reported the most price discretionary average with a \$500,901 price tag, while in the Oceanside submarket, the average was only \$246,401.

Inventory Trends

Although San Diego remains in a critical state concerning immediate supply, the marketplace has witnessed inventory levels remain relatively stable over the past year. With 1,440 total unsold units recorded this quarter, the region's; inventory stock declined just under 3% from last quarter's 1,482 units. When compared to the first quarter of last year, however, supply levels are up almost 27%. Supply levels should increase for 2000 because of the additional 100+ new projects that entered the marketplace over the past four quarters. Overall, the County has posted a total of 7,406 units, the second highest amount since the third quarter of 1997.

After last quarter's substantial gain in supply remaining to be developed, the first quarter of this year took in a disappointing decline. The detached market declined 7% from 5,760 units last quarter to 5,359 units the first quarter. When compared to the first quarter of last year, the detached market has witnessed a 7.4% increase in units remaining to be developed. This much needed supply, however, is still low and because of this, the market in general is considered under supplied.

This shortage of supply becomes clear when comparing it to the total sales volume witnessed over the past year. Measuring current levels of total overall inventory, which includes supply remaining to be developed, against sales volume for the past four quarters, MarketPoint observes that the 6,487 units of detached supply in the market region will be exhausted in less than 10 months, while the 919 units of attached supply will provide for less than 9.5 months given the increased levels of absorption seen over the past couple of quarters.

Making this shortage of supply even more clear, MarketPoint sees that for total unsold inventory, there is roughly only two to three months left of detached and attached supply, respectively.





Due to the fact that sales volumes in the detached housing sector were up markedly the first quarter and that there were 89 projects selling higher than 1.00 sales per week, the average per development absorption rate increased to 1.3 sales per week per project.

Pricing Trends

Although mortgage rates continue to rise, the consumer market is still demanding new homes in record proportion. This has resulted in severe supply imbalance, when helped pull the weighted average price to a new record this quarter. According to the first quarter audit, the average price for a new detached home increased almost 2% from \$364,019 last quarter to \$370,609 the first quarter. This not only represents a 14% increase from the first quarter of last year, but a \$24,400 increase in the equity of one's home since the first quarter of 1998. The shift in pricing is a direct result of increased supply coming from above \$350,000. This pricing sector captured more than 40% of the market this quarter. Note also that the average value ratio increased 2.5% from \$140.66 per square foot last quarter to \$144.18 per square foot this first quarter. Overall, the San Diego County marketplace should continue to witness more pricing hikes as long as demand stays strong. If it does, San Diego County could generate a detached average price over \$400,000 by the end of this year.

The pricing increases are defined further when presented with the detached average prices of the individual submarkets. The real increases are shown in the following chart, which reveals that the San Diego Central submarket realized the largest increase in its average price followed by the Interstate 15 Corridor.

Average Price for Detached	<u>1st Otr 2000</u>	4th Otr 1999	\$ Change	<u>% Change</u>
Eastern San Diego County	\$317,309	\$286,165	\$31,144	10.88%
Interstate 15 Corridor	\$428,623	\$367,240	\$61,383	16.71%
North County Coastal	\$500,190	\$491,931	\$8,259	1.68%
Oceanside	\$246,401	\$262,212	<\$15,811>	-6.03%
San Diego Central	\$448,997	\$341,813	\$107,184	31.36%
South County	\$254,456	\$255,306	<\$850>	-0.33%
Vista/Escondido	\$319,793	\$302,617	\$17,176	5.68%
Single-Family Detached Total	\$370,609	\$364,019	\$6,590	1.81%

Sales by Price Range

The detached housing sector allocated 1,904 out of its 2,502 net sales above \$250,000 during the first quarter. This 76% capture rate is up just over 8% from the amount totaled last year. When compared to the start of 1999, the capture rate was around 60% for this upper end price discretionary market. The distribution of new homes sales for the detached housing sector occurred as follows: the \$250-300,000 price range captured 25% of the market; the \$300-350,000 range recorded 10%; the \$350-400,000 range produced 10% and sales above \$400,000 reported 31% of the market. On the lower end affordability market, there were 598 net sales recorded with 489 sales alone coming from between



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SAN DIEGO COUNTY SUMMARY OVERVIEW

	First Quarter 2000		Fou	<u>1999</u>		
	Attached	Detached	Total	Attached	Detached	Total
Developments	17	200	217	19	186	205
Total Sold	260	2,530	2,790	307	1,463	1,770
Net Canceled	8	28	36	2	12	14
Net Sold	252	2,502	2,754	305	1,451	1,756
Average Price	\$248,244	\$370,609	\$359,206	\$273,926	\$364,019	\$348,393
Average Sq.Ft.	1,362	2,571	2,458	1,272	2,588	2,360
Average \$/Sq.Ft.	\$182.23	\$144.18	\$146.14	\$146.14	\$140.66	\$147.64
Offered & Unsold Inventory	332	1,128	1,460	102	1,380	1,482
Remaining for Development	607	5,359	5,966	732	5,760	6,492
Total Inventory	939	6,487	7,426	834	7,140	7,974

Northern San Diego County Market Trends

In the detached sector, San Diego's North County recorded a first quarter average of \$423,839. But the averages varied sharply by community and revealed that some leveling off may be taking place in "full valued" markets. For example, Poway and Escondido achieved record-high detached average prices of \$428,335 and \$363,005, respectively. On the other hand, "full valued" communities such as Carlsbad and San Marcos realized a leveling off or slight decline in their averages. The most expensive communities in the North County market region are Rancho Santa Fe, \$1,825,000; Olivehain, \$1,077,990; La Jolla, \$1,046,667; Encinitas, \$735,309 and Carmel Valley with an average of \$650,705.

Sales Trends

With all economic indicators pointing towards another strong year, the hopes that 2000 will match the sales performance of last year is not out of the question. The market has witnessed mortgage rates increase over the past half year, however, inflation and unemployment rates are at the lowest in years. More importantly, the rise in disposable income has had a profound effect on the consumer market's ability to buy new homes. Reflecting this rise in consumer confidence is the huge gain in sales noted this quarter. Total sales for the region have risen by more than 56% from 1,756 total sales last quarter to 2,754 total sales the first quarter. This marks the second highest total ever recorded for San Diego County.

The detached housing sector continues to dominate the market. The 2,502 detached sales posted the first quarter mark more than a 72% increase over last quarter's 1,451 net sales. When compared to the first quarter of last year, the region has witnessed a 34% increase. In fact, the detached units sold this quarter represent the largest sales volume ever for the region. It would have been the best selling period recorded in history if it were not for the 17% decline noted in attached sales. This segment of the housing market reported on 252 net sales while last quarter there were 305 net sales reported.



Peter F. Korpacz & Associates - Real Estate Investor Survey

The Real Estate Investor Survey, prepared by Peter F. Korpacz and Associates, Inc. for the second quarter of 2000, was reviewed. The survey's primary focus is on institutional-grade income properties, but it also contains data on land development trends which are informative in gaining a national perspective. The National Land market discussion, as published by Korpacz, is prepared in conjunction with PriceWaterhouseCoopers, LLP. The following is a summary of pertinent portions of the Korpacz Survey.

National Development Land Market

Rising rental rates, increasing property values and continuous demand for all types of real estate are encouraging developers to continue to develop properties throughout most of the country. Even though rental rate growth and property value appreciation are increasing at a slower pace in comparison to prior years, they are still sufficient in many market to justify new development. For many developers, justifying new development is not the greatest concern: it is rather justifying the purchase of raw land at such high prices. "Over the past six months, we've seen some land prices double or triple from where they were five years ago," remarks a participant. Nevertheless, developers are finding ways to overcome rising land prices for now and to purchase land for future speculative and build-to-suit projects.

Since demand continues to outpace supply in most markets throughout the country, overbuilding does not pose an immediate concern for the majority of developers. Still, recent increases in interest rates have hindered funding for some developers. Even though some areas and property types within certain cities warrant caution, the real estate industry as a whole remains healthy.

Absorption Period

The absorption period required to sell an entire project varies significantly depending on such factors as location, size and property type. This quarter, participants report absorption periods ranging from 12 to 240 months. The median absorption period is 42.33 months or 3.5 years. Absorption periods at the low end of the range typically are for smaller projects located in high-growth areas. Longer absorption periods are associated with larger projects located in average-growth areas.

Based on both the size of the projects that participants have under development (0.25 to 1,000 acres) and their preferred absorption periods (1 to 20 years), participants expect absorption per year to range between 22.34 and 31.84 acres. The median absorption per year is 29.21 acres.

Forecast Assumptions

Discount Rates

The majority of Korpacz' participants, 70.59%, use a discounted cash flow (DCF) analysis as their primary method of valuation. Including those who use DCF analysis as a secondary method, the percentage that use DCF analysis increases to 75.00%. The remaining participants rely on a sales comparison approach.

In preparing their DCF analysis, 44.44% of participants do the analysis free and clear of financing, 44.44% subject to financing and 11.11% both ways.



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While some developers (33.3%) include developer profit in their discount rate, most (55.6%) represent it as a separate line item that is based on a percentage of gross revenue or project costs.

The discount rates assume that entitlements are in place. Discount rates for projects that lack entitlements are typically increased between 350 and 1,000 basis points; the average is 625 basis points.

	Current Quarter Including Developer Profit	Current Quarter Excluding Developer Profit
Free & Clear		
Range	11.00%-15.00%	8.00%-20.00%
Average	12.63%	12.57%
Subject to Financing		
Range	12.00%-25.00%	8.00%-25.00%
Average	18.40%	14.29%
Developer Profit as % of		
Gross Revenue		
Range	•	8.50%-30.00%
Average		19.79%
Developer Profit as % of		
Cost		
Range		1.00%-6.00%
Average		3.50%

Lot Price Growth Rates

Growth Rates used for lot pricing in DCF analyses vary due to local market conditions. The range indicated by the participants is from 0.00% to 14.00% with a median of 4.18%. This is well above fourth quarter 1999's average of 2.25% and may result from developers' expectations of increases in land values, land scarcity and/or overall strong market conditions.

60.00% of participants forecast lot prices to increase more than inflation; the remaining 40.00% project increases below it. Inflation growth rate assumptions range from 3.00% to 10.00%. The average is 4.29%.

Expense Growth Rates

While the ranges for expense growth rates remain the same this quarter, most averages changed.





Pricing of supply has been on the upward trend for over two years now. According to the first quarter audit, almost 80% of the market's detached inventory has come from above \$250,000. In fact, more than 35% has come from above \$400,000 alone. This sector of the market posted 404 out of the 1,128 total units recorded. Note that the \$250-300,000 price did not come in too far behind with 238 units of 21% of the market's supply. The remaining units of supply that were allocated in the upper end price discretionary market for the first quarter occured as follows: there were 180 units posted between \$300-350,000 and 88 units recorded between \$350-400,000. On the affordability side, there is also a considerable amount of units to be found between \$200-250,000 with 198 units recorded. However, when looking for true affordable housing, the first quarter reported only 20 units below \$200,000 with all units coming between \$150-200,000.

As to where supply was allocated in San Diego County this first quarter, MarketPoint observes that a majority of inventory was coming from the North County Coastal. This submarket represented 33% of the detached and 1% of the attached supply. Trailing not too far behind were the Vista/Escondido and South County submarkets. Each tabulated submarket represented 26 and 21% of the region's detached supply.

Future Proposed Supply

San Diego County has an estimated future proposed supply of 71,192 new residential units spread amongst 711 developments. These units range is status from those with no approvals to those that have received final map and are actually grading. As usual, detached product represented the largest percentage of potential units with 75% of future supply in 602 projects.

The market region with the most planned activity is still in the South County submarket, where an estimated 22,120 units are planned, almost half of which are in the various villages of the Otay Ranch Masterplan Community. There are 1,724 proposed units within the South County submarket in 18 developments that have reached the final map stage of the entitlement process. The largest amount of final map units is located in the North County Coastal submarket with 3,949 units in 49 projects.

The least amount of proposed units is situated in the Interstate 15 Corridor submarket where there are only 3,675 total units in 42 developments, none of which are in the final approval stage. San Diego Central has the least amount of proposed projects with 31 for the potential of 3,729 units.

During the first quarter of 2000, there were 217 developments offering 10 or more new "for sale" housing units to the San Diego County residential market.

What's New

There were 28 new detached projects and three new attached projects introduced to the San Diego new home market during the fourth quarter of 1999. Both the new detached and attached developments added a total of 2,090 units to the market.

The 28 new developments combined for the most part have met with relatively good market acceptance, selling on average per development 3.77 units per week for the detached and 2.33 units per week for the attached since the projects opened. These new projects accounted for 12% of the countywide total sales.



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Average Annual Growth Rates for Development Expenses Second Ouarter 2000

Expenses	Annual Average Growth Rates	
Infrastructure Range Average	3.00%-5.00% 4.06%	
Amenities Range Average	2.00%-4.00% 3.19%	
Advertising Range Average	1.00%-4.00% 2.88%	
Administrative Range Average	2.00%-4.00% 3.00%	
Contingency Range Average	1.00%-4.00% 3.00%	
Other Range Average	3.00%-4.00% 3.60%	

Outlook

Although Korpacz participants forecast land values to soar as much as 25.0% over the next 12 months, many intend to continue acquiring land before land prices grow even higher. The average expected increase in land prices over the next 12 months is 6.31%.

Most developers expect the economy to remain strong for 2000, prompting additional development. Even so, future acquisitions are likely to be smaller and fewer in quantity, especially those requiring financing. Even though demand continues to outpace supply in most markets, overbuilding remains a potential threat to some markets where job growth is not expected to be as robust as it has been in recent years. Nevertheless, developers are optimistic that an overbuilding will be short-lived and much less troublesome than that experienced in the 1980s.

Investment Trends Conclusions

Economic conditions remain strong for virtually every segment of San Diego's real estate market. However, there are signs that the economy is slowing as evidenced by reaction to recent downturns in the stock market, recent increases in interest rates and gasoline prices. Also, the Consumer Price Index is up significantly from a year ago as follows:



	All Urban Consumers		
	<u>May 1998-99</u>	<u>May 1999-00</u>	
U.S. City Average	2.1%	3.1%	
Los Angeles-Riverside-Orange Co.	2.4%	2.9%	
	Urban Wage Earners and Clerical Workers		
	<u>May 1998-99</u>	<u>May 1999-00</u>	
U.S. City Average	2.1%	3.3%	
Los Angeles-Riverside-Orange Co.	2.2%	2.9%	

San Diego County continues to be one of the least affordable areas for homebuyers in the nation. Supply and demand imbalance continues to drive prices upward and demand has been fueled by increased job growth in high technology segments of the employment base and stock market profits. Forecasts are for job growth to increase at a much slower pace than in the past three years. Also, current pricing has far exceeded peak pricing of the late 1980s prior to the recession. The upcoming presidential election is an event that will likely be a focal point for potential economic changes in market conditions. Both political parties have a vested interest in maintaining hyperbole in an attempt to convince voters that, "things will stay just the way they are" if either candidate is elected, when, they likely will not.

Market conditions began to recover in the first quarter of 1995. On the commercial side, specialized real estate investment trusts began their influx in the market in 1996. On the residential side, phased takedown lot acquisitions began to disappear as lenders began to provide financing for larger acquisitions of builder production lot groups. The first six builder production lot groups being purchased at the neighboring Santaluz property to the north call for phased takedowns over two or three years. This is due to the timing of construction of infrastructure for delivery and not the result of changing market conditions. It is unlikely that a return to phased takedown lot acquisitions will occur throughout San Diego County unless there is a significant change in market conditions. However, despite market conditions being strong in the short term, more conservatism is warranted when appraising a planned development project on a bulk sale basis at this time.



Southeasterly view of the Signal Landmark (Koll) site from the southwest corner of the intersection of Camino Ruiz and Carmel Valley Road.



Easterly view from the construction trailers to Improvement Area 3.



Fairbanks Highlands Model No. Four (AR)

David F. Davis, MAI



Fairbanks Highlands Model No. Three (A)



Fairbanks Highlands Model No. Two (A)



Fairbanks Highlands Model No. One (A)



Construction in progress on Improvement Area 3 (l'airbanks Highlands).



The Fairbanks Highlands Model Complex.



Homes under construction in Fairbanks Highlands.













Shape:

CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

SITE DESCRIPTION

Typically, the Assessor's Map(s) would be presented prior to this section. For the subject, the maps are included in the Addendum. The Assessor's Parcels Numbers for the subject property currently are:

306-010-21; 306-020-32, 33, 34, 35, 39; 306-240-01 through 48; 306-241-01 through 25; and 306-242-01 through 31

According to Assessor's records, the site has a gross area of 384.35 acres. Land area: According to the information provided by the developer (see Addendum), the land use for the subject property is as follows:

<u>Use</u>	Acreage
Fairbanks Highlands, LLC:	
Residential Lots	125.418
Open Space Lots	216.409
Streets and HOA	37,840
	379.667
Signal Landmark "Koll Property:	7.000
Total	386.667

The subject property has varied topography characterized by rolling terrain. A Topography: grading plan was not submitted for review.

Drainage: The subject property presently drains on all sides due to existing slopes. It is assumed that adequate drainage was/will be engineered during site development.

The backbone infrastructure for Fairbanks Highlands consists of the dedication of Offsites: right-of-way for Carmel Valley Road through the project, construction of two lanes of Carmel Valley Road form east of Black Mountain Road to Via Abertura, dedication of right-of-way for the future construction of Camino Ruiz within the tract boundary, construction of Black Mountain Road from its existing terminus to Carmel Valley Road, and traffic signal improvements. These infrastructure improvements are being constructed by the Santaluz development (improvement Area 1) with partial funding from Fairbanks Highlands. Construction of Carmel Valley Road from east of Black Mountain Road is nearing completion. Surety bonds have been posted to assure construction of the traffic signal improvements when required. Dedication of right-of-way for the construction of Carmel Valley Road and Camino Ruiz has occurred.

The onsite street is or will be asphalt paved dedicated to a variable right-of-way Onsites: depending upon location. The main entry and other portions are divided by



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<u>Use</u>	Acreage
Fairbanks Highlands, LLC: Residential Lots Open Space Lots Streets and HOA	125.418 216.409 <u>37.840</u> 379.667
Signal Landmark "Koll Property:	7.000
Total	386.667

- Shape: Irregular, see maps for dimensions.
- Topography: The subject property has varied topography characterized by rolling terrain. A grading plan was not submitted for review.
- Drainage: The subject property presently drains on all sides due to existing slopes. It is assumed that adequate drainage was/will be engineered during site development.
- Offsites: The backbone infrastructure for Fairbanks Highlands consists of the dedication of right-of-way for Carmel Valley Road through the project, construction of two lanes of Carmel Valley Road form east of Black Mountain Road to Via Abertura, dedication of right-of-way for the future construction of Carmino Ruiz within the tract boundary, construction of Black Mountain Road from its existing terminus to Carmel Valley Road, and traffic signal improvements. These infrastructure improvements are being constructed by the Santaluz development (improvement Area 1) with partial funding from Fairbanks Highlands. Construction of Carmel Valley Road from east of Black Mountain Road is nearing completion. Surety bonds have been posted to assure construction of the traffic signal improvements when required. Dedication of right-of-way for the construction of Carmel Valley Road and Camino Ruiz has occurred.
- Onsites: The onsite street is or will be asphalt paved dedicated to a variable right-of-way depending upon location. The main entry and other portions are divided by



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

landscaping. The onsite access point to the residential lots will be gate guarded (likely unmanned).

Utilities:

Information on the Tentative Map indicates that the utilities will consist of the following

Sewer:	City of San Diego
Water:	City of San Diego
Electric:	San Diego Gas & Electric
Telephone:	Pacific Bell
Fire:	City of San Diego
Schools:	Poway Unified School District
Police:	San Diego Police Department

Prior to construction of new schools, students would potentially attend Deer Canyon and Adobe Bluffs Elementary Schools, Black Mountain Middle School and Mt. Carmel High School.

Given that schools are at present over capacity in that area, the addition of new students can only be accommodated through expansion of facilities and development of new schools. The project is not of sufficient size to warrant additional schools at start up. Therefore, Fairbanks Highlands has entered into an agreement with the Poway Unified School District to mitigate the project's increase in students. This agreement also provides for a portion of a new middle school site within the development and its fair-share participation in the future development of new schools. Additionally, the developer agrees to fund its share of the cost of leasing or purchasing state approved portable facilities for students generated by the Black Mountain Ranch-Santaluz development to the north, on sites designated by the

Santaluz (to the north) will provide one elementary school site and a portion of one middle school site. The remaining portion of the middle school site is located on the subject (Fairbanks Highlands) property adjacent to the south. These facilities are considered necessary given future development of the project, plus cumulative impact to schools from surrounding projects. A high school would be built in neighboring 4S Ranch, with a potential additional high school needed if the region builds out to the densities anticipated in the Framework Plan. Additional elementary schools and middle schools would be located, as necessary, within the area immediately to the west of Rancho Penasquitos, 4S Ranch and Santa Fe Valley to satisfy the cumulative generation of students from these planned projects.

Soil Conditions:

A soils report was not submitted for review. The appraisal assumes that there are no undisclosed environmental and/or adverse subsoil conditions or contaminants that will have any impact on the development cost, use, marketability, or value of the property.

Total	3 3 3 3 3 6 6 6 6	
<u>B</u>	1111	Pag
	010 020 1 1 1	Assessor's Parcel No.
	12 1 2 12	. v.
\$7,843,698	\$2,763,475 \$1,880,410 \$477,894 \$2,721,919	Assessed Value
	8190 8150 8190	Tax Rate Area
1.01750	1.01750 1.01750 1.01750 1.01750	Tax Rate Per \$100
\$79,809.58	\$28,118.34 \$19,133.16 \$4,862.56 \$27,695.52	Base Taxes
\$12.00	88888 88888 88888	Mosquito /Rat Control
\$4,444.22	\$1,559.48 \$1,060.98 \$279.00 \$1,544.76	ol Standby Avai
\$3,843.50	\$1,354.90 \$921.80 \$244.10 \$1,322.70	ents CWA Water Availability /
\$8,299.72	\$2,917.38 \$1,985.78 \$526.10 \$2,870.46	Total Special Assessments
\$88,109.30	\$31,035.72 \$21,118.94 \$5,388.66 \$30,565.98	Taxes And Special Assessments

airbanks Highlandsummary of 1999–00

Improvement An Fiscal Year Real



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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

The following is a summary of the special assessments:

According to the County Department of Health Services, the County Mosquito/Rat Control Special Assessment is an annual surcharge that provides funding for the Vector Control Department of the County Health Services which involves the control and eradication of disease carrying rats, mosquitos, etc. (vectors). This program was accepted by the City of San Diego as well as the County of San Diego the summer of 1989. Originally the program was proposed and accepted by the County Board of Supervisors with participating citles throughout the county individually approving participation. The program is expected to continue for several years as it provides a full and needed health service.

The MWD Water Standby Charge refers to the Metropolitan Water District Water Standby Charge which was added to the tax rolls for tax year 1992-93. The Metropolitan Water District is the ultimate supplier of a majority of water to San Diego County via the County Water Authority and then to specific water districts. The charge is utilized to fund additional capital improvements for the water district and is charged to all recipients of the district's water. The fund is to be reviewed annually with public hearings. This special assessment was expected to last through the 1995-96 tax year but has been extended.

The CWA Water Availability Special Assessment, according to representatives of the San Diego County Water Authority, is an eight year financing program for water facilities and capital improvements. This special assessment financing program was approved in 1989 and instituted into the County tax rolls.

In addition to the basic property taxes and special assessments above, homes in Fairbanks Highlands are expected to have a Poway Unified School District CFD tax assessment and the Community Facilities District No. 2 special tax from \$3,299 to \$3,877 per year, depending on home size. Total effective tax rates will vary by product and average 1.80% of home value based upon the developer's projections.

Flood Zone:

According to the flood insurance maps prepared by the National Flood Insurance Program, the majority of the subject property is located in Zone C, which is not a flood hazard zone. However, two rivers flow through the property creating portions that are located in Flood Hazard Zone A (potential areas of 100-year flood). The subject property is located on Community Panel Numbers:

Map No.	Effective Date		
06073C1331F	June 19, 1997		
06073C1332F	June 19, 1997		

Hazardous Materials:

A toxic hazard site assessment report for the property was not submitted for review. Therefore, it is assumed that there are no toxic hazards on site that inhibit development of the property to its highest and best use or have any impact on the development cost, use, marketability or value of the property.



Easements:

A title insurance report was not submitted for review.

Therefore, the appraisal assumes that there are no covenants, conditions, restrictions, liens or easements that will have any impact on the development cost, use, marketability, or value of the property.

Zoning: Prior to entitlement, the subject property was zoned A1-10 in the City of San Diego, and the property is within the North City Future Urbanizing Area (NCFUA) of San Diego.

> Within the Future Urbanizing Area there are four development alternatives: development pursuant to the A-1 zone regulations (one dwelling unit per 10 acres); rural clustering at the same density; conditional uses which are non-urban in character; or clustered residential development at a density of one dwelling unit per four acres.

The subject is not within the California Coastal Zone.

The majority of the project area was zoned A1-10, prior to approval, which allows for limited development or improvement, with structure allowed only for residences, churches, utility, substations or structures associated with pursuits, such as stables or stands for the sale of agricultural crops produced on the premises. One dwelling unit per ten acres is allowed in the zone, with a ten-acre minimum lot size, except under PRD clustering.

Development of the residential portion (93 lots) of the subject property will be in conformance with the approvals pursuant to the final map.

Entitlement Documents

The Fairbanks Highlands project is approved as follows:

Fairbanks Highlands is approved for 93 single family residential lots along with a 9.6 acre school site and 216 acres of open space. A 7.0 acre property (the "Koll Property") is not a part of the Fairbanks Highlands vesting tentative map but is part of the subject property of this appraisal.

Several entitlement documents relating to the subject property were submitted for review. They are summarized as follows:

Planned Residential Development/Resource Protection Overlay Zone Permit No. 88-1041 - recorded July 30, 1996, this document approved the 93 lot detached single family project and incidental accessory uses proposed.

Resolution No. R-286756 - adopted December 5, 1995, this document adopts finding with respect to Planned Residential Development/Resource Protection Overlay Zone Permit No. 88-1041 and approved the Fairbanks Highlands project.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

DESCRIPTION OF IMPROVEMENTS

The 93 lot subdivision portion of the subject property is being developed with a luxury class subdivision called Fairbanks Highlands. As of the date of valuation, prices ranged from \$1,037,990 to \$1,260,990 for the five basic floor plans (only four floor plans constructed as model homes). A marketing brochure is included in the Addendum and further details about individual sale prices on closed transactions and those under contract were held confidential. The aggregate totals for homes closed and those under contract are discussed later in this report. Notable is that Plan 1, Montecito, won a merit award in this years' Gold Nugget competition at the Pacific Coast Builders Conference and Western Building Show.

The homes range in size from 3,883 square feet to 5,463 square feet. Options are available to further increase the home sizes by 415 to 1,231 square feet depending on the model. The lots in Fairbanks Highlands range in size from 30,000 square feet to 3.7 acres with a minimum net pad size of 20,866 square feet.

Based on current economic and market conditions, the developer expects to complete its development of Fairbanks Highlands by the end of 2001.

As of the date of value, intract infrastructure (other than landscaping) has been completed for 63 of the 93 lots with Fairbanks Highlands, escrows have closed on 12 homes, and construction was underway on 55 additional homes. Forty-four homes, not including the 12 homes that have closed escrow, are "under contract" (in escrow).



The vesting tentative tract map for the development was approved by the City of San Diego on December 5, 1995 and the final map was recorded on June 3, 1999. No additional discretionary approvals are necessary for development of the Fairbanks Highlands, LLC portion of this project.

Signal Landmark - "Koll Property"

This 7.0 acre site is within the confines of the larger parcel boundary of the Fairbanks Highlands portion of the subject property. However, it was not included for purposes of calculating the 93 lot residential density for this portion. Since it was not included, it is unentitled and must be developed according to current zoning (A1-10) or "phase shifted" (requires public vote) pursuant to City of San Diego requirements.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

HIGHEST AND BEST USE

Highest and best use is defined in the Appraisal of Real Estate, (11th Edition, 1996) as:

"The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value."

The subject property is located in the North City Future Urbanizing Area. As is typical with planned communities, the highest and best use, in a general sense, is based upon the ultimate entitlement when mapping and development agreements are completed. Such is the case for the subject which is entitled for specific uses.

A mixture of residential and commercial uses is physical possible and legally permissible as set forth in the approvals provided. The subject property is well located in the North San Diego area that is now ripe for development given the pent up demand during the recession of the early 1990s, the surge in real estate values recently and the planned future completion of Ted Williams Parkway (State Route 56).

The subject is also located in an area within the acclaimed Poway Unified School District (perennially among school districts with the highest test scores) which has traditionally attracted families. The location is, therefore, favorable and future residential development will attract a variety of buyers, including families and professionals.

Fairbanks Highlands

Currently, for-sale residential projects in the immediate area are only in their initial phases of construction (4S Ranch and the first projects in Subarea IV). The subject 93 lot Fairbanks Highlands portion has been extremely well received by the market at relatively high prices. Thus, the highest and best use (to continue the current project buildout) is well established by the rapid sales absorption rate given the product type and position in the marketplace.

Signal Landmark - "Koll Property"

This property consists of 7.0 acres of raw land at the southeast corner of the future intersection of Carmel Valley Road and Camino Ruiz. This property was not included as land area for purposes of calculating the entitlement density of the Fairbanks Highlands project which resulted in 93 residential lots. Thus, it is unentitled and subject to the existing A-1-10 zoning designation.

The permitted uses for this site consists of single family dwellings, churches, private stable and a variety of agricultural and commercial uses. The A-1-10 zoning designation requires a minimum of 10 acres for each dwelling unit except in the case of planned residential development which are allowed a density of one dwelling unit per four acres.

The location is at the future intersection of two major thoroughfares in the area. Although essentially unentitled, it could be developed under the A-1-10 zone regulations for a church or agricultural use. However, as development patterns emerge, the highest and best use will continually upgrade to a high profile commercial-retail use. Also, in the future, it will likely become easier to entitle the property for such a use but that is many years away. Thus, it is unlikely that a buyer would pay a premium for this site today to hold in anticipation of future development to a higher and better use.



No physical information about the anticipated finished condition of this property after completion of infrastructure improvements was submitted for review. Therefore, it is being appraised as a raw land parcel with the offsite improvements complete. Given the highest and best use conclusion to hold for future development, this site will be compared to other unentitled A-1-10 zoned parcels in the valuation. As a check, the church sites sales will also be utilized and discounted for holding time and estimated finishing costs. Under this alternative analysis, the holding time is projected at three to five years.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

INDIVIDUAL OWNED PROPERTIES

As previously noted, the first portion of the subject property included in the valuation consists of the 12 improved or individual owned properties that have closed escrow. The aggregate sales price is \$13,189,650 or \$1,099,138 per unit. Four of the units were models sold at a significantly higher prices than the base production units due to upgrades. Furnishings were sold but were deducted from the aggregate prices used in this appraisal.

The second portion of the valuation consists of the builder owned lots, the majority of which (81 lots) are homes or lots under construction in the Fairbanks Highlands residential subdivision. The aggregate sales prices for homes in escrow combined with the builder's base pricing totals \$82,874,291 or \$1,023,139 per unit. This amount was used to form the gross sales estimate for use in the discounted cash flow analysis for the builder owned portion to follow.

The following is a summary of the individual owned portion and builder owned portion of the Fairbanks Highlands residential lot subdivision:



Fairbanks Highlands CFD No. 2, Improvement Area 3

Туре	Legal Lots Nos.	No. of Lots	Average Base Price Per Lot	Aggregate Sales Prices
Homes Sold (closed				
Model Units Production Units	90–93 1–2; 37; 39–42; 44	4 8	\$1,300,808 \$998,303	\$5,203,230 \$7,986,420
Sub Total 👘 🦌		12	\$1,099,138	\$13,189,650
Homes Under Const	ruction:			
Phase 1	3-4; 35-36; 38; 43	6	\$928,304	\$5,569,826
Phase 2	5-10; 32-34	9	\$920,097	\$8,280,870
Phase 3	11-13; 24-31	. 11	\$1,030,169	\$11,331,855
Phase 4	14-23	10	\$1,076,142	\$10,761,415
Phase 5	49-51; 80-81	5	\$1,126,295	\$5,631,475
Phase 6	52-55; 74-79	10	\$1,128,511	\$11,285,110
Homes Proposed:				
Phase 7	56-58; 69-73	8	\$1,134,245	\$9,073,960
Phase 8	59-68	10	\$941,990	\$9,419,900
Phase 9	45-48; 82-89	12	\$959,990	\$11,519,880
Sub Total		81	\$1,023,139	\$82,874,291
Grand Total		93	\$1,032,946	\$96,063,941



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

VALUATION METHODOLOGY

The applicable components of the subject property are first typically valued on a finished lot basis through the use of the Sales Comparison Approach. Subsequent to the finished lot valuation, the Development Method will be utilized as the primary valuation approach for the builder owned portion.

In the Sales Comparison Approach, recent comparable sales are analyzed on a comparative unit basis. Typically, residential properties are analyzed on the basis of price per lot or unit basis and nonresidential properties on the basis of price per square foot or acre. After consideration of the individual comparable sale unit price indications, concluded unit prices are applied to the subject property components for indications of value.

The Development Method is, typically, an approach for estimating the value of vacant land improved with public improvements such as water, sewers, sidewalks, etc. The usual application is to raw, unsubdivided land by deducting from the estimated gross selling price, the direct expense of development such as cost of streets, utilities, sales, advertising, and overhead (taxes, carrying charges, inspection). Profit and "time lag" (interest on the money invested for the time needed to complete the project) are also deducted, after which the land value is indicated. In this case, the Development Method Analysis will be facilitated by the use of computer assisted discounted cash flow projections.

The improved or individual owned portion of the subject property was valued based upon adding the aggregate sales prices of the 12 individual lots that have closed escrow to individual home buyers. These homes were not appraised on an individual basis. Instead, the model units were inspected and the sales prices were reviewed relative to the asking prices including builder options. Homeowner paid upgrades or subsequent landscaping and site improvements (pools, cabanas, etc.) were not included. This provides some conservatism as homeowners typically add value over the first several years subsequent to the close of escrow.

For the builder owned portion, the sale prices of the current escrows were added to the base prices projected by the developer. The developer's base pricing for subsequent phases does not include upgrades which are well established from prior sales.

The Middle School site was not valued as that is a contract in place with the Poway Unified School District at a fixed price.

The Signal Landmark "Koll Property" was appraised via the Sales Comparison Approach.



DEVELOPMENT METHOD - DISCOUNTED CASH FLOW ANALYSIS - BUILDER OWNED PROPERTIES

Sales Comparison Approach

The Sales Comparison Approach to value involves the comparison of the subject property with recent sales of comparable properties and then isolating pertinent units of comparison which can be applied to the subject. The sale price per acre, lot or per square foot are typically the indicators utilized. When the number of lots is known for the residential portions of the subject and the comparables, the sale price per lot is the best indicator. For the commercial properties, the sale price per square foot is the best indicator.

Signal Landmark - "Koll Property"

This property consists of 7.0 acres of raw land at the southeast corner of the future intersection of Carmel Valley Road and Camino Ruiz. This property was not included as land area for purposes of calculating the entitlement density of the Fairbanks Highlands project which resulted in 93 residential lots. Thus, it is unentitled and subject to the existing A-1-10 zoning designation.

The permitted uses for this site consists of single family dwellings, churches, private stable and a variety of agricultural and commercial uses. The A-1-10 zoning designation requires a minimum of 10 acres for each dwelling unit except in the case of planned residential development which are allowed a density of one dwelling unit per four acres.

The location is at the future intersection of two major thoroughfares in the area. Although essentially unentitled, it could be developed under the A-1-10 zone regulations for a church or agricultural use. However, as development patterns emerge, the highest and best use will continually upgrade to a high profile commercial-retail use. Also, in the future, it will likely become easier to entitle the property for such a use but that is many years away. Thus, it is unlikely that a buyer would pay a premium for this site today to hold in anticipation of future development to a higher and better use.

No physical information about the anticipated finished condition of this property after completion of infrastructure improvements was submitted for review. Therefore, it is being appraised as a raw land parcel with the offsite improvements complete. Given the highest and best use conclusion to hold for future development, this site should be compared to other unentitied A-1-10 zoned parcels in the valuation. However, there was a lack or recent data in the North City Future Urbanizing Area. As a check, church site and retail site sales will also be utilized. As the site does not have immediate development potential, a discount for time and holding costs must also be considered. Under this alternative analysis, the holding time is projected at three to five years.



SUMMARY OF COMPARABLE A-1-10 AND CHURCH LAND SALES

	~ *		CASH	NÊT		
NO.	BUYER-PROJECT/LOCATION/APN	DATE	EQUIVALENT BALE PRICE	ACRE8 (SQ. FT.)	SALE PRICE PSF	ZÓNENG
			A CONTRACTOR OF THE OWNER			
1	Kilroy Reelty-Santa Fe Sumunit Future Intersection of Cemino Ruiz and Ted Williams Parkway (State 56) San Diego (Sucharea IV) 306-051-08 (portion)	3/00 in escrow 8/99	\$11,000,000	15.500 (675,160)	\$16.29	A1-10 San Diego to be changed to M-IP/PiD
2	Redeemer By The Sea Lutheran Church West side of Black Rall Road west of West Ambrosia Lane Carlabad 215-080-22	3/00 In escrow 10/99	\$2,200,000	10.110 (440,392)	\$5.00	PC Carlsbad
3	Taiwanese Lutheran Church South side of Azuaga west of Caminito Cisra San Diego (Rancho Penasquitos) 315-570-05	t/00 in escrow 1/99	\$930,000	3.780 (164,657)	\$8.65	CA-CP San Diego
4	Roman Catholic Church Southeast corner of Cannon Road and Meirose Drive Oceansitic 169–011–48	7/98 In escrow 5/98	\$1,315,000	11.500 (500,940)	\$2.63	C-G-PBD Oceanside
5	Roman Catholic Church Future Intersection of Camino Ruiz and Ted Williams Parkway (State 56); current terminus of Carmel Mountain Road San Diego (Subarea IV) 306-050-18, 19, 28	1/99 In escrow 8/98	\$2,750,000	8.320 (362,419)	\$7.59	Subarea IV Pian (comm. ltd.) San Diego
6	Roman Catholic Church Southeast corner of Carmel Valley Road and Black Mountain Road San Diego 305–030–19	9/97	\$9,830,000	54.56 (2,376,634)	\$4.14	A1 – 10 San Diego



Comparable 1 is a larger business park subdivision purchased by a developer. The basis of the transaction was "finished lots" with the buyer having to complete the final mapping. However, there was a tentative approval prior to the close of escrow. This is not an unentitled site, but it was informative as to the upper range of value in the area for a property in a superior commercial location.

Comparable 2 is located in Carlsbad. The property was purchased for construction of a Lutheran Church with a 4% down payment and a first trust deed from the Lutheran Church Extension Fund at a variable interest rate beginning at 7.625%. The property consists of raw land with one farm building requiring site development costs that are significant but were not disclosed.

Comparable 3 was purchased for a Lutheran Church after a long escrow/contract period. The sale was all cash with the seller being San Diego Gas & Electric Company.

Comparable 4 was purchased for a Catholic Church in Oceanside. It was an all cash purchase of raw land with some loss from gross to net due to a natural habitat issue involving coastal sage scrub. The finished lot cost was not reported; however, the buyer will share the cost of a road with a neighboring property owner.

Comparable 5 is located in the Future Urbanizing Area (Sub-Area IV) and consists of a raw land parcel sold to the Catholic Church. The finishing costs are at least \$3.00 per square foot, if not higher as this property is raw land with rolling terrain. The existing zoning is very specific allowing churches, veterinarians, growing nurseries, storage space and trade schools. The location will be at a future major intersection when State Route 56 and Camino Ruiz are completed. The general location is comparable to the subject but the specific location is slightly superior due to superior access and visibility.

Comparable 6 is also located in Sub-Area IV and consists of a much larger site purchased for future construction of a new Catholic high school. As with Comparable 5, the general location is comparable but the specific location is slightly superior.

Adjustments

Financing:

All comparables were purchased all cash or on cash equivalent terms except Comparable 2 for which the seller financing terms appear to be at a market interest rate but the loan to value ratio was extremely high. Thus, a downward adjustment was made.

Site Condition:

The subject properties are being appraised as finished lots. Upward adjustments are required to all comparables.

Conditions of Sale:

There were no unusual conditions of sale affecting any of the comparables requiring an adjustment.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Time:

Commercial and industrial land sales have also increased rapidly since the market recovered in mid-1996, especially between mid-1997 and mid-1998. Upward adjustments were indicated for all comparables.

Size:

The subject is 7.0 acres. Generally, larger sites sell for a lower unit cost per square foot and the size range of the subject properties is well within the size range of the comparables. Upward and downward adjustments were made based upon appraiser's judgement.

Zoning:

All of the comparables have compatible zoning/entitlements. Therefore, no adjustments were made.

Specific Location:

Comparables 2 and 3 are not corner locations requiring slight upward adjustments. Comparable 3 is a corner location considered equal to the subject. Comparables 1 and 5 are corner sites but will be located at a future intersection of a limited access expressway (State Route 56) and a major thoroughfare (Camino Ruiz). They were considered slightly superior.

General Location:

Comparable 2 is located north of the Aviara planned community is a good location considered equal to the subject. Comparable 3 is located near Rancho Penasquitos Boulevard, Carmel Mountain Road and Ted Williams Parkway (State Route 56) also considered a good location but slightly inferior to the subject. Comparable 4 is located in the easterly portion of Oceanside very near the Shadowridge Community of Vista and portion of unincorporated county area. It is a developing location considered slightly inferior to the subject. Comparable 5 is located southwest of the subject property considered equal to slightly superior to the subject and general location.

Mello-Roos District:

Comparable 2 has an assessment obligation (Mello-Roos or Assessment District) of \$2.00 per square foot. This amount was taken into consideration during the adjustment process.

Development Impact Fees (DIF's):

Adjustments were made based on differentials in fees. The exact amount of the fees is difficult to determine at this time without a firm development plan for the subject property. However, the fee ranges for future commercial use are most likely applicable to the subject property for comparison purposes at this time.

Adjustment Grid

The following is a summary of the adjustments made on a qualitative basis:

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LAND SALE ADJUSTMENT CHART SIGNAL LANDMARK "KOLL PROPERTY"-A-1-10 AND CHURCH SITES \$6.00 Value Conclusion: 5 8/98 escrow \$7,59 6 2 3 4 Comparable No.; 1 1/99 escrow \$5.65 5/98 escrow \$3.06 9/97 \$4.14 8/99 eson 10/99 escr Date: Price Per Square Foot: \$16.29 \$5.00 <u>Adj.</u> <u>Adi</u>, <u>Adi.</u> Desc. Desc. <u>Adj.</u> Desc. <u>Adi</u>, Desc. Desc. <u>Adj.</u> nin ' Cash Equi Equal -Equal -Equal -Equal -Equal = Equal cing: Interior + Finished --Inferior ++ Interior +++ Interior + SI. Interior ++ Site Cond Superior --Cond of Sala Market Equal Equal -Equal -Equal Equal -Equal -6/00 + + +++ +++ 8/99 escrow 10/99 escrow 1/99 escrow ++ 98 escrov)/97 Time: 5/98 eacrow ++4 _ 7.00 15.50 + 10.11 + 3,78 9.87 + 8.32 -54.56 +++ Rim ---A-1-10 Equal Equal -Equal -Equal Equal Equal -Zor -+ -_ = 00: Good Superio SI. Interior + SI, Interior Equal Si. Superior Equal 80 --Good Equal Equal -SI. Interior ÷ Interior ++ SI. Superior Equal bn: Mello Roos Distr.: Yes None -Yes = None _ None _ None -None -Yes Interior + Interior ÷ Inferior + Inferior + Interior + SI. Superior -Dev. Impact Fees:

C-65

SUMMARY OF COMPARABLE RETAIL LAND DATA

No.	Project/Lot/Location/Apn.	Date	Sale Price	Net Acres (8q. Ft.)	Price PSF	Zoning
1	FENTON MARKETPLACE Southwest corner of Friars Road and Northside Drive San Diego (Mission Valley)		\$29,800,000	52.000 (2,265,120)	\$13.16	MVMSP San Diego
2	FENTON MARKETPLACE-IKEA Southwest corner of Friars Road and Northside Drive San Diego (Mission Valley)	10/99	ີ່ ເຊັນ (). \$9,255,629	13.277 (578,346)	\$16.00	MVMSP San Diego
3	FENTON MARKETPLACE-LOWE'S Southwest corner of Friars Road and Northside Drive San Diego (Mission Valley)	10/99	\$8,600,486	12,343 (537,661)	\$16.00	MVMSP San Diego
4	FENTON MARKETPLACE-COSTCO Southwest corner of Friars Road and Northside Drive San Diego (Mission Valley)	10/99	\$9,415,930	13.511 (588,539)	\$16.00	MVMSP San Diego
5	THE VINEYARD 1505—1535 East Valley Parkway Escondido 230—240—50, 81, 84, 85	6/99 · · · ·	\$5,000,000 \$300,000 \$5,300,000	10.680 1) (465,221)	\$10.75 \$11.39	CG Escondido
6	8AV-ON DRUG STORE 5411-5439 College Boulevard Oceanside 162-240-45, 46	1/99	\$1,800,000	2.430 (105,851)	\$17.01	CP Oceanside
7	ALBERTSON'S SUPERMARKET Northeast corner of Peppertree Lane and Mission Avenue Falibrook 104-350-21, 30	10/98 	\$2,425,000 <u>\$223,898</u> (site work \$2,648,898	5.140) (223,898)	\$10.83 \$11.83	C36 San Diego County
8	ISLAND @ CARLSBAD Southwest corner of College Boulevard and Faraday Avenue (SEC Van Allen Wav)	7/98	\$3,024,699	5.555 (241,976)	\$12.50	CM-2 Carisbad
	Carisbad 212-120-04	2/98 (double escrow)	\$2,056,795		\$8.50	

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Comparables 1 through 4 are the summary of the acquisition of the Fenton Marketplace Shopping Center in Mission Valley and the subsequent sales to major tenants Ikea, Lowe's and Costco. They demonstrate the extreme upper range of value and are not good comparable for the subject property as they are much larger "power center" properties.

Comparable 5 is a redevelopment property that sold improved with The Vineyard Specialty Shopping Center and required significant demolition.

Comparable 6 is located at the major intersection of College Boulevard and Oceanside Boulevard in Oceanside. It is a relatively small retail site purchased for construction of a drugstore and 8,000 square feet of retail shop space.

Comparable 7 is a site in Fallbrook purchased by Albertsons for construction of a 55,000 square foot supermarket. The property was part of a bulk sale to Stater Brothers of other Albertsons locations.

Comparable 8 is the sale of the Island at Carlsbad convenience retail center site. Union Pacific Railroad, the original owner, requested that the Koll Company (development partner) sell the property and believed that \$12.50 per square foot was a below market price at that time. However, Union Pacific Railroad was interested in completing the transaction. Subsequently, a portion of the property was sold for hotel use at a much higher price (\$20.00 + per square foot).

Conclusion

A wide range of comparables was shown including retail sites considered superior to the subject property. After reviewing the data, the "retail" value range for the subject (if entitled and developable today) would be between \$10.00 and \$15.00 per square foot with a high confidence level at between \$12.00 to \$13.00 per square foot. On a discounted basis, the data indicates a value of \$6.00 per square foot.

To derive a present value of \$6.00 per square foot over a three to five year holding period, the future value ranges from \$10.37 to \$14.93 per square foot at a 20% annual discount rate. Twenty percent is considered an adequate compounded annual return to attract capital prior to the site being fully entitled for more intensive retail development.

After reviewing the comparable data, the "Koll Property" was valued at \$6.00 per square foot (\$174.240 per acre) summarized as follows:

Portion of Project	Acreage	Estimated Value <u>Per Sq.Ft.</u>	Estimated <u>Value</u>
Fairbanks Highlands - "Koll Property"	7.00	\$6.00	\$1,829,520
Rounded to			\$1,830,000



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Discounted Cash Flow Analysis

The analysis begins with the individual neighborhood/lot/site values developed in the previous sections of this report. An estimate of when these sites will sell is made in order to project the income stream from the sales that would be generated from such a program. All items of expense must then be deducted from these sale proceeds to arrive at a net income stream. Deductions include site development costs, property taxes, sales commissions, selling expenses, taxes, overhead and administration, and an allowance for profit (included in the discount rate) since no one would undertake such a task without an anticipated rate of return for entrepreneurial efforts. The net income flows from these sales after expenses must then be discounted for time back to a current value indication which forms the current market value estimate.

Market data for the trending utilized in this analysis was derived through numerous conversations with developers and financial joint venture partners regarding land development, finished lot sales projects and building construction. Much of the information provided was considered confidential and is summarized in terms of a consensus of opinion rather than naming each entity and their specific requirements in a project of this type.

Middle School Site

A portion of a middle school site of 9.6 acres is on the Fairbanks Highlands property. Based on information provided by the developer's representative, David Hauck of Taylor Woodrow Homes, and the client, the site will be sold for \$785,000 based upon a prior agreement which was not submitted for review. The reported timing is within three months of the date of value for the close of escrow.

Pages 1 and 2: Revenue Summary
Absorption: The absorption proje

The absorption projection for the residential lots is primarily based upon the conclusions set forth in the Reeb Development Consulting absorption analysis (see Addendum). Reeb projects that all units will be sold (under contract) by February, 2001. The developer's business plan proforma projects the final closings to occur by December, 2001. This was considered reasonable based upon the velocity of current sales to date and Reeb's conclusions. The amount of closings shown in each period were based upon the developer's projections pursuant to construction timing.

One additional month was added to the absorption period to capture the remaining project "close out" costs. Therefore, there is no revenue in that final month.

Inflation:

Because the values estimated for each home were based upon the track record of sales in the project and the developer's projected pricing, no inflation was projected for the remaining 20 months through January, 2002

Finished Lots Costs -Onsites:

The remaining onsite costs to complete lots was projected pursuant to the developer's business plan.

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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Indirects:	Construction related indirect costs attributable to the finished lots and structures (houses) was projected based upon the developer's business plan.
Structures:	The costs for the houses was projected based upon the developer's business plan.
Cost Inflation:	Consistent with the revenue assumption, no cost inflation was projected through the projection period.
Pages 3 and 4:	
Total Revenues:	The totals are carried forward from previous pages.
Direct and Indirect Construction Costs:	The totals are carried forward from previous pages.
Indirect Project Costs:	The following items represent indirect costs of the project.
Real Estate Taxes:	Initial taxes are calculated on the Final Estimate of Value multiplied by the tax rate. Taxes are then reduced in proportion to the property sold. No calculation of taxes on site development work is made. The fixed amount of special assessments is also reduced as inventory declines.
Mello-Roos Assessment:	In addition to the underlying basic property taxes above, the master developer will have to pay the Mello-Roos special taxes for the

developer will have to pay the Mello-Roos special taxes for the improvements that are assumed to be in place as of the date of valuation. As inventory is sold, the amount of these special taxes decreases. Also, when special taxes are shifted to improved properties, the amount of assessments for which the developer is liable on unimproved property decreases. Information for the calculations was provided by David Taussig & Associates, Inc. and are assumed at the request of the client as follows:

Sq.Ft. Range	Special Tax <u>Annual Amount</u>
3,750 to 4,049	\$3,299
4,050 to 4,499	\$3,506
5,000 to 5,499	\$3,877

Homeowner Association

Fees: A projection of \$210.00 per lot per month was made with the amounts payable reduced as inventory is sold.

Overhead and Administration:

These are estimated to be 3% of direct and indirect costs averaged over the projection term.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Sales Marketing, Closing Costs:	An estimate of 6.5% of revenues from home sales only (not including the Middle School site).
Contingency:	A nominal forecast of .5% of indirect costs was utilized as a nominal contingency factor.
Discount Rate	
The discounted cash flo a discount rate of 22.59	w analysis is presented with a no line-item profit valuation scenario utilizing 6.

On land development projects which include the risks of construction, political approvals and/or economic changes, the appropriate discount rate would be built-up similar to a loan rate except that a larger buffer would be added for increased risk to the equity position which would be subordinate to the loan.

The current market is as healthy as that of the late 1980s. While prices are rising, the project is not without economic risk. Some observers think the current house price recovery will soon outstrip gains in income. The project is ongoing and costs are well established so there is little construction risk.

In analyzing the discount rate, the 22.5% rate was considered appropriate as only two of the three principal elements of risk are present with one being of minimal risk. The three risk categories are: political risk (entitlements), construction risk (site and home), and economic risk (marketing and sales). The project is entitled and all buildings permits have been issued. However, the construction risk is significantly reduced as construction amounts and timing are well established as the project has completed units and a significant number are under construction. Thus, the majority of the risk emanates from potential changes in economic conditions during the sales and marketing period which is only 19 months. Included in this risk analysis is developer's profit. In building up this rate, the appropriate thresholds for each element of risk were subjectively estimated as follows:

	Range	<u>Conclusion</u>
Political Risk	0-5%	0.0%
Construction Risk	0-10%	2.5%
Economic Risk	15-20%	20.0%
Total	15-35%	22.5%

The discount rates summarized in the National Development Land Market section of the Peter F. Korpacz & Associates - Real Estate Investors Survey are lower than the conclusions above. Although informative, Korpacz focuses on institutional-grade real estate primarily targeting retail, office, industrial and apartment properties. Although informative, large planned community projects such as the subject property are not the primary focus of the Korpacz survey. Therefore, appraiser's judgement was used in estimating the above discount rate based upon experience with other properties and discussions with knowledgeable market participants.

The discounted cash flow analysis follows.



Community Facilities District No. 2 (Fairb.) Development Method		VALUE AS IF CFD								,		
Discounted Cash Flow Analysis-boox. Area		COMPLETED] 	July	Avant	Sectorber	October	November	December	January	February	- Free 1 March
Period (Annually)	No. of Lots	Boginning Visiwa	2000	2000	2000	2000	2000 5	2000	2000 7	2001 8	2001 9	2001
Non-Residential		(tump sum)	, ,					-				
liddle School Sile		785,000	•	0		785,000	. 0	0	0			
lubtotal Non-Residential Lots		785,000	•	0	0	785,000	0	0	0	0	0	
Residential		(per lot)										
Suilder Owned Lots (93 total, 12 sold) (monthly absorption)	81	1,023,139	4,630,240	878,038 1	2,000,933	6,032,043	4,958,333	7,927,175	9,019,757 9	3,088,033 3	1,049,871	6,355,84
inistatut Realizatini Lata	61	1,023,189	4,530,240	678,038	2,000,933	6,032,043	4,958,333	7,827,175	9,019,757	3,068,033	1,049,871	6,355,84
iotal Sales Reveaue			4,530,240	878,038	2,000,933	6,817,043	4,958,333	7,927,175	9,019,757	3,068,033	1,049,871	6,355,84
round infiniton Rate			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.05
iutiplier .	÷		1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.00
Totel Revenues		,*	4,530,240	878,638	2,000,933	0,817,043	4,958,333	7,927,175	9,019,757	3,068,033	1,049,871	6,355,84
CONSTRUCTION COSTS		Beginning	Juno 2000	July 2000	August 2000	September 2000	October 2000	November 2000	December 2000	January 2001	February 2001	March 2001
Period (Annually)		Cost	1					6	7	8	9.	1
Finished Lot Costs—Oraites Indirects Structures		6,982,000 8,800,000 24,082,000	359,000 154,000 2,326,000	359,000 154,000 1,974,000	359,000 97,000 2,147,000	359,000 154,000 1,761,000	359,000 154,000 1,916,000	359,000 154,000 1,412,000	259,000 154,000 1,313,000	259,000 154,000 1,760,000	359,000 154,000 1,501,000	359,00 154,00 1,974,00
Iotal Direct and Indirect Construction		84,624,000	2,839,000	2,487,000	2,603,000	2,274,000	2,429,000	1,625,000	1,825,000	2,273,000	2,014,000	2,487,00
Instant Inflation Plate			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.01
ituitiplier		1	1.000	1.000	1 000	1.000	1.000	1.000	1.000	1.000	1.000	1.00
Total Direct and Indirect Construction			2.839.000	2.487.000	2.608.000	2.274.000	2.429.000	1.925.000	1.826.000	2273.000	2.014.000	2.487.00

D.F.D. REAL INC.

. David F Davis, MAI

Community Facilities District No. 2 (Fairle Development Method Discounted Cash Flow AnalysisIngr. Ar	• •	VALUE AS IF CIFD IMPRVIANTS, COMPLETED	Ì							Ϊ.		•	
REVENUE Pariod (Annumly)	No. of Lots	Beginning Value	Aprili 2001 11	2001 12	June 2001 13	July 2001 14	August 2001 15	September 2001 18	October 2001 	November 2001 18	December 2001 19	January 2002 20	AXVs ESYs
Non-Residentia		(tump sum)											
liddle School Sile		785,000	0	0	0	0	0	0	0		0	0	785,000
Jubtotel Non-Residential Lots		785,000	0	0	0	0	0	0	0	0	0	0	785,000
Residential		(per lot)											
Builder Owned Lots (93 total, 12 sold) (monthly absorption)	81	1,023,139	4,237,230 4	0	6,286,316 6	2,095,770 2	0	7,484,183	3,207,223 3	7,620,259	5,443,042 5	0	82,874,291 81
iubiotal Assidential Lots	61	1,023,189	4,237,230	•	6,286,316	2.095,770	0	7,484,183	3,207,223	7,620,259	5,443,042	0	82,874,291
otal Sales Revenue			4,237,230	0	6,286,316	2,095,770	0	7,484,183	3,207,223	7,620,259	5,443,042	0	83,659,291
nnunt Inflation Rate			0.0%	0.0%	0.0%	0.0%	0 0%	0.0%	0.0%	0.0%	0.0%	0.0%	
tutiplier	. ,		1.000	1.000	1.000	1 000	1.000	1.000	1.000	1.000	1.000	1.000	
Total Revenues			4,237,230	0	6,286,316	2,095,770	0	7,484,183	3,207,223	7,620,259	5,443,042	Ö	\$3,659,291
CONSTRUCTION COBIE		Beginning Cost	April 2001	May 2001 12	June 2001 13	July 2001	August 2001 15	September 2001 16	October 2001 17	November 2001 18	December 2001	January 2002 20	Totals
inished Lot Costs-Onelles Indirects		6,962,000 3,600,000 24,062,000	359,000 154,000 1,417,000	359,000 154,000 1,171,000	359,000 154,000 946,000	359,000 154,000 831,000	359,000 154,000 570,000	359,000 154,000 429,000	259,000 154,000 357,000	859,000 154,000 139,000	353,000 154,000 62,000	147,000 731,000 46,000	6,962,000 3,600,000 24,082,000
otal Direct and Indirect Construction		84,624,000	1,930,000	1,664,000	1,459,000	1,344,000	1,083,000	942,000	850,000	652,000	599,000	924,000	34,624,000
nnusi Inflation Rate			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
tuttiplier			1.000	1.000	1.000	1.000	1.000	1 000	1 000	1 000	1.000	1.000	
Total Direct and Indirect Construction			1.030.000	1.684.000	1.459.000	1,344,000	1.083.000	942,000	850,000	652,000	569.000	924.000	34.624.000

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Community Factilities District No. 2 (Facts. Highl) Development Method Discounted Cash Flow Analysis-Impr. Area 3	VALUE AS F OFD IMPRVMNTS. COMPLETED										N Page 2.83
VALUATION Period (Annuality)	Beginning Value	June 2000	July 2000	August 2000	September 2000	October 2000	November 2000	December 2000	January 2001	February 2001	March 2001 10
			6 -				×				
Total Revenues		4,530,240	878,038	2,000,933	6,817,043	4,958,333	7,927,175	9,019,757	3,068,033	1,049,871	6,355,844
Direct and indirect Construction Costs		2,839,000	2,487,000	2,803,000	2,274,000	2,429,000	1,925,000	1,826,000	2,273,000	2,014,000	2,487,000
Indirect Project Costs Real Extrin Taxon Mailo Roos Assessments Homeourner Association Frees Overhead & Administration Sales, Martafing, Closing Casts Costinguncy9% of Indirect Costs		29,521 0 18,080 51,936 294,465 1,960	28,505 0 15,000 51,030 57,072 767	28,747 0 18,354 51,935 172,951 1,345	28,835 0 14,110 51,938 392,083 2,432	28,345 0 13,098 51,935 322,292 2,068	24,971 0 11,471 51,935 515,265 3,018	22,380 0 9,620 51,638 586,284 3,351	19,244 C 8,965 51,936 200,722 1,404	18,368 0 8,770 51,936 68,242 737	18,289 0 7,466 51,936 413,130 2,454
Total Indirect Project Costs		393,963	154,181	270,342	488,901	415,739	606,663	673,571	282,292	148,053	493,275
Total Direct & Indirect Costs		3.232,963	2,641,181	2,873,842	2,762,901	2,844,739	2,531,663	2,499,571	2,555,292	2,162,053	2,980,275
Not Quah Flow		1,297,277	(1,763,142)	(212,409)	4,054,142	2,113,695	5,395,613	6,520,185	532,740	(1,112,181)	3,375,569
Discount Rate	22.50%	0.981595	0.963529	0.945795	0.928388	0.911301	0.894529	0.878066	0.881904	0.846041	0.830470
Present Victus Of Cash Flows Cumulative Present Victus Of Cash Flows Rounded To		1,273,401 1,278,401	(1,696,839) (425,437)	(200,896) (826,333)	8,763,816 3,137,483	1,920,121 5,053,604	4,826,441 9,890,045	5,725,148 15,615,191	459,171 16,074,383	(940,951) 15,183,412	

Development Method Discounted Cash Flow Analysis-Impr. Area 3 M	CFD CFD PRVMNTS. SMPLETED											DFDAV REFDAV
VALUATION 6	Beginning Value	April 2001 11	May 2001 12	June 2001 18	July 2001	August 2001 15	September 2001 16	October 2901	November 2001 18	December 2001 19	January 2002 20	I'IS I'Aite
Total Revenues		4,237,230	0	6,280,316	2,098,770	0	7,484,183	3,207,223	7,620,259	5,443,042	0	83,659,291
Direct and indirect Construction Costs		1,930,000	1,684,000	1,459,000	1,344,000	1,083,000	942,000	850,000	652,000	899,000	924,000	34,624,000
Indirect Project Costs Real Estate Taxes Mallo Roca Assessments		15,971	14,461	14,737	12,215 91,036	11,493	11,709 6,773	8,389 3,870	6,995 11,493	3,371 9,259	0	344,044 122,431
Homeowner Association Fees	ļ	6,596	6,596	5,306	4,876	4,676	3,340	2,681	1,117	67	ő	156,315
Overhead & Administration		51,936	51,938	51,936	51,938	51,938	51,936	51,935	51,936	51,936	51,936	1,038,720
Sales, Marketing, Closing Costs Contingency—.5% of Indirect Costs		275,420 1.750	0 365	408,611 2.403	136,225 1,481	0 342	485,472 2,801	208,470 1,377	495,317 2,834	353,798 2,092	0 250	5,386,829 35,242
Contingencyors or interest Coast	ł	1,790	300	2,403	1,401	342	2,601	1,3//	2,634	2,002	200	35,242
Total Indirect Project Costs		351,673	73,358	482,992	297,770	68,648	563,030	276,722	509,893	420,523	52,196	7,083,581
Total Direct & Indirect Costs		2,281,673	1,757,358	1,941,992	1,641,770	1,151,646	1,505,030	1,126,722	1,221,693	1,019,523	976,196	41,707,581
Not Gash Flow		1,955,557	(1,757,858)	4,344,324	454,000	(1,151,646)	5,979,153	2,080,501	6,398,500	4,423,520	(976, 196)	41,951,710
Discount Rate	22.50%	0.815185	0.800182	0.785454	0.770998	0.755808	0.742579	0.729206	0.715785	0.702611	0.669680	
Present View Of Cash Flows Cumulative Present Value Of Cash Flows Rounded To		1,594,140 19,530,680	(1,405,205) 18,124,655	3,412,268 21,536,923	350,033 21,886,956	(871,575) 21,015,381	4,441,787 25,457,168	1,517,115 26,974,283	4,580,000 31,554,283	3,106,015 34,662,298	(673,263) 33,989,036 834,000,000	33,969,035

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David F Davis, MAI

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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Sensitivity Analysis

The valuation previously set forth equates to \$419,753 per lot for the 81 remaining lots. When the onsite costs to achieve "finished lots" are removed, the value increases to \$500,815 per lot when the projections are recalculated. As a test, the theoretical "finished lot value" of the builder owned portion (with the Middle School site removed) was compared to single family residential production builder sales nearby. The following is a summary of the data:

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SUMMARY OF COMPARABLE RESIDENTIAL LAND SALES

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Carrino Histonov Foreiro Politikar Unrain Road 1200 1										closed	Rancho Cielo
Emerativamentary (nerry Del Mar Sen Digo Sick or Cammel Valer) Naci Islam Ramo Sen Digo Sick or Cammel Valer Sen Sick or Cammel Valer	None	\$305,000	\$25,494	59 \$339,506			138.00	138.00			Davidson Comm, Rancho Cieło Company/Rho. Cieło Group A Northwest comer of Calla Ambiente and El Escondido Del Dios Highwa)
Burnet Annexan/OH Hathan Full12005000 3000(54.0073.02140NA5005.00500.00500.00Burnet NeuronCommentante5000 at a minimum tes5000 at a mi	Ç Ø	serat a	• *	87.	average	5,763 sq. ft.	iimum lots (11	1.0 acre mir		66/6	22 3
Burnet: Annexan/OH Hotson/Carrino Pulkar Social side of Carrine Vallay Riad biokeen Carrino Ruiz 1200 800.000 (pondo)										3/39	Both sides of La Catrina, La Repolas and Via Luna cul-de-sacs and north side of Via Dorn
Burnet: Annexan/Chi Hotmon Fulz:1200500.030.00154.0073.02140N/A500.500502.00500.000Son Depo (Subsera IV)12001200120012001200120012001200500.00050	¥	\$440.857	S1.857	77 \$415,000			8	56.61	\$9,545,000	IN ESCROW	Innovative Comm,/Rancho Cielo Estates/Rancho Cielo Group B
Barnet: Annexan/DR Hotman/Camery Del Mar: 1200 500,03,00 124,00 73,02 14,0 N/A 500,500 500,000 70,000 <t< td=""><td></td><td>and the second second</td><td></td><td>pads)</td><td>ecenere</td><td>1,000 sq. ft.</td><td>imum lots (18</td><td>1.0 acre min</td><td></td><td>11/99</td><td></td></t<>		and the second second		pads)	ecenere	1,000 sq. ft.	imum lots (18	1.0 acre min		11/99	
Emerat Annotazin/Chi Hotzan/Torrey Del Mar: 1200 5000 300 (54.00 73.02 14 N/N 5000 500 500000 5000 500 5000 500										closed	Both sides of Punta Del Sur and La Milla south side of Via Ambiente
Burnet: Annexan/OH Hotmon Cammo Natz 1200 500,000 (pdd) 7,3,2 14 N/N \$005,00 \$20,00 \$20,00 \$20,00 \$20,000 (pdd) \$20,000	None	\$545,000	\$35,000	59 \$510,000			23.09	41.65	\$8,160,000	in escrow	EPAC/Rancho Cielo Estates/Rancho Cielo Group C
Burnet: Annexan/DR Hotman/Camrey Del Mar: 1200 500,03,050 (54,00) 73,02 14,0 N/N \$500,000 \$50				16 -	egeneve	з,000 зq. п.		1.0 acre mu	United and the second second		
Burnet: American/DH Notron/Torrey De Mar South Side of Carmel Valley Read bolwaen Carmino Ruiz 1200 500 30 (p10,00 73,02 140 N/N 500,500 520,000 500 of Carmel Valley Read bolwaen Carmino Ruiz 500 at 1. minimum ides 500 at 1. minimum ides 500 at 1. minimum ides 500,500 73,00						3					and north of Calle Ambiente
Burnet: Annexan/OH Hotson/Centry Del Mar: 1200 500,0 50,0 50,0 73,02 140 NA S00,500 S22,00 S22,00 <ths22,00< th=""> S22,00</ths22,00<>										co/c	Both side of Carnino De Arriba west of Via Ambiente
Burnet: Annexan/DR Hothown Centric Pulker South Side of Centrel Valley Read bolween Centric Pulk and Black Muurina Read San Diego Subarea N) 1200 5000 ag 1 1400 (porticio) 1200 (porticio) 1	Ŧ	72 500	\$22,500	57 \$450,000	.57 0.		5.30	5.30	\$1,350,000	under contract	Cal Coest Homes/Rancho Cielo
Burnet Annexan/DH Hothon/Tomy De Mar South Side of Carmel Valuey Read bowen Carmino Ruiz 1200 800.030 (p40.0 73.02 14 N.N. S00.000 (particle body) (particle particle S00.000 (particle particle N.N. S00.000 (particle particle			Quadan nov		- 1 - 1 - 2 A			o pe			
Burnet: Annexan/DR Hothan/Torrey Del Mar: 1200 \$200,300 (p10,0) 73,62 14,0 N/N \$200,500 \$20,000 \$200,0											AS HENCH YEARANDY
Burnet: American/DH Notron/Torrey Del Nar: 1200 500,0300 124,00 73,02 14,0 N/A 500,500 522,000											Southwest corner of Camino Dei Norte and
Burnet: Annexan/OH Hotmon Formy De Mar South Set of Carmer Vallay Final between Carmino Ruiz 1200 800.800 (School) (School) 1240 NUA NUA S00.500 S02.000 S00.000 (School) S02.000 S00.000 (School) S00.000 (z		\$21,409	A \$186,652			N/A		\$13,998,925	12/90	Ryland/4S Ranch-Kelwood/Unit 1, Lot 27
Barnet: American/DR Hotran/Torrey Del Mar: 1200 \$200,300 (p10,0) 73,02 14,0 N/N \$205,00 \$22,400 \$238,000 South Side of Carmel Valley Road borwan Carmino Ruiz 1000 \$14,108,000 (portion) (portion) \$200 \$20,000 \$14,108,000 \$200 \$20,00								0,000 at. II.			88.
Burnet: American/DH Netron/Torrey Del Mar: 1200 \$200,000 [24,00] 73,02 140 N/A \$205,070 \$20,400 \$200,0											4S Hanch Parkway
Barnet: American/DR Horban/Torrey Del Mar 1200 \$200,03,00 124,00 73,02 14 N/A S20,05,00 \$22,400 \$238,000 South Side of Carnel Valley Road between Carnino Ruiz 5,000 at 1, minimum lots 5,000 at 1, minimum											Northwest corner of Carnino San Bornardo and
Barnet: American/DH Horban/Torrey Del Mar: 1200 \$200,000 124,00 73,62 140 N/A \$205,070 \$20,400 \$200,000 South Side of Carmel Valley Read bolwsen Carmino Ruiz 1000 \$00,000	₹	\$202,225	\$23,804	A \$178,421		-	N/A	NA	\$18,377,350	12/00	1.1
Barnet: American/DR Horton/Torrey Del Mar: 1200 \$20,053,050 194,00 73,62 140 N/A \$205,570 \$22,400 \$238,000 South Side of Carmel Valley Road between Carmino Ruiz (control)						9					
Barnet: American/DR Hortan/Torrey Del Mar: 1200 \$20,03,050 (24.00 73.62 140 N/A \$205,570 \$22,400 \$238,000 South Side of Carmel Vallay Road borween Carmino Ruiz 1000 \$0,000 rst \$0,000 rst minimum kots \$0,000 rst \$1,000 \$20,000 \$1,000 \$20,000 rst \$1,000 \$20,000<					8		minimum lots	5,000 sq. ft.	Centex, 45-		
Barnet: Annecan/OH Hoton/Torrey Del Mar 1200 \$20,03,500 124.00 73,62 140 N/A \$203,570 \$32,400 \$200,000 South Side of Camrel Valley Read between Camrino Ruiz 1200 \$20,0000 [Gordon) [G		(,	1-1-1-10-1	1	8		minimum lot	5.000 sq. ft.	Barratt, 46-		of Black Mountain Road
Barnet: American/DR Horton/Torrey Del Mar: 1200 \$20,03,000 (24.00 73.62 140 N/N N/N \$205,070 \$22,400 \$238,000 South Side of Carmel Valley Road between Carmino Ruiz 1200 \$20,030,000 (particle) (particle) \$20,000 (particle) \$20,000 \$	i		(avenace)	(averace)		1	nimum la	5.000 sc. ft.	Centex, 55-		West side of Carmel Valley Road south
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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Comparables 1A through 1F are the pending production builder contracts for sale at the neighboring Santaluz project to the north being developed by Santaluz, LLC with Taylor Woodrow Homes as managing member. The specific price information was held confidential at the request of the developer pursuant to a confidentiality agreement.

Comparables 2 and 3 are located immediately south of the Fairbanks Highlands project (south of the subject) across Carmel Valley Road. They are part of a larger acquisition of 380 lots by DR Horton who is marketing two products, Collins Ranch and Villamontes. Comparables 2 and 3 are guest builder lot groups. These properties are located in Subarea IV.

Comparable 4 is a portion of the Seabreeze Farms project west of the subject on Carmel Valley Road closer to the Carmel Valley neighborhood. It is a joint purchase by Barrett American and Centex Homes who will construct three product types. This property was previously under contract in the summer of 1998 at \$26,100,000 (\$178,767 per lot) with a finished lot cost projected at \$265,000.

Comparables 5 and 6 are two production builder lot groups in the 4S Ranch planned community east of the subject property. Only some details of these transactions were revealed due to knowledgeable parties adhering to a confidentiality agreement.

Comparables 7 through 10 are recent escrows or current negotiations for a three lot group and a portion of Lot Group A and Lot Groups C and B in the Rancho Cielo project. All are being purchased for development by merchant builders who will probably not conduct individual lot sales. Comparable 8 is one of the premiere locations in the project in the terms of high elevation and view. Comparable 10 is the sale of the first luxury production pod at the Rancho Cielo community.

Rancho Cielo has a Rancho Santa Fe zip code address but is not located in the covenant area. Rancho Santa Fe was formed by protective covenant in 1927 for rigidly controlled residential home development with 200 miles of equestrian trails and a 18-hole private golf course in a rural residential setting. There are excellent views from most of the lots.

After reviewing comparable data, including the confidential contracts and near contract at the neighboring Santaluz project to the north, the per lot "finished lot" value appears to be at the upper range of the market but reasonable given strong market acceptance and the short remaining time frame until absorption is completed.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

FINAL ESTIMATE OF VALUE

On the previous page, the market value of the fee simple interest of the subject property, as of June 1, 2000, subject to the aforementioned assumptions and limiting conditions, was estimated as follows:

1. Improved lots (lots owned by individual homeowners):	\$ 13,189,650
2. Developer owned lots (lots still owned by the developer):	\$ 34,000,000
3. Signal Landmark "Koll Property":	<u>\$ 1,830.000</u>
Total (as the sum of the three valuations):	\$ 49,019,650

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APPRAISAL REPORT

VOLUME II OF II

PROPOSED MELLO-ROOS COMMUNITY FACILITIES DISTRICT NO. 2

(FAIRBANKS HIGHLANDS - IMPROVEMENT AREA 3)

Both sides of Caminito Vistana, both sides of Carmel Valley Road, both sides of Camino Ruiz, north of the future extension of Ted Williams Parkway (State Route 56); San Diego, California, 92127 and 92129

APPRAISED FOR

City of San Diego Mail Station MS7B 202 C Street San Diego, CA 92101

DATE OF VALUATION

June 1, 2000

APPRAISED BY

D.F. Davis Real Estate, Inc. David F. Davis, MAI 16835 West Bernardo Drive, Suite 213 San Diego, California 92127-1613 File No. 00-02B

David F Davis, MAI



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

TABLE OF CONTENTS

ADDENDUM

- A. Individual Lot Summary
- B. Subject Property Legal Description
- C. Reeb Development Consulting Market Absorption Analysis Cover Letter and Executive Summary
- D. Assessor's Maps
- E. Fairbanks Highlands Marketing Brochure
- F. Tentative Map Substantial Conformance Exhibit and Final Map
- G. Comparable Sales Location Maps
- H. Comparable Sales Data Sheets and Plat Maps
- I. Certification
- J. Qualifications of David F. Davis, MAI



D.F. DAVIS REAL ESTATE INC.

FAIRBANKS HIGHLANDS SUMMARY OF ACRES PER FINAL MAP 13796 October 4, 1999

		Residential	HOA	Public	Public Open Space		
Lot	Size (Acres)	Acres	Acres	Acres	Acres	Other	Comments
1	1,128	1,128				•	Phase 1
2	1.065	1.065					Phaset
3	1.048	1.048					Phase 1
4	0.953	0.953					Phase 1
5	1,106	1,108					Phase 2
6	1.56	1.56					Phase 2
7	1.133	1.133					Phase 2
8	1,182	1.182					Phase 2
9	1,408	1.408					Phase 2
10	1.639	1,639					Phase 2
11	1.602	1.602					
12	1,865	1.665					
13	2.001	2.001					
14	2.091	2.091					
15	2.271	2.271					
16	2.638	2.638					
17	2.916	2.916					
18	3.774	3.774					
19	1,936	1,936					
20	1.214	1.214					
21	1.468	1,468					
22	1.135	1.135					
23	1.004	1.004					
24	1.501	1.501					
25	1.572	1.572					
26	1.367	1.367					
27	1.163	1.163					
28	1.365	1.365					
29	0.974	0.974					
30	0.758	0.758					
31	0.747	0.747					
32	1.128	1.126					Phase 2
33	0.922	0.922					Phase 2
34	0.945	0.945					Phase 2
35	0.761	0.761					Phase 1
36	0.722	0.722					Phase 1
37	0.827	0.827					Phase 1
38	0.898	0.898					Phase 1
39	1.975	1.975					Phase 1
40	0.983	0.983					Phase 1
41	1.152	1.152					Phase 1
42	1.148	1.148					Phase 1
43	1.022	1.022					Phase 1
44	1.015	1.015					Phase 1
45	1.05	1.05					
46	1.148	1.148					
47	1.348	1.348					
48	1.185	1.185					
49	0.952	0.952					
50	0.909	0.909					
51	1.133	1.133					
52	1.118	1.118					
53	0.847	0.847					
54	1.168	1.168					

EXHIBIT A

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Page 1 of 3 C-83 5/8/2000 David F. Davis, MAI

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FAIRBANKS HIGHLANDS SUMMARY OF ACRES PER FINAL MAP 13796 October 4, 1989



FAIRBANKS HIGHLANDS SUMMARY OF ACRES PER FINAL MAP 13796 October 4, 1999

		Residential	HOA	Public	Public Open Space		
Lot	Size (Acres)	Acres	Acres	Acres	Acres	Other	Comments
55	1.631	1.631				,	
56	1.428	1.428					
57	0.897	0.897					
58	0.904	0.904					
59	1.085	1.085					
60	1.028	1.028					
61	1.223	1.223					
62	1.319	1.319					
63	1.206	1.206					
64	1 274	1 274					
65	0.618	0.818					
66	0.738	0.738					
67	0.798	0.798					
68	0.856	0.856					
69	0.763	0.763					
70	0.764	0.764					
71	0.828	0.828					
72	0.833	0.833					
73	0.799	0.799					
74	0.704	0.704					
75	0.693	0.693					
76	0 796	0.796					
77	0.771	0.771					
78	0.785	0.785					
79	1.283	1.283					
80	1.282	1.282					
81	1.098	1.098					
82	1.227	1.227					
83	1.443	1.443			ntial Lot Su		
84	1.398	1.398		Average Lot		1.24486	
85	1.324	1.324		Minimum Lo		0.693	
86	1.051	1.051		Maximum Lo	t Size	3.774	
87	1.083	1.083					
88	2.241	2.241					
89	3.063	3.063					
90	1.23	1.23					Model
91	1.138	1.138					Model
92	1.214	1.214					Model
93	0.818	0.818					Model
94	9.646			9.646			School Site
Residential Acres	125.418	115.772		9.646	<u> </u>		

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Lot	Size (Acres)	Residential Acres	HOA Acres	Public Acres	Public Open Space Acres	Other	Comments
A	61.627				61.627	,	Open Space
8	7.462		7.462				HOA Open Space
c	85.821				85.821		Open Space
D	3.916		3.916				Private Drive
E	59,905				59.905		Open Space
F	9.056				9.056		Open Space
G	1.525		1.525				Private Street
н	1.822		1.822				Private Drive
j.	2.001		2.001				Private Drive
J	1.68		1.68				Private Drive
к	2 846		2 846				Private Drive
L	1.548		1.548				Private Drive
M	2.674		2 674				Private Drive
N	1.553		1.553				Private Drive
0	1.48		1.48				Private Drive
Public Streets	9.333			9.333			Carmel Valley Road, Carnino Ruiz
Total Project Acres	379.667	115.772	28.507	18.979	216.409		
Total Project Acres Excluding Acres Conveyed							
to Date	163.258	115.772	28.507	18.979			
Signal Landmark Acres	7.0					7.0	Church Site

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FAIRBANKS HIGHLANDS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY

A PORTION OF THE NORTHWEST QUARTER OF SECTION 12, TOWNSHIP 14 SOUTH, RANGE 3 WEST

EXCEPTING GRANT DEED 1999-0531693

AND

A PORTION OF THE NORTH HALF OF SECTION 11, TOWNSHIP 14 SOUTH, RANGE 3 WEST

NOW DESCRIBED AS:

LOTS I THROUGH 54, B, D, AND G THROUGH Ó OF FAIRBANKS HIGHLANDS, IN THE CITY OF SAN DEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 13796, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, JUNE 3, 1999.

LOTS A, C, E AND F HAVE BEEN CONVEYED TO THE CITY OF SAN DIEGO

306-010-12 306-010-20 306-020-11 (PORTION) 306-020-12 (PORTION)

SIGNAL LANDMARK CORPORATION, A CALIFORNIA CORPORATION

306-020-11 (PORTION) 305-020-12 (PORTION)

EXHIBIT B

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Jul-17-00 03:07pm From-THOMAS SAKAI 9498332998	T-164 P 04/07 F-247	Ju1-17-00	03:08pm From-THOMAS SAKAI	945	18332998 T-164 P 05/07 F-247		
Crder No.	# 1999-0531693				5063		
WHEN RECORDED MAIL TO:			GOVERNMENT CODE 27361.7				
CALIFORNIA CUASTAL COMMUNITIES 6 EXECUTIVE DR. #250 IRVINE, CA 92614 UNITED TO THE STATE ABOVE THIS LIDE FOR MALL TAX STATEMENTS TO: STATE ABOVE THIS LIDE FO	HERO TIANY REINGRAPS GPUIS:		CERTIFY UNDER PPN		T THE NOTARY SEAL ON THE ACHED READS AS FOLLOWS;		
DOCUMENTARY TRANSFER 	TAX		Commission Numberi	(2) 8499 Date C	commission Expires: MM 7. 2013		
1 \ 0.	Albert ANTERCON TITLE OC		County Where Bond Is Fi	lled: <u> </u>	ze		
POR A VALUABLE CONSIDERATION, resign of which is bereby setmonizing of	ACCOMODATION ONLY	Manufacturer or Vendor Number: Mac					
FAIRBANKS HIGHLANDS LL.C. A DRLAWARE LIMITED LIABILITY COMPANY			(Located on both sides o	h 6 ci			
hereby GRANTIS) & BIGRAL LANDMARK CORPORATION, A-CALLFORMA CORPORATION	1			-			
the feed property in the City of SAN DIRGO County of SAN DIRGO	State of California, described as		Signature;Firm Name (if applicable)				
see exhibit "A" ATTACKED HERETO AND INCORPORATED MERLIN BY THIS REFEREN	ICE.				· approad(s)		
FAIRBANKS A DELAWAR	HIGHLANDS LL.C. Il LIMITED LIABILITY COMPANY		· Place of Execution:	Sw ngo	_ Date: 8/2/99		
Bried b-16-99 BY: TAYLO A CALE MENDER GTATE OF CALEGORNIA COUNCY OF UN BURGE COUNCY OF UN	R WOODROW HOMES, INC. FORMACONFORATION, AS MANAGING				,		
notionally known to ma (see proved to me see the back of estimation of another to be the partophylicity of the set of the set of the set of the within instrument and achaparlodged to use that between they are used to estima instrument and achaparlodged to use that between they are used to estima in bindperively authorized capacity flow, and that by histochicals signature(s) on the instrument the sponth(s) or the entity upon betail of which the partophylazid, sightled the instrument WITNESS mydmid godforficial stall. Bignature Market STATEMENTS AS DIRECTED ABOVE	JULIA INFINE PLATT COMMUNICATION COMUNICATION COMUNICATION COMUNICATION COMUNICATION COMUNICATION COMUNICATION COMUNICATION COMU		Rec. Form FR10 (Rev. 7/98)		,		
Order: EXP. 15.00014931 Description: 1999.531693 Page 1 of 4 (7.0 aure percel anned by Signal Leve no separate apr . C-88	Comment:	Order, EX	Р-15-00014931 Descriptic	on. 1999.531693 Page 2 C-89	of 4 Comment:		
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9498332998

EXHIBIT "A" **LEGAL DESCRIPTION**

THAT PORTION OF THE NORTHWEST QUARTER OF SECTION 12, TOWNSHIP 14 SOUTH, RANGE 3 WEST, SAN BERNARDINO BASE AND MERIDIAN, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO OFFICIAL PLAT THEREOF DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHEAST BOUNDARY CORNER OF FAIRBANKS HIGHLANDS, MAP NO. 13796, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAID SAN DIEGO COUNTY ON JUNE 3, 1999, SAID POINT BEING OCCUPIED BY A 3/ IRON PIPE WITH TAG STAMPED L.S. 4324; THENCE ALONG THE EASTERLY BOUNDARY LINE THEREOF, SOUTH 1*00'57" WEST, 293.00 FEET TO THE TRUE POINT OF BEGINNING, SAID POINT BEING THE BEGINNING OF A NON-TANGENT CURVE CONCAVE SOUTHEASTERLY, HAVING A RADIUS OF 1839.00 FEET, A RADIAL LINE TO SAID POINT BEARS NORTH 28:43'43" WEST; THENCE SOUTHWESTERLY ALONG SAID EASTERLY BOUNDARY LINE AND THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 18-11'45", AN ARC DISTANCE OF 548.10 FEET; THENCE CONTINUING ALONG SAID EASTERLY BOUNDARY LINE. THE FOLLOWING: SOUTH 47*04'32" WEST, 158.68 FEET TO THE BEGINNING OF A TANGENT 20.00 FOOT RADIUS CURVE CONCAVE EASTERLY; THENCE SOUTHERLY ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 84°38'51", AN ARC DISTANCE OF 29.55 FEET; THENCE SOUTH 37°34'19" EAST, 88.01 FEET TO THE BEGINNING OF A TANGENT 1420.00 FOOT RADIUS CURVE CONCAVE SOUTHWESTERLY; THENCE SOUTHEASTERLY ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 14°55'16", AN ARC DISTANCE OF 369.80 FEET: THENCE NORTH 66°27'00" EAST, 314.12 FEET TO THE EAST LINE OF THE NORTHWEST QUARTER OF SAID SECTION 12: THENCE LEAVING SAID EASTERLY BOUNDARY LINE, ALONG THE EAST LINE OF THE NORTHWEST

PAGE 1 OF 2

Order: EXP-15-00014931

Description; 1999.531693 Page 3 of 4

Order: EXP-15-00014931

Jul-17-00 03:11pm From-THOMAS SAKAI

OR LESS.

TRUE POINT OF BEGINNING.

For or the for

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Description 1999,531693

Pege 4 of 4

Comment:

JOHN W. HILL, JR L.S. 5669 HUNSAKER & ASSOCIATES SAN DIEGO, INC.



T-164 P 07/07 F-247

9498332998

QUARTER OF SAID SECTION 12, NORTH 1º 00 57" EAST, 813.35 FEET TO THE

THE HEREINABOVE DESCRIBED PARCEL OF LAND CONTAINS 7.00 AGRES MORE

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PAGE 2 OF 2

C-90



City of San Dlego Community Facility District No. 2 (Fairbanks Highlands) Improvement Area Three Market Absorption Analysis

Executive Summary

I. Study Objectives, Methodology & Development Concepts

- * The objective of this assignment was to determine the most likely potential market absorption of the houses left to be sold in Community Facility District (CFD) No. 2 (Fairbanks Highlands), Improvement Area Three, in the City of San Diego. Fairbanks Highlands is a new home subdivision that had already opened for sales at the time this analysis was conducted.
- * To achieve the objective of this assignment, a thorough market evaluation was undertaken. Research included: an inspection of the subject site, analysis of demographic and economic data, analysis of historical market trend data, analysis of active competitive projects, analysis of planned and proposed projects, and preparation of projections of future market supply and demand conditions. All research and analysis was conducted in March and April, 2000.
- * This executive summary was originally prepared in April 2000, and was subsequently revised in July 2000, to reflect changes to CFD No. 2. The full original back-up report was not revised, and still reflects CFD No. 2 as originally proposed.
- * Fairbanks Highlands is located in the northern area of the City of San Diego, roughly halfway between Interstate 5 and Interstate 15. Fairbanks Highlands is located in what has been known as the "Future Urbanizing Area" (Sub-Area IV) of the City of San Diego.
- * Fairbanks Highlands totals 93 lots. As of March 22, 2000, the time of the original analysis, a total of 48 units had been released for sale, and 43 had been sold, for a sales rate of 0.93 units per week. As of May 26, 2000, a total of 63 units had been released for sale, and 57 sold, for an overall sales rate of 1.03 units per week. Prices in March of 2000 ranged from about \$949,990 to over \$1.0 million. Fairbanks Highlands has an HOA of \$210 per month, and total taxes and assessments estimated at about 1.80% (sales office estimate).

C-93

10457 Harvest View Way • San Diego, California 92128 • (858) 486-5246 • fax (858) 486-5247

EXHIBIT C

CFD No. 2 (Fairbanks) - Executive Summary July 5, 2000 Reeb Development Consulting Page i-2

II. Demographic & Economic Trends

- * According to the San Diego Association of Governments (SANDAG), San Diego County is expected to grow by 17,780 households per year over the next five years. Households earning over \$150,000 per year (the primary target market for homes at Fairbanks Highlands) are expected to grow by almost 6,200 households per year in San Diego County as a whole over the next five years, and by over 1,550 households per year in the Central county area (location of Fairbanks Highlands).
- * The Central market area has a much higher proportion of home owners than the county as a whole (Central 68.5%, County 54.3%). This is a reflection of a number of positive attributes of the Central area such as excellent proximity to employment, proximity to the Pacific Ocean, the presence of two of the best school districts in the county (San Dieguito and Poway), and good proximity to the main cultural and recreational resources of the county.
- * Since the beginning of the latest economic recovery in 1994, San Diego County has added over 203,000 new jobs. Job growth peaked in 1998 at 51,200 new jobs, declining to still strong job growth of 44,800 new jobs in 1999. Initial figures indicate that job growth has continued at an annual pace of over 30,000 new jobs so far in 2000. Typical economic expansions in San Diego County in the past lasted at most from five to seven years. San Diego is now in the seventh year of the latest up cycle, indicating that, from a historical perspective, an economic slowdown could be on the horizon.
- * Rising gas prices, rising interest rates, and instability in the stock market all could trigger a slowdown in the local economy. A slowdown in job growth would translate into a drop in the demand for new housing in the region, which in turn would translate into slower absorption rates for projects coming on the market in the years ahead compared to projects that opened in 1997, 1998 or even 1999, when job growth was rising, interest rates were lower, the stock market was rising, and home prices were lower than they are today.
- * Employment growth for the county as a whole has been projected by SANDAG at 28,020 new jobs per year through the year 2005. While this rate of growth is below levels achieved over the past few years, San Diego most likely will continue to face a new home supply versus demand imbalance, as developable residential sites continue to become more and more scarce. Growth of 28,020 jobs per year would translate into the demand for at least 14,000 to 19,000 new homes per year over the next five years. In comparison, there were an average of only about 13,300 building permits issued each year over the past three years.

CFD No. 2 (Fairbanks) - Executive Summary July 5, 2000

Reeb Development Consulting Page i-3

III. Housing Market Trends

- * After several years of rising new home sales activity from 1996 through 1998, new single family home sales activity stabilized in 1999. The stabilization in sales was primarily a result of: higher new home prices, rising interest rates, and slowing job growth. A total of 7,235 new single family homes were sold in San Diego County in 1999. Among the units sold in 1999, 3,889 were priced under \$299,999 (53.8%) and 2,606 were priced from \$300,000 to \$499,999 (36.0%). In the higher price ranges, there were 627 sales countywide from \$500,000 to \$749,999 (8.7%), 69 sales from \$750,000 to \$999,999 (1.0%), and 44 sales over \$1.0 million (0.6%).
- * A combination of flat overall sales and an increase in the number actively selling projects caused project-by-project absorption rates in San Diego County to drop to 0.82 sales per project per week in 1999 from 0.95 sales per project per week in 1998. The median price of all new single family homes sold in San Diego County in 1999 was \$288,749, far less than prices at Fairbanks Highlands (\$949,990+).
- * New single family home sales totaled 3,134 units in the Central market in 1999, representing 43.3% of all new home sales in San Diego County. Thanks to the positive attributes of the area, the Central market captures by far the highest proportion of high-end new home sales of any portion of San Diego County. In 1999, the Central market accounted for 84.4% of all sales from \$500,000 to \$749,999 (451 sales), 95.7% of all sales from \$750,000 to \$999,999 (54 sales), and 100% of all sales over \$1.0 million (44 sales).
- * The median price of all new single family homes sold in the Coastal Central market area in 1999 was \$459,717, while the median in the Inland Central market area was \$363,493. Fairbanks Highlands has benefited from being in the right part of the county from a locational standpoint to be developed as one of the highest priced communities in the region.
- * Resales of single family homes priced over \$500,000 accounted for only 7.6% of county-wide resales in 1999 (2,324 sales), but accounted for 22.0% of sales in the Central County area (1,228 sales). The Central market accounted for about 53% of all \$500,000+ homes resold in the county in 1999, despite representing only 8.5% of all existing households.
- While new home market trends in general are fairly positive, it is worth reiterating that only 10.3% of all new home sales county-wide in 1999 were in the \$500,000+ price range (740 sales), indicating that despite recent increases in economic prosperity in the region, that the high-end of the market in San Diego County represents a relatively small proportion of the total market at this time.

CFD No. 2 (Fairbanks) - Executive Summary July 5, 2000

Reeb Development Consulting Page i-4

IV. Residential Market Analysis

- * There is a very close correlation in San Diego County between average home price and project-by-project sales rates. Generally the higher the home price, the lower the sales rate. In the 4th Quarter of 1999, projects with an average price under \$299,999 averaged 1.51 sales per project per week, while projects from \$300,000 to \$499,999 averaged 0.93 sales per project per week. Projects with prices from \$500,000 to \$999,999 averaged only 0.52 sales per project per week, while projects over \$1.0 million averaged only 0.19 sales per week in the 4th Quarter of 1999. It should be noted that sales rates in the Central area are higher than in the county as a whole in the \$500,000 to \$999,999 range, averaging 0.72 sales per week at this time.
- * The home prices at Fairbanks Highlands position homes in the community at, or above, the top of the Central market at this time on an absolute price basis relative to comparable size homes on comparable size lots. Adding in home owners association dues and CFD costs, the cost of owning a home in Fairbanks Highlands is above most of the rest of the market in the area today. While the relatively high cost of owning a home in Fairbanks Highlands may deter some people from buying in the project, the performance of the project to date has been quite strong regardless of the additional costs.
- * There are seven active large-scale communities in the Central market area at this time. There are about 14,265 residential units of all types left to be developed in those communities (although only about 50% of the units are likely to be priced over \$500,000), indicating that Fairbanks Highlands will face competition from existing communities. There are also four proposed developments in the Central area with the potential for over another 11,900 units, however given the projected sell-out period of Fairbanks Highlands, it is unlikely that any of the proposed communities will provide any competition to Fairbanks Highlands.
- * The demand for new single family homes priced over \$500,000 in the Central market has been projected at from 831 ("conservative") to 1,209 ("optimistic") units per year over the next five years. In comparison, the actual number of new single family homes sold in the Central area priced over \$500,000 totaled 520 units in 1998 and 639 units in 1999. In light of historical sales, even the "conservative" projected demand should be considered somewhat aggressive.
- If all of the existing communities in the Central area continue to bring new product to the market as expected, if all of the planned and proposed communities come on line as expected, and if the developer's projections for sales at Santaluz are utilized, the \$500,000+ market in the Central area will start becoming overbuilt in 2001. If every project comes on-line as expected, total sales will need to reach 1,348 units in 2001 and 1,776 units in 2002 to accommodate all of the projects planned (compared to conservative demand projections of 831 units per year, and optimistic demand projections of 1,209 units per year).

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Reeb Development Consulting Page i-5

* There are three likely consequences if the \$500,000+ market becomes oversupplied as is projected starting in the year 2001: 1) home prices will decline and/or the use of incentives will increase dramatically, 2) absorption rates will slow, and/or 3) projects will be delayed in coming on the market. Given the current sales pace of Fairbanks Highlands, it most likely will be sold-out before the market becomes over-supplied, and hence the impact on Fairbanks Highlands should be negligible.

V. Absorption Conclusions

- * More so than any other part of San Diego County, the Central market area is appropriate for the development of a high-end housing such as is currently being built at Fairbanks Highlands. Thanks to a rare combination of attributes (proximity to jobs, proximity to the ocean, two of the best school districts in the county, etc.) the Central market area captures far more \$500,000+ sales than any other part of the county, and is expected to continue to do so in the foreseeable future.
- Given current and future expected market trends in San Diego County in general, and in the Central market area specifically, sales activity at Fairbanks Highlands is expected to continue along the lines exhibited by the project in the recent past. Although the project was selling at 1.03 units per week as of late May 2000, we believe that due to changes in interest rates, the stock market, and consumer confidence levels, that the slightly more conservative figure of 0.93 sales per week exhibited by the project as of mid-March 2000, is a more sustainable figure for the remainder of the project. As such, the build-out of Fairbanks Highlands has been projected at 0.93 units per week. For the purpose of this analysis, it will be assumed that the project had 36 units left to sell as of June 1st, 2000.
- * Based on our analysis of the new home market in San Diego County, and our conclusions regarding Fairbanks Highlands itself, the remaining 36 units in Fairbanks Highlands should all be sold out in fiscal year 2000/2001 (June 1st 2000 to May 31st 2001), with the entire project being sold out in approximately February, 2001.
- * The absorption projections for Fairbanks Highlands assume that prices are not increased out-of-line with overall appreciation rates being exhibited in the San Diego area as a whole, and that project advertising and marketing efforts continue along the same lines as in the past.

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EXHIBIT D







EXHIBIT E





Montecito Residence One

Single Story With Expansive Gated Entry Courtyard, Three Bedrooms, Three And One-Half Baths With Library, Activity Room, And A Spacious Sun Room. Three-Car Turn-In Garage Approximately 3,883 Square Feet FROM \$ 1037,990 TO \$ 1,210,990

Belcourt

Residence One Extraordinaire (Not Modeled) Two Stories, Five Bedrooms, Five And One-Half Baths With Library, Activity Room, Bonus Room, And A Spacious Sun Room. Three-Car Turn-In Garage Approximately 5,114 Square Feet FROM \$1,157.990

Belle Meade

Single Story With Entry Courtyard and Central Motor Court, Five Bedrooms, Four And One-Half Baths With Sun Room. Three-Car Garage.

Two Stories, Four Bedrooms, Four And One-Half Baths With Spacious Sun Room, Downstairs Study, Home Office Or Exercise Room. Three-Car Turn-In Garage. Approximately 5,067 Square Peet FROM'S 1, 111, 990 'FO S 1,204,990

Montsorrel Residence Pour

Two Stories With Grand Foyer, Five Bedrooms, Five And One-Half Baths With Library, Home Office, Bonus Room, Spacious Morning Room. Four-Car Turn-In Garage. Approximately 5,463 Square Feet FROM \$ 1,106,990 TO \$ 1,260,990





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14146 Caminito Vistana, San Diego, California 92130 (858) 780-0804 Fax (858) 780-0809 taylorwoodrow.com e-mail info@taylorwoodrow.com



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Neighborhood Information

Fairbanks Highlands is planned to be an exclusive neighborhood comprised of 93 single-family estate homes on expansive one-acre homesites Beautifully designed, these residences are representative of a blend of rich Spanish Colonial, Northern European, Traditional and inspired Italian architectural styling which brings a custom approach to the overall integrity of the neighborhood

Comprised of 368 acres of rolling countryside, the community will be gated, and the neighborhood amenities such as the landscaping of all common areas and the gate will be maintained by the homeowners association for an anticipated monthly fee of \$210.

The "effective" base tax rate for Fairbanks Highlands homeowners is approximately 1.05% In addition, an annual Special Tax Assessment for schools, infrastructure and lighting is planned which will increase the base tax rate of 1.05% to approximately 1.80%

The Poway Unified School District advises that the schools initially available to Fairbanks Highlands residents are

Adobe Bluffs Elementary School (K-5) (858) 538-8403

Black Mountain Middle School (6-8) (858) 484-1300

Mount Carmel High School (9-12) (858) 484-1180

The planned West View High School is expected to be developed and available to accept students in approximately two years

Builder: Taylor Woodrow Homes, Inc Architect: Robert Hidey Architects

The determinational information is apportantiate and primination. Changing may occur without order at any time. In our continuing efforts to meet consume expectations, Taylor Woodrow Homes, Inc. reserves the right to modely features, specifications and/or prices without notoe or displaton. How and constancially becomes a combined or the basements Association without notoe or displaton. It have considered and the second second and the Base consider or another of the combined educity







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How can space fill your heart? You'll know at Fairbanks Highlands by

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Taylor Woodrow. Expansive one-acre homesites give you plenty of room to chase the kids, toss a ball for the dog, lose yourseli on a Saturday afternoon just

watching the majestic rolling hills around you.

And yet the space doesn't end outside. Inside your home you'll feel the sprawf of a "gentleman's ranch" from a time gone by as the gentle countryside of the land truly defines each residence. Even in the moonlight you'll appreciate the refined architectural details as you head for bed. You'll feel the timeless quality, the history, the sense of home every single day and take it with you — even when duty calls in the city.

Fairbanks Highlands. We have a space for you.

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Montecito One A, Spanish Colonial (As Modeled)



Montecito One B, Northern European

Belcourt Residence One Extraordinaire (Not Modeled)

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Two Stories, Five Bedrooms, Five And One-Half Baths, Bonus Room, Activity Room, Library, Spacious Sun Room, Expansive Gated Entry Courtyard, Grand Living And Dining Rooms With Private Loggia Off The Living Room, Family Entertainment Room With Loggia, Gourmet Kitchen With Island, Butler's Pantry, Luxurious Master Suite, Three-Car Garage. Approximately 5,114 Square Feet





SECOND FLOOR

Residence One Extraordinaire is shown as Elevation A, Spanish Colonial Windows vary per elevation

C-112



Optional Room Selections Include

- * Master Bath With Cabinetry (In Lieu
- Ot Pedestal Sinks As Shown In Model) # Bedroom Four At First Floor
- Casita With Living Suite, Fifth Bedroom And Bath At First Floor

Optional Master Bath With Cabinet Sinks At First Floor



Optional Bedroom Four At First Floor



Optional Casita With Living Suite, Fifth Bedroom And Bath At Pirst Floor (Note A Moduled Casita Has Been Modeled As Our Sales Office)

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Residence One Extraordinaire room options are shown as Elevation A, Spanish Colonial. Windows vary per elevation.

Optional Room Selections Include:

➡ Master Bath With Bidet

➡ Library

Exercise Room







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Residence Two is shown as Elevation A, Northern European. Windows vary per elevation.

C-114



Belle Meade Residence Two

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Single Story With Entry Courtyard And Central Motor Court, Five Bedrooms, Four And One-Hali Baths, Formal Living And Dining Rooms Separated By A Double-Sided Fireplace, Family Entertainment Room. Gourmet Kitchen With Island, Sun Room, Butler's Pantry, Luxurious Master Suite, Three-Car Garage. Approximately 4.411 Square Feet

1 - CAR GARAGE

Woodlawn Residence Three

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Two Stories, Four Bedrooms With Home Office Or Exercise Room, Four And One-Half Baths, Study, Separate Formal Living And Dining Rooms, Gourmet Kitchen With Island, Butler's Pantry, Family Entertainment Room. Spacious Sun Room, Luxurious Master Suite, Three-Car Garage Approximately 5,067 Square Feet



Residence Three floorplan is shown as Elevation $\Lambda,$ Traditional (As Modeled) Windows vary per elevation

C-116

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Residence Three room options are shown as Elevation A. Traditional (As Modeled). Windows vary per elevation



Woodlawn Three A, Traditional (As Modeled)



Woodland Three B, Spanish Colonial





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Residence Three floorplan is shown as Elevation A, Traditional (As Modeled). Windows vary per elevation.





Montsorrel Four A Reverse, Spanish Colonial (As Modeled)

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Montsorrel Four B Reverse, Italian

Double-Take Details

- An eclectic blend of Spanish Colonial, Early California, Traditional, Northern European and Italianate architectural styling rendered in balanced palettes of color, both rich and delicate
- Hand-rubbed entry doors at Spanish Colonial, Early California, Northern European and Italian elevations, and painted entry doors at Traditional elevations. Oil-rubbed bronze Baldwin entry door hardware enhances the architectural design at every elevation
- Roofing materials consisting of authentic fire-retardant clay or concrete tiles in complementary colors and styles, depending upon architectural styling
- Maintenance-free dual glazed vinyl windows
- ★ A stunning streetscape complemented by attached three and jour-car garages, with sectional wood roll-up doors
- ★ Automatic garage door opener with two transmitters
- * Rain gutters and downspouts (locations vary per elevation)
- * Weather-proofed exterior electric outlets
- * Gas connection at external barbecue grill site
- Garage finished with drywall interiors includes fluorescent lighting and convenient electric outlets
- Special smooth style exterior stucco finish on ali styles and wood siding on portions of Traditional elevations
- Courtyard walls with gated entrances at Residences One and Two

Impressive Appointments

For Perfectionists

- Formal entry foyer with a choice of designerselected light fixtures
- # Spacious family room with media niche
- Large secondary bedrooms with abundant closet space and private bath
- * Living and family room fireplaces in each residence
- Gas log lighter valve at fireplaces
 Beautifully custom-crafted staircases complement
- beaufility custom-crated starcases complement interior architecture at Residences Three and Four and Residence Four has a secondary rear staircase for added convenience
- Handsomely cased windows in major living areas including Living, Dining and Family Rooms
- # Classic French doors
- Gracious eight-foot raised-panel interior doors at first floors and at master bedrooms, and six-foot eight-inch doors at second floors
- Decorative white rocker and dimmer switches in
- dining room, both by Decora # Designer-selected entry foyer, powder room and
- dining room light fixtures available in a choice of styles and finishes
- Impressive Kohler Revival pedestal sinks in powder room
- Impressive custom-style baseboard and casing
 Cultured-marble laundry countertops

C-122

For Perfectionists (Continued)

- Interior laundry room with built-in cabinetry and storage, plus convenient sink with pull-out spray
- A completely integrated multi-media wiring system prepares your home to be "Powered For Interactive Living" with four convenient locations for high-speed data, audio and video distribution. This structured wiring system includes category five wiring and RG-6 quad shield coaxial cable which prepares your home for high-speed internet access, local area networks (LANs) within the home, digital telephones, faxes, and cable television
- Baldwin lever-style interior door hardware in oil rubbed bronze tinish and exterior door hardware in a distressed Old World finish
- Dual-zoned, central air conditioning and gasforced air heating throughout

Food For The Soul

- Gourmet kitchen thoughtfully designed for contiort, function and appeal by professional culinary consultants
- * A bright sun room perfect for everyday family meals
- Food preparation or cooktop kitchen island

An exceptional complement of appliances

- Kitchen Aid 5-burner cooktop in black, white or stainless steel
- Kitchen Aid 30⁻ gas double oven with convection in black, white or stainless steel
- Kitchen Aid microwave in black, white or stainless steel
- Kitchen Aid Quiet Wash dishwasher in black, white or stainless steel
- Double-compartmentalized Kohler "Executive Chef" kitchen sink in white, black or biscuit
- with Rohl "Country Classic" faucet in chrome or polished nickel with separate pull-out spray
- Insinkerator heavy-duty disposal
 White 8" x 8" ceramic tile countertops and
- back- splash in kitchen
- Fluorescent under-cabinet task lighting
- Choice of white or antique white custom styled cabinetry with European hidden hinges, fixed and adjustable shelving, white laminate interiors, steel
- drawers for durability and pullout recycle bin Deep roll-out drawers for pots and pans
- Convenient Butler's Pantry in each residence Generously proportioned walk-in pantry
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For Perfectionists (Continued) 4 Interior laundry room with built-in cabinetry and storage, plus convenient sink with pull-out spray

A completely integrated multi-media wiring system prepares your home to be "Powered For Interactive Living" with four convenient locations for high-speed data, audio and video distribution. This structured wiring system includes category five wiring and RG-6 quad shield coaxial cable which prepares your home for high-speed internet access, local area networks (LANs) within the home, digital telephones, faxes, and cable television

- Baldwin lever-style interior door hardware in oil rubbed bronze finish and exterior door hardware in a distressed Old World finish
- Dual-zoned, central air conditioning and gasforced air heating throughout

Food For The Soul

- Gourmet kitchen thoughtfully designed for comfort, function and appeal by professional culinary consultants
- * A bright sun room perfect for everyday family meals
- Food preparation or cooktop kitchen island

- Food For The Soul (Continued) An exceptional complement of appliances includes:
- Kitchen Aid 5-burner cooktop in black, white or stainless steel
- Kitchen Aid 30" gas double oven with convection in black, white or stainless steel
- Kitchen Aid microwave in black, white or
- stainless steel ≈ Kitchen Aid Quiet Wash dishwasher in black,
- white or stainless steel Double-compartmentalized Kohler "Executive
- Chef" kitchen sink in white, black or biscuit with Rohl "Country Classic" faucet in chrome or polished nickel with separate pull-out spray
- or poissied nicker with separate put-o
 Insinkerator heavy-duty disposal

White 8" x 8" ceramic tile countertops and back- splash in kitchen

Flüorescent under-cabinet task lighting Choice of white or antique white custom styled cabinetry with European hidden hinges, fixed and adjustable shelving, white laminate interiors, steel caravers for durability and pullout recycle bin Deep roll-out drawers for pots and pans Convenient Butler's Pantry in each residence Generously proportioned walk-in pantry

The Hideaway

- ant and casay
- Sumptuous master bedroom suites
 Spacious walk-in closets with storage space and shelf configurations
- * Mirrored wardrobes in master bedrooms
- The roomy ease of an all Kohler
- The roomy ease of an all Kohler compartmentalized bath with dressing area
- ➡ Separate shower and inviting oversized Kohler "Revival" oval tub with ceramic-tile surrounds
- 6" x 6" ceramic tile in all baths
- Separate water closet provides privacy
- His and Hers' dual Kohler china lavatories with gorgeous Rohl hardware in a choice of chrome, satin nickel or polished nickel
- # Full-sized beveled mirrors
- # Intimate recessed lighting
- Convenient vanity

Tantalizing Options – As Individual As You Are

We offer a long list of optional detailing at Fairbanks Highlands, including an incredible choice of room selections to suit your lifestyle. We invite you to indulge your desires by choosing from a wide variety of custom features to assist you in personalizing your new Fairbanks Highlands home through our very own Design Center. Taylor Woodrow's design experts are available to assist you with your selections. Please consult our sales team for complete details.

Zontimung clorus to meet consumer expectations, Taylor Woodrove Homes, Inc. reserves the right to madify features, specifications, or prices without notice or obligation. All square Wegtore approximate. Renderings are artists concepts, she residents of Fairbanks Highlands you will automatically became a member of the Homeoeners Association maintains with fairbanes and promotes architectural standards. Please consult out sales team members for a complete review of the architectural plans and all additional details. F

L'ounded in 1921, Taylor Woodrow Homes, Inc. is internationally recognized for excellence in construction, homebuilding and the development of master-planned communities. Major international airports, multi-million dollar shopping mails and even the Channel Tunnel are among the accomplishments for which Taylor Woodrow is renowned.

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Publicly traded on the London Stock Exchange, the firm is highly regarded for its long-lived stability. Its accountability to shareholders is equalled only by its commitment to customers.

The team at Taylor Woodrow Homes consistently devotes its skill and expertise to the crafting of fine homes throughout the world, to which its many award-winning communities in Southern and Northern California attests. Because foremost in Taylor Woodrow's experience is the knowledge that no matter where in the world it is, the place most important to you... is home.

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EXHIBIT F







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EXHIBIT G











Comparable Land Sales

Retail























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Comparable A-1-10/Church Land Data 1

Project:	Kilroy Realty-Santa Fe Summit		
Location:	Future intersection of Camino Ruiz and Ted Williams Parkway (State Route 56), San Diego		
Assessor's Parcel No.:	306-051-08 (portion)	Thomas Bros. Map Code: 1189-A-4	
Size:	17.0 gross acres; 15.5 net acres		
Zoning:	A-1-10, San Diego (to be changed to M-IP with a Planned Industrial Development Permit)		
Utilities:	Available, but need to be installed		
Date of Sale:	March 15, 2000	Document No.: 131091	
Sale Price:	\$11,000,000		
Price/Sq.Ft.:	\$16.29		
Terms:	2,500,000 cash down and a $8,500,000$ loan carried by the seller at $10.0%$ interest payable upon delivery of offsites-onsites (finished lots) by year end, 2000. If not completed at that time, there is a $1,000$ per day penalty. There is also a requirement that on and offramps to State Route 56 from Camino Ruiz be completed at later date.		
Cash	A11.000.000		
Equivalent Price:	\$11,000,000		
Buyer:	Kilroy Realty, LP		
Seller:	Western Pacific Housing-Torrey Comm	ercial, et. al.	
Source:	Steve Scott, Kilroy Realty, buyer		
Comments:	The property is being purchased as "finished lots" for a new business park entitled for 300,000 square feet of which 75,000 square feet can be multi-tenant occupancies with the balance being single tenant occupancies. The buyer will		

EXHIBIT H

C-165

approximately \$30,000 per acre.

complete processing of the final subdivision map but the seller will deliver the property in "finished lot" condition. The price was agreed upon in August, 1999 and the subdivision will consist of six lots that can be assembled into larger parcels as all are at or near the same finished grade level. Development fees are





Comparable A-1-10/Church Land Data 2

Project:	Redeemer by the Sea Lutheran Church		
Location:	West side of Black Rail Road, west of West Ambrosia Lane, Carlsbad		
Assessor's Parcel No.:	215-080-22	Thomas Bros. Map Code: 1127-C-4	
Size:	10.11 gross acres		
Zoning:	PC, Carlsbad		
Utilities:	Available		
Date of Sale:	March 13, 2000	Document No.: 126353	
Sale Price:	\$2,200,000		
Price/Sq.Ft.:	\$5.00		
Terms:	\$91,780 cash down payment; \$2,108,2 Extension Fund at 7.625% (VIR)	20 first trust deed with Lutheran Church	
Cash Equivalent Price	: \$2,200,000	1	
Buyer:	Redeemer by the Sea Lutheran Church		
Seller:	Theresa K. Spencer (et.al.), Kaiser & Associates		
Source:	Comps.com; Michael Kassinger, Dyson & Dyson Real Estate, broker		
Comments:	The property consists of raw land with one farm building requiring site development costs that are significant but were not disclosed.		



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Comparable A-1-10/Church Land Data 3

Project:	Taiwanese Lutheran Church
Location:	South side of Azuaga, west of Caminito Ciera, San Diego (Rancho Bernardo/Penasquitos)
Assessor's Parcel No.:	315-570-05 Thomas Bros. Map Code: 1189-F-4
Size:	3.780 net acres
Zoning:	CA-CP, San Diego
Utilities:	Available
Date of Sale:	January 10, 2000 Document No.: 014474
Sale Price:	\$930,000
Price/Sq.Ft.:	\$5.65
Terms:	All cash
Cash Equivalent Price:	\$930,000
Buyer:	Taiwanese Lutheran Church San Diego
Seller:	San Diego Gas & Electric Company
Source:	Comps.com; Terry Jackson, Burnham Real Estate Service, broker
Comments:	This property had a one year escrow/under contract period.





Comparable A-1-10/Church Land Data 4

Project:	Roman Catholic Church		
Location:	Southeast corner of Cannon Road and Melrose Drive, Oceanside		
Assessor's Parcel No.:	Thomas Bros. 169-011-46 Map Code: 1107-G-3		
Size:	11.50 gross acres; 9.870 net acres		
Zoning:	C-G-PBD, Oceanside		
Utilities:	Available		
Date of Sale:	July 31, 1998	Document No.: 479771	
Sale Price:	\$1,315,000		
Price/Sq.Ft.:	\$2.63 gross; \$3.06 net		
Terms:	All cash		
Cash Equivalent Price	: \$1,315,000		
Buyer:	The Roman Catholic Bishop of San Diego		
Seller:	Melrose/Cannon Partnership	nnon Partnership	
Source:	ce: Comps.com; Reg Kobzi, Grubb & Ellis, broker		
Comments:	This property had some loss from gross to net size due to a natural habitat issue involving Coastal Sage Scrub. There are also offsite costs which were not disclosed.		





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Comparable A-1-10/Church Land Data 5

Project:	Roman Catholic Church		
Location:	Future intersection of Camino Ruiz and Ted Williams Parkway (State Route 56); current terminus of Carmel Mountain Road, San Diego		
Assessor's Parcel No.:	306-050-18, 19, 28	Thomas Bros. Map Code: 1189-A/B-5/6	
Size:	8.32 net acres		
Zoning:	Subarea IV Plan Commercial Lin	nited (A1-10)	
Utilities:	Available (to be extended)		
Date of Sale:	In escrow, August, 1998 Closed January 15, 1999	Document No.: 026406	
Sale Price:	\$2,750,000		
Price/Sq.Ft.:	\$7.59		
Terms:	All cash		
Cash Equivalent Price:	\$2,750,000		
Buyer:	The Roman Catholic Bishop of San Diego		
Seller:	Joseph and Mary Mills		
Source:	Gunder Creager, Colliers International, broker; Gary Rasmuson, MAI, appraiser		
Comments:	The property has a very limited zoning overlay which permits residential, veterinarians, nurseries (growing), storage, churches and trade schools. The property was identified after a two year site search. Finishing costs are estimated to be \$3.00 per square foot.		





Comparable A1-10/Church Land Data 6

Project:	Roman Catholic Church		
Location:	Southeast corner of Carmel Valley Road and Black Mountain Road, San Diego		
Assessor's Parcel No.:	Thomas Bros. 305-030-19 Map Code: 1188-E-4		
Size:	54.56 gross acres		
Zoning:	A1-10		
Utilities:	Available		
Date of Sale:	September 29, 1997	Document No.: 481438	
Sale Price:	\$9,830,000 plus \$591,500 commission (total \$10,321,500)		
Price/Acre:	\$189,177		
Terms:	All cash		
Cash Equivalent Price	: \$10,321,500		
Buyer:	The Roman Catholic Bishop of San Diego		
Seller:	Mr. and Mrs. Yee Ping Chem Huang		
Source:	Gunder Creager, Colliers International, broker		
Comments:	The Catholic Church purchased this site with the intention of building a high school. The location is in the future urbanizing area of San Diego. The transfer price was $9,830,000$; however, there was an additional 5% commission paid outside of escrow for a total of $10,321,500$. The parcel is unentitled raw land with rolling topography and the proposed use requires an amendment to the Municipal Code because high schools (unlike elementary schools) are not allowed by conditional use permit in the A1-10 zone.		





Comparable Retail Land Data 1

Project:	Fenton Marketplace		
Location:	Southwest corner of Friars Road and Northside Drive, San Diego (Mission Valley)		
Assessor's Parcel No.:	433-101-01 through 12	Thomas Bros. Map Code: 1269-E-1	
Size:	52 acres gross; 52 acres net (2,265,120 square feet)		
Zoning:	MVMSP, San Diego		
Utilities:	All available		
Date of Sale:	October 8, 1999	Document No.: 683293	
Sale Price:	\$29,800,000		
Price/Sq.Ft.:	\$13.16	,	
Terms:	\$19,300,000 (65%) cash downpayment plus a first trust deed of \$10,500,000 from Bank of America (terms not disclosed)		
Cash Equivalent Price:	\$29,800,000		
Buyer:	FMP, LLC		
Seller:	HG Fenton Company		
Source:	Allen Barbour, Appraiser, Bank of America, Construction Lender		
Comments:	Valley. Major tenants, IKEA, Costco a	arketplace power retail center in Mission and Lowe's subsequently purchased their e entire center will total 550,000 square	





Comparable Retail Land Data 2

Project:	Fenton Marketplace - IKEA		
Location:	Southwest corner of Friars Road and Northside Drive, San Diego (Mission Valley)		
Assessor's Parcel No.:	433-101-08	Thomas Bros. Map Code: 1269-E-1	
Size:	13.3 acres gross; 13.277 acres net (578,346 square feet)		
Zoning:	MVMSP, San Diego		
Utilities:	All available		
Date of Sale:	October 8, 1999	Document No.: 683295	
Sale Price:	\$9,255,629		
Price/Sq.Ft.:	\$16.00		
Terms:	All cash		
Cash Equivalent Price:	\$9,255,629		
Buyer:	IKEA Property, Incorporated		
Seller:	FMP, LLC		
Source:	Allen Barbour, Appraiser, Bank of America, Construction Lender		
Comments:	The buyer plans construction of a 210,000 square foot retail warehouse store in the Fenton Marketplace power retail center.		

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Comparable Retail Land Data 3				
Project: Fenton Marketplace - Lowe's				
Location:	Southwest corner of Friars Road and Northside Drive, San Diego (Mission Valley)			
Assessor's Parcel No.:	433-101-07	Thomas Bros. Map Code: 1269-E-1		
Size:	12.343 acres gross; 12.343 acres net (537,661 square feet)			
Zoning:	MVMSP, San Diego			
Utilities: All available				
Date of Sale:	October 8, 1999	Document No.: 683296		
Sale Price:	\$8,600,486			
Price/Sq.Ft.:	\$16.00			
Terms:	All cash			
Cash Equivalent Price:	\$8,600,486			
Buyer:	Lowe's HIW, Incorporated			
Seller:	FMP, LLC			
Source:	Allen Barbour, Appraiser, Bank of America, Construction Lender			
Comments:	The buyer plans construction of a 141,200 square foot home improvement store with 28,800 garden center in the Fenton Marketplace power retail center.			

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433-1 SHT 2 OC 1" = 20C 2/2/2 SH <u>2/2/2 SH</u> <u>2/2/2 SH</u> <u>2/2/2 SH</u>

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D.F. DAVIS REAL ESTATE INC.



CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Comparable Retail Land Data 4

Project:	Fenton Marketplace - Costco		
Location:	Southwest corner of Friars Road and Northside Drive, San Diego (Mission Valley)		
Assessor's Parcel No.:	433-101-03	Thomas Bros. Map Code: 1269-E-1	
Size:	14.3 acres gross; 13.511 acres net (14.3 acres gross; 13.511 acres net (588,539 square feet)	
Zoning:	MVMSP, San Diego		
Utilities:	All available		
Date of Sale:	October 8, 1999	Document No.: 683297	
Sale Price:	\$9,415,930		
Price/Sq.Ft.:	\$16.00		
Terms:	All cash		
Cash Equivalent Price:	\$9,415,930		
Buyer:	Costco Wholesale Corporation		
Seller:	FMP, LLC		
Source:	Allen Barbour, Appraiser, Bank of America, Construction Lender		
Comments:	The buyer plans construction of a 147,000 square foot retail warehouse store in the Fenton Marketplace power retail center.		

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Comparable Retail Land Data 5

Project:	Former Vineyard Shopping Center Site	
Location:	1505-1535 East Valley Parkway, Escondido	
Assessor's Parcel No.:	230-240-50, 81,84,85	Thomas Bros. Map Code: 1130-B-1
Size:	10.68 acres gross and net (465,221 square feet)	
Zoning:	CG, Escondido	
Utilities:	All available	
Date of Sale:	June 15, 1999	Document No. 418037
Sale Price:	\$5,000,000	
Price/Sq.Ft.:	\$10.75	
Terms:	The escrow closed with a new construction loan of \$12,890,000 from Cathay Bank. There was also a private second trust deed of \$1,000,000 at undisclosed terms.	
Cash Equivalent Price:	\$5,000,000	
Buyer:	WPI Valley Rose, LLC	
Seller:	Plaza Freeway, Limited	
Source:	Don Zech, CDC Commercial, broker	
Comments:	At the time of sale, the property was improved with three, multi-story, wood frame structures (former Vineyard mixed-use retail-office project) for which the buyer estimated demolition costs of \$300,000 (\$.65 per square foot). The buyer plans to construct a 118,000 square foot neighborhood shopping center.	

the buyer estimated demolition costs of \$300,000 (\$.65 per square foot). The buyer plans to construct a 118,000 square foot neighborhood shopping center. The property was in escrow/under contract for 210 days. Major tenants for the new project are Lucky's Supermarket (now Albertson's), SavOn Drug, Glendale Federal Savings and Acapulco Restaurant. The latter two tenants were existing tenants onsite that will stay. Demolition and construction should commence in early 2000.







Comparable Retail Land Data 6

Project:	Drug Store Site	
Location:	5411-5439 College Boulevard, Oceanside	
Assessor's Parcel No.:	162-240-45,46	Thomas Bros. Map Code: 1087-C-5
Size:	2.43 acres gross and net (105,851 square feet)	
Zoning:	CP, Oceanside	
Utilities:	All available	
Date of Sale:	January 28, 1999	Document No. 048549
Sale Price:	\$1,800,000	
Price/Sq.Ft.:	\$17.00	
Terms:	Escrow closed with a construction loan of \$2,900,000 with First Upland Bank.	
Cash Equivalent Price:	\$1,800,000	
Buyer:	College and Oceanside LLC	
Seller:	Mary B. Mottino, Trustee	
Source:	Brad Becker, Retail Properties Group, broker	
Comments:	This site was purchased for construction of a SavOn drugstore (14,841 square feet) and an 8,000 square foot retail building.	





Comparable Retail Land Data 7		
Project:	Albertson's Supermarket Site	
Location:	Northeast corner of Peppertree Lane and Mission Avenue, Fallbrook	
Assessor's Parcel No.:	104-350-21,30	Thomas Bros. Map Code: 1027-F-5
Size:	5.14 acres gross and net (223,898	square feet)
Zoning:	C-36, San Diego County	
Utilities:	All available	
Date of Sale:	October 6, 1998	Document No. 640780
Sale Price:	\$2,425,000	
Price/Sq.Ft.:	\$10.83	
Terms:	All cash	
Cash Equivalent Price:	\$2,425,000	
Buyer:	Albertson's Incorporated	
Seller:	The Vons Company, Incorporated	
Source:	Jeff Dierck, Albertson's, buyer	
Comments:	The property needed completion of offsites. Albertson's planned to construct a 55,000 square foot store; however, this property was subsequently part of a 40 property sale between Albertson's and Stater Brothers for which no further details were provided. The site has moderate to steep slope upward to the east which will require grading. The cost was not provided but is estimated at at least \$1.00 per square foot.	





Comparable Retail Land Data 8

Project:	Carlsbad Research Center - Lot 73 (Island at Carlsbad)	
Location:	Southwest corner of College Boulevard and Faraday Avenue, Carlsbad	
Assessor's Parcel No.:	212-120-04	Thomas Bros. Map Code: 1127-C-1
Size:	5.555 acres gross and net (241,97	'6 square feet)
Zoning:	CM-Area 2, Carlsbad	
Utilities:	All available	
Date of Sale:	Escrow: May, 1998 Closed July 27, 1998	Document No. 465555
Sale Price:	\$3,024,698.50	
Price/Sq.Ft.:	\$12.50	
Terms:	\$469,698.50 cash and a loan of \$2,555,000 from Southern California Bank at market terms.	
Cash Equivalent Price:	\$3,024,698.50	
Buyer:	Lichter - Satterlee Retail 73, LLC (now Island Carlsbad, LLC) KREG-OC	
Seller:		
Source:	Purchase agreement; appraisal Corporation; Ken Satterlee, St. Badeaux, Koll Real Estate Group	documents; Bob Lichter, Kelly Capital Croix Capital Corporation, buyer; Tony o, seller/buyer.
Comments:	documented on February 27, 19 escrow. However, the commitme prior. The price on that transac	le escrow". The original transaction was 398 with a 120-day period to the close of ant to sell and price was agreed upon on year tion is \$2,056,795 (\$8.50 per square foot). Isaction is KDC-OC, LP (Union Pacific
	to one of two Extended Stay Ho for \$18.00 to \$20.00 per square f	n of this property was contemplated for sale tel operators (Starwood and/or ESA Hotels) oot. The resulting remnant portion for retail fectivity site plan and the city of Carlsbad ea less desirable then retail.

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San Diego, CA ..., 1999-2000 - 212-120-04-00, Sileet. 1 01 1

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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Comparable Single Family Land Data 2

Project:	Torrey Del Mar	
Location:	South side of Carmel Valley Road, west of the future extension of Camino Ruiz and east of Via Abertura, San Diego	
Assessor's Parcel No.:	Portion 306-011-11, 12, 13, 14, 18	Thomas Bros. Map Code: 1188-J-3
Size:	A portion of 124.09 gross acres; 178.40 net acres	
Zoning:	A1-10	
Utilities:	Available (need extension)	
Date of Sale:	December, 1999	Document No.: N/A
Sale Price:	\$30,629,930	
Price/Lot:	\$205,570	
Terms:	All cash	
Cash Equivalent Price	:: \$30,629,930	
Buyer:	Barrett American	
Seller:	D.R. Horton SD Holding Company, Inc.	
Source:	Gunder Creager, Colliers International, broker	
Comments:	D. R. Horton purchased the larger project site in three transactions beginning in October, 1998 with the final transaction closing on March 5, 1999. The project consists of 320 market rate single family residences and 112 affordable multifamily units in addition to open space. In December, 1999, 69 lots were sold to Cornerstone Communities at a finished lot cost basis of \$238,000. The project will consist of 149, 5,000 square foot minimum lots.	



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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Comparable Single Family Land Data 3

Project:	Torrey Del Mar	
Location:	South side of Carmel Valley Road, west of the future extension of Camino Ruiz and east of Via Abertura, San Diego	
Assessor's Parcel No.:	Portion 306-011-11, 12, 13, 14, 18	Thomas Bros. Map Code: 1188-J-3
Size:	A portion of 124.09 gross acres; 178.40) net acres
Zoning:	A1-10	
Utilities:	Available (need extension)	
Date of Sale:	December, 1999	Document No.: N/A
Sale Price:	\$14,168,805	
Price/Lot:	\$205,345	
Terms:	All cash	
Cash Equivalent Price:	\$14,168,805	
Buyer:	Cornerstone Communities	
Seller:	D.R. Horton SD Holding Company, Inc.	
Source:	Gunder Creager, Colliers International, broker	
Comments:	D. R. Horton purchased the larger project site in three transactions beginning in October, 1998 with the final transaction closing on March 5, 1999. The project consists of 320 market rate single family residences and 112 affordable multi-family units in addition to open space. In December, 1999, 69 lots were sold to Cornerstone Communities at a finished lot cost basis of \$241,606. The project	

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will consist of 69, 5,000 square foot minimum lots.





Comparable Single Family Land Data 4

Project:	Seabreeze Farms	
Location:	West side of Carmel Valley Road, south of Black Mountain Road, San Diego	
Assessor's Parcel No.:	305-030-20	Thomas Bros. Map Code: 1188-D/E-4/5
Size:	73.04 acres	
Zoning:	A1-10	
Utilities:	Available (need extension)	
Date of Sale:	September 30, 1999 The property was under contract for ap	Document No.: 659330 proximately 240 days
Sale Price:	\$29,000,000	
Price/Lot:	\$198,630 (average)	
Terms:	All cash to seller	
Cash Equivalent Price	: \$29,000,000	
Buyer:	Barrett American and Centex Homes (Seabreeze LLC)
Seller:	Seabreeze Farms, LP	
Source:	Gunder Creager, Colliers International, broker	
Comments:	purchase of 146 lots, with an equestria that were also required in a tentative m sale). 45 of the lots are 6,000 square feet. The current transaction is a joint Homes with Centex buying 55, 5,000 \$258,100; Centex buying 45, 6,000	in August, 1998 for \$27,000,000 for the an center and 38 affordable housing units hap approval (but assigned no value in the feet and 101 of the lots are 5,000 square purchase by Barrett American and Centex square foot lots at a finished lot cost of square foot lots at a finished lot cost of 00 square foot lots at a finishing cost of st is \$265,000.



F. DAVIS IAL ESTATE IC.	CFD NO. 2 (SANTALUZ) I	MPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)	
	<u>Comparable Si</u>	ngle Family Land Data 5	
Project:	4S Ranch (Fieldstone Hor	mes)	
Location:	Northwest corner of Cam San Diego County	Northwest corner of Camino San Bernardo and 4S Ranch Parkway (4S Ranch), San Diego County	
Assessor's Parcel No.:	N/A	Thomas Bros. Map Code: 1169-E/F-3	
Parcer No.:	N/A	Map Code: 1109-127-5	
Size:	N/A		
Zoning:	Residential (Planned Con	imunity)	
Utilities:	Available (need extension	1)	

Oundes:	Available (need extension)
Date of Sale:	Offers and counter offers Document No.: N/A between August and October, 1999 Closed December, 1999
Sale Price:	\$18,377,350
Price/Lot:	\$178,421
Terms:	All cash
Cash Equivalent Price:	\$18,377,350
Buyer:	Fieldstone Homes
Seller:	4S Ranch - Kelwood Development
Source:	Confidential
Comments:	The finished lot cost is estimated at \$202,225 for the 103, minimum 5,040 square foot lots. Pricing will range from \$409,000 to \$429,000 and average approximately \$433,000 for homes ranging from 2,940 to 3,240 square feet.

David F. Davis, MAI



Comparable Single Family Land Data 6			
Project:	4S Ranch (Ryland Homes)		
Location:	Southwest corner of Camino del Norte and 4S Ranch Parkway (4S Ranch), San Diego County		
Assessor's Parcel No.:	N/A	Thomas Bros. Map Code: 1169-E/F-3	
Size:	N/A		
Zoning:	Residential (Planned Community)		
Utilities:	Available (need extension)		
Date of Sale:	Offers and counter offers Between August and October, 1999 Closed December, 1999	Document No.: N/A	
Sale Price:	\$13,998,925		
Price/Lot:	\$186,652		
Terms:	All cash		
Cash Equivalent Price	: \$13,998,925		

Ryland Homes

Confidential

4S Ranch - Kelwood Development

CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

D.F. DAVIS REAL ESTAT

Buyer:

Seller:

Source:

Comments:

C-201

The finished lot cost is estimated at \$208,061 for the 75, minimum 6,000 square foot lots. Pricing will range from \$565,000 to \$615,000 and average approximately \$590,000 for homes ranging from 2,575 to 3,582 square feet.





Comparable Single Family Land Data 7

Location:	Both sides of Camino del Arriba, west of Via Ambiente and north of Calle Ambiente, San Diego County (Rancho Cielo)	
Assessor's Parcel No.:	265-491-24, 28, 19	Thomas Bros. Map Code: 1148-H-6
Size: 5.3 gross	acres	
Topography:	Rolling terrain with level pads terraced	l into hillsides (good views)
Street Improvements:	Under construction	
Utilities:	Available	
Zoning:	R-R-1, San Diego County with Specifi	c Plan
Recording Data:	In negotiation, March, 1999	Document No. N/A
Price:	\$1,350,000	
Price/Lot:	\$450,000	
Terms:	All-cash	
Cash Equivalent Price	: \$1,350,000	
Buyer:	Cal-Coast Homes	
Seller:	Rancho Cielo Estates	
Source:	Dave Dacus, Rancho Cielo Company,	seller
Comments:	Development. The remaining fees to a indicating a finished lot cost of \$472	s in near Lot Group A of the Rancho Cielo chieve a "finished lot" are \$22,500 per lot ,500 per lot. The average pad sizes are of view amenities; however, this property ns in the project.



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EAL ESTATE VC:	CFD NO. 2 (SANTALUZ) IMPROVEMI	NT AREA 3 (FAIRBANKS HIGHLANDS)	יואס איז
	Comparable Single Family	Land Data 7	
Project:	Cal-Coast Homes at Rancho Cielo		. At an at a
Location:	Both sides of Camino del Arriba, w Ambiente, San Diego County (Rancho	est of Via Ambiente and north of Calle Cielo)	
Assessor's Parcel No.:	265-491-24, 28, 29	Thomas Bros. Map Code: 1148-H-6	
Size:	5.3 gross acres		
Topography:	Rolling terrain with level pads terrace	i into hillsides (good views)	the an an and the and
Street Improvements:	Under construction		
Utilities:	Available		
Zoning:	R-R-1, San Diego County with Specif	ic Plan	THE AND
Recording Data:	In negotiation, March, 1999	Document No. N/A	
Price:	\$1,350,000		My yes the state of the state o
Price/Lot:	\$450,000		
Terms:	All-cash		
Cash Equivalent Price	: \$1,350,000		
Buyer:	Cal-Coast Homes		
Seller:	Rancho Cielo Estates		5 E
Source:	Dave Dacus, Rancho Cielo Company,	seller	100 4227
Comments:	Development. The remaining fees to a indicating a finished lot cost of \$472	s in near Lot Group A of the Rancho Cielo schieve a "finished lot" are \$22,500 per lot 500 per lot. The average pad sizes are d view amenities; however, this property ns in the project.	4227-2 4227-2

D.F. DAVIS REAL ESTATE INC.

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CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS)

Comparable Single Family Land Data 8

- Project: EPAC at Rancho Cielo
- Location: Both sides of Punta Del Sur and La Milla, south of Via Ambiente, San Diego County (Rancho Cielo)
- Assessor's Thomas Bros. Parcel No.: 265-490-24 through 26, 28 Map Code: 1148-J-6 264-381-01 through 08 264-380-01 through 04
- Size: 41.65 gross acres; 23.09 acres net

Under construction

- Topography: Rolling terrain with level pads terraced into hillsides (excellent views)
- Street Improvements:
- Utilities: Available
- Zoning: R-R-1, San Diego County with Specific Plan
- Recording Data: In negotiation, March, 1999; Document No. 778497 Closed November 4, 1999
- Price: \$8,160,000
- Price/Lot: \$510,000
- Terms: All-cash to seller, an \$11,860 construction loan with China Trust Bank

Cash

Equivalent Price: \$8,160,000

- Buyer: EPAC
- Seller: Rancho Cielo Estates
- Source: Dave Dacus, Rancho Cielo Company, seller
- Comments: This is the purchase of 16 of the 17 finished lots in Lot Group C of the Rancho Cielo Development. All that was reported was that the lots would be purchased at a finished lot basis of \$510,000 per lot. The average pad sizes are 18,000 square feet with a minimum gross size of one acre (much of which is in steep slopes). The lots have excellent view amenities. The remaining costs consists of perimeter landscaping and fees totaling \$35,000 per lot indicating a finished lot cost of \$545,000 per lot.









Project:

Location:

Assessor's

Parcel No.:



Topography: Rolling terrain with level pads terraced into hillsides (excellent views)

Innovative Communities at Rancho Cielo

Via Dora, San Diego County (Rancho Cielo)

Comparable Single Family Land Data 9

Thomas Bros.

Street

Size:

- Improvements: Under construction
- Utilities: Available

265-491-38

Zoning: R-R-1, San Diego County with Specific Plan

265-492-45 through 47; 50, 51;

56.61 gross acres: 29.90 acres net

53 through 58, 63 through 65

- Recording
- Document No. 497112 Data: In negotiation, March, 1999: Closed September, 1999
- Price: \$9.545.000
- Price/Lot: \$415.000
- Terms: All cash to seller; a construction loan of \$12,000,000 with General Bank and a \$2,200,000 second trust deed from La Jolla Loans, terms not disclosed.

Cash

- Equivalent Price: \$9,545,000
- Buyer: Innovative Communities
- Seller: Rancho Cielo Estates
- Source: Dave Dacus, Rancho Cielo Company, seller
- This is the purchase of the 23 lots in Lot Group B of the Rancho Cielo Comments: Development. The average pad sizes are 15,763 square feet and range from 10,330 square feet to 27,900 square feet with a minimum gross size of one acre (much of which is in steep slopes). The seller is delivering the property in finished lot condition and remaining fees are \$31,857 indicating a total finished lot cost of \$446,857 per lot David F. Davis, MAI






GANN _	CFD NO. 2 (SANTALUZ) IMPROVEMENT AREA 3 (FAIRBANKS HIGHLANDS		
	Comparable Single F	amily Land Data 10	
Project:	Davidson at Rancho Cielo		
Location:	Northwest corner of Calle Abia	ente and Escondido Del Dios Highway, Rancho	
Assessor's		Thomas Bros.	
Parcel No.:	265-451-01 through 30 265-452-01 through 31 265-460-01 through 28	Map Code: 1148-H/J-7	

Size: Approximately 138 acres

R-1

Zoning:

Utilities: Available

Date of Sale: In escrow, July, 1998 Document No.: 214711 Closed, March 31, 1999

Sale Price: \$27,500,000

Price/Lot: \$339,506

Terms: All cash

Cash

Equivalent Price: \$27,500,000

- Buyer: Davidson Communities
- Seller: Rancho Cielo Estate, Limited
- Source: Dave Dacus, Rancho Cielo Company, seller; Bill Fanning, Davidson Communities, buyer
- Comments: This is a purchase of 81 lots (Lot Group A) of at least one gross acre each in the Rancho Cielo Planned Community. Finishing costs and fees are \$25,494 for a total finished lot cost of \$365,000 per lot. Prices are projected to range from \$900,000 to \$1,300,000 and average \$1,100,000 for homes of 3,500 to 5,500 square feet. Average pad size is 17,989 square feet with one acre minimum gross lot sizes.



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CERTIFICATION

I certify that, to the best of my knowledge and belief ...

1) The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions 2) and limiting conditions, and are my personal, impartial, unbiased professional analyses, opinions, and conclusions.

3) I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.

4) I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

5) My engagement in this assignment was not contingent upon developing or reporting predetermined results.

6) My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

7) My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professions Ethics and the Uniform Standards of Professional Appraisal Practice.

8) I have made a personal inspection of the property that is the subject of this report.

9) No one provided significant professional assistance to the person signing this report.

10) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

11) As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.

12) I do not authorize any out-of-context quotations or partial reprintings, or the resale of this appraisal report to third parties. Neither all nor any part of this appraisal report shall be disseminated to the general public by the use of media or public communication without the prior written consent of the appraiser.

13) The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

David F. Davis, MAI

State Certificate #AG00275

EXHIBIT I

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OUALIFICATIONS

DAVID F. DAVIS. MAI

APPRAISAL EXPERIENCE

02/86 - Present Independent Real Estate Appraiser and Consultant, President, D.F. Davis Real Estate, Inc., specializing in appraisals of proposed construction and development projects.

06/84 - 01/86 Vice President. Diversified Equity Investments, Inc., a real estate development firm. Specialized in acquisitions, construction, leasing and property management.

06/83 - 05/84 Appraisal Officer, Wells Fargo Real Estate Industries Group. Specialized in major proposed commercial and residential projects.

- 10/77 05/83 Union Bank - Appraisal Officer. Similar experience to Wells Fargo.
- 05/76 10/77 F.M. Tarbell Company, residential real estate sales.

EDUCATION

San Diego State University, B.S. Degree in Business Administration with an emphasis in Real Estate, 1977.

Society of Real Estate Appraisers - Courses and Seminars:

Course 101	Principles of Residential Appraisal, 1978
Course 201	Principles of Income Property Appraisal, 1978
Seminar	Cash Equivalency Analysis, 1981
Course 202	Applied Income Property Valuation, 1982

American Institute of Real Estate Appraisers - Courses and Seminars:

Course 2-1 Course 2-2	Case Studies in Real Estate Valuation, 1981
Course 2-2	Real Estate Analysis and Report Writing, 1981 Standards of Professional Practice, 1982
Course 004	Litigation Valuation, 1982
Seminar	Financial Calculator HP 38E/12C, 1983
Seminar	Subdivision Analysis, 1985
Seminar	FHLBB R41b Requirements, 1986
Course 004	Litigation Valuation, 1987
Course 007	Industrial Valuation, 1987
Seminar	Standards of Professional Practice Update, 1988
Seminar	Discounted Cash Flow Analysis, 1988
Course 8-2	Residential Valuation, 1990
Course 410/420	Standards of Professional Practice, 1990

EXHIBIT J

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Qualifications of David F. Davis, MAI (Continued)

Appraisal Institute Courses and Seminars:

Course 310	Basic Income Capitalization, 1993
Course 410/420	Standards of Professional Practice Parts A and B, 1993
Course 430	Standards of Professional Practice, Part C, 1998
Seminar	Understanding Limited Appraisals and Appraisal Reporting Options - General, 1994
Seminar	Fair Lending and the Appraiser, 1994
Seminar	How to Verify Market Data, 1994
Seminar	Marketing Your Appraisal Services Effectively, 1995
Seminar	Valuation of Detrimental Conditions in Real Estate, 1998

Numerous other courses and seminars

PROFESSIONAL

MAI Designation:	Appraisal Institute, formerly the American Institute of Real Estate Appraisers, Certificate No. 6892 (since 1984)		
State Certification:	California Certified General Real Estate Appraiser - State of California - Certificate No. AG002752, expires August 14, 2000		
Admissions Committee:	American Institute of Real Estate Appraisers 1985-87; Vice Chairman, 1988; Chairman, 1989 and 1990; Appraisal Institute since 1991, Admissions Coordinator, General Appraisal category, 1991		
Appraisal Institute			
San Diego Chapter:	 1991 Director 1992 Treasurer and Member, Board of Directors 1993 Secretary and Member, Board of Directors 1994 Second Vice President and Member, Board of Directors 1995 First Vice President and Member, Board of Directors 1996 President and Member, Board of Directors 1997 Past President and Member, Board of Directors 		
San Diego Board of Realtors:	Affiliate member 1984-1989, Realtor member since 1989		
of Realtons.	Annuale memoer 1984-1989, Realtor memoer since 1989		
Real Estate Broker:	Licensed in the State of California since 1978		
Expert Witness:	San Diego Superior and Municipal Courts and U.S. Bankruptcy Court (San Diego and Orange County)		
Building Industry Association (BIA):	Member since 1995		

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APPENDIX D

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SAN DIEGO

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein 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 facts. The information and expressions of opinion herein are subject to change without notice, and neither 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 the affairs of the City or in any other information contained herein since the date of the Official Statement.

INTRODUCTION

With a total population of approximately 1.3 million in 2000 and a land area of 330 square miles, the City of San Diego (the "City") is the sixth largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

The City's population grew by 15% between 1990 and 2000 for an average increase of 15,155 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

Another factor in the City's growth is an expanding diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, communications equipment, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. In addition to these expanding industries, the City benefits from a stable economic foundation composed of basic manufacturing (ship building, industrial machinery, television & video equipment, and printing & publishing), public and private higher education, health services, military, and local government.

Expansion in the high tech manufacturing and research component of the City's economic base has been led by the rapid emergence of telecommunications. Major participants in the City's telecommunications industry include manufacturers of personal communications equipment, radio/TV communications equipment, network communications equipment/systems, satellite communications equipment, and military surveillance/guidance systems. The City is the primary location for telecommunications firms in the County, with the Sorrento Valley area emerging as a major center in the development and manufacturing of products using wireless and digital technology.

Another component of the City's high tech industry is the biotechnology sector, which includes companies involved in developing chemical and biological products for use in the treatment and diagnosis of diseases and various medical conditions. As with telecommunications, the biotechnology industry is concentrated in the City, with the highest concentration in the area around the University of California, San Diego. Growth in both biotechnology and other high tech industries has been facilitated by the City's well established research organizations. Among the more important research facilities located in the City are the Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Super Computer Center.

The City is also home to a growing software industry. Components within this industry include basic computer programming services, prepackaged software, systems integration services, and development of multimedia products.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Data contained under this caption is intended to portray economic, demographic, and business trends within the City. While not constituting direct revenue sources as such, these trends help explain changes in revenue sources such as property taxes, sales taxes, and transient occupancy taxes, which could be affected by economic conditions.

Population

As set forth in Table 1 below, between January 1, 1991 and January 1, 2000, the City's population has increased by 151,200 (or by approximately 15,120 new residents annually in the ten year period).

Table 1POPULATION GROWTHCalendar Years 1991 through 2000

Calendar <u>Year</u> ⁽¹⁾	City of <u>San Diego</u>	Annual Growth Rate	County of San Diego	Annual Growth Rate	State of <u>California</u>	Annual <u>Growth Rate</u>
1991	1,126,000	1.4	2,539,600	1.7	30,296,000	1.8
1992	1,141,300	1.4	2,583,500	1.7	30,845,000	1.8
1993	1,156,200	1.3	2,614,200	1.2	31,303,000	1.5
1994	1,163,000	0.6	2,638,500	0.9	31,661,000	1.1
1995	1,170,200	0.6	2,658,600	0.8	31,910,000	0.8
1996	1,179,500	0.8	2,682,100	0.9	32,223,000	1.0
1997	1,199,000	1.7	2,729,100	1.8	32,670,000	1.4
1 998	1,225,300	2.2	2,795,600	2.4	33,226,000	1.7
1999	1,255,400	2.5	2,855,900	2.2	33,766,000	1.6
2000	1,277,200	1.7	2,911,500	1.9	34,336,000	1.7

(1) As of January 1 of the calendar year.

Source: State of California, Department of Finance

As indicated in the following table, attendance in kindergarten through grade 12 in the San Diego Unified School District has continued to grow at a relatively moderate pace during the 1990's.

Table 2SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT⁽¹⁾School Year 1995-1996 through 1999-2000

School Year	Enrollment
1995-1996	130,360
1996-1997	133,687
1997-1998	136,283
1998-1999	138,433
1999-2000	140,743

(1) Enrollment is defined as the number of K-12 students enrolled on a survey date in early October of the school year.

Source: California Department of Education, Educational Demographics Unit **Employment Summary**

As seen in Table 3, the City's unemployment rate for calendar year 1999 averaged 3.1% which was down from a rate of 3.6% during calendar year 1998. The City's 1999 unemployment rate was below both the national rate of 4.2% and the State's rate of 5.2%.

Table 3 ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF CITY OF SAN DIEGO RESIDENT LABOR FORCE Calendar Years 1995 through 1999

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Civilian Labor Force City of San Diego					
Employed	525,600	536,500	562,400	583,610	603,210
Unemployed	36,500	30,600	25,400	21,670	19,580
Unemployment Rates					
City	6.6%	5.4%	4.3%	3.6%	3.1%
County	6.4	5.3	4.2	3.5	3.1
California	7.8	7.2	6.3	5.9	5.2
United States	5.6	5.4	5.0	4.5	4.2

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period 1995 to 1999. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 145,000 new jobs during this period.

Table 4 SAN DIEGO COUNTY WAGE AND SALARY EMPLOYMENT Calendar Years 1995 through 1999

INDUSTRY CATEGORY	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Mining	300	400	400	300	300
Construction	43,600	45,500	53,000	61,800	66,400
Manufacturing	114,900	117,500	123,100	127,600	128,300
Nondurable Goods	31,600	32,200	34,000	35,800	36,800
Durable Goods	83,300	85,200	89,100	91,800	91,500
Transportation, Communications, Utilities ⁽¹⁾	37,400	38,300	41,600	47,000	51 ,90 0
Trade	229,500	235,900	244,000	249,400	255,300
Wholesale	42,900	42,700	45,600	48,300	50,500
Retail	186,600	193,200	198,400	201,100	204,900
Finance, Insurance, Real Estate	55,800	57,400	60,900	65,300	68,700
Services	310,900	321,200	339,300	359,600	380,000
Government	186,100	190,100	192,000	194,500	199,300
Federal	45,700	45,800	44,600	43,300	42,500
State and Local	140,400	144,300	147,400	151,200	156,800
TOTAL NONAGRICULTURAL ⁽²⁾	978,600	1,006,200	1,054,200	1,105,500	1,150,200

(1) Includes trucking and transit services, telephone and broadcast/cables services, and gas and electric services.

(2) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

Since the industry employment data referenced above is 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 sector alone. For example, some telecommunications firms appear in Manufacturing, while certain other telecommunications firms appear in Services.

table.

The following is a discussion of the trends shown in the above Wage and Salary Employment

Manufacturing. During the early 1990's, manufacturing employment in the County recorded sharp declines, due primarily to the relocation of much of its aerospace industry. After bottoming out in 1994, manufacturing employment has increased annually since 1995. Between 1995 and 1999 manufacturing employment has increased by approximately 13,400 jobs, with 700 new jobs added in 1999.

Construction. Construction employment in the County grew by approximately 4,600 during 1999, after increasing by approximately 8,800 during 1998.

Transportation, Communications and Utilities. The Transportation, Communications and Utilities industry classification recorded a net increase of approximately 3,000 new jobs in the County during 1998, following growth of 3,300 in 1997.

Wholesale and Retail Trade. Combined the Retail and Wholesale Trade sectors account for 22% of total nonagricultural wage and salary employment during 1999. Wholesale trade added approximately 2,200 jobs in 1999, following a gain of 2,700 during 1998. Retail trade employment increased by approximately 3,800 in 1999 after increasing by approximately 2,700 in 1998.

Finance, Insurance and Real Estate. Countywide employment in the Finance, Insurance and Real Estate sector increased by approximately 3,400 jobs during 1999, after adding approximately 4,400 jobs during 1998.

Services. Employment in the County's Services sector grew by approximately 20,400 jobs, or 5.7% in 1999, following a gain of 20,300 jobs the previous year. All of the major categories recorded year-to-year gains, led by Business Services (+7,200) and Health Services (+3,100).

It should be noted that a portion of the growth in the Engineering and Management category of the Services sector during 1997 and 1998 is related to gains in the Telecommunications and Biotechnology subcategories within this grouping. A portion of the growth in the Business Services category of the Services sector reflects increases in the Data Services and Software subcategories.

Government. The Government sector, which accounted for 17% of the total nonagricultural wage and salary employment in the County, grew by approximately 4,800 jobs during 1999. This increase occurred in State and local government agencies, with almost all of the increase due to gains in public education. Federal employment continued to decline, falling by 800 jobs during 1999.

Military Employment and Civilian Defense Spending. According to the San Diego Chamber of Commerce, the County, with a total military and civilian payroll of \$3.88 billion in the federal fiscal year 1999, continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled \$2.56 billion during the federal fiscal year 1999, up slightly from \$2.54 billion in the previous year. The Department of Defense also spent \$1.2 billion on base operation expenses, \$1.0 billion on retirement benefits, and another \$0.9 billion on various classified contracts, subcontracts, and other contracts of less than \$1,000 each. The total defense spending in 1999 was \$9.71 billion representing an increase from the \$9.36 billion reported in 1998. The San Diego Chamber of Commerce estimates that as of June 1, 1999, total active duty military personnel in the County totaled 108,555 and the total civilian employment was 21,734. Payroll, contract, and employment numbers, as reported by the Department of Defense and the San Diego Chamber of Commerce, are subject to revision in future years.

TAXABLE SALES

According to the California State Board of Equalization, taxable transactions at retail and other outlets in the City during calendar year 1998 totaled approximately \$13.3 billion, up 7.4% from 1997, and up 32.3% from 1994. Table 5 provides annual sales information by type of outlet for the period 1994 through 1998.

Table 5CITY OF SAN DIEGOTAXABLE TRANSACTIONSCalendar Years 1994 through 1998(in thousands)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
RETAIL STORES					
Apparel	\$447,313	\$434,581	\$451,984	\$485,551	\$530,734
General Merchandise	1,232,873	1,248,357	1,304,649	1,354,698	1,436,535
Food	495,380	498,605	521,014	554,625	582,183
Eating and Drinking	1,148,154	1,229,823	1,307,079	1,380,894	1,496,032
Home Furnishings and Appliances	405,446	447,654	492,104	444,930	469,158
Building Materials and Farm Implements	426,329	441,099	469,293	603,365	716,231
Auto Dealers & Supplies	958,513	1,042,689	1,089,331	1,189,462	1,331,411
Service Stations	607,873	604,944	672,559	673,078	614,156
Other	1,360,462	1,442,617	1,555,020	1,686,807	1,790,441
Total Retail Stores	7,082,343	7,390,369	7,863,033	8,373,410	8,966,881
All Other Outlets	2,975,794	3,167,820	3,426,610	4,024,433	4,343,598
TOTAL ALL OUTLETS	\$10,058,137	\$10,558,189	\$11,289,643	\$12,397,843	\$13,310,479

Source: California State Board of Equalization

Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military.

As shown in Table 6, visitor spending in the County totaled \$4.88 billion in 1999, up 28.4% from 1995 and up 3.8% from 1998.

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Table 6SAN DIEGO COUNTYTOTAL VISITOR SPENDINGCalendar Years 1995 through 1999(in billions)

Calendar Year	<u>Amount</u>
1995	\$3.80
1996	4.05
1997	4.37
1998	4.70
1999	4.88

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the City's transient occupancy tax (TOT) revenues have been exhibiting a strong upward trend. The TOT revenues have grown approximately 61% between Fiscal Year 1995 and Fiscal Year 1999.

Table 7 CITY OF SAN DIEGO TRANSIENT OCCUPANCY TAX⁽¹⁾ Fiscal Years 1995 through 1999 (in thousands)

Fiscal Year	<u>Amount</u>
1995 ⁽²⁾	\$57,211
1996	64,427
1997	75,476
1998	85,088
1999	92,128

(1) 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.

(2) Rate increase from 9% (9¢ per \$1) of hotel room rates to 10.5% (10.5¢ per \$1) on August 1, 1994.

Source: City Auditor & Comptroller

The City is the focal point for tourism in the County. The Convention Center, approximately 70% of the County's hotel and motel rooms, and 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, and Balboa Park – home to the San Diego Zoo and a host of other cultural and recreational activities. According to the San Diego Convention and Visitors Bureau, total attendance at a sample of the region's major attractions and museums totaled 21.3 million during 1999. All of the attractions and museums included in the sample, with the exception of Legoland California, are located within the City of San Diego.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City annually hosts the Buick Invitational, a Professional Golfers' Association Tour Event played at the Torrey Pines Golf Course. Torrey Pines, which is owned and operated by the City of San Diego, is a world renowned golf course. In the May 1997 issue of *Golf Digest*, Torrey Pines was the only municipal course included in the "best course" listing for the state of California. In addition, since 1978, the City has annually hosted the Holiday Bowl, a post season contest of elite college football teams.

The City also hosted the America's Cup in 1992 and 1995, and the Super Bowl and World Series in 1998. In addition, the City was the site for the Republican National Convention held in August 1996. The Super Bowl is scheduled to return to San Diego in 2003.

Associated with the growth in tourism has been an increase in traffic through San Diego's Lindbergh Field International Airport. According to the San Diego Unified Port District, in 1999 there were 7.6 million arrivals, up by approximately 3.0% from 1998. In 1998, the San Diego Unified Port District completed a \$238 million expansion to the airport. Features of this expansion include an expanded terminal, a new pedestrian bridge, and improved roadways and parking lots.

International Trade

The table below is from the International Trade Administration's *Exporter Location Series*. This data is compiled on a f.a.s. (free alongside ship) basis and includes domestic exports and re-exports. The total value of exports from the County during 1998 totaled \$8.6 billion, up 10.3% from 1997.

Table 8 VALUATION OF EXPORTS ORIGINATING IN SAN DIEGO COUNTY Calendar Years 1994 through 1998 (in billions)

Calendar Year	Total Exports
1994	\$4.9
1995	5.9
1996	6.7
1997	7.8
1998	8.6

Source: International Trade Administration

Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. Table 9 lists the City's major employers. The list is compiled from information presented in *Greater San Diego's Guide to Business & Industry*, a publication of the Greater San Diego Chamber of Commerce as well as information gathered by the City of San Diego. All of the businesses listed in the following table have their main offices in the City, with many having branch offices and/or production facilities in other areas of the County. Accordingly, not all employees of these businesses work within the City.

Table 9 **CITY OF SAN DIEGO** MAJOR EMPLOYERS⁽¹⁾ Calendar Year 2000⁽²⁾

Employer

10,000 or More Employees:

Oualcomm San Diego Unified School District Sharp Health Care University of California, San Diego

5,000 - 9,999 Employees:

Kaiser Permanente Pacific Bell San Diego Community College District San Diego State University Scripps Health Seaworld of California

3,000 - 4,999 Employees:

Children's Hospital and Health Care Cubic Corporation National Steel & Shipbuilding Company Palomar Pomerado Health System Samsung San Diego Gas & Electric/Sempra Energy Science Applications International Corporation Sony Technology Center Target Stores - San Diego UCSD Health Care University of San Diego

2,000 - 2,999 Employees:

Ace Parking ADDECO Employment Services Bank of America Costco Wholesale Foodmaker Hewlett Packard Company Manpower Temporary Services Nordstrom Solar Turbines Scripps Research Institute Union Bank of California, N.A. YMCA of San Diego County

Product/Service

Wireless Communications. Education Health Care Higher Education

Health Care Utility Higher Education **Higher Education** Health Care Entertainment

Health Care **Electronic Systems** Shipbuilding, Repair Health Care Electronics Utility Research and Development Electronics Retail Health Care Higher Education

Parking Stations and Garages **Employment Services** Banking Retail Restaurants Electronic Instruments **Employment Services** Department Store Gas Turbine Manufacturing **Biomedical Research** Banking Family Recreation

(1) Does not include various major public employers, including the City, the County, and the federal government with a combined total county employment of 105,600 as of January 1, 2000. (2)

As of January 1, 2000.

Source: Greater San Diego Chamber of Commerce and City of San Diego

Effective Buying Income

Table 10 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1994 through 1999.

Table 10PER CAPITA EFFECTIVE BUYING INCOMECalendar Years 1994 through 1999

Calendar <u>Year</u>	City of <u>San Diego</u>	County of San Diego	State of <u>California</u>	United States
1994	17,220	17,034	17,275	16,918
1995 ⁽¹⁾	14,770	14,609	14,759	14,965
1996	15,139	14,975	15,068	15,555
1997	15,804	15,618	15,797	16,281
1998	16,291	16,101	16,299	16,895
1 999	17,443	17,270	17,245	17,691

(1) Prior to 1995, estimates of EBI were based on the Bureau of Economic Analysis definition of "personal income" less personal tax payments. Beginning in 1995, the estimates are based on the Census Bureau's definition of "money income" less personal tax payments. Since the Census definition excludes certain sources of income, such as interest and rents, employer contributions to private pension funds, and Medicaid and Medicare, the overall figures from 1995 onwards are lower compared to the prior years. (According to Sales & Marketing Management Magazine, "personal income" is greater than "money income" by 11-14%.) In addition, because of geographic differences in sources of income, per capita EBI estimates based on "money income" for some areas, such as California and San Diego, are below the national average.

Source: Sales & Marketing Management Magazine "Survey of Buying Power"

Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1996 through 2000. The valuation of non-residential permits includes both private commercial construction and publicly funded, non-tax generating projects.

Table 11CITY OF SAN DIEGOBUILDING PERMIT VALUATIONSAND NUMBER OF DWELLING UNITSFiscal Years Ended June 30, 1996 through 2000

		1996		1997		1998		1999		2000	
Valuation (in thousands)											
Residential	\$	396,681	\$	541,443	\$	890,476	\$	857,747	\$	1,185,999	
Nonresidential		450,301		478,887		576,170		783,106		960,479	
Total	\$	846,982	\$	1,020,330	\$	1,466,646	\$	1,640,853	\$	2,146,478	
Number of New Dwelling Units:											
Single Family		1,468		2,197		3,032		2,632		2,084	
Multiple Family		774		1,014		3,018		2,836		5,662	
Total		2,242	_	3,211	_	6,050	·	5,468	_	7,746	

Source: City of San Diego, Planning and Development Review Department

BUSINESS DEVELOPMENT PROGRAM

The City aggressively supports economic development and job creation activities. A key element of these activities is the Business Expansion and Retention Program (BEAR Program), a proactive effort on the part of the City to work directly with businesses to retain local firms and help them expand their investment and job growth. This program was created in 1995 by integrating the City's existing business development activities to provide centralized coordination and data management, and to expand operational relationships with partnership agencies such as the Economic Development Corporation and Sempra Energy. BEAR Program components include Business Incentives, Targeted Assistance, sales and use tax rebates through the Business Cooperation Program, Business Outreach, and Business Finance.

A further element of the City's overall business development effort has been on streamlining the permitting process and, when feasible, eliminating or reducing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center which has in most cases reduced development permit processing time by one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process.

The City also operates the Office of Small Business which provides a broad range of assistance programs for the many small businesses in the City. In 1994, the City Council reduced the Business License Tax for all businesses with 12 or fewer employees from \$125 and \$5 per employee to \$70 per business and \$3 per employee, and in 1995 reduced it even further, to a flat fee of \$34 per business with no per employee charge.

TRANSPORTATION

San Diego has a well-developed and relatively uncongested highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west.

Public transportation through the City and surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to the southern part of the County and East County. The East Line extension to Santee was completed in 1996. This 3.6-mile extension connects the cities of El Cajon and Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. An extension providing additional service from downtown to the historical Old Town section of the City was completed in 1996. In addition, the Mission Valley extension, which connects Old Town with Qualcomm Stadium and the Mission Valley shopping area, ending at the Mission San Diego, opened in 1997. In May 1998, the U.S. Congress approved a transportation bill which earmarked \$325 million for a 6-mile trolley extension connecting the Mission Valley Line with the East Line in La Mesa. This extension, scheduled for completion in 2004, will extend east from Qualcomm Stadium connecting Mission Valley with San Diego State University, La Mesa, and East County.

A 43-mile Coaster Commuter rail line from Oceanside to downtown San Diego came into service in 1995. This line links communities along the coast from Oceanside to Del Mar with downtown San Diego and is operated by North County Transit District ("NCTD").

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. Through Fiscal Year 1999, the City has been allocated \$178.8 million in Proposition A funds and expects to receive an additional \$17.1 million through Fiscal Year 2000.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program through the year 2000. Through Fiscal Year 1999, the City has received approximately \$56.1 million in Proposition 111 funds. Revenues from this source supplement the City's street maintenance and resurfacing program and other street related services, including traffic light and signal maintenance, median maintenance and traffic engineering to ensure efficient traffic flow.

APPENDIX E

SUMMARY OF BOND INDENTURE

The following is a summary of certain definitions and provisions of the Indentures which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indentures for a full and complete statement of their provisions. The Indentures for each Improvement Area are substantially identical and the following summary is applicable to both Indentures.

DEFINITIONS

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

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

"Acquisition Agreement" means that certain Purchase and Financing Agreement dated as of February 8, 2000 by and among the City, Fairbanks Highlands LLC and Santaluz LLC.

"Acquisition and Construction Fund" means the fund by that name established pursuant to the Indenture.

"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, any fees and related costs for credit enhancement for the Bonds or any Parity 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 hereunder.

"Administrative Expenses Cap" means \$15,000 per Bond Year, increased on July 1 of each year, commencing July 1, 2001, through July 1, 2011 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 Indenture.

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

"Authorized 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; or (D) evidences of 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 <u>not</u> 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

- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) 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)
- Student Loan Marketing Association (SLMA) Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)
 - Debt obligations
- Resolution Funding Corporation (REFCORP)
 - Debt obligations

(4) Unsecured certificates of deposit, time 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+" 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-l" 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 "Aa" or better by Moody's.

(9) Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's 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 104% 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-tomarket 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 transferror'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.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by Standard & Poor's and Moody's, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) 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 "Aa" 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 Acquisition and Construction 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 thirdparty 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);

(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 City Manager of the City, the Deputy City Manager or the Auditor and Comptroller of the City or any other person or persons designated by the City Manager by a written certificate signed by the City Manager and containing the specimen signature of each such person.

"Authorized Representative of the District" means the City Manager of the City, the Deputy City Manager or the Auditor and Comptroller of the City or any other person or persons designated by the City Manager by a written certificate signed by the City Manager and containing the specimen signature of each such person. "Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

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

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

"Bonds" means the Series B of 2000 Bonds.

"Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

"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.

"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.

"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 or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

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

"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 Indenture.

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

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

"Federal 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 this Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

"Improvement Area No. 3" means Improvement Area No. 3 of the District as designated by the legislative body of the District in the Resolution of Formation.

"Indenture" means this Bond Indenture, together with any Supplemental Indenture approved pursuant to the Indenture hereof.

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

(1) is in fact independent and not under the domination of the District or the City;

(2) does not have any substantial interest, direct or indirect, in the District or the City; and

(3) is not connected with the District or the City as a member, officer or employee of the District or the City, but who may be regularly retained to make annual or other reports to the District or the City.

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

"Interest Payment Date" means each March 1 and September 1, commencing March 1, 2001; 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.

"Investment Agreement" means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (11) of the definition of Authorized Investments.

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

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

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

"Moody's" means Moody's Investors Service, 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 Indenture.

"Ordinance" means the Ordinance No. 18788 adopted by the legislative body of the District on April 10, 2000, providing for the levying of the Special Tax.

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

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

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

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

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

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

"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 Rate and Method of Apportionment of Special Taxes attached to the Resolution of Formation.

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

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

"Project" means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time. "Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

"Rating Agency" means Moody's and Standard & Poor's, or both, as the context requires.

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

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

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

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

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

"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 Indenture.

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

"Reserve Requirement" means that amount as of any date of calculation equal to the lesser of (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any.

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

"Series B of 2000 Bonds" means the District's Improvement Area No. 3 Special Tax Bonds, Series B of 2000 issued on November 2, 2000 in the aggregate principal amount of \$4,350,000.

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

"Six-Month Period" means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds). "Special Tax Fund" means the fund by that name created and established pursuant to the Indenture.

"Special Taxes" means the taxes authorized to be levied by the District on property within Improvement Area No. 3 in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the March 14, 2000 election in the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest thereon.

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw-Hill, its successors and assigns.

"Supplemental Indenture" means any supplemental indenture amending or supplementing this Indenture.

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

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

"Tax-Exempt" means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

"Term Bonds" means the Series B of 2000 Bonds maturing on September 1, 2014, September 1, 2021 and September 1, 2030, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

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

"Underwriter" means PaineWebber Incorporated, Morgan Stanley & Co. Incorporated and E. J. De La Rosa & Co., Inc. with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

BOND TERMS

Type and Nature of Bonds and Parity 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 or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity 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) and the Escrow Fund (to the limited extent described in the Indenture), as more fully described therein. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity 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 or any Parity 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 any Parity 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 and any Parity 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 or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) and the Escrow Fund (to the limited extent described in the Indenture) which are, under the terms of this Indenture and the Act, set aside for the payment of the Bonds, any Parity 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 or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the 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 any Parity 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 Parity Bonds and Pledge of Net Taxes. Pursuant to the Act and this Indenture, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) and the Escrow Fund (to the limited extent described in the Indenture), without priority for number, date of the Bonds or Parity 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 Parity 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) and the Escrow Fund (to the limited extent described in the Indenture), which are hereby set aside for the payment of the Bonds and any Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) and the Escrow Fund (to the limited extent described in the Indenture) 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 any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the 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 or any Parity 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 and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and shall not be dependent upon the completion of the financing of the Project or upon the performance by any Person of his obligation with respect to the Project, and the recital contained in the Bonds or any Parity 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 Indenture.

Payments to the Nominee. Notwithstanding any other provisions of the 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.

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

(2) The Improvement Area No. 3 Community Facilities District No. 2 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(3) The Improvement Area No. 3 Community Facilities District No. 2 Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Project Account).

(4) The Improvement Area No. 3 Community Facilities District No. 2 Surplus Fund (the "Surplus Fund").

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

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

(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 the portion of any Prepayment to be deposited to the Redemption Account as specified in a Certificate of an Authorized Representative, and except as set forth in the Indenture, 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 Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee and the Bond Insurer have been paid in full, moneys in the Special Tax Fund and any accounts in the 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 Indenture, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any 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 and any Parity 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 and any Parity Bonds will be made when due, after making the transfer required by the 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, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

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

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2001, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(a) With respect to each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the preceding two paragraphs, the Trustee shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Indenture. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture, and to redeem Parity Bonds.

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

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments.

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

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

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due 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, the Principal Account or the Redemption Account of 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, the Principal Account or the Rebate Fund or the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account, 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 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 an optional or extraordinary redemption of Bonds or Parity Bonds, or a partial defeasance of Bonds in accordance with any Supplemental Indenture, or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds in accordance with any Supplemental Indenture, or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions 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 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 Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account in the Indenture. 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. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the Bonds and each issue of Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with

respect to the Bonds or an issue of Parity Bonds shall be governed by the Indenture and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied.

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

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in 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 or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Acquisition and Construction Fund.

(a) No Bond proceeds will be disbursed from the Acquisition and Construction Fund until (1) the District receives evidence satisfactory to it that the Army Corps of Engineers has approved a remedy for the violation of the Section 404 Permit issued with respect to the development within Improvement Area No. 1 of the District that does not have an adverse effect on the planned development within Improvement Area No. 1, and (2) the developer of the property within Improvement Area No. 1 ("Santaluz") has delivered to the District an updated version of Table 6 of the Official Statement for Improvement Area No. 1 demonstrating that the sources of funds listed in such Table 6, together with any commercial loans or lines of credit secured by Santaluz and acceptable to the District, remain sufficient to complete the development being undertaken by Santaluz. On each Interest Payment Date prior to the date that amounts are authorized to be released from the Acquisition and Construction Fund, the Trustee shall transfer available interest earnings on amounts in the Acquisition and Construction Fund to the Interest Account and Principal Account of the Special Tax Fund to the extent necessary to pay the principal of and interest on the Bonds.

In the event that the District does not authorize the release of amounts in the Acquisition and Construction Fund pursuant to the preceding paragraph prior to July 1, 2007, then all amounts in the

Acquisition and Construction Fund will be applied to optionally redeem Bonds on September 1, 2007 in accordance with the terms of the Indenture.

(b) Upon compliance with the provisions of paragraph (a) above, the moneys in the Costs of Issuance Account shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District, and any balance therein shall be transferred by the Trustee to the Project Account as directed in writing by an Authorized Representative of the District.

(c) Upon compliance with the provisions of paragraph (a) above, the moneys in the Project Account of the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee from the Project Account of the Acquisition and Construction Fund as specified in a Request for Disbursement of Project Costs which must be submitted in connection with each requested disbursement.

(d) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Acquisition and Construction Fund to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in 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 Acquisition and Construction 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 Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may 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 Acquisition and Construction 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 Acquisition and Construction Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Acquisition and Construction Fund three years after the Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the date of issuance of such issue of Parity Bonds shall be invested by the District only in Authorized Investments the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

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(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 and any Parity Bonds as the same become due.

(c) Monies in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(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 shall preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

Covenants. So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District has made the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds 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:

<u>Punctual Payment; Against Encumbrances</u>. The District has covenanted 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 immediately upon their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

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

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

Levy of Special Tax. Beginning in Fiscal Year 2000-01 and so long as any Bonds or Parity Bonds issued under the Indenture 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 deemed available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the "Special Tax Requirement"). The District has also covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

<u>Commence Foreclosure Proceedings</u>. The District has covenanted for the benefit of the Owners of the Bonds and any Parity 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 has covenanted 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 and any Parity 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 and any Parity Bonds.

<u>Payment of Claims</u>. 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 Indenture), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing contained in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

<u>Books and Accounts</u>. 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 Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

<u>Federal Tax Covenants</u>. Absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District has covenanted 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) <u>Private Activity</u>. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property

which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code;

(2) <u>Arbitrage</u>. The District will make no use of the proceeds of the Bonds or any Parity 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 or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(3) <u>Federal Guaranty</u>. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(4) <u>Information Reporting</u>. 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) <u>Hedge Bonds</u>. The District will make no use of the proceeds of the Bonds or any Parity 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 or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes 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 Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds; and

(6) <u>Miscellaneous</u>. 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 any issue of Parity Bonds and will comply with the covenants and requirements stated in the Indenture and incorporated by reference in the Indenture.

(7) <u>Other Tax Exempt Issues</u>. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity 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 and any Parity Bonds issued on a tax-exempt basis.

(8) <u>Subsequent Opinions</u>. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation ("SYCR"), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.

Reduction of Maximum Special Taxes. The District has covenanted, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the

Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year.

<u>Covenants to Defend</u>. 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 Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

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

AMENDMENTS TO INDENTURE

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

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

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

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

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued under the 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 or any Parity Bonds then Outstanding;

(e) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; or

(f) to modify, alter, amend or supplement the 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 and Parity Bonds Outstanding shall have the right to consent to and

approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

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

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

TRUSTEE

Trustee. Union Bank of California, N.A. has been appointed the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the 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 Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the 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 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 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 or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

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

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

The Trustee 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 Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

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

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

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

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

No remedy conferred in the 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 Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

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

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

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

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

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

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

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of 25% in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds sinuarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to

have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

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

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

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the 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 and Parity Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

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

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

DEFEASANCE AND PARITY BONDS

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times

and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to 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 this Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

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

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

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

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for 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 and Parity 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 or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

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

be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

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

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

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

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

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

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

(8) the form of such Parity Bonds; and

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

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

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

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

an opinion of Bond Counsel and/or general counsel to the District to the (3) effect that (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

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

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

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

MISCELLANEOUS

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

Unclaimed Moneys. Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity 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 or Parity 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 or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the expense of the District, shall cause to be mailed by first-class mail, postage prepaid, to the

registered Owners of such Outstanding Bonds or Parity 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 Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

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

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

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

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

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

APPENDIX F

1

CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

This Continuing Disclosure Agreement dated as of October 1, 2000 (the "Disclosure Agreement") is executed and delivered by Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 (the "Issuer"), Union Bank of California, N.A. as Trustee (the Union Bank of California, N.A.) and as dissemination agent (the "Dissemination Agent"), in connection with the issuance and delivery by the Issuer of its \$4,350,000 Improvement Area No. 3 Special Tax Bonds, Series B of 2000 (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of October 1, 2000 (the "Bond Indenture"), by and between the Issuer and the Trustee. The Issuer, the Trustee and the Dissemination Agent covenant as follows:

SECTION 1. <u>Purpose of the Disclosure Agreement</u>. This Disclosure Agreement is being executed and delivered by the Issuer, the Trustee and the Dissemination Agent, 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.

SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Bond Indenture, which apply to any capitalized term used in this Disclosure Agreement 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 Agreement.

"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 City Manager of the Issuer or the Deputy City Manager, or their designee, 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, Union Bank of California, N.A. acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement dated October 18, 2000 relating to the Bonds.

"Participating Underwriters" shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is PaineWebber Incorporated, Morgan Stanley Dean Witter and E. J. De La Rosa & Co., Inc.

"Repository" shall mean each National Repository and each State Repository.

"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.

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

"Tax-exempt" shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. <u>Provision of Annual Reports</u>.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than April 1 after the end of the Issuer's fiscal year (which currently ends on June 30), commencing with the report due on April 1, 2001, provide to each Repository, the Trustee (if the Trustee is not the Dissemination Agent) and the Participating Underwriters an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Agreement; 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 each Repository or the Municipal Securities Rulemaking Board and, in either case, the Trustee and the Dissemination Agent of a change in the fiscal year dates.

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

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been

provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories and other parties to which it was provided.

SECTION 4. <u>Content of Annual Report</u>. The Issuer's Annual Report shall contain or include by reference:

(a) <u>Financial Statements</u>. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the Issuer prepares audited financial statements and 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 Issuer 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 Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Bond Indenture. Audited financial statements, if prepared by the Issuer, 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 Issuer 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) <u>Financial and Operating Data</u>. 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) a list of the public improvements in Table 1 of the Official Statement which have been acquired by the City with proceeds of the Bonds;

(iv) 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;

(v) an update of Table 6 setting forth the estimated assessed value-to-lien ratios for Developed Property as a group and for each owner of Undeveloped Property based upon the most recent Special Tax levy preceding the date of the Annual Report, the most recent assessed values of the property and the principal amount of the Bonds and any other land secured debt allocable to parcels within the District;

(vi) an update of Table 4 including a list of all taxpayers within the District which own property in the District 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;

(vii) any event known to the Issuer which reduces the number of residential units permitted to be constructed within the District or which results in a moratorium on future building within the District;

(viii) a table setting forth for the five most recent fiscal years in which Special Taxes were levied, the amount of Special Taxes levied in each fiscal year and the percentage delinquent as of June 30 of such fiscal year and as of the date of the Annual Report, and a description of the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;

(ix) the date of issuance and the principal amount of any Parity Bonds and a copy of any appraisal delivered in connection with such issuance; and

(x) any information not already included under (i) through (ix) 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 each of the Repositories or the Securities and Exchange Commission. 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. <u>Reporting of Significant Events</u>.

(a) 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:

(i) principal and interest payment delinquencies;

(ii) an event of default under the Bond Indenture other than as described in (i)

above;

(iii) unscheduled draws on the Reserve Account reflecting financial difficulties;

(iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;

(v) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy;

(vi) adverse tax opinions or events adversely affecting the tax-exempt status of

any release, substitution, or sale of property securing repayment of the

the Bonds;

- (vii) modifications to the rights of Bond Owners;
- (viii) unscheduled redemption of any Bond;
- (ix) defeasances;

(x)

Bonds; and

(xi) rating changes.

(b) The Trustee shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer pursuant to the Bond Indenture, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Bond Indenture.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable federal securities laws, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Trustee or 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. <u>Termination of Reporting Obligation</u>. The obligation of the Issuer, the Trustee and the Dissemination Agent under this Disclosure Agreement 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. <u>Dissemination Agent</u>. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer and the Trustee (if the Trustee is other than the Dissemination Agent) and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. <u>Amendment</u>. (a) This Disclosure Amendment 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 (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby; (ii) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, 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 Trustee an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Trustee, 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 each Repository.

(b) This Disclosure Agreement 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 Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(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. <u>Additional Information</u>. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. <u>Default</u>. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, 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 to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VII of the Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture and the Dissemination Agent and the Trustee shall be entitled to the same protections, limitations from liability and indemnification hereunder as are afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and the Trustee and their respective 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 or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and Trustee and payment of the Bonds. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent and the Trustee shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, 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. <u>Notices</u>. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	Deputy City Manager City of San Diego Financial, Organization Development and Management Services 202 C Street, MS 9B San Diego, California 92101
Dissemination Agent:	Union Bank of California, N.A. 120 S. San Pedro Street, Suite 400 Los Angeles, CA 90012
Trustee:	Union Bank of California, N.A. 120 S. San Pedro Street, Suite 400 Los Angeles, CA 90012
Participating Underwriters:	PaineWebber Incorporated 725 South Figueroa Street, 41st Floor Los Angeles, CA 90017 Morgan Stanley Dean Witter 555 California Street, Suite 2200 San Francisco, CA 94104
	E. J. De la Rosa & Co., Inc. 706 Mission, Suite 502

San Francisco, CA 94103

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)

By: _____

UNION BANK OF CALIFORNIA, N.A. as Trustee and Dissemination Agent

By: ____

Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 2 (Santaluz)

Name of Bond Issue: Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000

Date of Issuance: November 2, 2000

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2 (Santaluz) (the "District"), located in the City of San Diego, California, has not provided an Annual Report with respect to the abovenamed Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of October 1, 2000, by and between the District and Union Bank of California, N.A. as Trustee and Dissemination Agent. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

Union Bank of California, N.A. as Dissemination Agent

cc: City of San Diego

APPENDIX G

CONTINUING DISCLOSURE AGREEMENT OF THE DEVELOPER

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of October 1, 2000 is executed and delivered by Fairbanks Highlands LLC, a Delaware limited liability company (the "Landowner"), and Union Bank of California, N.A. as trustee (the Union Bank of California, N.A.) and as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery by Community Facilities District No. 2 (Santaluz) (the "District") of \$4,350,000 aggregate principal amount of its Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000 (the "Bonds"). The Bonds are being executed and delivered pursuant to a Bond Indenture dated as of October 1, 2000 by and between the District and Union Bank of California, N.A. as Trustee (the "Indenture").

SECTION 1. <u>Purpose of the Disclosure Agreement</u>. This Disclosure Agreement is being executed and delivered by the Landowner for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). Pursuant to this Disclosure Agreement, the Landowner agrees to provide the information required to be provided by the Landowner hereunder at the time and in the manner required hereunder and as otherwise required to comply with the Rule as specified in a written opinion of counsel to the Underwriters or a nationally recognized bond counsel. This Disclosure Agreement does not address additional undertakings, if any, by or with respect to persons other than the Landowner who may be considered obligated persons for purposes of the Rule, which additional undertakings, if any, may be required for the Participating Underwriters to comply with the Rule.

SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person's executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Landowner for purposes of this Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise. Taylor Woodrow Homes, Inc. and Signal Landmark are Affiliates of Fairbanks Highlands LLC for purposes of this Disclosure Agreement.

"Annual Report" shall mean any Annual Report provided by the Landowner on or prior to March 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Chief Financial Officer or his designee acting on behalf of the Landowner, or such other officer or employee as the Landowner shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean Union Bank of California, N.A. acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Landowner and which has filed with the Landowner and the City a written acceptance of such designation.

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

"Equity Securities" of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

"Government Authority" shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Listed Event" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement, dated October 18, 2000, relating to the Bonds.

"Parity Bonds" shall mean bonds of the District issued under the Agreement that are secured on a parity with the Bonds.

"Participating Underwriters" shall mean any of the original Underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Person" shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

"Repository" shall mean each National Repository and the State Repository.

"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.

"Semiannual Report" shall mean any report to be provided by the Landowner on or prior to September 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designed by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Landowner shall, or upon its receipt of the Annual Report the Dissemination Agent shall, not later than March 1 of each year, commencing March 1, 2001, provide to each Repository, the Participating Underwriters and the District an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Agreement provided that the audited financial statements, if any, of the Landowner may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, the Landowner shall, or upon its receipt of the Semiannual Report the Dissemination Agent shall, not later than September 1 of each year, commencing September 1, 2001, provide to each Repository, the Participating Underwriters and the District a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement.

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(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to Repositories, the Landowner shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Landowner is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall contact the Landowner to determine if the Landowner is in compliance with the requirements of this subsection (b).

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to Repositories by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the Landowner and the City certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Landowner's Annual Report and Semiannual Report shall contain or include by reference the information which is available as of the date of the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

(i) An update to portions of the section in the Official Statement entitled "THE DEVELOPMENT AND PROPERTY OWNERSHIP" (other than under the subcaptions "-The Developers," "- Status of Entitlement Approvals" and "- Appraisal"), including an update of Table 7 therein and a discussion of the sources of funds to finance development of property owned by the Landowner and its Affiliates within the District, and whether any material defaults exist under any loan arrangement related to such financing.

(ii) A summary of development activity within the District, including the number of parcels for which building permits have been issued and the square footage of improvements listed thereon, and as to property owned by the Landowner and its Affiliates, the number of parcels for which sales have closed, including the amount of land in each transaction, the sales price, and in the case of a purchase of a parcel by an entity other than the purchaser of a residential unit, the name of the purchaser of the parcel.

(iii) Status of any major governmentally-imposed preconditions for commencement or continuation of development of the parcels within the District.

(iv) Status of completion of the development being undertaken by the Landowner and its Affiliates and any major legislative, administrative and judicial challenges known to the Landowner to or affecting the construction of the development or the time for construction of any public or private improvements to be made by the Landowner or any Affiliate within the District other than the public improvements described in (5) below (the "Landowner Improvements").

(v) Status of completion of the public improvements to be constructed with proceeds of the Bonds (the "District Improvements"), including an update of Table 1 in the Official Statement, and a description of any major legislative, administrative and judicial challenges known to the Landowner to or affecting the construction of the District Improvements.

(vi) Any significant amendments to land use entitlements with respect to parcels within the District that are known to the Landowner.

(vii) Status of Special Tax payments on all parcels owned by the Landowner and its Affiliates.

(viii) In the Annual Report only, the audited financial statements of the Landowner, if any, for most recently completed fiscal year (which currently ends on each December 31), prepared in accordance with generally accepted accounting principles as promulgated to apply to private entities from time to time by the Financial Accounting Standards Board. If the Landowner has audited financial statements prepared and the audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements for the preceding year, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) In the event that as a result of subsequent amendment of the Rule, interpretive releases, no-action letters or other official guidance from the Securities and Exchange Commission or its staff, the information required to satisfy the Rule shall differ from the information described above, the Landowner shall provide to the Dissemination Agent such other information as is available to the Landowner and not otherwise readily available to the District.

(c) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Landowner shall clearly identify each such other document so included by reference.

SECTION 5. <u>Reporting of Significant Events</u>.

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

(i) Failure to pay any real property taxes, special taxes or assessments levied within the District on a parcel owned by the Landowner or any Affiliate;

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(ii) Damage to or destruction of any of the Landowner Improvements or the District Improvements which has a material adverse effect on the value of the parcels owned by the Landowner or any Affiliate;

(iii) Material default by the Landowner or any Affiliate on any loan with respect to the construction or permanent financing of the Landowner Improvements;

(iv) Material default by the Landowner or any Affiliate on any loan secured by property within the District owned by the Landowner or any Affiliate;

(v) Payment default by the Landowner or any Affiliate located in the United States on any loan of the Landowner or any Affiliate (whether or not such loan is secured by property within the District) which is beyond any applicable cure period in such loan; provided, however, the Annual Report need not address defaults by Signal Landmark or any of its Affiliates other than the Landowner or loans not secured by property within the District;

(vi) The filing of any proceedings with respect to the Landowner or any Affiliate, in which the Landowner or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts; and

(vii) The filing of any lawsuit against the Landowner or any of its Affiliates located in the United States which, in the reasonable judgment of the Landowner, will adversely affect the completion of the District Improvements, the Landowner Improvements or the development of parcels owned by the Landowner or its Affiliates within the District, or litigation which if decided against the Landowner, or any of its Affiliates, in the reasonable judgment of the Landowner, would materially adversely affect the financial condition of the Landowner or its Affiliates.

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

(c) If the Landowner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Landowner shall promptly file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Municipal Securities Rulemaking Board and each State Repository, with a copy to the City.

(d) The Landowner shall also give notice immediately upon the occurrence of any of the following events (to the extent the Landowner has actual knowledge thereof) in accordance with the procedures set forth in (c) above: (i) a sale or transfer of all or substantially all of the Landowner's assets, (ii) a change in the identity of the managing member of the Landowner, and (iii) the date on which the District approved the release of funds in the Acquisition and Construction Fund.

SECTION 6. <u>Termination of Reporting Obligation</u>. The Landowner's obligations under this Disclosure Agreement shall terminate upon the earliest of the following events:

(a) the legal defeasance, prior redemption or payment in full of all of the Bonds,

(b) if as of the date for filing the Annual Report the Landowner and its Affiliates own property within the District which is responsible for less than twenty percent (20%) of the Special Taxes levied in the Fiscal Year for which the Annual Report is being prepared or, in the case of the Annual Report due on March 1, 2001, less than twenty percent (20%) of the Special Taxes projected to be levied in Fiscal Year 2001-02, or

(c) upon the delivery by the Landowner to the District of an opinion of nationally recognized bond counsel to the effect that the information required by this Disclosure Agreement is no longer required. Such opinion shall be based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Landowner or a private letter ruling obtained by a similar entity to the Landowner. If such termination occurs prior to the final maturity of the Bonds, the Landowner shall give notice of such termination in the same manner as for an Annual Report hereunder.

SECTION 7. <u>Dissemination Agent</u>. The Landowner may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Landowner, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Landowner pursuant to this Disclosure Agreement.

SECTION 8. <u>Amendment</u>; <u>Waiver</u>. Notwithstanding any other provision of this Disclosure Agreement, the Landowner may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) This Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel addressed to the City, the Trustee and the Participating Underwriters, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Agreement for amendments to the Agreement with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the Authority and the Trustee, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and

(d) The Landowner, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) and (c) above.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Landowner shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Landowner. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given to the Municipal Securities Rulemaking Board, the State Repository, if any, and the Repositories; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles

and those prepared on the basis of the former accounting principles. The comparison of financial data described in clause (ii) of the preceding sentence shall be provided at the time financial statements, if any, are filed under Section 4(a)(viii) hereof.

SECTION 9. <u>Additional Information</u>. Nothing in this Disclosure Agreement shall be deemed to prevent the Landowner from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. If the Landowner 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 Agreement, the Landowner shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Landowner acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Landowner, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Landowner under such laws.

SECTION 10. <u>Default</u>. In the event of a failure of the Landowner to comply with any provision of this Disclosure Agreement, any Participating Underwriters or any Bondowner 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 Landowner or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Landowner to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the Landowner agrees to indemnify and save the Dissemination Agent, 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 theirs 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. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Landowner, the Participating Underwriters, Bondowners or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Landowner or an opinion of nationally recognized bond counsel. The obligations of the Landowner 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 Agreement.

The Dissemination Agent will not, without the Landowner's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Landowner and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Landowner or if there is a final judgment (other than a stipulated final judgment without the approval of the Landowner) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Landowner, the Landowner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 12. <u>Reporting Obligation of Landowner's Transferees</u>; Covenant Running With Land. The Landowner shall, in connection with any sale or transfer of ownership of land within the District to a person or entity other than an Affiliate which will result in the transferee (which term shall include any successors and assigns of the Landowner) becoming responsible (i) for the payment of more than 20 percent of the Special Taxes levied on property within the District in the Fiscal Year following such transfer; and (ii) for the construction and/or installation of some or all of the Landowner Improvements or the District Improvements, cause such transferee to enter into a disclosure agreement with terms substantially similar to the terms of this Disclosure Agreement, whereby such transferee agrees to be bound by the obligations of the Landowner under this Disclosure Agreement as an additional obligated party. Additionally, the Landowner shall, in connection with any sale or transfer of ownership of land within the District to a person or entity other than Affiliate which will result in the transferee becoming responsible for the payment of 20 percent or more of the Special Taxes levied on property within the District in the Fiscal Year following such transfer, but where the transferee is not responsible for the construction or installation of some or all of the Landowner Improvements or the District Improvements, cause such transferee to enter into a disclosure agreement with terms substantially similar to the terms of this Disclosure Agreement, whereby such transferee agrees to provide its audited financial statements, if any, and, as to the property owned by it, the information of the type described in Section 4(a)(ii), (iii), (vi) and (vii) and Section 5 of this Disclosure Agreement; provided that such transferee's obligations under such disclosure agreement shall terminate upon the land owned by the transferee becoming responsible for the payment of less than 20 percent of the annual Special Taxes. The Landowner agrees that its obligations pursuant to this Disclosure Agreement shall be a covenant running with the land owned by the Landowner within the District such that its obligations pursuant to this Disclosure Agreement shall be binding upon all such transferees described above as though the obligations of the Landowner and such transferees were expressly set forth in the grant deeds whereby such transferees obtain title to or an estate in such land from the Landowner as provided in Sections 1460 through 1470 of the Civil Code of the State of California.

SECTION 13. <u>Landowner as Independent Contractor</u>. In performing under this Disclosure Agreement, it is understood that the Landowner is an independent contractor and not an agent of the City.

SECTION 14. <u>Counterparts</u>. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Landowner, the District, the Dissemination Agent, the Participating Underwriters and Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

FAIRBANKS HIGHLANDS, LLC, a Delaware Limited Liability Company

By: TAYLOR WOODROW HOMES, INC., a California corporation, Member

By:				 	
Its:	<u></u>	<u> </u>	<u> – </u>	 	<u> </u>

By: _____

Its: _____

By: SIGNAL LANDMARK, a California corporation, Member

By: _______
Its: ______
Its: ______

UNION BANK OF CALIFORNIA, N.A. as Dissemination Agent

By: _____

Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of the Issuer:

Community Facilities District No. 2 (Santaluz)

Special Tax Bonds Series B of 2000

Community Facilities District No. 2 (Santaluz) Improvement Area No. 3

Name of Bond Issue:

Date of Issuance:

November 2, 2000

NOTICE IS HEREBY GIVEN that Fairbanks Highlands, LLC has not provided an [Annual Report or Semiannual Report] with respect to the above-named Bonds as required by the Continuing Disclosure Agreement of the Developer. [The Landowner anticipates that such [Annual Report or Semiannual Report] will be filed not later than ______, ___.]

Dated: _____

Union Bank of California, N.A. as Dissemination Agent

cc: City of San Diego