

NEW ISSUE—BOOK-ENTRY ONLY

NOT RATED

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "CONCLUDING INFORMATION—Tax Matters" herein.

\$5,430,000
CITY OF SAN DIEGO
ASSESSMENT DISTRICT NO. 4096 (PIPER RANCH)
LIMITED OBLIGATION IMPROVEMENT BONDS

Dated: Date of Delivery

Due: September 2, as shown below

The City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds (the "Bonds") are being issued by the City of San Diego (the "City") pursuant to the provisions of the Municipal Improvement Act of 1913, Sections 1000 *et seq.* of the California Streets and Highways Code, and the Improvement Bond Act of 1915, Sections 8500 *et seq.* of the California Streets and Highways Code (collectively, the "Act"), and will be secured by certain unpaid assessments (the "Assessments") levied by the City pursuant to the Act within the Assessment District (as defined herein). The Bonds will be issued under and secured by the Indenture, dated as of December 15, 2003 (the "Indenture") by and between the City and Union Bank of California, N.A. The proceeds from the sale of the Bonds will be used to (i) acquire certain public improvements within the Assessment District; (ii) fund capitalized interest on the Bonds; (iii) fund an Escrow Fund; (iv) fund a reserve fund for the Bonds; (v) fund an Administrative Expenses Account; and (vi) pay costs of issuance for the Bonds. See "THE PLAN OF FINANCE" herein.

The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the Bonds, payable at the rates set forth below, will be payable on September 2 and March 2 of each year, commencing September 2, 2004. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of \$5,000 or in any integral multiple of \$5,000. Payments of principal and interest will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

The Bonds will mature on September 2 in the years and in the amounts as shown on the Maturity Schedule set forth below. The Bonds are subject to optional and mandatory redemption prior to maturity as set forth herein. The Special Term Bonds (as defined herein) are subject to mandatory redemption prior to maturity on the Escrow Redemption Date of September 2, 2005 as set forth herein. See "THE BONDS—Redemption of the Bonds" herein.

The Bonds are payable solely from the Assessments and other assets pledged under the Indenture, as more fully described herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE ASSESSMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS FROM THE CITY TREASURY TO CURE ANY DEFICIENCY IN THE REDEMPTION FUND. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS.

MATURITY SCHEDULE
\$2,120,000 Serial Bonds

<u>Maturity (September 2)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No. †</u>	<u>Maturity (September 2)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No. †</u>
2005	\$70,000	2.50%	2.50%	797283RV2	2015	\$100,000	5.20%	5.20%	797283SF6
2006	70,000	2.80	2.80	797283RW0	2016	105,000	5.35	5.35	797283SG4
2007	75,000	3.00	3.00	797283RX8	2017	115,000	5.50	5.50	797283SH2
2008	75,000	3.25	3.25	797283RY6	2018	120,000	5.60	5.60	797283SJ8
2009	80,000	3.50	3.50	797283RZ3	2019	125,000	5.70	5.70	797283SK5
2010	80,000	4.00	4.00	797283SA7	2020	130,000	5.80	5.80	797283SL3
2011	85,000	4.30	4.30	797283SB5	2021	140,000	5.90	5.90	797283SM1
2012	90,000	4.65	4.65	797283SC3	2022	150,000	6.00	6.00	797283SN9
2013	95,000	4.90	4.90	797283SD1	2023	155,000	6.00	6.05	797283SP4
2014	95,000	5.00	5.00	797283SE9	2024	165,000	6.10	6.10	797283SS8

\$2,040,000 6.125% Term Bond due September 2, 2033 Yield: 6.20% CUSIP No. 797283SQ2 †
\$1,270,000 6.200% Special Term Bond due September 2, 2033 Yield: 6.20% CUSIP No. 797283SR0 †

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This cover page contains information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the section entitled "SPECIAL RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in making an informed investment decision about the Bonds.

The Bonds are offered, when, as and if issued and accepted by the Underwriter, subject to approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the City by the San Diego City Attorney and by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel. Certain legal matters will be passed upon for the Developer by Allen Matkins Leck Gamble & Mallory LLP, Irvine, California. Fieldman, Rolapp & Associates, Irvine, California and TKG & Associates, LLP, Chicago, Illinois have served as Financial Advisors to the City in connection with the issuance of the Bonds. It is anticipated that the Bonds will be available for delivery in book-entry form in New York, New York, on or about January 14, 2004.

Stone & Youngberg LLC

Dated: December 17, 2003

CITY OF SAN DIEGO

MEMBERS OF THE CITY COUNCIL

Dick Murphy, *Mayor*

Scott Peters
Michael Zucchet
Toni Atkins
Charles Lewis

Brian Maienschein
Donna Frye
Jim Madaffer
Ralph Inzunza

CITY STAFF

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

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City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager

Charles Abdelnour
City Clerk

Mary E. Vattimo
City Treasurer

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Assessment Engineer

NBS
Temecula, California

Financial Advisors to the City

Fieldman, Rolapp & Associates
Irvine, California

TKG & Associates, LLP
Chicago, Illinois

Appraiser

Rasmuson Appraisal Services
San Diego, California

Trustee

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

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements 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 a representation of facts.

Certain of the information set forth herein has been obtained from sources which the City believes to be reliable, but such information is not guaranteed by the City as to accuracy or completeness.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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City of San Diego
Piper Ranch Assessment District No. 4096
Regional Location Map



\$5,430,000
CITY OF SAN DIEGO
ASSESSMENT DISTRICT NO. 4096 (PIPER RANCH)
LIMITED OBLIGATION IMPROVEMENT BONDS

INTRODUCTION

This Official Statement, including the cover page, this Introduction and the Appendices hereto, is provided to furnish information in connection with the sale by the City of San Diego (the “City”) of its \$5,430,000 aggregate principal amount of Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds (the “Bonds”). The Bonds will be issued by the City pursuant to the provisions of the Municipal Improvement Act of 1913, Sections 1000 *et seq.* of the California Streets and Highways Code, and the Improvement Bond Act of 1915, Sections 8500 *et seq.* of the California Streets and Highways Code (collectively, the “Act”), the Resolution authorizing the issuance of the Bonds, adopted by the City Council of the City (the “City Council”) on December 8, 2003 (the “Resolution”) and the Indenture, dated as of December 15, 2003 (the “Indenture”) by and between the City and Union Bank of California, N.A., as trustee (the “Trustee”). Capitalized undefined terms used herein have the meanings ascribed thereto in the Indenture. See APPENDIX D – “SUMMARY OF THE INDENTURE.”

The proceeds from the sale of the Bonds will be used to (i) acquire certain public improvements within and of benefit to the Assessment District (as defined herein); (ii) fund capitalized interest on the Bonds; (iii) fund an Escrow Fund (including interest on the Special Term Bonds (as defined herein) through September 2, 2005); (iv) fund a reserve fund for the Bonds; (v) fund an Administrative Expenses Account; and (vi) pay costs of issuance for the Bonds. See “THE PLAN OF FINANCE” herein. The proceeds of the Term Bonds maturing on September 2, 2033 and assigned CUSIP number 797283SR0 (the “Special Term Bonds”) will be deposited in the Escrow Fund (together with proceeds of the non-escrowed Bonds in an amount to pay interest on the Special Term Bonds through September 2, 2005) and held and disbursed as described herein under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Escrow Fund.”

The Bonds will be secured by and payable from certain assessments levied within the Assessment District by the City pursuant to the Act (the “Assessments”) and other assets pledged under the Indenture. The Assessment District encompasses approximately 80 gross acres, with 69.55 net acres (after deducting streets, sidewalks and set-backs) to be developed as an industrial/business park consisting of approximately 1,200,000 square feet of light industrial warehouse and distribution space situated on 24 separate legal lots, to be known as Piper Ranch Business Park. A final recorded subdivision map subdivides the Assessment District into a 24-lot industrial subdivision currently under development by Piper Ranch LLC, a Delaware limited liability company (the “Developer”). The Developer recently sold eight of these contiguous finished lots comprising approximately 16.36 acres to One Piper Ranch LLC (Master Development Corporation) (“MDC”). MDC plans to re-map its property and construct 12 light industrial buildings on these lots, ranging in size from 11,300 square feet to 32,000 square feet. Currently, the public improvements to be acquired with net Bond proceeds are approximately 99 percent complete, with infrastructure, utilities, street improvements and sheet graded lots in place. See “THE ASSESSMENT DISTRICT - Property Ownership and Development.”

Pursuant to the Indenture, all of the Assessments (including prepayments thereof), together with interest thereon (but excluding any penalty and interest charges imposed upon delinquent Assessments), and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund and the Administrative Expense Account) are pledged by the City to secure the payment of the principal of, premium, if any, and interest

on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge constitutes a first lien on such assets. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE ASSESSMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS FROM THE CITY TREASURY TO CURE ANY DEFICIENCY IN THE REDEMPTION FUND. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS.

The summaries and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety to each document, statute, report or instrument.

THE PLAN OF FINANCE

The Bonds are being issued in order to provide funds to (i) acquire certain public improvements within and of benefit to the Assessment District; (ii) fund capitalized interest on the Bonds through September 2, 2004 with respect to the non-escrowed Bonds and through September 2, 2005 with respect to the Special Term Bonds; (iii) fund an Escrow Fund; (iv) fund a reserve fund for the Bonds; (v) fund an Administrative Expenses Account; and (vi) pay costs of issuance for the Bonds. The portion of the proceeds of the Bonds to be deposited in the Escrow Fund will be held and disbursed as described herein under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Escrow Fund." Capitalized interest on the Bonds (excluding the Deemed Escrow Bonds, as defined herein) will be deposited into the Capitalized Interest Account. Capitalized interest on the Special Term Bonds will be deposited into the Escrow Interest Account of the Escrow Fund.

The public improvements to be acquired include the costs of architecture, engineering, and construction of road, sewer, and storm drain facilities (the "Project") as follows:

Street Improvements. The street improvements (Piper Ranch Road, Air Wing Road, Approach Road and Dead Stick Road) include curb and gutter, sidewalk, pedestrian ramps, berms, monuments and street lights. The Developer and the City have agreed to eliminate the completion of Aviator Road as a component of the Project to be financed with proceeds of the Bonds. The City and the Developer currently intend to defer plans to complete Aviator Road pending the final alignment of State Route 125. A street vacation may be considered and approved by the City Council at a later date. See "THE ASSESSMENT DISTRICT - District Location - *Access to the Assessment District.*"

Sewer Improvements. The sewer mainlines including manholes, lot laterals, and cleanouts are to be located in Otay Mesa Road, Piper Ranch Road, Air Wing Road and along the Assessment District's western boundary.

Storm Drain Improvements. Storm drains consist of reinforced concrete pipe, cleanouts, curb inlets and concrete lined drainage channel.

A summary cost estimate for the capital construction costs and indirect costs are shown in the following table.

**City of San Diego
Assessment District No. 4096 (Piper Ranch)
Developer's Project Budget**

Construction and/or Acquisition	Estimated Costs
Construction and/or Acquisition	
Streets, Signals, Curb & Gutter and Street Lights	\$1,646,152
Sanitary Sewer System	590,361
Storm Drain System	1,611,644
5% Construction Hard Cost Contingency ⁽¹⁾	196,467
Subtotal Construction and/or Acquisition Costs	4,044,624
Architecture and Engineering Fees	228,750
Total	\$4,273,374

(1) Contractor's Fee excluded from calculation of 5% Construction Hard Cost Contingency.
Source: The Developer.

THE BONDS

Description of the Bonds

The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds will be dated their date of delivery. The Bonds will bear interest at the rates per annum and will mature, subject to the redemption provisions set forth below, on the dates and in the principal amounts, all as set forth on the cover page hereof.

Interest on the Bonds is payable semiannually on March 2 and September 2 of each year, commencing September 2, 2004 (each an "Interest Payment Date") to the persons in whose names ownership of the Bonds is registered on the registration books at the close of business on the immediately preceding Record Date, except as provided in the Indenture. The Bonds will bear interest from the Interest Payment Date next preceding the date of authentication of the Bonds, unless authenticated on or before an Interest Payment Date and after the fifteenth calendar day of the month preceding such Interest Payment Date (the "Record Date"), in which event the Bonds will bear interest from such Interest Payment Date, or unless the Bonds are authenticated on or prior to August 15, 2004, in which event such Bonds will bear interest from the Dated Date identified above. The Principal Amount is payable upon surrender hereof upon maturity or earlier redemption at the principal corporate trust office (the "Office of the Trustee") of the Trustee, in Los Angeles, California. Interest thereon is payable by check of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner at the address of the Registered Owner as it appears on the Registration Books of the Trustee as of the close of business on the Record Date. In the case of an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon the written request of such Owner to the Trustee, received at least ten days prior to a Record Date, specifying the account or accounts to which such payment will be made, payment of interest will be made by wire transfer of immediately available funds on the following Interest Payment Date. Any such request will remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee.

The Bonds will be issued in book-entry form, initially registered in the name of "Cede & Co.," as nominee of The Depository Trust Company ("DTC"), New York, New York, and will be evidenced by one Bond maturing on each maturity date, to be in a denomination corresponding to the total principal

designated to mature on such date. Payment of interest with respect to any Bond registered as of each Record Date in the name of Cede & Co. will be made by wire transfer of same-day funds to the account of Cede & Co. See APPENDIX E – “BOOK-ENTRY SYSTEM.”

Redemption of the Bonds

Optional Redemption

The Bonds will be subject to optional redemption in whole or in part, on any Interest Payment Date on and after September 2, 2012, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Redemption from Escrow Fund Transfers

The Special Term Bonds will be subject to mandatory redemption, in whole or in part, on the Escrow Redemption Date of September 2, 2005, from and to the extent of any transfers from the Deemed Escrow Bonds Account to the Prepayment Account at a Redemption Price equal to the principal amount of the Special Term Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption.

Mandatory Redemption From Assessment Prepayments

The Bonds are subject to mandatory redemption, in whole or in part, on any Interest Payment Date, from and to the extent of any prepayment of Assessments, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 2, 2004 through March 2, 2012	103%
September 2, 2012 and thereafter	100

The City will notify the Trustee of Bonds to be called for redemption upon prepayment of Assessments in amounts sufficient therefor, or whenever sufficient surplus funds are available therefor in the Redemption Fund. The City will provide such notice in writing at least 45 days prior to the date of such redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on September 2, 2033 (excluding the Special Term Bonds) are subject to mandatory sinking fund redemption, in part, on September 2 in each year, commencing September 2, 2025, at a Redemption Price equal to the principal amount of such Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Sinking Fund Redemption Date (September 2)	Principal Amount to be <u>Redeemed</u>
2025	\$175,000
2026	185,000
2027	200,000
2028	210,000
2029	225,000
2030	240,000
2031	250,000
2032	270,000
2033*	285,000

* Maturity

If some but not all of the Bonds maturing on September 2, 2033 (excluding the Special Term Bonds) are optionally redeemed, the principal amount of such Bonds maturing on September 2, 2033 to be redeemed pursuant to mandatory sinking fund redemptions on any subsequent September 2 will be reduced, by \$5,000 or an integral multiple thereof, as designated by the City in a Written Certificate of the City filed with the Trustee; provided, however, that the aggregate amount of such reductions will not exceed the aggregate amount of such Bonds maturing on September 2, 2033 optionally redeemed. If some but not all of the Bonds maturing on September 2, 2033 (excluding the Special Term Bonds) are redeemed pursuant to mandatory redemption from Principal Prepayments, the principal amount of such Bonds maturing on September 2, 2033 to be subsequently redeemed pursuant to mandatory sinking fund redemptions will be reduced by the aggregate principal amount of such Bonds maturing on September 2, 2033 so redeemed pursuant to mandatory redemption from Principal Prepayments, such reduction to be allocated as nearly as practicable on a *pro rata* basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination will be given by the Trustee to the City.

The Special Term Bonds are subject to mandatory sinking fund redemption, in part, on September 2 in each year, commencing September 2, 2006, at a Redemption Price equal to the principal amount of the Special Term Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

<u>Sinking Fund Redemption Date (September 2)</u>	<u>Principal Amount to be Redeemed</u>	<u>Sinking Fund Redemption Date (September 2)</u>	<u>Principal Amount to be Redeemed</u>
2006	\$20,000	2020	\$40,000
2007	20,000	2021	45,000
2008	20,000	2022	45,000
2009	20,000	2023	50,000
2010	25,000	2024	55,000
2011	25,000	2025	55,000
2012	25,000	2026	60,000
2013	30,000	2027	65,000
2014	30,000	2028	65,000
2015	30,000	2029	70,000
2016	35,000	2030	75,000
2017	35,000	2031	80,000
2018	35,000	2032	85,000
2019	40,000	2033*	90,000

* Maturity

If some but not all of the Special Term Bonds are optionally redeemed, the principal amount of Special Term Bonds to be redeemed pursuant to mandatory sinking fund redemptions on any subsequent September 2 will be reduced, by \$5,000 or an integral multiple thereof, as designated by the City in a Written Certificate of the City filed with the Trustee; provided, however, that the aggregate amount of such reductions will not exceed the aggregate amount of Special Term Bonds optionally redeemed. If some but not all of the Special Term Bonds are redeemed pursuant to mandatory redemption from Principal Prepayments, the principal amount of Special Term Bonds to be subsequently redeemed pursuant to mandatory sinking fund redemptions will be reduced by the aggregate principal amount of the Special Term Bonds so redeemed pursuant to mandatory redemption from Principal Prepayments, such reduction to be allocated as nearly as practicable on a *pro rata* basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination will be given by the Trustee to the City.

Notice of Redemption

The Trustee on behalf and at the expense of the City will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the registration books, and to the Securities Depositories and to one or more Information Services, at least 30 but not more than 60 days prior to the date fixed for redemption. Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and will designate the Series of Bonds, the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the sufficiency of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds maturing on a particular date, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to an optional redemption under the Indenture, among maturities as directed in a Written Request of the City; and (b) with respect to any redemption pursuant to mandatory redemption from Principal Prepayments, among maturities on a pro rata basis as nearly as practicable, and by lot among Bonds with the same maturity in such manner as determined by the Trustee. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Bonds which may be separately redeemed.

Effect of Notice of Redemption

Notice having been mailed as aforesaid, and moneys for the redemption (including the interest to the applicable Redemption Date and including any applicable premium), having been deposited in the Redemption Fund or Prepayment Account, as applicable, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds will be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the redemption of all the Bonds to be redeemed, together with interest to said date, is held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof has been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed.

Transfers and Exchange

So long as the Bonds remain in book-entry, transfer and exchange of any of the Bonds will be accomplished in accordance with the provisions of such book-entry system. In the event of termination of such book-entry system with respect to the Bonds, then any Bond may be transferred upon the registration books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount of the same maturity, in any authorized denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same maturity, of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be obligated to make any transfer or exchange of Bonds during the period established by the Trustee for the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

Debt Service Schedule

The schedule of annual debt service payments for the Bonds is as follows:

Limited Obligation Improvement Bonds Debt Service Schedule

Year Ending September 2	Principal	Interest	Total ⁽¹⁾
2004 ⁽²⁾	\$ --	\$ 196,640.50	\$ 196,640.50
2005 ⁽²⁾	70,000	310,485.00	380,485.00
2006	90,000	308,735.00	398,735.00
2007	95,000	305,535.00	400,535.00
2008	95,000	302,045.00	397,045.00
2009	100,000	298,367.50	398,367.50
2010	105,000	294,327.50	399,327.50
2011	110,000	289,577.50	399,577.50
2012	115,000	284,372.50	399,372.50
2013	125,000	278,637.50	403,637.50
2014	125,000	272,122.50	397,122.50
2015	130,000	265,512.50	395,512.50
2016	140,000	258,452.50	398,452.50
2017	150,000	250,665.00	400,665.00
2018	155,000	242,170.00	397,170.00
2019	165,000	233,280.00	398,280.00
2020	170,000	223,675.00	393,675.00
2021	185,000	213,655.00	398,655.00
2022	195,000	202,605.00	397,605.00
2023	205,000	190,815.00	395,815.00
2024	220,000	178,415.00	398,415.00
2025	230,000	164,940.00	394,940.00
2026	245,000	150,811.26	395,811.26
2027	265,000	135,760.00	400,760.00
2028	275,000	119,480.00	394,480.00
2029	295,000	102,587.50	397,587.50
2030	315,000	84,466.26	399,466.26
2031	330,000	65,116.26	395,116.26
2032	355,000	44,843.76	399,843.76
2033	375,000	23,036.26	398,036.26
Total:	\$5,430,000	\$6,291,131.80	\$11,721,131.80

(1) Debt Service includes debt service on all of the Bonds, including the Special Term Bonds.

(2) All of the interest due in the year ending September 2, 2004 and a portion of the interest due in the year ending September 2, 2005 will be funded from proceeds of the non-escrowed Bonds.

Source: Stone & Youngberg LLC.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the City payable solely from the Assessments and the other assets pledged therefor under the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Assessments (including prepayments thereof), together with interest thereon (but excluding any penalty and interest charges imposed upon delinquent Assessments), and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund and the Administrative Expense Account) are pledged by the City to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge constitutes a first lien on such assets. The Assessments, and any reassessments which may be issued thereon or in lieu thereof, together with interest thereon, will remain and constitute a trust fund for the redemption and payment of the Bonds and the interest thereon.

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE ASSESSMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS FROM THE CITY TREASURY TO CURE ANY DEFICIENCY IN THE REDEMPTION FUND. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS.

Levy and Collection of Assessment

Pursuant to the Act, the City is required annually to transmit to the Auditor of the County of San Diego (the "County") the respective amounts of individual installments on all unpaid Assessments. Said Assessment installments are then billed on the regular County property tax bills and are remitted to the City in accordance with established procedures for such remittances. The Assessments are allocated and distributed to the City in monthly installments as they are collected, beginning in November and ending in January with respect to the first installment of the Assessments which is due on October 1 and delinquent by December 10 of each year, and beginning in March and ending in July with respect to the second installment of the Assessments which is due on February 1 and delinquent by April 10 of each year. The City will receive reports from the San Diego County Treasurer-Tax Collector (the "County Treasurer") regarding delinquent Assessments in February and May of each year. Toward the end of July of each year, the City will receive a final distribution of all delinquent Assessments collected for the preceding fiscal year.

The City will comply with all requirements of the Act, the Resolution and the Indenture to assure the timely collection of the Assessments, and interest thereon, including, without limitation, the enforcement of delinquent Assessments. Any funds received by the City in and for the Assessment District (excluding any penalty and interest charges imposed upon delinquent Assessments), including, but not limited to, collections of Assessments (including prepayments thereof), and interest thereon, upon the secured tax rolls, collections of delinquent Assessments, through foreclosure proceedings or otherwise, and collections of amounts for Administrative Expenses, will as soon as practicable be transmitted directly to the Trustee, without deduction, to be deposited into the funds and accounts specified in the Indenture. The transfer of any such amounts will be accompanied by a Written Certificate

of the City that identifies which portion, if any, of the amounts so transferred constitute Assessments, or interest thereon, or prepayments of Assessments or amounts collected for Administrative Expenses.

The Assessments and interest thereon, will be payable and be collected in the same manner at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property. The Assessments, together with the interest thereon, will be payable in annual series corresponding in number to the number of series of Bonds. An annual proportion of the Assessment, together with interest thereon, will be payable in each year preceding the date of maturity of each of the several series of Bonds in an amount sufficient to pay such Bonds (other than Deemed Escrow Bonds), and interest thereon, when due. In addition, the City will, in accordance with and subject to the limitations contained in the report for the Assessment District and in Section 8682 and Section 8682.1 of the Act, cause to be included in the annual assessment roll an amount estimated to be sufficient to pay Administrative Expenses for the following annual period.

The City will, before the final date on which the Auditor will accept the transmission of the Assessments for inclusion on the next tax roll, prepare or cause to be prepared, and will transmit to the Auditor, such data as the Auditor requires to include the installments of such Assessments, together with interest thereon, and Administrative Expenses on the next secured tax roll of the County.

All sums received from the collection of the Assessments and of the interest thereon (excluding any penalty and interest charges imposed upon delinquent Assessments) will be transferred by the City to the Trustee for deposit in the Redemption Fund. All amounts collected by the City for Administrative Expenses will be transferred by the City to the Trustee for deposit in the Administrative Expense Account. Any prepayments of Assessments will be transferred by the City to the Trustee for deposit in the Prepayment Account; provided, however, that amounts attributable to the administrative costs of the prepayment of Assessments will be transferred by the City to the Trustee for deposit in the Administrative Expense Account.

In connection with proposed improvements to State Route 125 running adjacent to the Assessment District, a small portion of those lots located at the extreme northeastern section of the Assessment District (Lots 7 through 10) may become subject to purchase by the California Department of Transportation (CalTrans). The Developer and CalTrans have begun preliminary negotiations for the purchase of approximately 2.38 acres and have commenced appraisals in connection therewith. Upon the closing of any such purchase, a portion of the Bonds may become subject to mandatory redemption from and to the extent of a prepayment of Assessments. See "THE BONDS - Redemption of the Bonds - Mandatory Redemption From Assessment Prepayments" and "THE ASSESSMENT DISTRICT - District Formation" and "- Property Ownership and Development."

Whenever, after the issuance of the Bonds, an Assessment is prepaid, in whole or in part, as provided in the Act, the Trustee, pursuant to a Written Request of the City, will transfer from the Reserve Fund to the Prepayment Account an amount, specified in such Written Request, equal to the product of the ratio of the original amount of the Assessment, or portion thereof, so prepaid to the original amount of all unpaid Assessments, times the initial Reserve Requirement. Any Assessment may be so prepaid less, if available, the amount so transferred to the Redemption Fund from the Reserve Fund, if any, together with the redemption premium, if any, and interest on such prepaid Assessment (if not collected in an Assessment installment) to the earliest Redemption Date for which notice of redemption may be given in accordance herewith.

The lien of the Assessments is co-equal to and independent of the lien for general *ad valorem* property taxes and other taxes, special taxes and charges collected on the property tax roll. The lien is subordinate to all fixed special assessment liens imposed prior to the date of recordation of the assessment lien for the Bonds upon the same property, but has priority over all existing and future private liens and over all fixed special assessment liens which may thereafter be levied against the property.

Although the Assessments constitute a fixed lien on the respective assessed parcels, they do not constitute personal indebtedness of the affected property owners. Further, there are no restrictions on the ability of property owners to sell parcels subject to Assessments. No assurance can be given as to the ability or the willingness of any assessee to pay the annual installments of the Assessments when due. The failure of an assessee to pay an annual installment of an Assessment will not result in an increase in Assessments against other parcels in the Assessment District. See “SPECIAL RISK FACTORS – The Assessments are not Personal Obligations of the Property Owners” herein.

The City has covenanted in certain circumstances to undertake and diligently prosecute foreclosure proceedings following a delinquency in the payment of Assessments. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure” below. The City is not required to bid at the foreclosure sale. In the proceedings for the authorization and issuance of the Bonds, the City has determined not to obligate itself to advance any available funds from the City treasury to cover any deficiency or delinquency that may occur in the Redemption Fund by reason of the failure of a property owner to pay an annual installment of an Assessment. This determination does not prevent the City, in its sole discretion, from so advancing such funds.

The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City’s share of such taxes to the City. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer’s Investment Pool (the “Pool”). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City.

Assessment Formula

The Act and Article XIIID of the State Constitution, pursuant to which the improvements are being acquired and constructed, required that individual assessments assigned to the property within the Assessment District be based on the special benefit such properties receive from the improvements. The method of assessment developed by the Assessment Engineer apportions Assessments on the basis of net acreage. Any future apportionments of the Assessment will be performed on the basis of net acreage of any newly created parcels.

The special benefit of the costs are apportioned as follows. The street improvements, sewer improvements and storm drain improvements were designed to provide benefit to the assessed parcels based upon the maximum potential utilization of the parcels. The factors considered in the maximum potential utilization of the parcels are the approved land use and the parcel’s acreage. The land use determines the type and intensity of utilization upon the parcels. The parcel’s acreage limits the amount of development, such as maximum building size, that may occur on a parcel. Since all the parcels to be assessed have the same land use classification, the remaining apportioning factor is acreage. Therefore, all acquisition costs are apportioned *pro rata* based upon the net acreage of each parcel. The special benefit of the indirect and district formation costs and costs of issuance of the Bonds are apportioned *pro rata* to each parcel based upon its share of the total construction cost.

Pursuant to Section 10204(f) of the California Streets and Highways Code, the City Council has reserved entitlement to impose an annual assessment, which is in addition to the installment otherwise payable on account of each unpaid assessment, to pay costs incurred by the City and not otherwise reimbursed which result from the administration and collection of Assessments or from the administration or registration of any associated bonds and the reserve fund or other related funds; provided that such additional annual assessment will not exceed the maximum amount prescribed therefor in the Assessment Engineer's Report for the Assessment proceedings. The total maximum annual administrative assessment will initially be set to not exceed \$25,000 per year in Fiscal Year 2003-04, and the maximum will not increase more than 2% per year.

The following Table 1 summarizes the amount of the Assessment for each parcel in the Assessment District.

TABLE 1
City of San Diego
Description of Assessment District No. 4096 (Piper Ranch)

Lot No.	APN	Net Acres ⁽¹⁾	2003-04 Assessed Value	Assessment Amount ⁽²⁾
1	646-240-45	1.99	\$ 114,504	\$ 155,365.92
2	646-240-02	2.00	115,034	156,146.66
3	646-240-03	2.03	116,732	158,488.86
4	646-240-04	2.02	116,201	157,708.12
5	646-240-05	2.02	116,201	157,708.12
6	646-240-06	2.01	115,564	156,927.39
7	646-240-07	1.84	105,801	143,654.92
8	646-240-08	1.80	103,573	140,531.99
9	646-240-09	2.17	124,798	169,419.12
10	646-240-10	1.84	105,801	143,654.92
11	646-240-11	2.06	118,430	160,831.06
12	646-240-12	2.07	119,066	161,611.79
13	646-240-13	2.07	119,066	161,611.79
14	646-240-14	2.08	119,598	162,392.52
15	646-240-15	2.02	116,201	157,708.12
16	646-240-16	2.43	139,760	189,718.19
17	646-240-17	5.51	296,076	430,184.04
18	646-240-18	4.41	253,628	344,303.38
19	646-240-19	4.30	247,367	335,715.31
20	646-240-20	4.30	247,367	335,715.31
21	646-240-21	4.30	247,367	335,715.31
22	646-240-22	4.30	247,367	335,715.31
23	646-240-23	4.41	253,628	344,303.38
24	646-240-24	5.57	320,377	434,868.47
		69.55	\$3,979,507	\$5,430,000.00

⁽¹⁾ Parcel size as set forth in Appraisal; does not reflect proposed lot line adjustments.

⁽²⁾ Assessments as to be revised following the issuance of the Bonds and confirmation of the Engineer's Report.

Source: Assessment Engineer.

Assessment District Delinquency Fund

Pursuant to its Ordinance No. O-17882 adopted December 8, 1992, the City established its Assessment District Delinquency Fund, into which all penalties and interest on delinquent amounts assessed under provisions of the Improvement Bond Act of 1915 (“1915 Act”), the Mello-Roos Community Facilities District Act of 1982 (“1982 Act”), and the Lighting and Landscape Improvement Act of 1972 (“1972 Act”), will be deposited to be used by the City for the costs incurred in fulfilling its obligations under assessment bond indentures and to protect the integrity of the districts. Amounts deposited in the Assessment District Delinquency Fund are not pledged to payment of the Bonds, nor is the City obligated to use monies in the Assessment District Delinquency Fund in any particular instance.

Reserve Fund

The Trustee will establish, maintain and hold in trust a special fund designated the “Reserve Fund.” On the Closing Date, the Trustee will deposit in the Reserve Fund the amount set forth under the caption “ESTIMATED SOURCES AND USES OF FUNDS.” Additional deposits will be made by the City as provided in the Act. Except as otherwise provided under this caption, all amounts deposited in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Redemption Fund in the event of any deficiency at any time in the Redemption Fund of the amount then required for payment of the principal of, premium, if any, and interest on the Bonds or, in accordance with the Indenture, for the purpose of redeeming Bonds from the Redemption Fund. The City will cause the Reserve Fund to be administered in accordance with Part 16 of the Act; provided, however, that proceeds from redemption or sale of properties, if and to the extent that payment of delinquent Assessments and interest thereon was made from the Reserve Fund, will be credited to the Reserve Fund. Amounts on deposit in the Reserve Fund will, upon the prepayment of Assessments and the written direction of the City in accordance with the Indenture, be transferred to the Prepayment Account and applied to the redemption of Bonds at such time and in such amounts in accordance with the Indenture. See “Levy and Collection of Assessment” above.

So long as no Event of Default has occurred and then be continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on February 15 and August 15 of each year will be withdrawn from the Reserve Fund by the Trustee and, prior to the date on which the Improvement Fund is closed upon the completion or substantial completion of the Project as provided in the Indenture, will be deposited in the Improvement Fund and, thereafter, will be deposited in the Redemption Fund. As defined in the Indenture, the term “Reserve Requirement” means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds; (b) maximum annual debt service on the Bonds; and (c) 125% of average annual debt service on the Bonds. In calculating such amounts, the principal amount of the Deemed Escrow Bonds, as of such date of calculation, and the annual debt service thereon, will be excluded. As defined in the Indenture, the term “Deemed Escrow Bonds” means, as of any date of determination, Special Term Bonds in a principal amount equal to the amount then on deposit in the Deemed Escrow Bonds Account (excluding any investment earnings allocable to such amount).

Whenever the balance in the Reserve Fund is sufficient to retire all the Outstanding Bonds, whether by advance retirement or otherwise, collection of the principal and interest on the Assessments will be discontinued and the Reserve Fund will be liquidated by the Trustee in retirement of the Outstanding Bonds, as directed by a Written Request of the City. In the event that the balance in the Reserve Fund at the time of liquidation exceeds the amount required to retire all of the Outstanding Bonds, the excess will, after payment of amounts due to the Trustee, be transferred to the City to be used in accordance with the Act.

Escrow Fund

General. The Trustee will establish and maintain a special fund designated the “Escrow Fund.” Within the Escrow Fund, the Trustee will establish and maintain a separate account designated the “Deemed Escrow Bonds Account” and a separate account designated the “Escrow Interest Account.” On the Closing Date there will be deposited in the Deemed Escrow Bonds Account and in the Escrow Interest Account the respective amounts set forth under the caption “ESTIMATED SOURCES AND USES OF FUNDS.” Such deposits include the \$1,270,000.00 principal amount of the Special Term Bonds plus \$128,608.67 from non-escrowed Bond proceeds, which is an amount sufficient to cover gross funded capitalized interest through September 2, 2005 (the “Escrow Redemption Date”). On the second Business Day immediately preceding each Interest Payment Date occurring on or prior to the Escrow Redemption Date, the Trustee will transfer from the Escrow Interest Account to the Redemption Fund an amount equal to the interest payable on the Deemed Escrow Bonds on such Interest Payment Date.

Amounts in the Escrow Fund may be released for deposit in the Improvement Fund on any disbursement date to be designated by the City in accordance with the Indenture (the “Escrow Disbursement Date”) upon receipt of a certificate of one or more Independent Consultants delivered pursuant to provisions below. See “*Escrow Release*” below.

In the event that such conditions are not satisfied such that all funds are released from the Escrow Fund, on the Business Day immediately preceding the Escrow Redemption Date, the Trustee will transfer all amounts then on deposit in the Deemed Escrow Bonds Account to the Prepayment Account, which amounts will be applied to the redemption of Special Term Bonds on the Escrow Redemption Date as set forth under the caption “THE BONDS – Redemption of the Bonds – *Mandatory Redemption from Escrow Fund Transfers.*” On the Business Day immediately following the Escrow Redemption Date, the Trustee will transfer any amounts remaining in any of the accounts in the Escrow Fund to the Redemption Fund. THE BONDS – Redemption of the Bonds – *Mandatory Redemption from Escrow Fund Transfers*” and APPENDIX D – “SUMMARY OF INDENTURE – Funds and Accounts – Escrow Fund.”

Until such time as the conditions are satisfied and all funds released from the Escrow Fund, and prior to any redemption of Bonds on the Escrow Redemption Date, on the second Business Day immediately preceding each Interest Payment Date occurring on or prior to the Escrow Redemption Date, the Trustee shall transfer from the Escrow Interest Account to the Redemption Fund an amount equal to the interest payable on the Deemed Escrow Bonds on such Interest Payment Date.

On the Escrow Disbursement Date, upon receipt by the Trustee of all of the items specified under the caption “*Escrow Release*” below, the Trustee shall make the following transfers:

(i) The Trustee will transfer from the Escrow Interest Account to the Improvement Fund the amount specified in the certificate of the Independent Consultant delivered pursuant to the requirements set forth under the caption “*Escrow Release*” below as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(B) under the caption “*Escrow Release*” below).

(ii) The Trustee will transfer from the Deemed Escrow Bonds Account to the Reserve Fund the amount specified in the certificate of the Independent Consultant delivered pursuant to the requirements set forth under the caption “*Escrow Release*” below as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(C) under the caption “*Escrow Release*” below).

(iii) The Trustee will transfer from the Deemed Escrow Bonds Account to the Redemption Fund the amount, if any, specified in the certificate of the Independent Consultant delivered pursuant to the requirements set forth under the caption “*Escrow Release*” below as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraphs (iii)(D) under the caption “*Escrow Release*” below).

(iv) The Trustee will transfer from the Deemed Escrow Bonds Account to the Improvement Fund the amount specified in the certificate of the Independent Consultant delivered pursuant to the requirements set forth under the caption “*Escrow Release*” below as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(E) under the caption “*Escrow Release*” below).

Escrow Release. The Trustee will transfer from the Deemed Escrow Bonds Account to the Improvement Fund and other funds the amount specified in the certificate of one or more Independent Consultants delivered as set forth below as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(F) below). Transfers will be made on the Escrow Disbursement Date only if, not later than ten Business Days prior to the Escrow Disbursement Date, the Trustee has received all of the following:

(i) a Written Certificate of the City specifying the Escrow Disbursement Date, which will be a date (A) no less than 75 days prior to the Escrow Redemption Date, and (B) no less than five Business Days prior to the Interest Payment Date next occurring after the date of receipt by the Trustee of such Written Certificate of the City;

(ii) a Written Certificate of the City certifying that, on the basis of the records of the County Tax Collector available to the City or information provided to the City by the County Tax Collector, there are no current defaults in the payment of any *ad valorem* real property taxes or special taxes or special assessments levied on property within the Assessment District owned by the Developer or its affiliates;

(iii) a certificate or certificates from one or more Independent Consultants which, when taken together, certify:

(A) the Transferred Principal Amount, which constitutes the amount to be transferred from the Deemed Escrow Bonds Account on the Escrow Disbursement Date (the “Transferred Principal Amount” represents the total amount of the Deemed Escrow Bond that when added to the non-escrowed Bonds then Outstanding results in a value not less than 3.5:1 as required by subparagraph (iii)(F) below);

(B) the amount to be transferred from the Escrow Interest Account to the Improvement Fund on the Escrow Disbursement Date, which amount will be equal to the product of (aa) a fraction, the numerator of which is equal to the Transferred Principal Amount and the denominator of which is equal to the amount on deposit in the Deemed Escrow Bonds Account on the day prior to the Escrow Disbursement Date, times (bb) the amount on deposit in the Escrow Interest Account on the day prior to the Escrow Disbursement Date (this transfer allocates a portion of the capitalized interest funded from the non-escrowed Bonds to the Improvement Fund);

(C) the portion of the Transferred Principal Amount that is to be transferred to the Reserve Fund on the Escrow Disbursement Date, which portion will be an amount equal to the remainder of (I) the Reserve Requirement (calculated as if the principal

amount of the Deemed Escrow Bonds had been reduced by virtue of such Transferred Principal Amount having already been transferred from the Deemed Escrow Bonds Account), less (II) the Reserve Requirement (calculated based on the principal amount of the Deemed Escrow Bonds just prior to such Transferred Principal Amount being transferred from the Deemed Escrow Bonds Account);

(D) the portion, if any, of the Transferred Principal Amount to be transferred to the Redemption Fund on the Escrow Disbursement Date, which portion will be an amount which is sufficient to pay interest on a portion of the Bonds in an amount equal to the Transferred Principal Amount (which portion of the Bonds will be deemed to be comprised of the Special Term Bonds) on each Interest Payment Date that will occur before Assessments can be enrolled and collected in an amount sufficient to pay such interest;

(E) the portion of the Transferred Principal Amount to be transferred to the Improvement Fund, which portion will be an amount equal to the remainder of (I) the Transferred Principal Amount, less (II) the sum of (aa) the amount to be transferred to the Reserve Fund pursuant to the preceding paragraph (C), plus (bb) the amount, if any, to be transferred to the Redemption Fund pursuant to the preceding paragraph (D);

(F) that the sum of (I) the Assessed Valuation of parcels of property within the Assessment District for which a Qualified Appraisal Report has not been provided, plus (II) the Appraised Value of parcels of property within the Assessment District for which a Qualified Appraisal Report has been provided, as such Appraised Value is shown in such Qualified Appraisal Report, is at least 3.5 times the sum of (aa) the aggregate principal amount of all Outstanding Bonds other than the Deemed Escrow Bonds (assuming that the principal amount of the Deemed Escrow Bonds is reduced by virtue of the transfer of the Transferred Principal Amount from the Deemed Escrow Bonds Account on the Escrow Disbursement Date), plus (bb) the aggregate principal amount of all fixed lien special assessments (other than the Assessments) levied on parcels of property within the Assessment District, based upon information from the most recent Fiscal Year for which such information is available, plus (cc) a portion of the aggregate principal amount of Other District Bonds equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds (as defined below) on parcels of property within the Assessment District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent Fiscal Year for which such information is available. As defined in the Indenture, the term "Other District Bonds" means, as of the date of determination, any and all bonds, notes or other evidences of indebtedness issued under the Mello-Roos Community Facilities Act of 1982 then outstanding and payable at least partially from special taxes to be levied on parcels of property within the Assessment District.

Covenant for Superior Court Foreclosure

The Bonds are subject to the provisions of the 1915 Act with respect to foreclosure remedies. The 1915 Act provides that upon default in the payment of any installment of an assessment, the parcel

securing such assessment will be sold (and will be subject to the right of redemption by the owner) in the same manner in which real property is sold for the nonpayment of general *ad valorem* property taxes.

The 1915 Act also provides that, as a cumulative remedy, in the event any installment of an assessment is not paid when due, the City may order the collection of the installment by the institution of a court action to foreclose the lien of such assessment. In such an action, the real property subject to the unpaid assessment may be sold at a judicial foreclosure sale. This foreclosure sale procedure is not mandatory. In the Indenture, the City has covenanted that it will determine or cause to be determined, no later than August 15 of each Fiscal Year in which the Bonds are Outstanding, whether or not any owners of the real property within the Assessment District are delinquent in the payment of Assessment installments. If such delinquencies exist, the City will order and cause to be commenced an action in the Superior Court to foreclose the lien of an Assessment or installment thereof not paid when due, not later than the next following November 1, against any parcel that is subject to delinquencies of more than \$12,500 or any group of parcels under common ownership with aggregate delinquencies of more than \$12,500; provided, however, that during any period in which the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the City will commence foreclosure proceedings against any parcel that is subject to delinquencies of more than \$10,000 or any group of parcels under common ownership with aggregate delinquencies of more than \$10,000. The City has further covenanted to diligently prosecute any such foreclosure action to judgment and foreclosure sale.

Upon the redemption or sale of the real property responsible for such delinquencies, the City will apply the net proceeds thereof to replenish the Reserve Fund the amount of any delinquency previously advanced from the Reserve Fund; with the balance, if any, to be disbursed as set forth in the judgment of foreclosure or as required by law.

Even though foreclosure is commenced and diligently prosecuted in accordance with the City's covenant of foreclosure, the City can not provide any assurance that, in the event such foreclosure progresses to the point of a foreclosure sale, there will be any bidder for the subject parcel or parcels. There is no assurance that such present value will not decline in the future, and the City is not obligated to be a bidder at such foreclosure sale. In the absence of any outside bidder, the foreclosure sale may not produce money to the City in satisfaction of its foreclosure judgment from which to pay the principal of or interest on the Bonds secured by such delinquencies in the payments of Assessments. See APPENDIX A – "APPRAISAL REPORT" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) 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. See "SPECIAL RISK FACTORS – Bankruptcy and Foreclosure Delays" herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale will be sold or, if sold, that the proceeds of such sale (less penalties and interest on delinquent amounts which will be deposited into the City's Assessment District Delinquency Fund) will be sufficient to pay any delinquent Assessment installment. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on 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 Assessments will have the same lien priority as is provided for *ad valorem* taxes.

Judicial Foreclosure Sale Proceedings

The 1915 Act provides that the court in a foreclosure proceeding has the power to order a parcel securing delinquent assessments to be sold for an amount not less than all delinquent annual installments of the assessments, interest, penalties, costs, fees and other charges that are delinquent at the time the foreclosure action is ordered and certain other fees and amounts as provided in the 1915 Act (the “Minimum Price”). The court may also include subsequent delinquent assessments and all other delinquent amounts. These provisions also apply in foreclosure proceedings to recover delinquent Assessments.

If the parcel is sold to a purchaser other than the City, the City will pay the proceeds from the sale of the parcel (less penalties and interest on delinquent amounts which will be deposited into the City’s Assessment District Delinquency Fund) after payment of any expenses related to the foreclosure into the Redemption Fund. The City has no obligation to advance any monies (other than the foreclosure sale proceeds) to the Redemption Fund. However, if the City for any reason voluntarily chooses to advance funds, then the City will be reimbursed, from the proceeds of a sale, first for amounts advanced by it to the Redemption Fund to cover delinquent installments of the Assessments and interest with respect to the parcel or parcels sold in such proceedings. Any funds in excess of the amount necessary to reimburse the City may be applied by the City to reimburse other funds, if any, used to cover delinquent installments of the Assessments and interest or to pay interest and penalties, costs, fees and other charges, to the extent they were included in the sale proceeds.

If the parcel or parcels to be sold fails to sell for the Minimum Price, the City may petition the court to modify the judgment so that the parcel or parcels may be sold at a lesser price or without a Minimum Price. In certain circumstances, as provided in the 1915 Act, the court may modify the judgment after a hearing if the court makes certain determinations, including determinations that the sale at less than the Minimum Price will not result in an ultimate loss to the owners of the Bonds or that the owners of at least 75% of the principal amount of the Bonds outstanding have consented to the petition and the sale will not result in an ultimate loss to nonconsenting bondholders. The court may also make such modification of the judgment upon consent of the owners of at least 75% of the principal amount of the Bonds without determining that the sale will not result in an ultimate loss to the nonconsenting bondholders if: (i) the City is not obligated to advance available funds to cure a deficiency; (ii) no bids equal to or greater than the Minimum Price have been received at the foreclosure sale; (iii) no funds remain in the Reserve Fund for the Bonds; (iv) the City has reasonably determined that a reassessment and refunding proceeding is not practicable or has in good faith endeavored to accomplish a reassessment and refunding and has not been successful, or has completed reassessment and refunding arrangements which will, to the maximum extent feasible, minimize the ultimate loss to the bondholders; and (v) no other remedy acceptable to the owners or holders of 75% or more of the principal amount of the outstanding Bonds, is reasonably available. Neither the parcel owner nor any holder of a security interest in the parcel, nor any defendant in the foreclosure action, nor any agent thereof, may purchase the parcel at the foreclosure sale for less than the Minimum Price. In the event that property is sold under the terms set forth immediately above at a lesser price than the Minimum Price, the assessment lien upon such property shall be reduced by the difference between the Minimum Price and the sale price. No assurance can be given that in the event of a foreclosure proceeding a parcel could be sold for the full amount of the delinquency or that any bid would be received for such parcel. See “SPECIAL RISK FACTORS – Property Values” herein. The ability of the City to foreclose the lien of a delinquent installment of an Assessment may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by California law relating to judicial foreclosure. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure Delays.”

As set forth above, even though foreclosure is commenced, the City can not provide any assurance that, in the event such foreclosure progresses to the point of a foreclosure sale, there will be any bidder for the subject parcel or parcels. If foreclosure is necessary and other funds (including amounts in the Reserve Fund) 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. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure Delays” 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 Assessment installments. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on 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 Assessments will have the same lien priority as is provided for *ad valorem* taxes.

Sales of Tax-Defaulted Property Generally

A parcel securing delinquent installments of an Assessment that is not sold pursuant to the judicial foreclosure proceeding as described above may be sold, subject to redemption by the parcel owner, in the same manner and to the same extent as real property sold for nonpayment of City *ad valorem* property taxes. On or before June 30 of the tax year in which such delinquency occurs, the parcel becomes tax-defaulted. This initiates a five-year period during which the parcel owner may redeem the parcel. At the end of the five-year period the parcel becomes subject to sale by the County Treasurer. Except in certain circumstances, as provided in the 1915 Act, the purchaser at any such sale takes such parcel subject to all delinquent installments of the Assessment, interest and penalties, costs, fees and other charges which are not satisfied by application of the sales proceeds and subject to all prior assessments, if any, which may have priority.

Priority of Lien

The unpaid Assessments levied within the Assessment District, and each installment thereof and any interest and penalties thereon, constitute a lien against each of the respective parcels within the Assessment District until the same are paid. Such lien is subordinate to all special assessment liens previously imposed upon the same property, but has priority over all private liens and over all special assessment liens which may thereafter be created against the same property. However, such lien is on a parity with the lien of general property taxes and any special taxes imposed, whether prior to the date hereof or in the future, against parcels within such Assessment District pursuant to the Act, or other applicable legislation. There currently exist liens for special taxes and the recurring lien for general property taxes on properties in the Assessment District. See “THE ASSESSMENT DISTRICT – Direct and Overlapping Debt.” The City’s Metropolitan Wastewater Department is currently developing a proposed financing mechanism which, if approved by the City Council at a later date, would likely require owners of property tributary to the Metropolitan Wastewater System, within Otay Mesa, to pay an apportioned, fair share cost for regional sewer facilities. As such, some owners of parcels within the Assessment District may (or may not) be required to pay an apportioned, fair share cost of the regional sewer infrastructure, at a later date, most likely at the time of issuance of building permits for vertical development. The proposed re-mapping of the property purchased by MDC could result in charges for such apportioned costs for MDC and/or subsequent owners of MDC’s parcels. See “THE ASSESSMENT DISTRICT – Map Status.”

Teeter Plan Not Applicable

In 1993, the County implemented an alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the California Revenue and Taxation Code, commonly referred to as the “Teeter Plan.” Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan.

By policy, the City does not participate in the County’s Teeter Plan program. The Assessments pledged to secure the debt service on the Bonds ARE NOT included in the County’s Teeter Plan program.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of proceeds of sale of the Bonds are as follows:

Sources

Principal Amount of Bonds	\$5,430,000.00
Less Original Issue Discount	<u>(21,725.85)</u>
Total Sources:	\$5,408,274.15

Uses

Improvement Fund	\$3,097,878.74
Capitalized Interest Account ⁽¹⁾	146,771.83
Reserve Fund ⁽²⁾	309,232.41
Costs of Issuance Fund ⁽³⁾	430,782.50
Deemed Escrow Bonds Account	1,270,000.00
Escrow Interest Account ⁽⁴⁾	128,608.67
Administrative Expense Account	<u>25,000.00</u>
Total Uses:	\$5,408,274.15

(1) Represents capitalized interest on the Bonds (excluding the Deemed Escrow Bonds) through September 2, 2004.

(2) Represents the Reserve Fund Requirement for the Bonds (excluding the Deemed Escrow Bonds).

(3) Includes legal, financial advisor, appraiser, assessment engineer, bond and disclosure counsel, underwriter’s discount, printing costs and other miscellaneous Costs of Issuance.

(4) Represents that amount sufficient to cover interest on the Special Term Bonds through September 2, 2005. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Escrow Fund.”

THE ASSESSMENT DISTRICT

General

The Assessment District encompasses approximately 80 gross acres, with 69.55 net acres to be developed as an industrial/office park known as Piper Ranch Business Park. A final recorded subdivision map subdivides the Assessment District into a 24-lot industrial subdivision. The Assessment District is recorded as Lots 1 to 24, inclusive, of Piper Ranch Business Park, located in the City, according to Map thereof No. 12346 filed in the Office of the County Recorder of San Diego County, April 12, 1989. All of the area within the Assessment District is zoned for industrial uses, as “OMDD-I,” or “Otay Mesa Development District – Industrial.” The area is intended to be developed into industrial uses, pursuant to the City’s General Plan and the Otay Mesa Community Plan.

The Assessment District will be developed by Piper Ranch LLC (the “Developer”) and will be managed by BCL, Inc., a local commercial real estate development firm based in San Diego. Currently, the public improvements to be acquired are approximately 99 percent complete, with infrastructure, utilities, street improvements and sheet graded lots in place. On August 14, 2003, the Developer sold 8 contiguous finished lots comprising approximately 16.36 acres to One Piper Ranch LLC (Master Development Corporation) (“MDC”). MDC plans to re-map its property and construct 12 light industrial buildings on these lots and is marketing the project as “One Piper Ranch.” The proposed buildings range in size from 11,300 square feet to 32,000 square feet. See “Property Ownership and Development” below.

District Formation

The proceedings for the formation of the Assessment District were conducted pursuant to the Act and Article XIID of the Constitution of the State of California (the “State Constitution”). The Assessment District was formed to finance the construction and acquisition of the architecture, engineering, and construction of road, sewer and storm drain facilities, including Piper Ranch Road, Aviator Road (the completion of which has been deferred and will not be funded from proceeds of the Bonds), Air Wing Road, Approach Road and Dead Stick Road, curb and gutter, sidewalk, pedestrian ramps, berms, monuments and street lights. Sewer mainlines, including manholes, lot laterals and cleanouts, are to be located in Otay Mesa Road, Piper Ranch Road, Air Wing Road and along the Assessment District’s western boundary. Storm drain facilities consist of reinforced concrete pipe, cleanouts, curb inlets and concrete lined drainage channel to be constructed by the Developer for the benefit of the Assessment District. See also, “THE PLAN OF FINANCE” herein. The Assessment District is an area of special assessment referring to the property that is specially benefited from the improvements and that is to be assessed to pay for the costs of construction and acquisition of the improvements.

District Location

The Assessment District. The Assessment District consists of an 80 gross acre and 69.55 net acre industrial park located between Otay Mesa Road and Aviator Road, at the northwest corner of Piper Ranch Road and Otay Mesa Road in the Otay Mesa community of the City of San Diego. Interior streets within the Piper Ranch subdivision include Air Wing Road, Dead Stick Road and Approach Road. The location is approximately one-half mile east of Brown Field airport.

The overall topography of the Assessment District is relatively flat with a natural southwesterly drainage gradient. Elevations in the Assessment District vary from approximately 507 feet above sea level in the northeastern corner to approximately 484 feet above sea level at the southwest corner. The finished lots are expected to be situated about one foot above street grade with some minor variation and gently rolling terrain.

Access to the Assessment District is by Otay Mesa Road east from Otay Valley Road/Heritage Road or Interstate 805. Otay Mesa Road is asphalt paved and striped for three westbound lanes and two eastbound lanes, with a broken yellow line (non-raised) median. The existing road width and right-of-way varies, but currently, there is approximately 59 feet of existing road width. Otay Mesa Road is planned to be widened along the Assessment District frontage approximately 31 feet with a new concrete curb, gutter and sidewalk installed. The intersection of Otay Mesa Road and Piper Ranch Road is planned to be signalized. Piper Ranch Road is the primary street intersecting Otay Mesa Road for this subdivision. Piper Ranch Road is proposed to be an asphalt paved collector street with an 80-foot right of way. It is planned to be developed with two lanes with center median and concrete curbs, gutters and

sidewalks. Other roads within the Assessment District subdivision (Air Wing Road, Dead Stick Road and Approach Road) have been developed to City standards with right-of-ways ranging from 70 to 90 feet.

Otay Mesa Area Description. The Assessment District is located within the Otay Mesa Community Plan. The Community Plan Area is defined as the southern portion of the City and a portion of the County of San Diego and as such, is governed by both the City and County of San Diego. It is bounded by the U.S./Mexico international border to the south, Interstate 805 to the west, the Otay River Valley to the north and the foothills of the San Ysidro Mountains to the east. The Community Plan Area encompasses approximately 28 square miles in both the City and County of San Diego.

Until the mid-1980's, the area was primarily undeveloped agricultural land lacking the necessary public infrastructure for urbanization. With the opening of the Otay Mesa border crossing in late 1985, the establishment of the adjacent Otay International Center and the opening of the State Prison in 1987, the area experienced a significant amount of developmental change in the last 15 years. Otay Mesa has the largest industrially zoned area in San Diego, encompassing 20,600 acres. About 40 percent of this area is located within the City limits and the balance is in the County jurisdiction. At full build-out, the community plan calls for development of a relatively self-contained residential community of approximately 2,500 acres. The community's projected population of 46,400 calls for eight new elementary schools, seven neighborhood parks, a middle school, two community parks and one senior high school.

One of the most important factors leading to increased interest in the Otay Mesa area has been the opening of the Otay Mesa border crossing and the ultimate transfer of all commercial and industrial traffic to its crossing facility. In 1994, the Otay Mesa point of entry was expanded to accommodate additional cargo shipments and in January 1995 it began handling all commercial traffic between San Diego and Tijuana. The San Ysidro international border crossing, located 5.5 miles to the west of Otay Mesa, now allows only pedestrian and private vehicle traffic.

Otay Mesa's predominantly industrial zoning has provided a base for the City's expanding role in international manufacturing. It began developing in the mid-1980s with the passing of NAFTA and its close proximity to Mexico. Manufacturing operations that are foreign-owned, referred to as maquiladoras, assemble plants in Mexico that import raw material duty-free and export final products around the world. The area expanded into a burgeoning manufacturing industry with the majority of the world's televisions manufactured in the area. Many companies that have located to Otay Mesa have maquiladoras in Tijuana and are operating twin plants. A sample of these companies includes Sanyo North America, Maxell Magnetic Media, Matsushita Television Company and JVC. Current estimates indicate there are about 450 companies in the Otay Mesa community employing 12,000 people.

Business development incentives such as its designation as a state Enterprise Zone and Foreign Trade Zone status also benefit the area. About 1,416 acres of Otay Mesa is situated within the Foreign Trade Zone. This designation allows foreign or domestic goods to enter the area without formal customs entry or payment of custom duties and government excise taxes. The maquiladora industry, after suffering one of the worst years in 2001, experienced a modest recovery in 2002. The maquiladora industry exports experienced a 1.5% growth in 2002 and Mexico's total manufacturing exports experienced a 0.5% growth in the same period. However, preliminary data for the six month period ended June 2003 indicate that Mexico's manufacturing sector continues to suffer due to the higher unemployment rate, the weakening of the manufacturing sector, and the low level capacity utilization in the United States economy. Mexico's manufacturing exports experienced a 2% decline during the six month period ended June 2003 over the same period in 2002.

Otay Mesa is also home to Brown Field, a City-owned general aviation airport occupying 900 acres north of Otay Mesa Road. The airport currently handles about 20,000 flight operations per month and has an existing main runway that is 8,000 feet in length. It is located on the north side of Otay Mesa Road, west of the Assessment District. A development group had proposed converting the airport into an air cargo airport a couple of years ago. This proposal has since been declined by the City and removed from consideration.

Otay Mesa is characterized by expanses of vacant land with clustered “leap frog” style pockets of development. The Assessment District is immediately surrounded by predominantly undeveloped industrial land to the north, east and south. An existing industrial subdivision located west of the Assessment District and east of La Media Road exists. This subdivision, the Otay Mesa Industrial Park, has 22 mapped lots ranging in size from about an acre to about 4.5 acres. Currently, about a fourth of these are developed with light industrial uses. Immediately west of this subdivision is Brown Field, a general aviation airport situated on approximately 900 acres along the north side of Otay Mesa Road.

The subject subdivision has adequate to good visibility to traffic along Otay Mesa Road. Several of the lots, most notably, Lots 1, 16 and 17, directly front Otay Mesa Road and have good visibility, but there is no direct access to Otay Mesa Road available to these lots.

Access to the Assessment District. Primary access to the area is from Interstate 805 east along Otay Mesa Road/Route 905. Otay Mesa Road/Route 905 is a two and four-lane road which terminates immediately east of Alta Road. At the Brown Field Business Park, Otay Mesa Road/Route 905 is three lanes eastbound with concrete curbs, gutters and sidewalks, and a concrete center median. The north side of Otay Mesa Road/Route 905 is unimproved and serves as the south property line for Brown Field Airport. Planning is underway for a permanent Interstate 905 freeway extension, south but parallel to the existing Otay Mesa Road/Route 905. The Developer does not anticipate any negative impact to the Assessment District as a result of proposed improvements to state and interstate routes in the vicinity of the Assessment District.

During the three-year period from 1997 to 1999, the City widened the existing Otay Mesa Road as a stop-gap measure until the full freeway 905 is built parallel to the south of Otay Mesa Road. In the spring of 2000, work was completed on the interim, temporary California 905 expressway along Otay Mesa Road between Old Otay Mesa Road just east of Interstate 805 to the future Highway 125 freeway interchange. This new expressway is built to California Department of Transportation (CalTrans) standards with six lanes and standard signage. Signalized intersections with protected left turns are installed at Heritage/Otay Valley Road, Cactus Road, Britannia Boulevard, Alisa Court, La Media Road, and Otay Mesa Road near the future California 125 interchange/connector.

Prior to spring 2000, California 905 existed in two segments. One was the freeway segment between a half mile east of Interstate 805 and the other was the multi-lane conventional highway between the future California 125 interchange and the Otay Mesa Port of Entry. In a 1998 agreement between the City and CalTrans, the City paid to upgrade Otay Mesa Road to six lanes with turning lanes by the end of 1999 and CalTrans would maintain the road as a state facility until California 905 is built. Construction was completed in early 2000 and signs were erected renaming the span to Highway 905. Once the new Interstate 905 freeway is constructed, it is expected to be re-designated Interstate 905.

The California 905 project will include grade-separated local access interchanges, and the future freeway to freeway California 125 interchange/connector described below. Environmental/engineering studies are currently underway, which will assist in determining the appropriate facility and alignment for construction. Various environmental resources and issues are known to exist including archaeological sites and historic resources; biological resources (including wetlands/vernal pools, coastal sage scrub,

wildlife corridors and endangered species); water quality; impacts to agriculture, transportation systems and business/industry; impacts to existing and planned development and residential areas; potential growth and cumulative impacts; hazardous waste; and visual impacts.

In September of 1991, CalTrans approved construction of an approximate twelve mile toll road, to be known as State Route 125, running north-south from Route 54 to Route 905, near the international border which will provide an alternative traffic corridor to Interstate 5 and Interstate 805. This project will consist of the third major north-south highway corridor in San Diego County and will provide direct access to the Otay Mesa border area, and freeway frontage to the Assessment District. A freeway off-ramp is proposed at Otay Mesa Road and eventually a full interchange with future Interstate 905.

State Route 125 is a two-stage project that consists of constructing about 12.5 miles of new highway from State Route 54 near the Sweetwater Reservoir to State Route 905 in Otay Mesa near the International Border. The project is divided into three segments. The first two segments of the project are the Gap/Connector, a 3.2-mile publicly funded section from State Route 54 to San Miguel Road in Bonita. This includes a freeway-to-freeway interchange involving the reconstruction and expansion of an existing section of State Route 54 where it intersects with the new route of State Route 125. The remaining 9.3 miles of the project running to State Route 905 near the Otay Mesa border will be a state-of-the-art tollway designed and constructed through a public/private financial partnership between the State of California and California Transportation Ventures, Incorporated (CTV), a private consortium selected by CalTrans in 1990. Once open to traffic, CTV will operate and maintain the toll road portion of the project. After 35 years CTV will turn the toll road over to CalTrans. The southern portion of the project will be privately financed by CTV at a cost of \$400 million and will be operated as a toll road from San Miguel Road near Sweetwater Reservoir to the existing Otay Mesa Road/Route 905. The project design and construction began in August 2002 and a recent article in the San Diego Daily Transcript reported that funds are secure for the state funded portion of State Route 125. The project is currently scheduled to open in 2006.

The Developer has been informed that the proposed Route 125 off-ramp serving Otay Mesa Road may affect portions of those lots located at the extreme northeastern section of the Assessment District (Lots 7 through 10). The Developer and CalTrans have begun preliminary negotiations for the purchase of a total of approximately 2.38 acres from Lots 7 through 10, and have commenced appraisals in connection therewith, in which case a portion of the Bonds may become subject to mandatory redemption from and to the extent of a prepayment of Assessments in connection with such purchase. See "Property Ownership and Development" below and "THE BONDS - Redemption of the Bonds - *Mandatory Redemption From Assessment Prepayments.*"

CITY OF SAN DIEGO

Piper Ranch Assessment District No. 4096

Flight Date: 10/22/2003



Property Ownership and Development

The information set forth herein regarding ownership and planned development within the Assessment District has been obtained from sources which are believed to be reliable. No assurance can be given that the planned development will occur in a timely manner. No representation is made as to the accuracy or adequacy of such information provided by the Developer as defined herein.

The Developer. The Developer is Piper Ranch LLC (the “Developer”), a Delaware limited liability company, and wholly owned subsidiary of Otay Investors LLC. Otay Investors LLC is a Delaware limited liability company comprised of Brown, Colarusso, Le Beau (BCL) Commercial Real Estate and Lehman Brothers. BCL acquired its ownership interest in 2002 upon its purchase of an existing partnership that included 95 percent ownership by Lehman Brothers and the remainder by Diversified Assets Management Group. This original partnership, DAMG IV LLC, acquired title in July 1999 for \$4,600,000 or \$66,139 per net acre. At the time of this 1999 sale, the property was mapped for future development of 24 lots, but in an unfinished, raw condition.

The Development. The Assessment District encompasses approximately 80 gross acres, with 69.55 net acres to be developed as an industrial/office park known as Piper Ranch Business Park. A final recorded subdivision map subdivides the Assessment District into a 24-lot industrial subdivision, Legal Description Lots 1 to 24, inclusive, of Piper Ranch Business Park, located in the City, according to Map thereof No. 12346 filed in the Office of the County Recorder of San Diego County, April 12, 1989. Currently, the public improvements to be acquired are approximately 99 percent complete, with infrastructure, utilities, street improvements and sheet graded lots in place. The Assessment District is planned to be developed as an industrial business park consisting of approximately 1,200,000 square feet of light industrial warehouse and distribution space situated on 24 separate legal lots.

On August 14, 2003, the Developer sold 8 contiguous finished lots comprising approximately 16.36 acres to One Piper Ranch LLC (Master Development Corporation) (“MDC”). The sale price was \$3,741,368, or \$5.25 per square foot, with the purchaser assuming the Assessment obligation. MDC plans to re-map its property and construct 12 light industrial buildings on these lots and is marketing the project as “One Piper Ranch.” The proposed buildings range in size from 11,300 square feet to 32,000 square feet. MDC is currently constructing the first of its buildings.

MDC is a developer and general contractor of industrial parks founded in 1994. MDC specializes in the development of industrial properties ranging from small, free-standing buildings to large, dock-high warehouses. As of year end 2002, MDC has completed 52 buildings totaling 4,360,000 square feet.

In a separate agreement, Whalen Furniture Manufacturing has contracted for a build-to-suit to be constructed on Lot 17 and portions of Lot 18 of the subject subdivision. The agreement sets out a 132-month lease term for a 106,316 square foot industrial building, the construction of which has just begun. The beginning base rent equates to \$0.45 per square foot per month, triple net, and the tenant has a limited purchase option to purchase the building for \$6,197,272, or about \$58 per square foot (the “Option Price”). The agreement stipulates that the lot area will comprise approximately 6.55 gross acres and will necessitate a lot boundary adjustment between Lots 17 and 18. Upon completion, the lot boundary adjustment will effectively increase the size of Lot 17 to 6.55 acres and decrease the size of Lot 18 to 3.375 acres. In addition to the stated Option Price, there is a clause that enables the purchase price to be adjusted upward or downward by an amount equal to \$6.00 per square foot of land area depending upon the final outcome of the lot boundary adjustment.

Lot 18 is currently in escrow for purchase by the owner of Whalen Furniture Manufacturing, and a lot line adjustment (increasing the decreased 3.375 acre Lot 18 and decreasing Lot 21 by 1.5 acres) will

be required to create the desired 5.25 acre lot for this transaction. The sale price was \$1,406,444, or \$6.15 per square foot, with the purchaser assuming the Assessment obligation. Escrow is expected to close on or about January 15, 2004.

Lots 19 and 20 are currently in escrow for purchase by Orgil International Greenhouses, a manufacturer of nursery and greenhouse equipment. This purchase will entail a lot line adjustment, collapsing Lots 19 and 20 into a 6.65 acre Lot 19, in order to create the desired lot for this transaction. The sale price was \$1,738,044, or \$6.00 per square foot, with the purchaser assuming the Assessment obligation. Escrow is expected to close on or about January 15, 2004. This sale has not been assumed or reflected in the Appraiser's valuation.

Drawings are currently underway for the development of Lots 1, 2, 15, and 16 for commercial/retail space which the Developer expects to construct for sale or long-term lease to be owned and managed by the Developer. The Developer currently expects to commence construction on the development of these lots in March 2004.

All necessary utilities are currently available and operating to service the Assessment District. Water is provided by the Otay Water District. The Assessment District gets its water from Northern California and the Colorado River through the Metropolitan Water District and the San Diego County Water Authority. Sewage in this portion of the Otay Water District is treated by San Diego County. Electricity is provided by SDG&E (Sempra Energy Company) with underground electric and gas lines serving the subdivision.

Storm water runoff is planned to be controlled by a drainage channel located along the western property boundary and along the south boundaries of Lots 17 and 21. Two detention basins will control the amount of runoff allowed to exit the property in the public storm drain system during periods of rainfall. As a temporary runoff control measure, the rough graded lots will each have a small desilting basin before the runoff reaches the drainage channels and storm drains.

Development and Financing Plans. The property comprising the Assessment District was acquired by the original development partnership, DAMG IV LLC (a partnership that included 95 percent ownership by Lehman Brothers and the remainder by Diversified Assets Management Group), in July 1999 for \$4,600,000 or \$66,139 per net acre. At the time of this 1999 sale, the property was mapped for future development of 24 lots, but in an unfinished, raw condition. The Developer acquired the property in April 2002 for approximately \$5,200,000.

The Developer has financed the costs to complete its development with Developer's equity and an approximately \$10,650,000 construction loan from Bank of the West from which the Developer has financed the public and private improvements necessary to deliver finished lots. As a result of the sale of approximately 16.36 acres to MDC, the Developer has paid down approximately \$3,200,000 of the construction loan, and expects to apply net proceeds from the sale of the Bonds as an additional payment on the construction loan. The Developer expects to obtain an additional construction loan of approximately \$5,600,000 for the build-to-suit contract with Whalen Furniture Manufacturing for Lot 17 and portions of Lot 18 and additional private improvements on other parcels. The Developer anticipates that the balance of these construction loans outstanding at any one time will not exceed \$7,000,000 and following the issuance of the Bonds, will not at any one time exceed \$5,000,000.

As of November 30, 2003, the Developer had invested Developer equity of approximately \$5,200,000 in the acquisition and development of the land within the Assessment District. The Developer estimates that it will cost approximately \$4,273,374 to complete all capital construction costs and indirect costs for construction of public improvements in the Assessment District (such costs to be funded with

Bond proceeds), which improvements are currently 99 percent complete. The Developer reports that as of November 30, 2003, the Developer had invested approximately \$10,200,000 towards the improvement of the property in the Assessment District, out of a total development budget of approximately \$10,650,000 improvements (not including the \$5,200,000 land acquisition costs).

Appraisal Report

Rasmuson Appraisal Services has prepared its report dated September 5, 2003 (the “Appraisal Report”) with respect to the Assessment District. The purpose of the Appraisal Report was to estimate the individual retail values for each of the 24 lots and to estimate the bulk sale value for the assumed sale of all of the lots to a single purchaser. The individual value for each lot is commonly referred to as the retail value. This value is based on the assumption that it is marketed and sold as a separate parcel to an end-user. The individual market value for each lot is first estimated and is later used as the basis for the bulk sale value estimate using a discounted cash flow analysis. As summarized below and set forth in the Appraisal Report attached hereto as Appendix A, the sum of the bulk sale appraised value for the 16-lot ownership and the 8-lot ownership, as of an August 26, 2003 date of value, is \$14,572,000, with the current Developer 16-lot ownership valued at \$10,830,000 and the MDC 8-lot ownership valued at \$3,742,000. The Appraiser has considered the sale of 8 contiguous finished lots to MDC, the build-to-suit to be constructed on Lot 17 and portions of Lot 18, and the escrow for purchase of Lot 18 by the owner of Whalen Furniture Manufacturing. The term “bulk sale value” denotes 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 would sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale.

For purposes of the Appraisal, each lot within the Assessment District has been assumed to be finished lots ready for development, but not including any structural improvements. Accordingly, only the Sales Comparison Approach to value is considered applicable. Land value is estimated by comparing the subject site to sales of similar land parcels in the neighborhood and surrounding market. The comparable market area for the subject lots is the Otay Mesa submarket of the City of San Diego. There are a number of existing and developing industrial subdivisions in this market which compete with the subject or are somewhat comparable.

As stated above and in the Appraisal Report, the reconciled opinion of the sum of the bulk sale appraised value for the 16-lot ownership and the 8-lot ownership as of the August 26, 2003 date of value is \$14,572,000. This value estimate is based on the general and specific limiting conditions and major assumptions summarized below and as set forth in the Appraisal Report. This value estimate specifically assumes that the project is in a finished lot condition with all grading and offsite improvements complete. Further, this value estimate is based upon an assumed bonded debt and aggregate assessment in amounts greater than the amount actually issued.

The Appraisal Report is subject to certain conditions and stipulations including, without limitation, the existence of hazardous material, adverse soil conditions which would prohibit development of the property to its highest and best use, and those existing lot lines and lot sizes as reflected on the recorded Piper Ranch Business Park Subdivision Map No. 12346. The proposed lot boundary adjustment between Lots 17 and 18 and the proposed re-mapping of the property purchased by MDC have not been reflected in the Appraiser’s valuation.

Since the project is presently under construction for streets, grading and infrastructure and are not complete as of the date of value, the retail and bulk sale value estimates are made under the specific assumption of finished lots with all infrastructure in place and ready for individual development.

Status of Public Improvements

The project currently has a recorded subdivision map in place that subdivides the property into 24 separate legal lots and assessor parcels. The public improvements to be acquired are approximately 99 percent complete, with infrastructure, utilities, street improvements and sheet graded lots in place. Completed public improvements include road, sewer, and storm drain facilities, including Piper Ranch Road, Air Wing Road, Approach Road and Dead Stick Road, curb and gutter, sidewalk, pedestrian ramps, berms, monuments and street lights. Sewer mainlines, including manholes, lot laterals and cleanouts, are to be located in Otay Mesa Road, Piper Ranch Road, Air Wing Road and along the Assessment District's western boundary. Storm drain facilities consist of reinforced concrete pipe, cleanouts, curb inlets and a concrete lined drainage channel. The anticipated completion date for the public improvements is January 2004. No additional major infrastructure, such as arterial streets, parks, fire stations or libraries, are required or anticipated for the full development the Assessment District. The only remaining improvements necessary to enable the property within the Assessment District to be developed are in-tract improvements to certain specific parcels which will be the responsibility of the developer of such specific parcel or parcels.

The City's Metropolitan Wastewater Department is currently developing a proposed financing mechanism which, if approved by the City Council at a later date, would likely require owners of property tributary to the Metropolitan Wastewater System, within Otay Mesa, to pay an apportioned, fair share cost for regional sewer facilities. As such, some owners of parcels within the Assessment District may (or may not) be required to pay an apportioned, fair share cost of the regional sewer infrastructure, at a later date, most likely at the time of issuance of building permits for vertical development.

Largest Property Owners by Assessment Amount

Currently, the largest property owners consist of the Developer and One Piper Ranch LLC (Master Development Corporation). On August 14, 2003, the Developer sold 8 lots comprising approximately 16.36 acres to One Piper Ranch LLC (Master Development Corporation), retaining 16 lots for sale or build-to-suit transactions.

Absorption

As noted in the Appraisal Report Market Analysis, the San Diego County industrial market experienced approximately 1.1 million square feet of positive net absorption during 2002, driven by 13.1 million square feet of total gross sales and leasing activity. Although ten of the 22 sub-markets posted positive net absorption in the fourth quarter of 2002, it was not enough to offset the County as a whole, ending the quarter with just under 140,000 square feet of negative net absorption. During 2002, the San Diego County industrial market delivered 2.3 million square feet of new product and 1.4 million square feet remained under construction at year-end. At the end of the second quarter 2003, the San Diego County industrial market posted about 1,1170,000 square feet of net absorption. For the quarter, the countywide average asking triple net lease rates for industrial space remained level compared to 2002 year-end at \$0.94 per square foot per month.

The Otay Mesa sub-market is part of the larger South County market area of San Diego. The total South County market has about 18.1 million square feet, representing about 12 percent of the total industrial inventory in the County. Other sub-markets in South San Diego County include Chula Vista, National City, San Ysidro and southern portions of the City of San Diego. The Otay Mesa sub-market is the largest of the four sub-markets, representing nearly 6 percent of the total industrial inventory in San Diego. See APPENDIX A – "APPRAISAL REPORT."

The Appraiser has noted that absorption of finished lots has been relatively steady during the past eight years; however, historically, there has been an abundance of finished inventory. It is also clear that a substantial amount of land is available for future finished lot development. See APPENDIX A – “APPRAISAL REPORT.”

Zoning/Community Planning

The Assessment District is zoned OMDD-I by the City of San Diego. This designation refers to the Otay Mesa Development District - Industrial Sub-District. The purpose of this district is to create and promote the development of the Otay Mesa area. The OMDD sets standards that control the use, development intensity, and development design of the area. A full range of industrial uses is allowed, including manufacturing, wholesaling and distribution and assembly operations. Development regulations within the Industrial Sub-District are as follows:

Minimum Lot Area:	30,000 square feet
Street Frontage:	100 feet
Minimum Lot Width:	100 feet
Maximum FAR:	2.0

The Tentative Map approval indicates that all of the Assessment District lots meet the minimum dimension requirements of the OMDD-I zone. All uses, except for storage, loading and outdoor work, are to be conducted within an enclosed building. Outdoor work, storage of merchandise and material is permitted in interior side or rear yards provided the area is completely enclosed by walls or fences. Storage is not permitted within required front or street side yard setback areas.

In accordance with the OMDD, Lots 1 and 2 were designated as commercial, for general retail business support services, which allows the same uses in the Commercial Sub-District except hotels, motels and automobile and truck sales and rental agencies. Development regulations within the Industrial Sub-District are as follows:

Minimum Lot Area:	10,000 square feet
Street Frontage:	100 feet
Minimum Lot Width:	100 feet
Maximum FAR:	2.0

Lots 1 and 2 comprise approximately 4 acres designated for such general retail business support services.

Map Status

The approved Tentative Map (#86-0934) was filed May 2, 1987, and the final subdivision map recorded in April 1989. The final subdivision map subdivides the Assessment District into a 24-lot industrial subdivision, Legal Description Lots 1 to 24, inclusive, of Piper Ranch Business Park, located in the City, according to Map thereof No. 12346 filed in the Office of the County Recorder of San Diego County, April 12, 1989. The subdivision map conditions of approval for the development indicate that the subdivider will dedicate 61 feet of right-of-way northerly of the existing centerline on Otay Mesa Road and that full improvement of the three westbound lanes is planned to be completed including curb, a five-foot wide sidewalk and a 14-foot wide raised median. In addition, a traffic signal system is required and an 18-inch gravity sewer main in Otay Mesa Road is recommended. The subdivider was also required to establish drainage detention basins. All conditions of the final subdivision map have been satisfied.

Construction of the subdivision improvements started in August 2002 after being delayed for several years by the proposed air cargo airport proposal being considered for Brown Field. That proposal was subsequently declined and removed from consideration, clearing the way for development to proceed on the subject project. The estimated completion date of grading and street improvements is by January 2004. As of the August 26, 2003 date of value, the project construction was near completion, with infrastructure, utilities, street improvements and sheet-graded lots in place. The public improvements to be acquired are currently estimated to be approximately 99 percent complete. However, the Appraisal Report valuation assumes finished lots with all infrastructure in place and ready for individual development.

Easements/Encroachments/Restrictions

The Assessment District is subject to an aviation easement that exists over the entire subdivision. The aviation easement was granted on the subdivision map to the City for all airspace above an elevation of 684 feet above sea level. There is also an aviation approach easement that affects nearly all of the subdivision to an elevation of 584 feet above sea level. The Appraiser was provided with a Building Height Restriction Exhibit prepared by Kimley-Horn Associates. The exhibit indicates that the lowest point of the approach easement is along the western subdivision boundary at 580 feet while pad elevations are in the range of 495 to 500 feet above sea level. This difference would allow a maximum building height for these westerly lots (17 to 22) of 85 to 90 feet. The Appraiser noted that this is sufficient height for a typical two story industrial building developed in this market and is not considered to have a negative impact on the development potential of this subdivision based on its highest and best use for light industrial development. The Developer has obtained quit claim deeds for all relevant utility easements, some of which are in favor of SDG&E which traversed many of the lots in the subdivision, commencing at Otay Mesa Road on a north/south axis, continuing through Lots 1, 2 and 3 and turning in a northwesterly direction over Lot 13 and through Lots 20 to 23.

Estimated Value-to-Lien Ratios

There are 24 separate parcels in the Assessment District. These parcels had a total 2003-04 assessed value of \$3,979,507. As indicated in the Appraisal Report, the aggregate bulk sale value of the 24 individual lots, after consideration of the assessment debt, is \$14,572,000. Table 2 assumes total bonded indebtedness of \$5,430,000 and \$1,270,000.00 principal amount of the Special Term Bonds, and the assessment levy shown below reflects only that portion of the assessments attributable to non-escrowed Bonds. The Appraised Values below, however, are based upon an assumed bonded debt and aggregate assessment in amounts greater than the amount actually issued. This provides an overall value-to-lien ratio of approximately 3.50 to 1. The following Table 2 sets forth the breakdown, by ownership, of the total number of parcels and the corresponding Assessment amounts attributable to the non-escrowed Bonds.

TABLE 2
City of San Diego
Assessment District No. 4096 (Piper Ranch)
Value-to-Lien Ratios

<u>Property Owner</u>	<u>Total Parcels</u>	<u>Aggregate Bulk Sale Value ⁽¹⁾</u>	<u>Assessment ⁽²⁾</u>	<u>Value-to Lien</u>	<u>Percentage of Total Assessment</u>
Developer	16	\$10,830,000	\$3,181,458	3.40:1	76.48%
Master Development Corporation	8	3,742,000	978,542	3.82:1	23.52
Total	<u>24</u>	<u>\$14,572,000</u>	<u>\$4,160,000</u>	<u>3.50:1</u>	<u>100.00%</u>

(1) Aggregate bulk sale value of the 24 individual lots.

(2) Assessments attributable to non-escrowed Bonds only.

Source: Appraiser.

Neither the value-to-lien calculations nor the total Assessment amounts include parity obligations for community facilities districts or for general property taxes. See “Direct and Overlapping Debt.”

The Assessments are currently secured by liens on substantially undeveloped property. There may be subsequent transfers of ownership of the undeveloped property prior to completion of development. Failure of property owners to pay the Assessment installments when due could result in a default in the payments of principal of and interest on the Bonds.

The development of property within the Assessment District is subject to a number of contingencies which could slow or prevent future development of the property. Consequently, no assurance can be given that such development will be partially or fully completed. Any event that significantly impacts the ability to develop land in the Assessment District may cause the property values of undeveloped property to decrease substantially from the assessed and appraised values set forth herein and could affect the willingness and ability of the owners of the undeveloped property to pay the Assessment installments when due.

Direct and Overlapping Debt

Table 3 presents a statement of direct and overlapping bonded debt of the Assessment District as of December 1, 2003. Enterprise revenue bonds, tax allocation bonds and non-bonded capital lease obligations are not included in the tabulation; lease revenue obligations payable from the City’s General Fund or equivalent sources are included. The City has covenanted that it will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Assessments and other assets pledged under the Indenture while any of the Bonds are Outstanding. As discussed above, the City’s Metropolitan Wastewater Department is currently developing a proposed financing mechanism which, if approved by the City Council at a later date, would likely require owners of property tributary to the Metropolitan Wastewater System, within Otay Mesa, to pay an apportioned, fair share cost for regional sewer facilities. As such, some owners of parcels within the Assessment District may (or may not) be required to pay an apportioned, fair share cost of the regional sewer infrastructure, at a later date, most likely at the time of issuance of building permits for vertical development. The proposed re-mapping of the property purchased by MDC could result in charges for such apportioned costs for MDC and/or subsequent owners of MDC’s parcels. However, other public agencies may issue additional indebtedness on property within the Assessment District at any time. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Priority of Lien.”

TABLE 3
City of San Diego
Assessment District No. 4096 (Piper Ranch)
Direct and Overlapping Debt
As of December 1, 2003

2003-04 Local Secured Assessed Valuation: \$3,979,507

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/1/03</u>
Metropolitan Water District	0.0003%	\$ 1,333
Southwestern Community College District	0.015	5,768 ⁽¹⁾
Sweetwater Union High School District	0.018	15,341 ⁽¹⁾
San Ysidro School District	0.171	32,114 ⁽¹⁾
City of San Diego	0.003	432
City of San Diego Open Space Park District	0.003	1,094
City of San Diego Assessment District No. 4096	100.	- ⁽²⁾
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$56,082
Less: City of San Diego Open Space Park District (100% self-supporting)		<u>1,094</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$54,988
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	0.002%	\$ 8,958
San Diego County Pension Obligations	0.002	16,295
San Diego County Superintendent of Schools Obligations	0.002	42
Otay Municipal Water District Certificates of Participation	0.028	7,204
Southwestern Community College District General Fund Obligations	0.017	523
Sweetwater Union High School District Certificates of Participation	0.020	4,449
San Ysidro School District Certificates of Participation	0.182	17,572
City of San Diego General Fund Obligations	0.004	<u>21,596</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$76,639
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		<u>7,204</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$69,435
 GROSS COMBINED TOTAL DEBT		\$132,721 ⁽³⁾
NET COMBINED TOTAL DEBT		\$124,423

(1) General Obligation Bonds.

(2) Excludes 1915 Act bonds to be sold.

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

Ratios to 2003-04 Assessed Valuation:

Direct Debt	- %
Total Gross Direct and Overlapping Tax and Assessment Debt.....	1.41%
Total Net Direct and Overlapping Tax and Assessment Debt	1.38%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	3.34%
Net Combined Total Debt.....	3.13%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: \$0

Source: California Municipal Statistics, Inc.

SPECIAL RISK FACTORS

The following information should be considered by prospective investors in evaluating the Bonds. However, it does not purport to be an exhaustive listing of the risks and other considerations which may be relevant to an investment in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the Bonds or both.

The Bonds are Limited Obligations of the City

The Bonds are limited obligations of the City, payable solely from the Assessments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds. The City is not obligated to advance available funds from the City Treasury to cure any deficiency in the Redemption Fund. Neither the faith and credit nor the taxing power of the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds. Pursuant to Section 8769 of the California Streets and Highways Code, the City has expressly elected not to obligate itself to advance available funds from the City's treasury to make up deficiencies in the amount of Assessment installments collected.

Funds for the payment of the principal of and the interest on the Bonds are derived from the Assessments and other assets pledged under the Indenture. The City's legal obligations with respect to any delinquent Assessment installments are limited to: (1) payments from the Reserve Fund to the extent of funds on deposit therein; and (2) the institution of judicial foreclosure proceedings with respect to any parcels for which the Assessment installment is delinquent (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure"). The City has determined that it will not obligate itself to advance funds from its treasury to cover any delinquency on the Assessments or payments on the Bonds. The Bonds cannot be accelerated in the event of any default.

Sustained failure by property owners to pay Assessment installments when due, combined with depletion of the Reserve Fund, and the inability of the City to sell parcels which have become subject to judicial foreclosure proceedings for amounts sufficient to cover the delinquent Assessment installments, will most likely result in the inability of the City to make full or punctual payments of interest on or principal of the Bonds.

The Assessments are Not Personal Obligations of the Property Owners

Under the provisions of the Act, Assessment installments will be billed to the owner of each parcel in the Assessment District against which there is an unpaid Assessment, such billing to be made on the regular property tax bills sent to such owners. Such Assessment installments are due and payable at the same time and bear the same late charges and penalties as for non-payment of regular property tax installments.

The obligation to pay Assessment installments does not constitute a personal obligation of the current or subsequent owners of the respective parcels which are subject to the Assessment liens. Enforcement of Assessment payment obligations by the City is limited to judicial foreclosure in the San Diego County Superior Court pursuant to Sections 8830 *et seq.* of the California Streets and Highways Code. There is no assurance that any current or subsequent owner of a parcel subject to an Assessment lien will be able to pay the Assessment installments or that such owner will choose to pay such installments even though financially able to do so.

Bankruptcy and Foreclosure Delays

The payment of Assessment installments and the ability of the City to foreclose the lien of a delinquent Assessment is normally delayed by and may be limited in other ways by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by State law relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

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, including the Bonds, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Assessments to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting judicial foreclosure proceedings and could result in delinquent Assessment installments not being paid in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds.

The City's ability to enforce the lien of an Assessment installment and to foreclose the lien of a delinquent Assessment installment, is limited with regard to properties in which the Internal Revenue Service, the Drug Enforcement Agency, Federal Deposit Insurance Corporation (the "FDIC") or other similar federal government agencies has or obtains an interest.

Specifically, with respect to the FDIC, in the event that any financial institution making a loan which is secured by a parcel in the Assessment District is taken over by the FDIC and the applicable Assessment installment is not paid, the remedies available to the City may be constrained. The FDIC's December 10, 1996 Policy Statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes, such as the Assessment installments, which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to lots on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed upon by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes or assessments.

This Policy Statement generally applies to an insured depository institution in its corporate or receivership capacities (the "Corporation") when it is liquidating assets of the Corporation. It applies to any tax, penalty, interest, or other related charge imposed or sought to be imposed on property to whose ownership the FDIC succeeds in such capacities. The Corporation may decline to pay property taxes, including delinquency charges or other claims, in situations where abandonment of its interest in the property is appropriate. The Corporation is immune from taxes other than *ad valorem* real property taxes. Taxes on sales, transfers, or other dispositions of Corporation property are generally in the nature of excise taxes which are levied on the transaction and not on the property (although the calculation of the amount of tax may be based on the property's sale price); the Corporation is immune from such taxes. The Corporation is not liable for any amounts in the nature of fines or penalties.

If any *ad valorem* real property taxes (including interest) on Corporation owned property are secured by a valid lien (in effect before the property became owned by the Corporation), the Corporation

will pay those claims. With respect to property not owned by the Corporation, but in which the Corporation has a lien interest, any *ad valorem* real property taxes (including interest) will be paid so long as they are secured by a valid lien with priority over the Corporation's lien interest. Any taxes other than *ad valorem* real property taxes which are secured by a valid lien in effect before the Corporation acquired an interest in the property, and which have priority under state law over any lien interest of the Corporation, will be paid. However, if abandonment of its interest in the property is appropriate, the Corporation may elect not to pay such claims.

No property of the Corporation is subject to levy, attachment, garnishment, foreclosure, or sale without the Corporation's consent. Furthermore, a lien for taxes and interest may attach to property in which the Corporation has a lien or security interest, but the Corporation will not permit a lien or security interest held by it to be eliminated by foreclosure without the Corporation's consent. In cases in which a tax lien has been sold to a private party under state law, if (1) the sale takes place before the Corporation obtains a fee interest in the property, or if the Corporation has a lien interest in the property and the tax lien has priority over the Corporation's lien; and (2) the Corporation desires to eliminate the tax lien purchaser's interest, the Corporation will pay the amount required by state law to satisfy such interest (other than any fees or penalties specifically imposed to redeem such interest). If the tax lien does not have priority, the Corporation will take whatever action is necessary to ensure that its own interest is satisfied first. If the Corporation has a fee interest, the sale must protect the Corporation's interest.

The Corporation is only liable for state and local taxes which are based on the value of the property during the period for which the tax is imposed, notwithstanding the failure of any person, including prior record owners, to challenge an assessment under the procedures available under state law. In the exercise of its business judgment, the Corporation may challenge assessments which do not conform with the statutory provisions, and during the challenge may pay tax claims based on the assessment level deemed appropriate, provided such payment will not prejudice the challenge. The Corporation will generally limit challenges to the current and immediately preceding taxable year and to the pursuit of previously filed tax protests. However, the Corporation may, in the exercise of its business judgment, challenge any prior taxes and assessments provided that: (1) the Corporation's records (including appraisals, offers or bids received for the purchase of the property, etc.) indicate that the assessed value is clearly excessive; (2) a successful challenge will result in a substantial savings to the Corporation; (3) the challenge will not unduly delay the sale of the property; and (4) there is a reasonable likelihood of a successful challenge.

The Corporation will attempt to notify state and local taxing authorities of the existence of an interest in property which the Corporation believes to be within the authority's jurisdiction.

The City is not able to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in the Assessment District in which the FDIC has or obtains an interest, although prohibiting the lien on the FDIC-owned property to be foreclosed on at a judicial foreclosure sale would prevent the sale of such a parcel at a foreclosure sale. Owners of the Bonds should assume that the City will be unable to foreclose on any parcel in the Assessment District owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Bonds.

Undeveloped Property

Any proposed development is subject to existing and future federal, state and local regulations. Approval may be required from various public agencies in connection with the design, nature and extent of the required public improvements, or such matters as land use and zoning. Failure to meet any such future regulations or obtain any such approvals in a timely manner could delay or adversely affect any

proposed development of the parcels of land in the Assessment District. Further development of property in the Assessment District may be affected by changes in general economic conditions, fluctuations in the real estate market, changes in the ownership of the land, and other factors. The motivation of the present or future owners of the property in the Assessment District may be diminished in the event significant delays are experienced in development efforts. Failure of property owners to pay the Assessment installments when due could result in a default in the payments of principal of and interest on the Bonds. Prospective purchasers should evaluate the risks of noncompletion, including but not limited to the following:

First, undeveloped land is less valuable than such land in a developed condition and provides less valuable security to the Bondowners should it be necessary for the City to foreclose due to the nonpayment of Assessments pledged under the Indenture for payment of debt service on the Bonds.

Second, if the Assessment District is not developed, the number of likely purchasers at a foreclosure sale, in the event the City forecloses the lien of delinquent unpaid Assessment installments, is likely to be reduced.

Third, in addition to potentially reducing the ability and willingness of the property owners to pay Assessment installments, a slowdown of the economic development process in the region could adversely affect land values and reduce the proceeds received at a foreclosure sale in the event Assessment installments are not paid when due.

There can be no assurance that land development operations within the Assessment District will not be adversely affected by future governmental policies, including, but not limited to, governmental policies to restrict or control development.

Any event that significantly impacts the ability to develop land in the Assessment District may cause the property values of undeveloped property to decrease substantially from the assessed and appraised values set forth herein and could affect the willingness and ability of the owners of the undeveloped property to pay the Assessment installments when due.

Price Realized Upon Foreclosure

Section 8832 of the Streets and Highways Code prescribes the minimum price (the “Minimum Price”) at which property may be sold in a judicial foreclosure resulting from delinquencies on assessment installments. The Minimum Price is the amount equal to the delinquent installments of principal and interest of the assessment, together with all interest, penalties, costs, fees, charges and other amounts more fully detailed in said Section 8832. However, Section 8836 of the Streets and Highways Code provides that the court may authorize a sale at less than the Minimum Price if the court makes certain determinations, based on the evidence introduced at the required hearing, which evidence must establish that no ultimate loss will result to the bondholders or that no other remedy is acceptable and at least 75% of the bondholders’ consent. The Assessment lien upon property sold pursuant to this procedure at a lesser price than the Minimum Price would be reduced by the difference between the Minimum Price and the actual sale price. Reference should be made to Section 8836 for the complete presentation of this provision. If foreclosure proceedings do not result in full collection of delinquent Assessments, it is possible that owners of the Bonds may not receive payment of principal of or interest on the Bonds.

Direct and Overlapping Indebtedness

The ability or willingness of an owner of land within the Assessment District to pay Assessment installments could be affected by the imposition of other taxes and assessments imposed upon the land. In addition, other public agencies whose boundaries overlap those of the Assessment District could, without the consent of the City, and in certain cases without the consent of the owners of the land within the Assessment District, impose additional taxes or assessment liens on the property within the Assessment District to finance public improvements or services to be located or provided inside of or outside of the Assessment District. A statement of direct and overlapping indebtedness on land within the Assessment District is included under the heading “THE ASSESSMENT DISTRICT – Direct and Overlapping Debt.”

Earthquake, Flood, Fire and other Natural Disasters

In the event of a severe flood or earthquake, there may be significant damage to both property and infrastructure in the Assessment District. As noted in the Appraisal Report, the Assessment District is designated Zone X, outside a designated flood hazard area according to flood insurance maps prepared by the National Flood Insurance Program, Community Panel Number 060295 2179F dated June 19, 1997. The property is not located within an identified Alquist-Priolo Earthquake Special Studies Zone. The nearest active fault in the Rose Canyon Fault Zone is located approximately 14 miles west of the site. There is no evidence that a ground surface rupture will occur in the event of an earthquake, but there is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Assessment District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the property taxes including, without limitation, the Assessment installments when due. In addition, the value of land in the Assessment District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of Assessment installments when due.

An unprecedented waive of fires swept parts of southern California during October and November 2003. Three of these deadly wildfires were centered in San Diego County. The Cedar, Paradise and Otay fires burned 391,856 acres and damaged or destroyed 2,470 homes and 758 other structures such as sheds, according to preliminary assessments. The Otay fire extended to Otay Lakes, an area approximately 1 mile away from the Assessment District. Property located within the Assessment District experienced no damage as a result of the recent fires.

The Federal Emergency Management Agency (FEMA) has advised that areas destroyed by fires are at further risk of flooding in the coming months. The location of the fire damaged areas, the topography around the Assessment District, and the barrier presented by a flood control channel suggest that flooding and mudslides, if any, will not be material risks for properties in the Assessment District or the development thereof as described herein.

Property Values

The value of property within the Assessment District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of an Assessment installment, the City’s only remedy is to judicially foreclose on that property. Prospective purchasers of the Bonds should not assume that the property within the Assessment District could be sold for the assessed value described herein at a foreclosure sale for delinquent Assessment installments or for an amount adequate to pay delinquent Assessment installments.

The property values set forth in the various tables herein are the property values as appraised and as determined by the County Assessor for property tax purposes. These assessed value determinations may be subject to an appeal by the property owner. Assessment appeals are annually filed with the County Assessment Appeals Board for a hearing and resolution. At the time of filing, applicants are required to estimate an opinion of value. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner.

In a Minute Order issued on November 2, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIII A, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California Counties, including San Diego County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action lawsuit and the case has been submitted on appeal to the State's Fourth District Court of Appeal and, if it is upheld, the decision could have far-reaching implications for the property tax system in the State.

The County of San Diego has advised the City that comparable claims by property owners within the County were rejected by the San Diego County Assessment Appeals Board for the Fiscal Year 2000/01 property tax levy and that such property owners have at least three years from the date of such rejection in which to further prosecute their claims. In another matter, a taxpayer initiated a declaratory relief action in Superior Court seeking comparable relief. In that case, *Linda Pintzuk v. Gregory J. Smith*, case no. GIC 790102, the trial court sustained the County's demurrer without leave to amend and dismissed the action on September 25, 2002. The plaintiff did not file an appeal of the trial court's decision.

The City cannot predict the outcome of the Orange County litigation, nor whether the property owners whose claims were rejected by the San Diego County Assessment Appeals Board, or other property owners, will further prosecute claims against the County of San Diego. Currently, the trial court's ruling in the Orange County litigation applies only to assessments levied in Orange County. The City cannot predict the effect, if any, that the outcome of either the Orange County litigation or the further prosecution of claims against the County of San Diego would have on assessed values in the Assessment District. However, any reduction in the assessed taxable values of property within the Assessment District would have an adverse impact on the value-to-lien ratios included herein.

The actual market value of the property is subject to future events such as downturn in the economy, occurrences such as earthquakes, droughts or floods or other events, all of which could adversely impact the value of the property in the Assessment District. As discussed herein, many factors could adversely affect property values or prevent or delay land development within the Assessment District.

Hazardous Substances

One of the most serious risks in terms of the potential reduction in the value of a parcel within the Assessment District is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the Assessment District may be required by law to remedy conditions of such parcel relating to release 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 similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the Assessment District be affected by a hazardous substance, will be to reduce the marketability and value of such parcel by the costs of remedying the condition, because the prospective purchaser, upon becoming owner, will become obligated to remedy the condition just as the seller is.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the current existence on the parcel of a substance currently 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 current existence 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 in which it is handled. All of these possibilities could significantly affect the value of a parcel within the Assessment District that is realizable upon a delinquency.

A Phase I Environmental Site Assessment prepared by Geocon Consultants Inc., dated February 21, 2002, concluded that the potential for environmental impairment to the site from hazardous substances or onsite wastes is minimal. The City has no knowledge of any hazardous substances being located on the property within the Assessment District.

Endangered Species

During the past several years, there has been an increase in activity at the State and federal level related to the listing and possible listing of certain plant and animal species found in the State as endangered species. An increase in the number of endangered species is expected to curtail development in a number of areas. At present, the property within the Assessment District is not known to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has listed as endangered or proposed for addition to the endangered species list. Notwithstanding this fact, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal governments to protect additional species could negatively impact the ability to complete the development as planned. This, in turn, could reduce the likelihood of timely payment of the Assessment installments and would likely reduce the value of the land and the potential revenues available at a foreclosure sale for delinquent Assessments.

Cumulative Burden of Parity Taxes, Special Assessments and Development Costs

The Assessments and the annual installments thereof constitute a lien against the parcels of land on which the Assessments have been levied. Such lien is on a parity with all special taxes levied by 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 City has no control over the ability of other entities to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the Assessment District. In addition, the owners of property within the Assessment District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes may have a lien on such property on a parity with the lien of the Assessments.

Loss of Tax Exemption

As discussed under the caption “CONCLUDING INFORMATION – Tax Matters,” 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 failure of the City to comply with certain provisions of the Internal Revenue Code of 1986. 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 optional or mandatory redemption or mandatory sinking fund redemption provisions of the Indenture.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain, among other things, a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIID requires that, beginning July 1, 1997, the proceedings for the levy of any assessment by the City under the Municipal Improvement Act of 1913 (the “1913 Act”) (including, if applicable, any increase in such assessment or any supplemental assessment under the Act) must be conducted in conformity with the provisions of Section 4 of Article XIID. Section 9525(b) of the California Streets and Highways Code makes clear that Assessments are not new assessments, and therefore, the provisions of Section 4 of Article XIID do not apply. In addition, under Section 10400 of the California Streets and Highways Code, any challenge (including any constitutional challenge) to the proceedings or the assessment must be brought within 30 days after the date the assessment was levied. With respect to the prior assessment districts with respect to which the City completed its proceedings for the levy of assessments after July 1, 1997, the City complied with the provisions of Section 4 of Article XIID.

Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Article XIIC does not define the term “assessment,” and it is unclear whether this term is intended to include assessments levied under the 1913 Act. Furthermore, this provision of Article XIIC is not, by its terms, restricted in its application to assessments which were established or imposed on or after July 1, 1997. In the case of the unpaid Assessments which are pledged as security for the payment of the Bonds, the Act provides a mandatory, statutory duty of the City and the County Auditor to post installments on account of the unpaid Assessments to the property tax roll of the County each year while any of the Bonds are outstanding, in amounts equal to the principal of and interest on the Bonds coming due in the succeeding calendar year. While the matter is not free from doubt, it is likely that a court would hold that the initiative power cannot be used to reduce or repeal the unpaid Assessments which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the City and the County Auditor with respect to the unpaid Assessments which are pledged as security for payment of the Bonds.

The interpretation and application of the Proposition 218 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.

THE CITY

The City of San Diego, California is a charter city and municipal corporation organized and existing under and by virtue of the Constitution and the laws of the State and its Charter. The City was incorporated as a city March 27, 1850. Following the adoption of a City Charter, and several

amendments thereto, in 1929 a committee of prominent citizens, called the Board of Freeholders, was elected. The committee prepared a Charter which was turned down by the voters later that year. A new Board of Freeholders was elected in 1930. Their proposed Charter was adopted by the voters in 1931. The 1931 Charter, with modifications, is still in effect today. Under the original 1931 Charter, a Manager-Council form of government was created. A seven-member Council (now nine members) was created, and comprised of six Council members and a Mayor. The Council was nominated by district but elected City-wide. The Mayor chairs meetings of the Council, but has no veto power. The Council selects a City Manager who is responsible for the administration of most City departments.

There have been many revisions to the 1931 Charter. In 1963 the voters approved increasing the number of Council districts from six to eight. In 1988 San Diego voters approved changing the election system of Council members. Now both nominations and elections for Council are by district. Only the Mayor and City Attorney are elected City-wide. The Charter Review Commission of 1989 concluded that present realities, such as district elections, and future probabilities including continuing growth, required substantive changes in the 1931 Charter. The report called for an increase in the number of Council districts from eight to ten and Mayor veto power with a 2/3 Council override possible. However, to date no major charter revisions dealing with the structure of City government have yet been submitted to the voters.

Currently, the City operates as a charter city and under the Council-Manager form of government. The City Council is comprised of eight members elected by district to serve overlapping four-year terms. The Mayor, who presides over the City Council, is elected at large to serve a four-year term. The City Council, which acts as the City's legislative and policy-making body, selects the City Manager, who is the City's chief administrator and is responsible for implementing the policies and programs adopted by the City Council. The City provides the following services through City employees or by contract with the private sector: public safety, public works, community development, community services, refuse collection, road and public facility maintenance, street lighting, public improvements and general administrative services.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The annual audit report is generally available about 180 days after the June 30 close of each Fiscal Year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 2002, were audited by Calderon, Jaham & Osborn, CPAs.

The City's annual budget, which is adopted in July and published in October, is the culmination of the annual budget process, which begins in the fall of the preceding year. Public input on service and program priorities is solicited. This input serves as part of the City Council's priority setting for the development of the budget.

Based upon City Council budget priorities, departments submit operating and capital improvement project requests to the City Manager for review by the Financial Management Department. The City Manager evaluates and prioritizes the program requirements, determines funding availability, and develops a balanced budget as required by the City Charter. This proposed balanced budget is published and presented to the City Council by its first meeting in May.

During May and June, the Mayor and City Council conduct budget meetings to review the Proposed Budget. Public comment is received at this time. The budget meetings are conducted as Council workshops focusing on policy issues.

As required by the City Charter, the City Council adopts the Annual Budget and Appropriation Ordinance no earlier than the date of the first Council meeting in July and no later than the last meeting in July. The adoption of the Appropriation Ordinance requires two noticed public hearings, which are usually held on consecutive days. The Annual Tax Rate Ordinance, which fixes a rate of taxation for real and personal taxable properties, is adopted no later than the last City Council meeting in August.

The Financial Management Department works closely with the City Auditor and Comptroller to monitor fund balances, as well as revenue projections, throughout the Fiscal Year. Variations from budget or plans are alleviated in a number of ways, including expenditure reductions or deferrals. As another technique of accomplishing budgetary control, the City also maintains an encumbrance accounting system, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation.

CONCLUDING INFORMATION

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond

premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners,

would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Exhibit F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain other legal services for the City. Certain legal matters will be passed upon for the City by the San Diego City Attorney and for the Developer by Allen Matkins Leck Gamble & Mallory LLP, Irvine, California. The fees of Bond Counsel and Disclosure Counsel are contingent upon issuance of the Bonds.

Financial Advisors

Fieldman, Rolapp & Associates, Irvine, California and TKG & Associates, LLP, Chicago, Illinois have served as Financial Advisors to the City in connection with the issuance of the Bonds. The fees of the Financial Advisors are not contingent upon issuance of the Bonds.

Continuing Disclosure

The City has covenanted for the benefit of holders and beneficial owners of the Bonds (a) to provide certain financial information and operating data (the "City Annual Report") relating to the City and the property it owns in the Assessment District not later than eight (8) months after the end of the City's Fiscal Year (which currently would be April 1), commencing with the report for Fiscal Year 2002-03; and (b) to provide notices of the occurrence of certain enumerated events, if material. The Developer has covenanted for the benefit of the Owners of the Bonds to provide annually, and with respect to specified information, semi-annually, certain financial information and operating data (the "Developer Annual Report") relating to the status of the Developer and the property in the Assessment District, and to provide notices of the occurrence of certain enumerated events, if material. For a complete listing of items of information which will be provided in each City Annual Report, Developer Annual Report, and in the Developer's Semi-Annual Report, see APPENDIX F – "FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS." Such annual information is to be provided by the City not later than nine (9) months after the end of the City's Fiscal Year (which currently would be April 1), commencing with the report for Fiscal Year 2002-03, and by the Developer by not later than four (4) months after the end of the Developer's fiscal year (December 31) which date, as of the date hereof, is May 1, commencing May 1, 2004 with respect to the Developer's Annual Report, and not later than November 1 in each year, commencing November 1, 2004 with respect to the Developer's Semi-Annual Reports. The Developer's obligations will terminate upon the date on which the Developer is no longer responsible for 20% or more of the total Assessment on all of the Property in the District for the then current Fiscal Year. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Developer will give notice of such termination in the same manner as for a Listed Event. The City Annual Reports will be filed by the City, and the Developer Annual Reports and Semi-Annual Reports will be filed by the Developer through the Dissemination Agent, with each Nationally Recognized Municipal Securities Information Repository and with each State Repository, if any. These covenants have been made in order

to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). Neither the City nor the Developer (which has not previously entered any such undertaking) has ever failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

No Litigation

There is no action, suit, or proceeding pending or, to the best knowledge of the City, threatened at the present time restraining or enjoining the delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the execution or delivery thereof. A no litigation opinion rendered by the City Attorney will be required to be delivered to the Underwriter simultaneously with the delivery of the Bonds.

No Rating

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

Underwriting

The Bonds are being purchased through negotiation of Stone & Youngberg LLC (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a purchase price of \$5,337,691.65 (representing the principal amount of the Bonds, less an original issue discount of \$21,725.85, less an underwriter’s discount of \$70,582.50). The Underwriter’s obligation to purchase the Bonds is contingent upon the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover hereof. The offering prices of the Bonds may be changed from time to time by the Underwriter.

Miscellaneous

All of the preceding summaries of the Indenture, applicable legislation, agreements and other documents are made subject to the provisions of such documents and legislation 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.

This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement have been authorized by the members of the City Council of the City.

CITY OF SAN DIEGO

By: /s/ Mary E. Vattimo
 City Treasurer

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APPENDIX A
APPRAISAL REPORT

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Rasmuson Appraisal Services

A
COMPLETE SUMMARY
APPRAISAL REPORT

OF

Assessment District No. 4096
Piper Ranch Business Park
24-Lot Industrial Park
San Diego, California

Prepared For:
City of San Diego

Dated:
September 5, 2003

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Rasmuson Appraisal Services

14665 Yukon Street
San Diego, California 92129
Ph. (858) 672-1796 Fax: (858) 672-3816

Gary L. Rasmuson, MAI SRA
Wendy A. Rasmuson, MBA

September 5, 2003

File No. 22138

Ms. Carrie L. Gleeson
Deputy City Attorney
c/o Ms. Carol Chiodo
Deputy Director
Real Estate Assets Department
City of San Diego
1200 Third Avenue, Suite 1700
San Diego, California 92101

RE: AP 2900 - Piper Ranch Business Park Assessment Bonds located at Otay Mesa and Piper Ranch Roads, San Diego, California

Dear Ms. Gleeson:

I have completed an appraisal setting forth the market value of the referenced property. The appraisal report has been prepared to comply with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Ethics and Supplemental Standards of the Appraisal Institute and the California Debt Advisory Appraisal Standards for Land-Secured Financings created May 19, 1994. This appraisal has been prepared as a complete analysis and is presented as a summary appraisal report prepared under Standards Rule 2-2(b) of USPAP.

Assessment District No. 4096 encompasses 69.55 gross acres in an industrial/office park known as Piper Ranch Business Park. The subdivision has a final recorded subdivision map that subdivides the property into 24 lots. Infrastructure costs for the installation of public improvements including streets, water, sewer and storm drain facilities are being financed by assessment bonds by the City of San Diego. Construction of infrastructure streets, utilities and grading is currently near completion. With the sale of eight lots in August 14, 2003 the project ownership is divided between the original developer, Piper Ranch LLC with 16 lots and One Piper Ranch LLC with 8 lots.

By virtue of my experience and based upon my investigation, it is my opinion that the Bulk Sale Value of the subject's fee simple interest, subject to special tax and special assessment liens as of August 26, 2003 was:

BULK SALE VALUE – PIPER RANCH LLC OWNERSHIP 16 LOTS: \$10,830,000
--- TEN MILLION EIGHT HUNDRED THIRTY THOUSAND DOLLARS ---

BULK SALE VALUE – ONE PIPER RANCH LLC OWNERSHIP 8 LOTS: \$3,742,000
--- THREE MILLION SEVEN HUNDRED FORTY-TWO THOUSAND DOLLARS ---

Please refer to the Limiting Conditions section of this report for the specific assumptions made in this analysis. Since the project is presently under construction for streets, grading and infrastructure and are not complete as of the date of value, the retail and bulk sale value estimates are made under the hypothetical condition of finished lots with all infrastructure in place and ready for individual development.

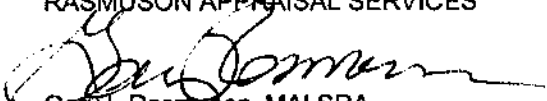
I have been asked to assume that the cost to remove the temporary cul-de-sac on Piper Ranch Road and complete the street improvements for the balance of Piper Ranch Road and Aviator Road is \$355,000. This amount is assumed to be accurate and correct for the purposes of this assignment at the request of my client. An independent estimate of the cost to complete is not within the scope of this assignment and has not been performed. *This is an extraordinary assumption (Extraordinary Assumption No. 2) upon which this valuation is based.*

Ms. Carrie L. Gleason
Deputy City Attorney
September 5, 2003

Submitted herewith is my report containing the facts and reasoning upon which the above value is based.
It has been a pleasure to be of service to City of San Diego in this assignment.

Sincerely,

RASMUSON APPRAISAL SERVICES



Gary L. Rasmuson, MAI SRA
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. AG 002571
Expiration Date: 2/4/2004

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Summary of Conclusions

Property
 24-lot industrial park located at Olay Mesa and Piper Ranch Roads, in the community of Olay Mesa, San Diego, California
 Assessor Parcel Nos. 646-240-02 through 646-240-24 and 646-240-45

Project Description
 Piper Ranch Business Park, a 69.55-acre industrial subdivision that has a recorded final map in place known as Piper Ranch Business Park, Map No. 12346, individual lot sizes range from 1.8 to 5.6 acres. The project is currently near completion of construction for project infrastructure and has street graded lots and street improvements in place. The project is estimated to be approximately 95 percent complete as of the date of value and is scheduled for completion in September 2003. The lots are being offered for sale and a current escrow exists for the sale of Lot 18 and Lot 21.

Apparent Ownership
 Piper Ranch LLC – Lots 1, 2, 7, 8, 9, 10 and 15 through 24
 One Piper Ranch, LLC (Master Development Corporation) – Lots 3, 4, 5, 6 and 11 through 14.

Purpose
 To estimate the subject's market value for assessment district purposes

Estate Valued
 The fee simple estate, subject to special tax and special assessment liens

Zoning
 OMDD-1; (Olay Mesa Development District, Industrial Sub-District)

Gross Lot Area Summary

Lot 1:	1.98 acres	Lot 13:	2.07 acres
Lot 2:	2.00 acres	Lot 14:	2.08 acres
Lot 3:	2.03 acres	Lot 15:	2.02 acres
Lot 4:	2.02 acres	Lot 16:	2.43 acres
Lot 5:	2.02 acres	Lot 17:	5.51 acres
Lot 6:	2.01 acres	Lot 18:	4.41 acres
Lot 7:	1.84 acres	Lot 19:	4.30 acres
Lot 8:	1.80 acres	Lot 20:	4.30 acres
Lot 9:	2.17 acres	Lot 21:	4.30 acres
Lot 10:	1.84 acres	Lot 22:	4.30 acres
Lot 11:	2.06 acres	Lot 23:	4.41 acres
Lot 12:	2.07 acres	Lot 24:	5.57 acres

Date of this Opinion of Value August 26, 2003

Indicated Values
 Individual Retail Lot Values: See Following Value Summary Page
 Bulk Sale Value Estimate:
 Piper Ranch LLC Ownership – 16 Lots: \$10,890,000
 Sale Completion Approach: \$10,767,000
 Discounted Cash Flow Analysis:
 Bulk Sale Value Subject to Assessment Liens: \$10,830,000
 One Piper Ranch, LLC (MDC) – 8 Lots: \$3,742,000

Date of Report

Hypothetical Condition

Extraordinary Assumptions

September 5, 2003

Since the project is presently under construction for streets, grading and infrastructure and are not complete as of the date of value, the retail and bulk sale value estimates are made under the hypothetical condition of finished lots with all infrastructure in place and ready for individual development.

For purposes of this report, the existing lot lines and lot sizes as reflected on the recorded Piper Ranch Business Park Subdivision Map No. 12346 are utilized and the proposed lot boundary adjustment between Lots 17, 18 and 19 has not been reflected in this valuation per the request of my client. (Extraordinary Assumption No. 1)

I have been asked to assume that the cost to remove the temporary cul-de-sac on Piper Ranch Road and complete the street improvements for the balance of Piper Ranch Road and Aviator Road is \$355,000. This amount is assumed to be accurate and correct for the purposes of this assignment at the request of my client. An independent estimate of the cost to complete is not within the scope of this assignment and has not been performed. (Extraordinary Assumption No. 2)

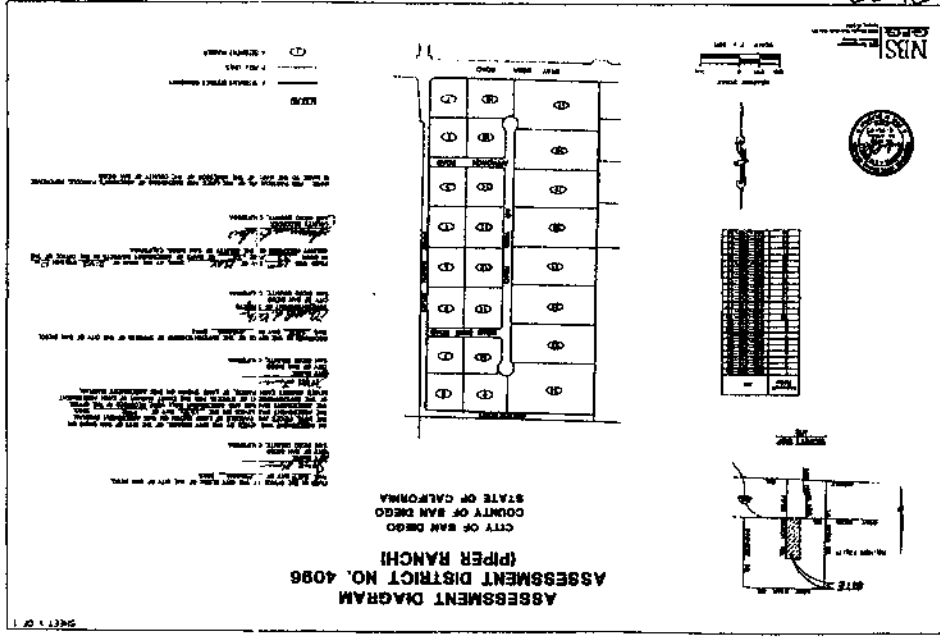
Gary L. Rasmussen, MAI SRA

Appraiser

See next page.

Concluded Retail Values

Subject Property



Concluded Finished Lot Values Subject to Lien Assessment

Lot No.	APN	Gross Acres	Net Saleable Acres	Market Value	Allocated Assessment	Net Value (Rounded)
1	646-240-45	1.99	1.99	\$666,844	\$184,951	\$702,000
2	646-240-02	2.00	2.00	\$871,200	\$165,760	\$705,000
3	646-240-03	2.03	2.03	\$707,414	\$188,267	\$539,000
4	646-240-04	2.02	2.02	\$703,930	\$187,438	\$536,000
5	646-240-05	2.02	2.02	\$703,930	\$187,438	\$536,000
6	646-240-06	2.01	2.01	\$700,445	\$166,609	\$534,000
7	646-240-07	1.84	1.84	\$641,203	\$152,518	\$489,000
8	646-240-08	1.80	1.80	\$627,264	\$149,202	\$478,000
9	646-240-09	2.17	2.17	\$756,202	\$179,871	\$576,000
10	646-240-10	1.84	1.84	\$641,203	\$152,518	\$489,000
11	646-240-11	2.06	2.06	\$717,859	\$170,753	\$547,000
12	646-240-12	2.07	2.07	\$721,854	\$171,582	\$550,000
13	646-240-13	2.07	2.07	\$721,854	\$171,582	\$550,000
14	646-240-14	2.06	2.06	\$724,838	\$172,411	\$552,000
15	646-240-15	2.02	2.02	\$703,930	\$187,438	\$536,000
16	646-240-16	2.43	2.43	\$846,806	\$201,423	\$845,000
17	646-240-17	5.51	4.54	\$1,562,098	\$456,724	\$1,125,000
18	646-240-18	4.41	4.18	\$1,456,848	\$365,845	\$1,091,000
19	646-240-19	4.30	4.07	\$1,418,314	\$356,427	\$1,062,000
20	646-240-20	4.30	4.07	\$1,418,314	\$356,427	\$1,062,000
21	646-240-21	4.30	3.48	\$1,212,710	\$358,427	\$858,000
22	646-240-22	4.30	4.07	\$1,418,314	\$356,427	\$1,062,000
23	646-240-23	4.41	4.18	\$1,456,848	\$365,845	\$1,091,000
24	646-240-24	5.57	5.26	\$1,833,005	\$481,697	\$1,371,000
Totals ¹		69.55	66.30	\$23,451,833	\$5,785,000	\$17,664,000

¹ Totals represent the aggregate retail value

Introduction

Project Overview

The Piper Ranch Business Park property consists of a 69.55-acre industrial park located between Olay Mesa Road and Aviator Road, along the west side of Piper Ranch Road in the Olay Mesa community of the City of San Diego. The project currently has a recorded subdivision map in place that demarcates the property into 24 separate legal lots and assessor parcels. The project is nearing a finished lot condition and is approximately 95 percent complete with grading and street improvements completed. Piper Ranch LLC and the City of San Diego formed an Assessment District to finance associated costs of public improvements. The formation of this assessment district known as Assessment District No. 40998 will utilize the Municipal Improvement Act of 1915 which finances the improvements over 30 years. The principal amount of the bonds totals \$5,765,000 which equates to approximately \$1.90 per square foot of net land area.

As of the date of this report, the developer has sold 9 contiguous finished lots comprising approximately 16.35 acres as a bulk sale to One Piper Ranch LLC (Master Development Corporation - MDC) for a price of \$5.25 per square foot with MDC assuming the proposed Assessment District bond debt. A copy of the First Amended Purchase and Sale Contract that recaps this sale is included in the Addendum of this report. This sale closed and recorded August 14, 2003.

Whalen Furniture Manufacturing has agreed to lease a build-to-suit 106,316 square foot industrial building to be constructed on Lot 17 and portions of Lot 18 of the subject subdivision. Lot 18 is in escrow for purchase by the owner of Whalen Furniture. A lot boundary adjustment will be needed to create the desired lot size for this transaction. Lot 21 has an accepted written offer to purchase. The balance of the unsold lots are being marketed for sale or build-to-suit deals.

Subject Property Identification

Property Type: 24-lot industrial park
Property Address: Piper Ranch Road/Air Wing Road/Dead Stick Road/Approach Road
City/State/Zip: San Diego, California
Census Tract: 100.15 **Map Reference:** Thomas Bros. Map I.D. 1351 H/1
Assessor Parcel #: 646-240-02 through 646-240-24 and 646-240-45

Subject Ownership History

Year History	Owner Name	Doc. No.	Date	Price and Terms
Current Owner:	Piper Ranch LLC, a Delaware limited liability company	1999-601461	7/20/1999	\$4,600,000 cash
	<ul style="list-style-type: none"> Piper Ranch LLC lists as its sole member Olay Investors LLC, the manager of which is BCI Olay Investments LLC, a California limited liability company. The property was purchased by DAMG IV LLC from TOW Land Fund I Holding Company. DAMG IV is now Piper Ranch LLC. Piper Ranch LLC sold Lots 3, 4, 5, 6, 11, 12, 13 and 14 to One Piper Ranch LLC (Master Development Corporation). The sale recorded August 14, 2003. The sale price was \$3,741,388.40 with the buyer assuming the bond assessment debt. This appears to be a market arm's length transaction. 			

Whalen Furniture Manufacturing has agreed to a build-to-suit to be constructed on Lot 17 and portions of Lot 18 of the subject subdivision. The contract sets out a 132-month lease term for a 106,316 square foot industrial building. The beginning base rent equates to \$0.45 per square foot, triple net and the tenant has a limited purchase option to purchase the building for \$6,197,272, or about \$58 per square foot. The agreement stipulates that the lot area shall comprise approximately 6.55 gross acres and will necessitate a lot boundary adjustment between Lots 17 and 18. Upon completion, the lot boundary adjustment will effectively increase the size of Lot 17 to 6.55 acres and decrease the size of Lot 18 to 3.375 acres. In addition to the stated Option Price, there is a clause that enables the purchase price to be adjusted upward or downward by an amount equal to \$6.00 per square foot of land area depending upon the final outcome of the lot boundary adjustment.

Lot 18 has entered the escrow for purchase by Kenneth Whalen, the owner of Whalen Furniture who is leasing the adjacent lot. The purchase agreement for this lot was executed August 14, 2003. The purchase price is \$1,406,444 based on a 5.25 acre lot. The existing lot size will need to be increased to accommodate the lot size reduction which will occur from the annexation of 1.04 acres needed to increase the size of Lot 17. An additional 1.88 acres will be annexed from Lot 19 in a lot boundary adjustment process. The purchase price equates to \$6.10 per square foot of gross lot area, plus bond assessment debt assumption. This appears to be a market arm's length transaction.

Lot 21 is subject to a counter offer for purchase by SK Properties LLC. The counter offer is dated July 30, 2003 and this property will reportedly go into escrow soon. The offer to purchase is based on \$6.25 per square foot, plus bond assessment debt. Lot 21 has a flood water storage easement on the southern boundary that reduces the usable site area. The developer/seller has indicated that the price will be based on net saleable lot area. A total purchase price was not indicated in the offer to purchase.

Valuation Methodology and Order of Presentation

The valuation of real estate typically requires an analysis of community demographics, economic influences, market forces, the physical site and improvement characteristics. After identifying and analyzing the opportunities and constraints of the subject real estate, the valuation approaches are applied resulting in a final value estimate. The order of report presentation is as follows:

- > Introduction and Definitions
- > Subject Project Description
- > Area Description, Demographics and Market Analysis
- > Highest and Best Use Analysis
- > Valuation Approaches
- > Conclusion of Value Estimate

Purpose of the Appraisal

The purpose of the appraisal is to develop an opinion of market value for the subject property on a retail lot basis and as a bulk purchase to a single investor.

Identification of the Intended Use and Users of Appraisal

The intended use of this appraisal is for assessment bond funding purposes. It was prepared for the exclusive use of City of San Diego and may not be used or relied upon by any other party. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at his own risk.

Scope of the Appraisal

This appraisal has been prepared as a complete appraisal and is presented in a summary appraisal report format under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP).

The scope of this appraisal is to provide an estimate of the market value for each of the individual lots as well as a bulk value of the entire subdivision to a single buyer. It is not within the scope of this assignment to provide an as-is value estimate for the project as of the date of value. Since the project is presently under construction for streets, grading and infrastructure and was not complete as of the date of value, the value estimates are made under the hypothetical condition that they are finished lots with all infrastructure in place and ready for individual development. It is not within the scope of this assignment to verify the cost to remove the Piper Ranch Road temporary cut-de-sac and complete the construction of this road and Aviator Road. I have been provided with this cost by my client and is assumed to be accurate and correct. (See Extraordinary Assumption No. 2).

In preparing this appraisal, I personally inspected the subject property, the comparable market data and interviewed brokers and investors active in this market. The following summarizes the extent of analysis performed for this report:

- Property inspection by appraiser
- Market data gathered using published sources including Comps.com, First American Real Estate Data, TURI Commercial Services, Daily Transcript
- Market data verified with buyer, seller or participating broker and visually inspected by appraiser
- Report written based on a summary report format with a complete analysis

Date of the Opinion of Value

August 26, 2003 – most recent date of inspection

Definition of Market Value

The most probable price in 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, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

Source: Appraisal Standards for Land Secured Financings, California Debt Advisory Commission

Interest Appraised

Fee simple, subject to special tax and special assessment items.

Fee simple estate defined as absolute ownership unencumbered by any other interest or estate, subject only to the limitations of eminent domain, escheat, police power, and taxation.

Marketing/Exposure Time

The estimated marketing and exposure period for this property as a bulk sale to an individual investor is approximately nine to twelve months according to my analysis of the market data upon which this valuation is based.

Definition of Finished Lot

A finished lot is defined as a parcel which has legal entitlements created by a recorded subdivision map. The physical condition being a graded level pad with infrastructure contiguous to each individual lot and consisting of asphalt paved roads in addition to the necessary utilities.

Definition of Retail Value

Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale.

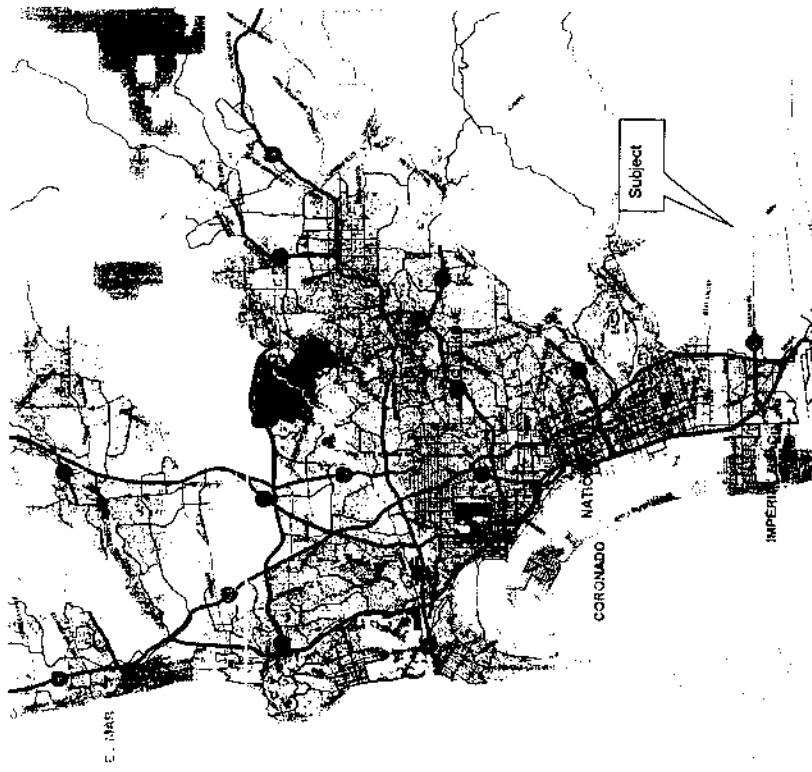
Aggregate retail value is the sum total of the retail values estimated for each parcel.

Definition of Bulk Sale Value

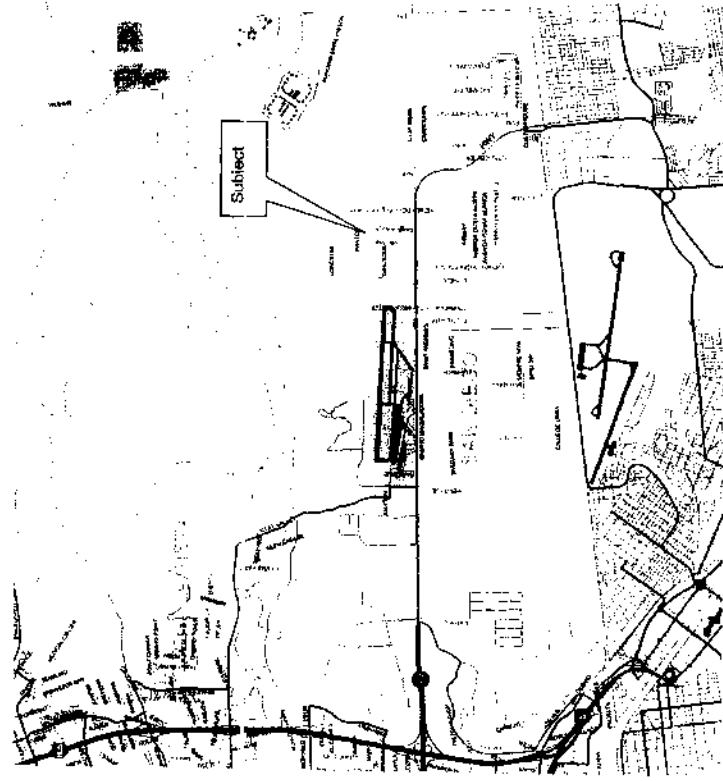
The most probable price, in a sale of all parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should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

Source: Appraisal Standards for Land Secured Financings, California Debt Advisory Commission

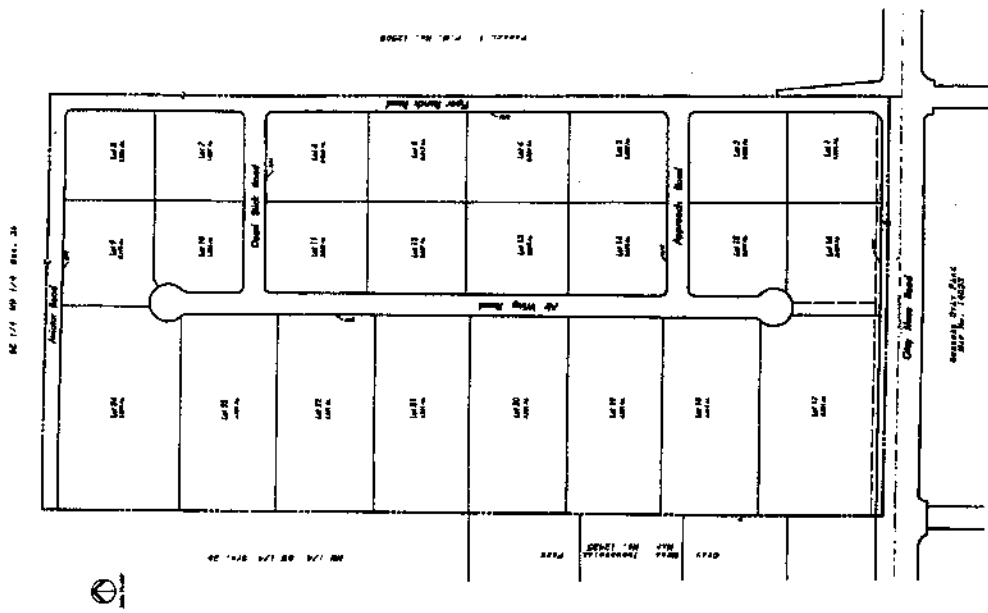
General Location Map



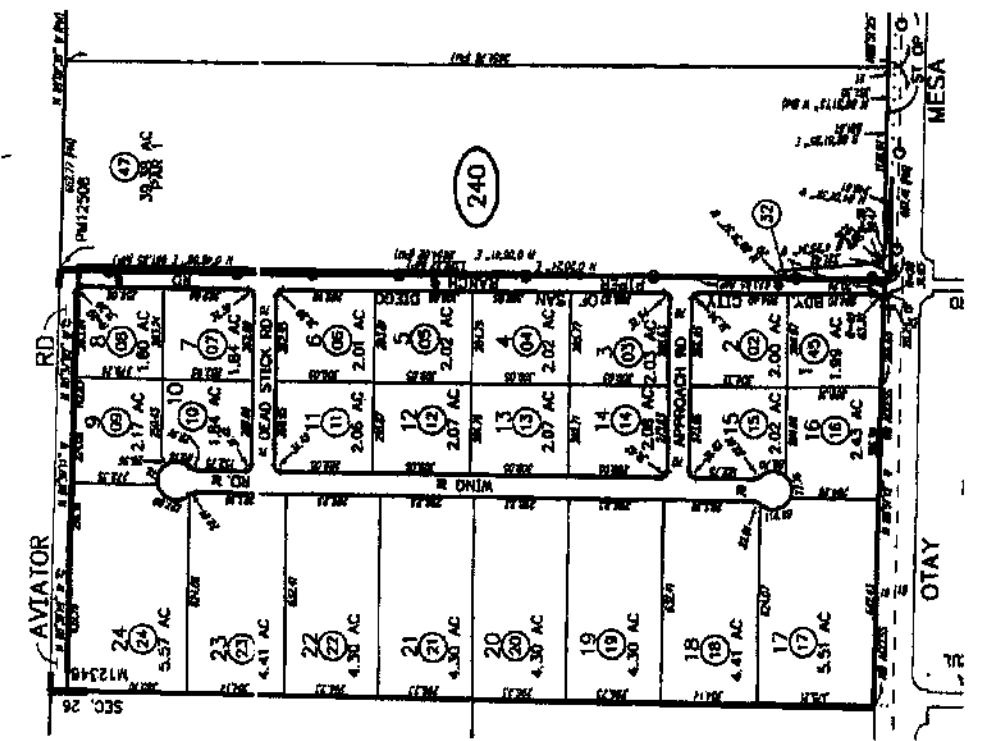
Neighborhood Area Map



Subdivision Map



Assessor Plat Map



Site Analysis

Property Location

The subject is situated between Otay Mesa Road and Aviator Road at the northwest corner of Piper Ranch Road and Otay Mesa Road in the Otay Mesa community of the City of San Diego. Interior streets within the Piper Ranch subdivision include Air Wing Road, Dead Stick Road and Approach Road. The location is approximately one-half mile east of Brown Field airport.

Property Identification

Piper Ranch Business Park, a 24-lot industrial subdivision

Legal Description

Lots 1 to 24, inclusive, of Piper Ranch Business Park, in the City of San Diego, County of San Diego, State of California, according to Map thereof No. 12346 filed in the Office of the County Recorder of San Diego County, April 12, 1999.

Apparent Ownership

Piper Ranch LLC, a Delaware Limited Liability Company – as to Lots 1, 2, 7-10, 15-24

According to documents submitted for review, the current vested owner consists of a joint venture partnership comprised of the subject developer, Brown, Colarusso, Le Beau (BCL) Commercial Real Estate and Lehman Brothers. According to Mr. Le Beau, BCL bought into an existing partnership that included 95 percent ownership by Lehman Brothers and the remainder to Diversified Assets Management Group. This original partnership called DAMG IV LLC acquired title in July 1999 for \$4,800,000 or \$66,139 per net acre. At the time of this 1999 sale, the property was mapped for future development of 24 lots, but in an unfinished, raw condition.

One Piper Ranch, LLC (Master Development Corporation) – as of Lots 3-6 and 11-14

Master Development Corporation (MDC) purchased the contiguous Lots 3, 4, 5, 6, 11, 12, 13 and 14 August 14, 2003. These lots collectively comprise about 16.36 acres. The purchase price was \$3,741,368.40, or \$5.25 per square foot inclusive of the proposed bond debt for the Piper Ranch Business Park. MDC had at one time agreed to purchase Lots 21 and 22 of the subject subdivision but amended the purchase contract in March 2003 to exclude these lots. MDC plans to construct 12 light industrial buildings on these lots and is marketing the project as 'One Piper Ranch'. The proposed buildings range in size from 11,300 SF to 32,000 SF.

Project Marketing

The remaining unsold lots in the subdivision are currently offered for sale at an asking price that ranges between \$6.50 to \$8.50 per square foot plus bond assessment assumption. The subject lots are relatively similar in configuration and location with the exception of those lots that offer frontage to Otay Mesa Road. Based upon the current asking prices, it appears that the lots larger than 3 or 4 acres and have drainage easements that reduce the net usable area are at an asking rate of \$6.50/SF. Lots that are smaller and front Otay Mesa Road (or have some visibility to Otay Mesa Road) are in a range of \$8.00 to \$8.50/SF, and the balance of the two-acre in size parcels are at an asking rate of \$7.50 per square foot. The Piper Ranch Business Park is marketed by the brokerage firm of International Real Estate with an office in Otay Mesa.

Regan Tully, the listing broker at this firm was interviewed for this assignment. Mr. Tully indicates that the assumed amount of bond debt was \$1.75 psf for the purposes of establishing the asking prices. Recent

offers have been received from potential buyers for some of the larger lots in the range of \$6.00 to \$6.25 per square foot, based on the assumption of bond debt of \$1.75. These prices would indicate a total transaction price including bond debt in the range of \$7.75 to \$8.00 per square foot. The offers are reportedly based on the net usable area per lot and would exclude the drainage easement and flood water storage easement impacting some of these lots. Mr. Tully indicates that a higher bond debt would require adjustment to these offers and deals.

A composite of the asking prices per lot as of April 2003 is shown as follows.

Lot No.	Size (Acres)	Asking Price	\$/SF	Lot No.	Size (Acres)	Asking Price	\$/SF
1	1.996	\$740,000	\$6.50	13	2.073	Sold	N/A
2	2.002	\$700,000	\$6.00	14	2.078	Sold	N/A
3	2.029	Sold	N/A	15	2.017	\$660,000	\$7.50
4	2.094	Sold	N/A	16	2.431	\$900,000	\$6.50
5	2.017	Sold	N/A	17	5.511	Off Market	N/A
6	2.008	Sold	N/A	18	4.414	In Escrow	N/A
7	1.837	\$600,150	\$7.50	19	4.301	Off Market ¹	N/A
8	1.804	\$590,000	\$7.50	20	4.301	Off Market ¹	N/A
9	2.172	\$700,000	\$7.50	21	4.301	Off Market ¹	N/A
10	1.838	\$600,500	\$7.50	22	4.301	Off Market ¹	N/A
11	2.058	Sold	N/A	23	4.301	\$1,219,000	\$6.50
12	2.067	Sold	N/A	24	5.674	\$1,580,000	\$6.50

¹ These lots were off the market as of April 2003, but later put back on market asking \$6.50 per square foot.

Assessor's Information

Each of the 24 lots in the subject subdivision is separately assessed for land value only for the 2002/2003 tax year. San Diego County Tax Collector records indicate that the Piper Ranch subdivision is located within Tax Rate Area 08215 with a base tax rate for 2002/2003 of 1.17527%. Currently, each of the lots has base taxes that are calculated using the assessed value and tax rate plus an additional amount for fixed charges that total approximately \$3,659. These special assessments are for the county's mosquito/flat control, the Metropolitan Water District Water Standby Charge and the Water Availability special assessment. A recap of the total project is shown below.

Total Project Assessed Value:

Land	\$3,901,488
Improvements	\$0
Total	\$3,901,488
Real Estate Taxes	\$45,852.78
Special Assessments	\$3,654.26
Total Taxes and Assessments	\$49,507.04

Lot No.	Assessor's Parcel No.	Assessed Value - Land	2007/2003 Base Taxes	Fixed Charges	Total Taxes
1	646-240-45	\$112,259	\$1,319.34	\$105.50	\$1,424.84
2	646-240-02	\$112,779	\$1,325.44	\$106.02	\$1,431.46
3	646-240-03	\$114,444	\$1,345.02	\$107.56	\$1,452.58
4	646-240-04	\$113,923	\$1,338.90	\$107.04	\$1,445.94
5	646-240-05	\$113,923	\$1,338.90	\$107.04	\$1,445.94
6	646-240-06	\$113,299	\$1,331.56	\$106.52	\$1,438.08
7	646-240-07	\$103,727	\$1,219.06	\$97.76	\$1,316.82
8	646-240-08	\$101,543	\$1,193.40	\$95.70	\$1,289.10
9	646-240-09	\$122,351	\$1,437.94	\$114.76	\$1,552.70
10	646-240-10	\$103,727	\$1,219.06	\$97.76	\$1,316.82
11	646-240-11	\$116,108	\$1,364.58	\$105.10	\$1,473.68
12	646-240-12	\$116,732	\$1,371.90	\$105.62	\$1,481.52
13	646-240-13	\$116,732	\$1,371.90	\$105.62	\$1,481.52
14	646-240-14	\$117,253	\$1,378.02	\$110.14	\$1,488.16
15	646-240-15	\$113,923	\$1,338.90	\$107.04	\$1,445.94
16	646-240-16	\$137,020	\$1,610.34	\$128.16	\$1,738.50
17	646-240-17	\$290,271	\$3,411.46	\$286.82	\$3,698.28
18	646-240-18	\$248,555	\$2,922.36	\$230.14	\$3,152.50
19	646-240-19	\$242,517	\$2,850.22	\$224.48	\$3,074.70
20	646-240-20	\$242,517	\$2,850.22	\$224.48	\$3,074.70
21	646-240-21	\$242,517	\$2,850.22	\$224.48	\$3,074.70
22	646-240-22	\$242,517	\$2,850.22	\$224.48	\$3,074.70
23	646-240-23	\$248,655	\$2,922.36	\$230.14	\$3,152.50
24	646-240-24	\$314,066	\$3,681.46	\$289.90	\$3,971.36

The current assessments are below the retail market value opinion presented in this report. There appears to be a likelihood of an increase in the property assessment upon resale of the property. A change in assessment to market value is assumed in this valuation.

Site Area

The subject property consists of 24 contiguous lots within the Piper Ranch subdivision. According to the recorded subdivision map for the project, the total project contains 69.568 acres net of street right-of-way and is rectangular in configuration. The Assessor Plat Map has rounded land areas for each lot and indicates a rounded total of 69.55 acres. This is the area used for valuation purposes, consistent with market actions in this area. The individual lots are nearly square or rectangular in shape. A composite for each lot within the subdivision follows.

Lot No.	Final Map Size (Acres)	Plat Map Size (Acres)	Lot No.	Final Map Size (Acres)	Plat Map Size (Acres)
1	1.996	1.99	13	2.073	2.07
2	2.002	2.00	14	2.078	2.08
3	2.029	2.03	15	2.017	2.02
4	2.024	2.02	16	2.431	2.43
5	2.017	2.02	17	5.511	5.51
6	2.008	2.01	18	4.414	4.41
7	1.837	1.84	19	4.301	4.30
8	1.804	1.80	20	4.301	4.30
9	2.172	2.17	21	4.301	4.30
10	1.838	1.84	22	4.301	4.30
11	2.058	2.06	23	4.414	4.41
12	2.067	2.07	24	5.574	5.57

Total Project: 69.568 acres (Final Map Area); 69.55 acres (Plat Map)

The net saleable acreage has been calculated for each lot. The net saleable area is defined as the gross lot area less the unusable sewer and drainage easement and flood water storage easement area that encumbers some of the lots. I have calculated the net usable area for each lot and a summary follows.

Lot No.	APN	Gross Acres	Drainage Easement Area	Net Saleable Acres
1	646-240-45	1.99	0.00	1.99
2	646-240-02	2.00	0.00	2.00
3	646-240-03	2.03	0.00	2.03
4	646-240-04	2.02	0.00	2.02
5	646-240-05	2.02	0.00	2.02
6	646-240-06	2.01	0.00	2.01
7	646-240-07	1.84	0.00	1.84
8	646-240-08	1.80	0.00	1.80
9	646-240-09	2.17	0.00	2.17
10	646-240-10	1.84	0.00	1.84
11	646-240-11	2.06	0.00	2.06
12	646-240-12	2.07	0.00	2.07
13	646-240-13	2.07	0.00	2.07
14	646-240-14	2.08	0.00	2.08
15	646-240-15	2.02	0.00	2.02
16	646-240-16	2.43	0.00	2.43
17	646-240-17	5.51	0.87	4.54
18	646-240-18	4.41	0.23	4.18
19	646-240-19	4.30	0.23	4.07
20	646-240-20	4.30	0.23	4.07
21	646-240-21	4.30	0.62	3.48
22	646-240-22	4.30	0.23	4.07
23	646-240-23	4.41	0.23	4.18
24	646-240-24	5.57	0.31	5.26
Totals		69.55	3.25	66.30

Topography

The overall topography of the subject is relatively flat with a natural southwesterly drainage gradient. Elevations in the project vary from approximately 507 MSL in the northeastern corner to approximately 494 feet MSL at the southwest corner. The finished lots will be situated about one foot above street grade with some minor variation and gently rolling terrain. As of the date of value, the lots are in a sheet graded condition and appear ready for development.

Utilities

All are currently available and operating on the site. Water is provided by the Olay Water District. The District gets its water from Northern California and the Colorado River through the Metropolitan Water District and the San Diego County Water Authority. Sewage in this portion of the Olay Water District is treated by San Diego County. Electricity is provided by SDG&E (Sempra Energy Company) with underground electric and gas lines serving the subdivision.

Storm water runoff will be controlled by a drainage channel located along the western property boundary and flood water storage basins along the south boundaries of Lots 17 and 21. The two detention basins will control the amount of runoff allowed to exit the property to the public storm drain system during periods of rainfall. As a temporary runoff control measure, the rough graded lots will each have a small desilting basin before the runoff reaches the drainage channels and storm drains.

Access

Access to the subject is by Olay Mesa Road east from Olay Valley Road/Heritage Road or Interstate 805. Olay Mesa Road is asphalt paved and striped for three westbound lanes and two eastbound lanes with a broken yellow line (non-raised) median. The existing road width and right-of-way varies, but currently, there is approximately 59 feet of existing road width. Olay Mesa Road has been widened along the subject property frontage approximately 31 feet with a new concrete curb, gutter and sidewalk installed. The intersection of Olay Mesa Road and Piper Ranch Road has been signalized with left turn lanes onto Piper Ranch Road.

Piper Ranch Road is the primary street intersecting Olay Mesa Road for this subdivision. Piper Ranch Road is an asphalt paved collector street with an 80-foot right of way but built-out to 49 feet with the balance to be the responsibility of the adjacent property owner upon development. It is developed with two lanes with center median and concrete curbs, gutters and sidewalks along the west side of the street and an asphalt berm along the east side. Other roads within the subject subdivision (Air Wing Road, Dead Stick Road and Approach Road) are developed to City of San Diego standards with right-of-ways ranging from 70 to 80 feet.

Piper Ranch Road was planned to be extended from Olay Mesa Road north through the subdivision and intersecting with Aviator Road along the north subdivision boundary. However, due to the planned 125 freeway right-of-way which will cross through the northern corner of this property, the developer has chosen not to fully construct Piper Ranch Road north of Dead Stick Road. Aviator Road has also not been constructed and the developer is requesting that the city release him from the obligation to construct this road. Piper Ranch Road has been temporarily terminated as a cul-de-sac at the boundary of Lots 7 and 8. The future Piper Ranch Road alignment has been rough graded as has Aviator Road.

I have been asked to assume that the cost to remove the temporary cul-de-sac and complete the street improvements is \$355,000. This amount is assumed to be accurate and correct for the purposes of this assignment at the request of my client. An independent estimate of the cost to complete is not within the scope of this assignment and has not been performed. This is an extraordinary assumption (Extraordinary Assumption No. 2) upon which this valuation is based.

State Route 125 freeway is planned to cross through the northeast corner of the subject subdivision and may require acquisition of right-of-way from a couple lots. The location of Piper Ranch Road and Aviator Road in this area may also be impacted. The location of the freeway right-of-way is in the planning stages and the exact impact on this subdivision is not presently known. The freeway right-of-way will require acquisition by eminent domain by Caltrans. Since the impact of this future alignment is not known, no specific adjustments have been applied in this valuation analysis. State Route 125 will be a major

north/south toll road freeway and interchanges are planned at Lone Star Road north of the subject and at Olay Mesa Road to the southeast of the subject.

Zoning/Community Planning

The subject property is zoned OMD-D-1 by the City of San Diego. This designation refers to the Olay Mesa Development District - Industrial Sub-District. The purpose of this district is to create and promote the development of the Olay Mesa area. The OMD-D-1 sets out standards that control the use, development intensity, and development design of the area. A full range of industrial uses are allowed including manufacturing, wholesaling and distribution, assembly operations, and necessary support services. Development regulations within the Industrial Sub-District are as follows:

Minimum Lot Area:	30,000 SF
Street Frontage:	100 feet
Minimum Lot Width:	100 feet
Maximum FAR:	2.0

The Tentative Map approval indicates that all of the subject lots meet the minimum dimension requirements of the OMD-D-1 zone. All uses, except for storage, loading and outdoor work, are to be conducted within an enclosed building. Outdoor work, storage of merchandise and material is permitted in interior side or rear yards provided the area is completely enclosed by walls or fences. Storage is not permitted within required front or street side yard setback areas. Business support services are limited to five percent of the gross ownership area and use shall require that notice to the Planning Director be given for the purpose of recording the location and quantities of property to be used for such purposes.

The developer has given notice to the Planning Director in a letter dated August 5, 2003 that Lots 1 and 2 are to be designated as commercial/business support services use and has allocated the entire five percent of the original 40 acre gross subdivision ownership area to these two lots. This allocation means that the remaining 22 lots will not have the ability to use business support services use and will be limited to industrial only. The recorded CC&RS are to also reflect this use designation and restriction.

Map Status

The approved Tentative Map (#88-0934) was filed May 2, 1987 and the final subdivision map recorded in April 1989. The subdivision map conditions of approval for this project indicate that the subdivider shall dedicate 61 feet of right-of-way northerly of the existing centerline on Olay Mesa Road and that full improvement of the three westbound lanes will be completed including curb, a five-foot wide sidewalk and a 14-foot wide raised median. In addition, a traffic signal system is required and an 18-inch gravity sewer main in Olay Mesa Road is recommended. The subdivider was also required to establish drainage detention basins.

Construction of the subdivision improvements started in August 2002 after being delayed for several years by the proposed air cargo airport proposal being considered for Brown Field. That proposal was subsequently declined and removed from consideration, clearing the way for development to proceed on the subject project. The estimated completion date of grading and street improvements is by September 2003. As of the date of value the project construction is estimated to be approximately 95 percent complete with some minor street work and project landscaping remaining. However, the valuation is based on a hypothetical condition that all construction is complete as of that date and has finished lots ready for development.

Flood Zone/Earthquake Hazard

The property is designated Zone X, outside a designated flood hazard area according to flood insurance maps prepared by the National Flood Insurance Program, Community Panel Number 060285 2179F dated June 18, 1987.

The property is not located within an identified Aqueit-Prubo Earthquake Special Studies Zone. The nearest active fault in the Rose Canyon Fault Zone is located approximately 14 miles west of the site.

Hazardous Materials

A copy of the Phase I Environmental Site Assessment prepared by Geocoin Consultants Inc., dated February 21, 2002 was provided to me. This report concluded that the potential for environmental impairment to the site from hazardous substances or onsite wastes is minimal. Please refer to Limiting Condition and Assumption Nos. 2 and 3 in this report.

Soils/Grading

Per a report prepared by Geocoin Incorporated dated June 21, 2002, grading to construct the 24 lots is relatively minor. Grading work has consisted of cuts and fills of less than ten feet. Surface drainage will be directed towards the southwest corner of the site.

Grading plans for the project prepared by Rick Engineering, W.O. #860934 show that about 220,000 cubic yards of soil have been excavated for the project. Each of the finished lots sets at a grade slightly below the elevation of the adjacent streets. The lots have a minor change in elevation within the project, generally at an elevation ranging from 485 to 511 MSL. Lots will have a 1.0% to 1.5% slope for drainage purposes. This valuation assumes that the soils are suitable for development of the property to its highest and best use.

Surrounding Land Uses

Olney Mesa is characterized by expanses of vacant land with clustered "leap frog" style pockets of development. The subject is immediately surrounded by predominantly undeveloped industrial land to the north, east and south. An existing industrial subdivision located west of the subject and east of La Media Road exists. This subdivision, the Olney Mesa Industrial Park, has 22 mapped lots ranging in size from about an acre to about 4.5 acres. Currently, about a fourth of these are developed with light industrial uses. Immediately west of this subdivision is Brown Field, a general aviation airport situated on approximately 900 acres along the north side of Olney Mesa Road.

Visibility

The subject subdivision has adequate to good visibility to traffic along Olney Mesa Road. Several of the lots, most notably, Lots 1, 16 and 17 directly front Olney Mesa Road and have good visibility, but there is no direct access to Olney Mesa Road available to these lots.

Easements/Encroachments/Restrictions

A preliminary title report prepared by First American Title dated October 21, 2002 was provided to me for review. The report indicated a total of 43 exceptions to the title. Most of these items represent easements that affect portions of the lots and are for public utilities or incidental purposes.

Item No. 11 references an aviation easement that exists over the entire subdivision. The aviation easement was granted on the subdivision map to the City of San Diego for all airspace above an elevation of 684 feet MSL. There is also an aviation approach easement that affects nearly all of the subdivision to an elevation of 584 feet MSL. I have been provided with a Building Height Restriction Exhibit prepared by Kimley-Horn Associates. The exhibit indicates that the lowest point of the approach easement is along the western subdivision boundary at 580 feet while pad elevations are in the range of 495 to 500 feet above sea level. This difference would allow a maximum building height for these western lots (17 to 22) of 85 to 90 feet. This is sufficient height for a typical two story industrial building developed in this market and is not considered to have a negative impact on the development potential of this subdivision based on its highest and best use for light industrial development.

Item No. 12 in the report states that direct access to Olney Mesa Road from adjacent lots 1, 16 and 17 has been relinquished. Item Nos. 16 through 35 all refer to an encroachment removal agreement dated in 1989.

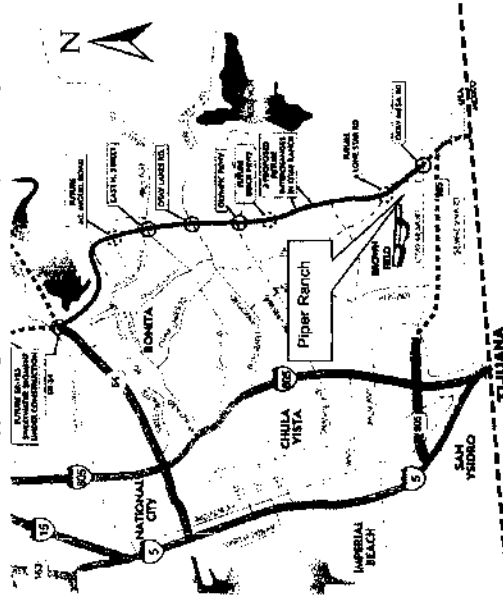
I have also reviewed a copy of the recorded tract map for the project, Map No. 12346. The title report indicates the presence of several utility easements, some of which are in favor of SDG&E. The recorded

tract map reflects the location of those easements recorded in 1948 and 1952. The easements traverse many of the lots in the subdivision, commencing at Olney Mesa Road on a north/south axis, continuing through Lots 1, 2 and 3 and turning in a northwesterly direction over Lot 13 and through Lots 20 to 23. Please refer to Sheets 4 and 5 of the tract map that are included in this report. I have been provided information that indicates these old utility easements will be removed by quit claim from SDG&E since they are no longer used or needed. A letter of "intent to quitclaim" has been sent by SDG&E to the developer that evidences their intention to start the process of removing these easements. Therefore, I have not considered these easements in my valuation analysis. However, should the easement not be removed, there may be significant impacts to the utility of the affected lots.

The subdivision will have recorded CC&Rs; however as of the writing of this report, I have not been provided with a copy of the subdivision CC&Rs for review.

Future Extension of State Route 125

In September of 1991, the California Department of Transportation (CalTrans) approved construction of an 11-mile toll road, State Route 125. This project will consist of the third major north-south highway corridor in San Diego County and will provide direct access to the Olney Mesa border area. It will extend from Olney Mesa north to State Route 54, the southern nine miles of which are expected to be a privately financed tollway. Although this project has not commenced construction, preliminary indications show that the freeway off-ramp on to Olney Mesa Road may affect those lots in the subject subdivision located at the extreme northeastern portions of the project (Lots 7 through 10). Caltrans had estimated that the project could start in late 2004 and take three years to complete, however at this time, no definitive time line is available. A copy of the general route location map provided by Caltrans follows.



Description of Improvements for Assessment District

According to a City of San Diego Preliminary Engineer's Report, the cost of architecture, engineering and construction of road, sewer, and storm drain facilities are to be financed. A summary of the improvements follows below.

> Street improvements
 The roads (Piper Ranch Rd, Aviator Road, Approach Road and Dead Stick Road) will include curb and gutter, sidewalk, pedestrian ramps, berms, monuments and street lights.

> Sewer improvements
 The sewer mainlines including manholes, lot laterals, and cleanouts are to be located in Olaz Mesa Road, Piper Ranch Road, Air Wing Road and along the assessment district's western boundary.

> Storm Drain Improvements
 Storm drains consist of reinforced concrete pipe, cleanouts, curb inlets and concrete lined drainage channel.

A summary cost estimate for the Construction hard costs and indirect costs are shown in the following table.

Construction Costs:	
Streets, signets, curb, gutter, street lights	\$1,809,859
Sanitary sewer system	590,361
Storm drain system	1,611,644
5% Contingency	<u>196,467</u>
Subtotal Construction Costs:	\$4,208,331
Architecture/Engineering Fees	
	\$228,750
District Formation & Financing Costs:	
Debt Service Reserve Fund	\$463,237
Non-Escrow Capitalized Interest to 9/2/04	197,109
Escrow Capitalized Interest to 9/2/05	260,813
Cost of Issuance	330,700
Underwriter's Discount	73,179
Additional Proceeds	2,881
Subtotal:	\$1,327,819
Total Estimated Assessment Amount for Project:	
	\$5,765,000

The city has provided me with a table apportioning the assessment based upon the gross lot area of each parcel. Using the total project acreage of 69.55 acres, the allocated assessment cost is \$1.90 per square foot. This allocation has been used in the valuation of the subject lots. The bonds are to be financed for a 30-year term.

A summary table showing the assessment allocation per lot based on a pro-rata allocation of the total assessment amount based on the gross lot area follows.

Lot No.	APN	Gross Acres	Value of Lien Assessment	Allocated Lien Per SF
1	646-240-45	1.89	\$ 164,951	\$1.90
2	646-240-02	2.00	\$ 165,780	\$1.90
3	646-240-03	2.03	\$ 168,267	\$1.90
4	646-240-04	2.02	\$ 167,438	\$1.90
5	646-240-05	2.02	\$ 167,438	\$1.90
6	646-240-06	2.01	\$ 166,609	\$1.90
7	646-240-07	1.84	\$ 152,518	\$1.90
8	646-240-08	1.80	\$ 149,202	\$1.90
9	646-240-09	2.17	\$ 179,871	\$1.90
10	646-240-10	1.84	\$ 152,518	\$1.90
11	646-240-11	2.06	\$ 170,753	\$1.90
12	646-240-12	2.07	\$ 171,582	\$1.90
13	646-240-13	2.07	\$ 171,582	\$1.90
14	646-240-14	2.08	\$ 172,411	\$1.90
15	646-240-15	2.02	\$ 167,438	\$1.90
16	646-240-16	2.43	\$ 201,423	\$1.90
17	646-240-17	5.51	\$ 456,724	\$1.90
18	646-240-18	4.41	\$ 365,545	\$1.90
19	646-240-19	4.30	\$ 356,427	\$1.90
20	646-240-20	4.30	\$ 356,427	\$1.90
21	646-240-21	4.30	\$ 356,427	\$1.90
22	646-240-22	4.30	\$ 356,427	\$1.90
23	646-240-23	4.41	\$ 365,545	\$1.90
24	646-240-24	5.57	\$ 461,697	\$1.90
Totals		69.55	\$ 5,765,000	

Subject Photos

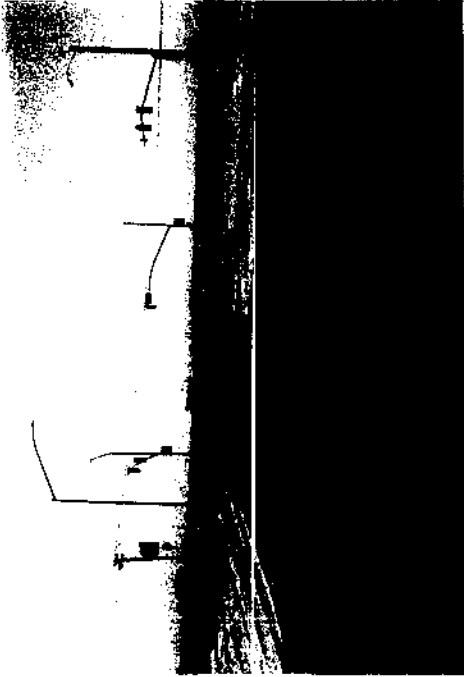


Photo 1 – View looking south from Piper Ranch Road toward intersection with Otay Mesa Road

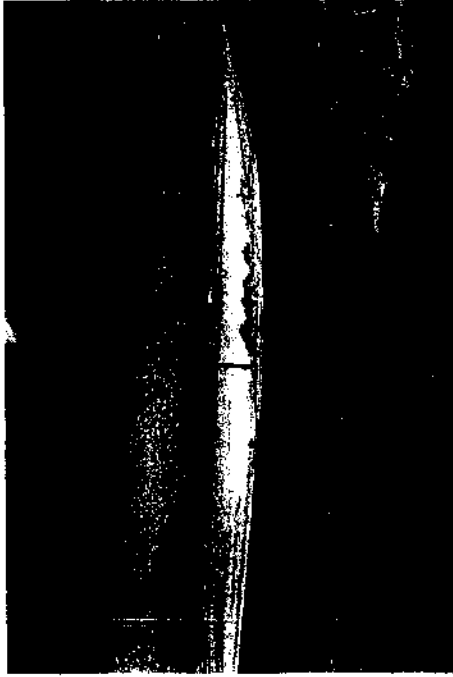


Photo 2 – View looking north toward Lots 3-6 on Piper Ranch Road and Air Wing Road



Photo 3 – Looking west toward Lot 2 and Approach Road



Photo 4 – Looking south along western boundary of the subject (drainage channel)

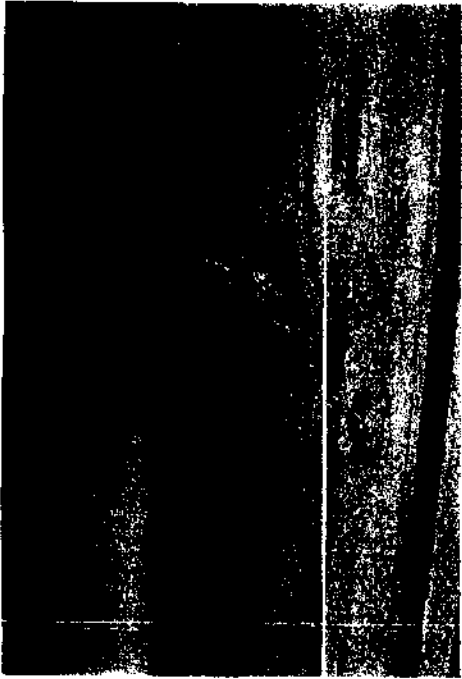


Photo 5 - Looking west from Air Wing Road along boundary between Lots 20 and 21 (storm water detention basin)



Photo 6 - View looking north from south end of project (along future Air Wing Road)



Photo 7 - Looking north at Lots 17-20 from frontage near Otlay Mesa Road



Photo 8 - Looking northeast toward Lots 13-16 from Otlay Mesa Road frontage

Final Subdivision Map

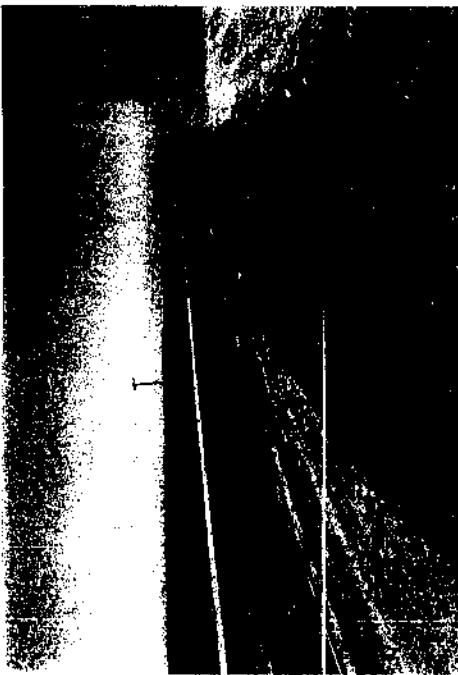
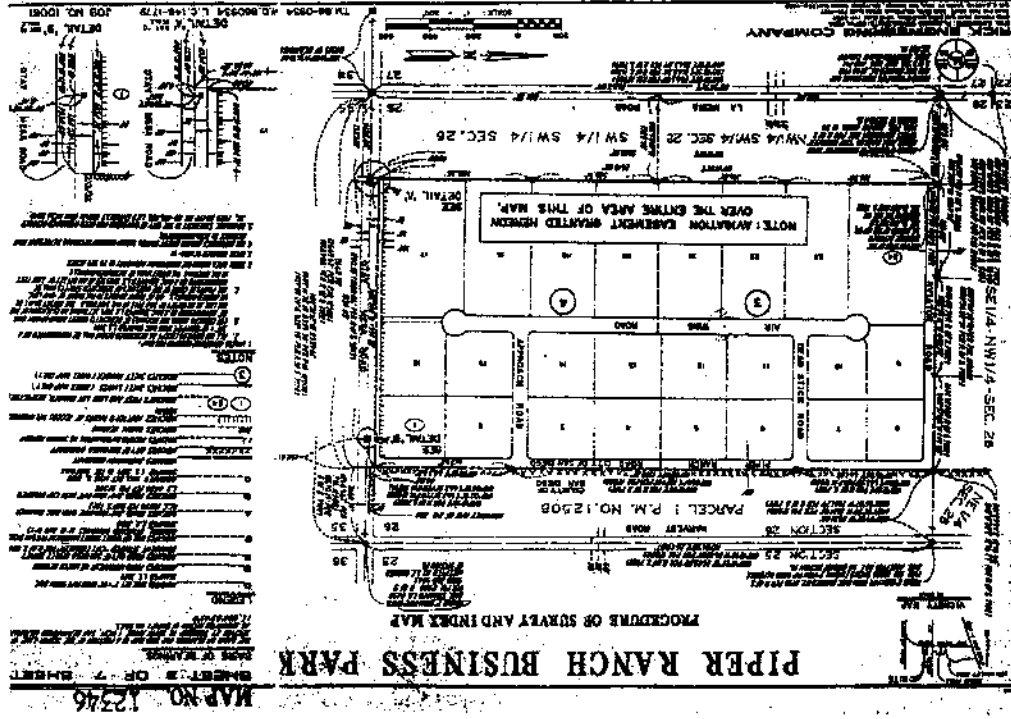
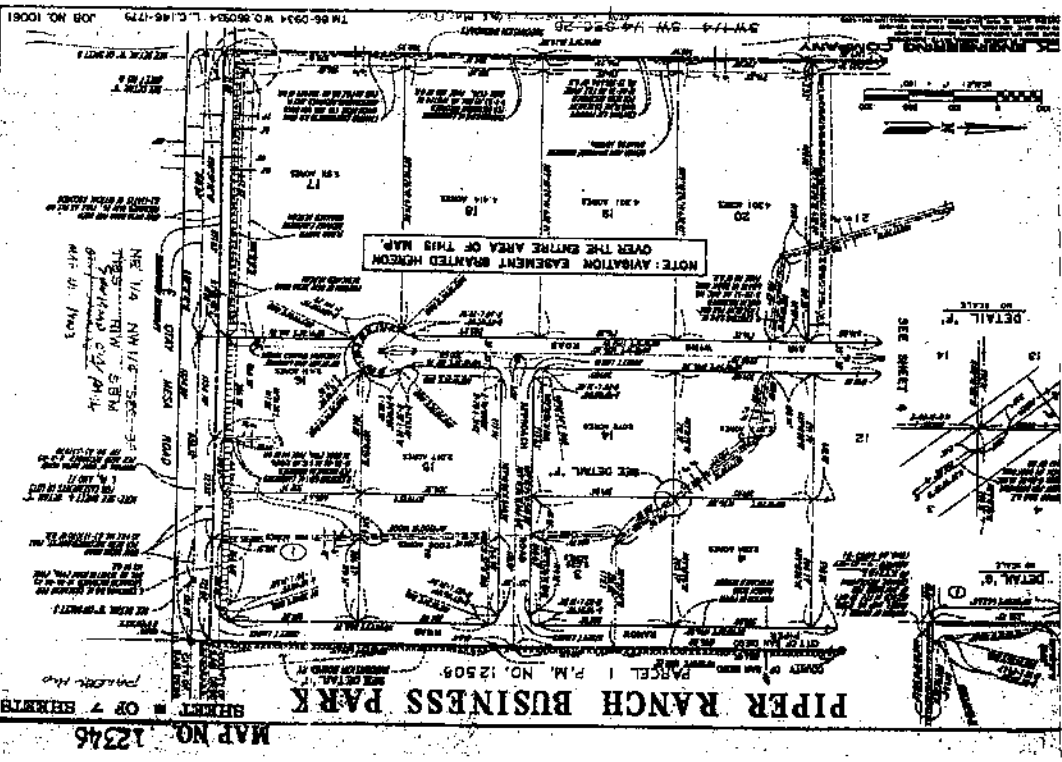
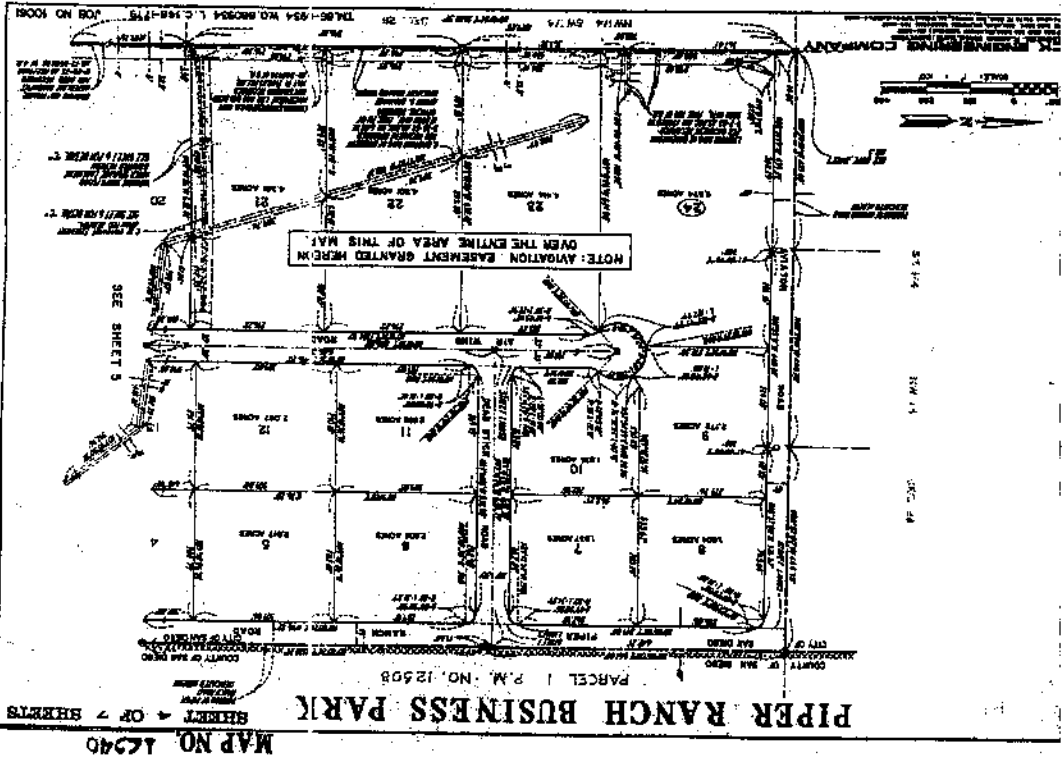
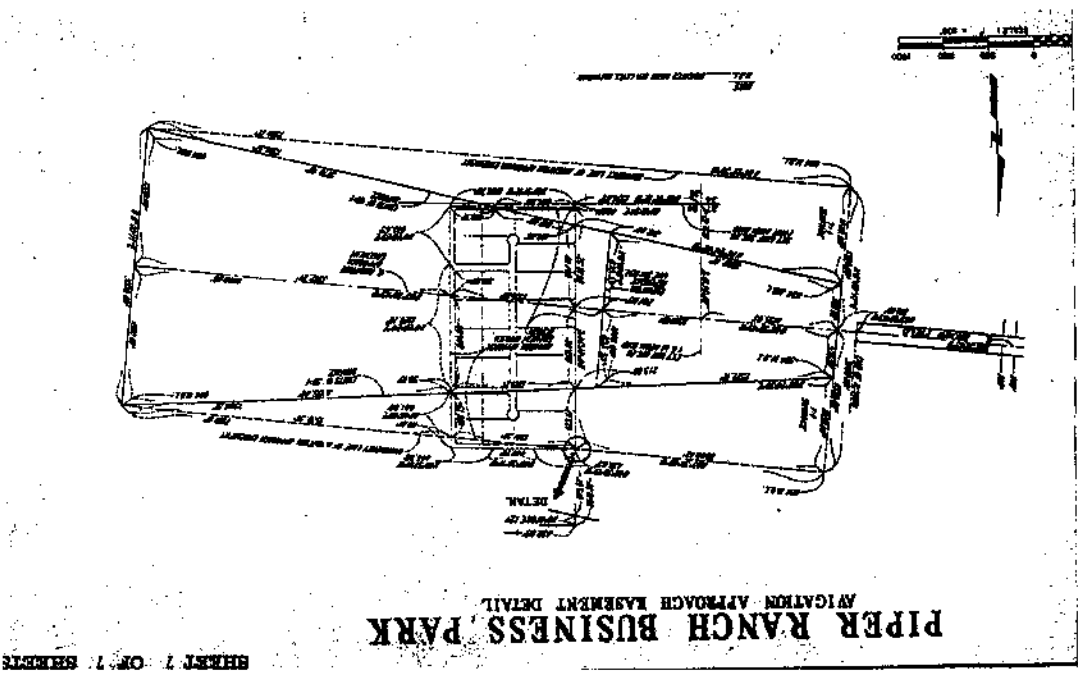
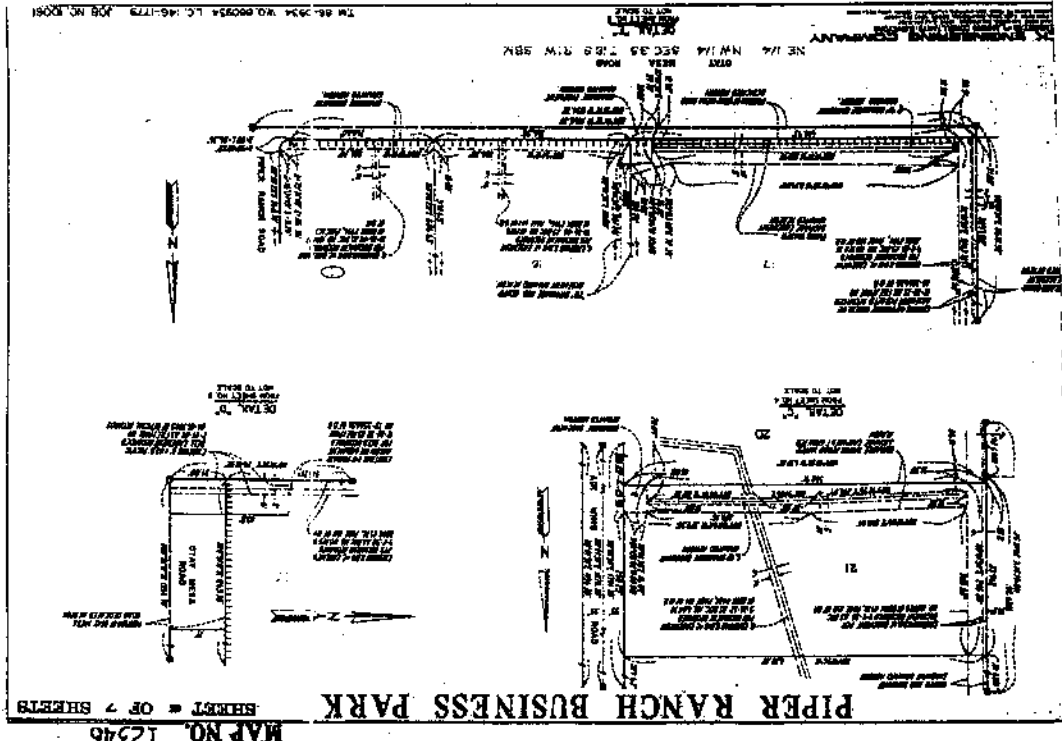


Photo 9 - Looking west at Chay Mesa Road frontage and Lot 17 (Flood water storage area)



Photo 10 - Aerial Photo (before construction)

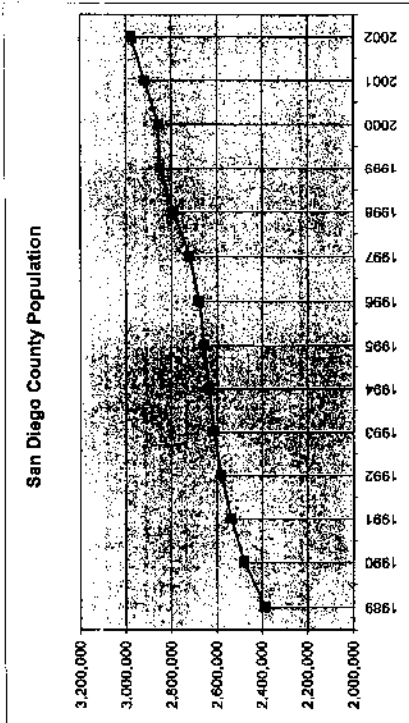




Demographics and Market Analysis

Community Description

- Current County of San Diego Population: 2,978,300
- Growth Trend: Upward growth averaging around 2 percent per year; see table below



- New Construction: New housing units have not been keeping up with the demand growth, causing increasing housing prices. The following table shows new housing permit issuance in the County of San Diego over the past 11 years, based upon number of units proposed.

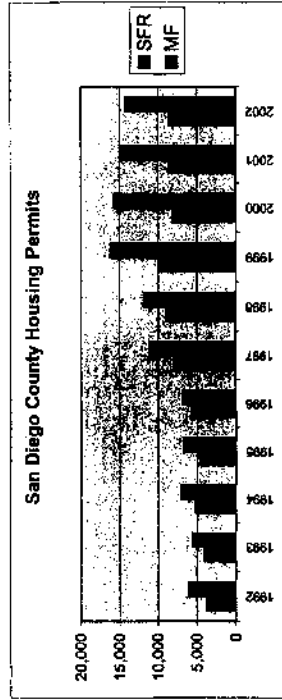
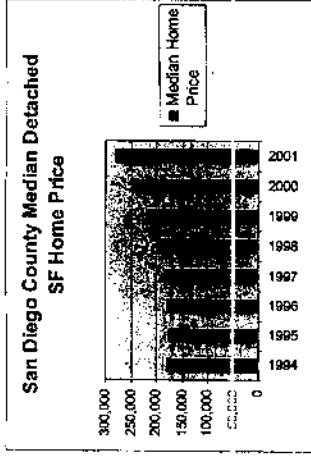
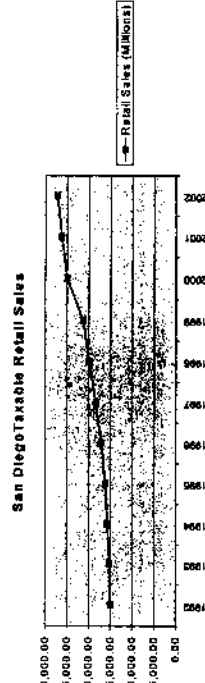


Figure 1 - Source: Construction Industry Research Board

- Housing Prices: San Diego is one of the least affordable housing markets in the nation, ranking fourth highest. The following table presents the average resale home prices in San Diego County since 1984. The median home price as of July 2002 was \$370,000 for resold homes and \$422,750 for the average new home sold.



- Economic Base: San Diego's gross regional product (GRP) reached \$126.1 billion in 2002, an increase of 5 percent over 2001's record setting \$120.5 billion, according to the Greater San Diego Chamber of Commerce. Adjusted for inflation, the "real" increase will be 2.4 percent. The forecast growth rate in GRP for 2003 is 3.3 percent, inflation adjusted. San Diego's inflation rate has declined to 3.5 percent from 4.8 percent in 2001. The forecast inflation rate for 2003 is 3.9 percent.
- Tourism: Visitor spending is expected to increase in 2003 modestly at 6 percent to \$5.4 billion, theme park attendance should grow about 2.2 percent to 12.4 million people through the turnstiles, and overnight as well as day trips will be up 2.3 percent to 27.1 million visitors.
- Retail Sales: Taxable retail sales have been rising steadily, with a current record of \$24.9 billion transactions in 2000, an increase of nearly 10 percent over 1999. 2003 sales are forecast at 28.3 billion. A graph depicting levels of retail sales in San Diego over the past 10 years is shown in the following table.



Market Analysis

The fall-out from the dot-com bubble burst and the recession in 2001 had an adverse impact on San Diego's office and R&D space demand in 2001 and 2002 with more vacant space coming on line from existing tenants vacating or giving up excess space for sublease. San Diego continues to fare better than other areas in California which were hit harder by this slump.

A summary of San Diego County's real estate statistics for construction, occupancy and absorption in the various residential, commercial, retail and industrial sectors follows.

San Diego Real Estate Construction Starts (permits pulled)			
	2001 (Actual)	2002 (Estimate)	2003 (Forecast)
Single Family	8,673	8,570	9,000
Multi-Family	6,074	5,665	6,000
Commercial	\$469 million	\$421 million	N/A
Industrial	90.2 million	\$123 million	N/A

Source - Economic Research Bureau, San Diego Regional Chamber of Commerce

San Diego County Net Space Absorption		
	2002 Year End	2001 Year End
Office	1.6 million SF	1,043,000 SF
Industrial	2.1 million SF	1.6 million
Retail	1.1 million SF	N/A

Source - Burnham Real Estate Services/OMCOR

A table summarizing the year-end vacancy rates for office, industrial and apartment property in San Diego County follows. The primary source of this data are the annual Burnham Real Estate Services reports.

Year End	San Diego County Vacancy Rates - Year End		
	Office	Industrial	Apartment
1993	15.9%	8.7%	4.5%
1994	15.0%	8.4%	5.4%
1995	14.6%	7.5%	3.8%
1996	11.9%	6.0%	2.1%
1997	8.8%	5.3%	1.1%
1998	7.5%	4.6%	1.3%
1999	7.9%	13.6%	1.1%
2000	6.5%	7.3%	0.6%
2001	12.4%	8.7%	2.0%
2002	11.6%	8.1%	4.1%
2 nd Qtr 2003	12.6%	8.4%	4.3%

Despite the continued weakness in our national economy, San Diego County's commercial real estate market remained strong throughout the first quarter 2003. It is believed that San Diego County has not been as deeply affected as other parts of the country due to a highly diversified work force. Some key industries in San Diego County include Agriculture, Defense, High Technology, International Trade, Manufacturing and Biotechnology. At the end of the first quarter 2003, the unemployment rate for San Diego decreased to 4.2 percent. This rate is significantly lower than California's rate of 6.9 percent and the United States rate of 5.8 percent.

Otay Mesa Area Description

The subject property is located within the Otay Mesa Community Plan. It is defined as the southern portion of the City of San Diego and a portion of the County of San Diego and as such, is governed by both the City and County of San Diego. It is bounded by the U.S./Mexico international border to the south, Interstate 805 to the west, the Otay River Valley to the north and the foothills of the San Ysidro Mountains to the east. The area encompasses approximately 28 square miles in both the city and county of San Diego.

Until the mid-1980's, the area was primarily undeveloped agricultural land lacking the necessary public infrastructure for urbanization. With the opening of the Otay Mesa border crossing in late 1985, the establishment of the adjacent Otay International Center and the opening of the State Prison in 1987, the area experienced a significant amount of developmental change in the last 15 years. Otay Mesa has the largest industrially zoned area in San Diego, encompassing 20,600 acres. About 40 percent of this area is located within the city limits and the balance is in the county jurisdiction. At full build-out, the community plan calls for development of a relatively self-contained residential community of approximately 2,500 acres. The community's projected population of 46,400 calls for eight new elementary schools, seven neighborhood parks, a middle school, two community parks and one senior high school.

One of the most important factors leading to increased interest in the Otay Mesa area has been the opening of the Otay Mesa border crossing and the ultimate transfer of all commercial and industrial traffic to its crossing facility. In 1994, the Otay Mesa point of entry was expanded to accommodate additional cargo shipments and in January 1995 it began handling all commercial traffic between San Diego and Tijuana. The San Ysidro international border crossing, located 5.5 miles to the west of Otay Mesa, now allows only pedestrian and private vehicle traffic only.

Otay Mesa's predominantly industrial zoning has provided a base for the city's expanding role in international manufacturing. It began developing in the mid-1980s with the passing of NAFTA and its close proximity to Mexico. Manufacturing operations that are foreign-owned, referred to as maquiladoras, assemble plants in Mexico that import raw material duty-free and export final products around the world. The area expanded into a burgeoning manufacturing industry with the majority of the world's televisions manufactured in the area. Many companies that have located to Otay Mesa have maquiladoras in Tijuana and are operating twin plants. Tijuana became the television manufacturing capital of the world in 1986. A sample of these companies includes Sanyo North America, Maxel Magnetic Media, Matsushita Television Company and JVC. Current estimates indicate there are about 450 companies in the Otay Mesa community employing 12,000 people.

Business development incentives such as its designation as a state Enterprise Zone and Foreign Trade Zone status also benefit the area. About 1,418 acres of Otay Mesa is situated within the Foreign Trade Zone. This designation allows foreign or domestic goods to enter the area without formal customs entry or payment of custom duties and government excise taxes. The maquiladora industry suffered one of its worst years in 2001 due primarily to reduced consumer spending in the United States which led to a drop in production of electronic devices. The region was also affected by regulatory changes and competition from nations with a cheaper work force. As a result, Mexico's export manufacturing industry declined nine percent in 2001. Factories were closed and an estimated 40,000 jobs were lost in Tijuana alone. Exporters that supply the Mexican factories are optimistic that a rebound will come.

Otay Mesa is also home to Brown Field, a City-owned general aviation airport occupying 900 acres north of Otay Mesa Road. The airport currently handles about 20,000 flight operations per month and has an

existing main runway that is 8,000 feet in length. It is located on the north side of Otay Mesa Road, west of the subject property. A development group had proposed converting the airport into an air cargo airport a couple years ago. This proposal has since been declined by the City and removed from consideration.

Highway 905/Otay Mesa Road

Primary access to the area is from Interstate 805 east along Otay Mesa Road/Route 905. Otay Mesa Road/Route 905 is a two and four-lane road which terminates immediately east of Alta Road. At the Brown Field Business Park, Otay Mesa Road/Route 905 is three lanes eastbound with concrete curbs, gutters and sidewalks and a concrete center median. The north side of Otay Mesa Road/Route 905 is unimproved and serves as the south property line for Brown Field Airport. During the three-year period from 1997 to 1999, the City of San Diego widened the existing Otay Mesa Road as a stop-gap measure until the full freeway 905 is built parallel to the south of Otay Mesa Road. In the spring of 2000, work was completed on the interim, temporary California 905 expressway along Otay Mesa Road between Old Otay Mesa Road just east of Interstate 805 to the future Highway 125 freeway interchange. This new expressway is built to Caltrans standards with six lanes and standard signage. Signalized intersections with protected left turns are installed at Heritage/Otay Valley Road, Cactus Road, Britannia Boulevard, Alisa Court, La Media Road, and Otay Mesa Road near the future California 125 interchange connector.

Prior to spring 2000, California 905 existed in two segments. One was the freeway segment between a half mile east of Interstate 805 and the other was the multi-lane conventional highway between the future California 125 interchange and the Otay Mesa Port of Entry. In a 1998 agreement between the City of San Diego and Caltrans, the City paid to upgrade Otay Mesa Road to six lanes with turning lanes by the end of 1999 and Caltrans would maintain the road as a state facility until California 905 is built. Construction was completed in early 2000 and signs were erected retaining the span to Highway 905. Planning continues for a permanent Interstate 805 freeway south but parallel to the existing California 905 expressway. Once the new California 905 is constructed, it will be re-designated Interstate 905. In the meantime, traffic continues to escalate along Highway 905 as all trucks must use the Otay Mesa Border Crossing. By 2015, it is expected that the widened and improved California 905 expressway will be inadequate for the demands placed on that road so Caltrans is planning for a freeway-grade road to be constructed by 2004.

Highway 125

More than ten years ago, Caltrans approved construction of a toll road that will extend Highway 125 and will enhance access to Otay Mesa. The first segment is the San Miguel Parkway which connects California 905 north to California 54. TransNet will fund California 125 from California 54 south to San Miguel Road in Bonita while the remainder of the route consisting of about nine miles will be operated as a tollway. A freeway off-ramp is proposed at Otay Mesa Road and eventually a full interchange with future Interstate 805. The project design and construction began on Phase 1 in August 2002 and a recent article in the San Diego Daily Transcript reported that funds are secure for the state-funded portion of State Route 125. Construction of the 9.3 mile highway span from just south of Highway 64 near the Sweetwater Reservoir to California 905 is scheduled for a groundbreaking in mid-2003 and it is anticipated that the new freeway will take at least three years to complete. I have been advised that it is possible that the freeway off-ramp from 125 to Otay Mesa Road will impact a portion of the subject lots near the northeastern area of the subject subdivision; however, no plans are available at this time.

Market Analysis

San Diego County Industrial

The San Diego County industrial market experienced approximately 1.1 million square feet of positive net absorption during 2002, driven by 13.1 million square feet of total gross sales and leasing activity. Although ten of the 22 sub-markets posted positive net absorption in the fourth quarter of 2002, it was not enough to offset the County as a whole, ending the quarter with just under 140,000 square feet of negative net absorption. During 2002, the San Diego County industrial market delivered 2.3 million square feet of new product and 1.4 million square feet remained under construction at year-end. At the end of the second quarter 2003, the San Diego County industrial market posted about 1,170,000 square feet of net absorption. For the quarter, the countywide average asking triple net lease rates for industrial space remained level compared to 2002 year-end at \$0.94 per square foot per month.

Burnham Real Estate reports that the San Diego industrial market is a full cycle-phase ahead of the office market, although it never progressed into recession. Industrial is usually the first sector to rebound after a downturn and in San Diego, industrial build-to-suit activity is already increasing. On an overall basis, the San Diego industrial market is not overbuilt. An overview of industrial vacancy rates by product type for the past seven years is shown below.



Figure 2 - Chart Source: Burnham Real Estate

Looking at specific industrial product types shows multi-tenant industrial at a 4.7 percent vacancy for year end 2002. Manufacturing posted the greatest improvement in 2002, dropping from a high of 15.6 percent in 1999 to a 2002 rate of 6.2 percent. Warehouse and distribution facilities also have relatively little excess space with only 9.3 percent vacant.

Otay Mesa and Vista led all San Diego industrial submarkets in 2002 net absorption with 730,176 square feet and 565,064 square feet, respectively. With the east of land in the mid-county area of San Diego too high to justify the development of industrial product, most new building activity is moving to the northern and southern regions of the county. This is also where most of the absorption is occurring. At year end 2002, there were about 685,000 square feet of new industrial space under construction in Otay Mesa, about 273,200 square feet under construction in Vista and 418,000 square feet of new space under way in Oceanside.

While some analysts believed that the San Diego County industrial market would lead the nation in the recovery phase, net absorption remained negative in the major Miramar and central areas of San Diego through the second quarter 2003. Total absorption through the second quarter 2003 was at 1,170,000 square feet with a negative absorption of 244,000 square feet in the first quarter and positive net absorption of 1,414,000 square feet in the second quarter. Otay Mesa accounted for the largest amount of net absorption due to a single 600,000 square foot project coming on line fully leased in the second quarter.

Otay Mesa Industrial Sub-Market

The Otay Mesa sub-market is part of the larger South County market area of San Diego. The total South County market has about 18.1 million square feet representing about 12 percent of the total Industrial Inventory in the county. Other sub-markets in South San Diego County include Chula Vista, National City, San Ysidro and southern portions of the City of San Diego. The Otay Mesa sub-market is the largest of the four sub-markets, representing nearly 6 percent of the total industrial inventory in San Diego. A composite of the South County Industrial Market for Year end 2002 is shown in the following table.

South San Diego County Industrial Market			
	Chula Vista	National City	San Ysidro
Inventory	4,361,262 SF	2,274,006 SF	1,374,355 SF
% of Market	2.9%	1.5%	0.9%
# of Projects	45	21	15
% Vacant	3.1%	3.0%	9.6%
2002 Net Absorption	163,309 SF	(37,000 SF)	3,168 SF

Table Source: Burnham Real Estate

A Burnham Real Estate report for the second quarter 2003 reported a vacancy rate of 12 percent for the Olay Mesa industrial sub-market. Gains were made in the second quarter with positive net absorption of 847,558 square feet including the single 600,000 square foot project previously noted. Approximately 258,000 square feet was reported to be under construction. The average triple net lease rate was \$0.51 per square foot, which represents the lowest rate in San Diego County.

The majority of the existing vacant space in Olay Mesa is in first generation buildings. Several new projects in this area have come on-line in the past two years. One new project is Siempre Viva Business Park, a five-building, 341,500 square foot warehouse and distribution park. The project was developed by Master Development Corporation (MDC) and started construction in the second quarter 2000 and in January 2002 leased the final vacant space in the park. Another newer development by MDC is Britannia Corporate Center. This project consists of six buildings with a total of 274,510 square feet. This project was completed in the first quarter of 2002 and to date, all six buildings are either leased or sold. The last building to be sold recently closed escrow at \$3.6 million. It contained 61,589 square feet in a shell structure and was purchased by Hornetex Packaging based in Los Angeles. The company plans on relocating its textile distribution center into the building. In another recent transaction, a 10-year lease for 89,752 square feet of warehouse/distribution space and offices in the Pacific Rim Pointe project was announced. Pacific Rim Pointe is a two-building project comprised of approximately 120,000 square feet of multi-tenant space and a 32,000 square foot, two-story office building.

Absorption of finished lots has been relatively steady during the past eight years; however, historically, there has been an abundance of finished inventory. It is also clear that a substantial amount of land is available for future finished lot development. The following table presents the status of all major mapped industrial park subdivisions within Olay Mesa. Most are developed and sold out, while there are a few mapped but undeveloped projects. This data was taken from public record and interviews with brokers in the market.

Subdivision	No. Lots	Sales	Year Mapped	Status
Ocean View Hills Corp. Center	36	14	2002	Finished - currently selling lots
Pacific Gateway Park	18	13	1989	Finished - not active
Mesa Business Park	17	17	1981-1994	Sold out
Olay Heights	10	4	1993	Not active
Brown Field Technology Park	21	0	1998	Unfinished - not being actively marketed
International Business Center	16	16	1989	Sold out
Brown Field Business Park	29	29	1989	Resale activity - 2 lot sales in 2003
Britannia Commerce Center	9	9	1987	Sold out
Olay Mesa Center	10	0	2000	Unfinished - for sale as-is for \$5.00/SF
Olay La Media Business Center	5	5	1991	Sold out
Olay Mesa Industrial Park	22	22	1990	Resale activity - 1 lot in 2002, 2 in escrow
Piper Ranch Business Park	24	10	1990	Subject Property
Surroed Olay I	32	16	2001	Bulk sale of south 1/2; remainder unfinished
De La Fuente Business Park	85	N/A	1987-1990	Mostly sold out - resale activity
Siempre Viva Business Park	31	11	2001	Several phases under development - build to suit
San Diego Business Park	12	12	1987	Sold out
Olay International Center	168	168	1989	Sold out - resale activity
Total	545			

Many brokers and owners active in this market believe that future demand will likely increase due to the lack of developable land in other submarkets of San Diego County. Others point to improved access in Olay Mesa with the future completion of Highways 805 and 125. Therefore, absorption should continue at historic levels.

Highest and Best Use Analysis

Definition

The first step in the valuation of real estate is to judge the highest and best use of the property. The purpose of ascertaining the parcel's highest and best use is to provide a basis for accurately estimating market value. Highest and best use for appraisal purposes is defined as that use or succession of available, legal, and physically permitted uses for which there is sufficient demand that produces the most probable present site value. Alternatively, the Appraisal Institute states that the highest and best use is the reasonably probable and legal use of vacant land which is physically possible, appropriately supported, financially feasible, and that results in the highest value.

The analysis of highest and best use follows the steps as described in the previous definitions. Essentially, the appraiser creates a land use matrix that identifies and analyzes the legally permissible uses, physically possible uses and financially feasible uses. The use or uses that meet these criteria and provide the most probable site value is judged the highest and best use.

Highest and best use is analyzed for the site as if vacant. A summary follows.

As If Vacant

The subject lots are zoned industrial by the City of San Diego. The subdivision has been mapped for 24 lots with sizes ranging from 1.8 to 5.5 acres. Upon completion of construction, the lots will have public street frontage and access to all public utilities. The subdivision is located in the eastern portion of Otay Mesa, a community of the City of San Diego. This area is primarily developed with light industrial property. Access to the area is by Highway 905 (Otay Mesa Road) which connects to Highway 805 and Highway 5 to the west. A major commercial truck border crossing is located nearby at the Mexico/USA international border. There is a sustained demand for industrial land uses in this market created by its location to Mexico and the plentiful amounts of level, developable land parcels.

Based on the physical, legal and economic factors that influence the subject project, the highest and best use (most likely use) is for sale to industrial users. Lots 1 and 2 have been designated by the developer, Piper Ranch LLC, for possible use as business support services. These lots have visibility to Otay Mesa Road and are closest to the signalized intersection. This proximity gives them potential for commercial and retail use.

1 Appraisal Institute *Land Valuation*, James H. Boykin, PhD, MAI, SREA, CRE, 2001 p. 39

Valuation Analysis

Introduction

The purpose of this report is to estimate the individual retail values for each of the 24 lots and, secondly to estimate the bulk sale value for the assumed sale of all of the lots subject to a common ownership to a single purchaser. Piper Ranch LLC owns 16 lots and One Piper Ranch LLC owns 8 lots as of the date of value. A bulk sale value will be developed for these two blocks of ownerships.

The individual value for each lot is commonly referred to as the retail value. This value is based on the assumption that it is marketed and sold as a separate parcel to an end-user. The individual market value for each lot is first estimated and is later used as the basis for the bulk sale value estimate using a discounted cash flow analysis.

Since the subject lots are all assumed to be finished lots ready for development, but not including any structural improvements, only the Sales Comparison Approach to value is considered applicable. The Cost Approach and Income Approach do not apply in the valuation of unimproved land or finished lots. A variation of the Income Approach is used in the estimate of bulk sale value for the project.

The indications of value are then reconciled to a final opinion of the market value for the subject property. The interest appraised in this analysis is the fee simple, subject to special tax and special assessment liens.

Sales Comparison Approach

Introduction

The Sales Comparison Approach has been used to estimate the retail value for each of the 24 subject lots. This approach is also used to estimate the bulk sale value of the lots to a single buyer. The retail lot value analysis is presented first, followed by the bulk sale value analysis.

Land value is estimated by comparing the subject site to sales of similar land parcels in the neighborhood and surrounding market. The comparable market area for the subject lots is the Otay Mesa submarket of the City of San Diego. There are a number of existing and developing industrial subdivisions in this market which compete with the subject or are somewhat comparable.

I have researched sales of individual lots over the past several years. Sufficient data exists to limit the comparable data presented within this report to sales closed since January 2002. The sales search resulted in consideration of the following land sales presented in summary form.

Olay Mesa Lot Sale Data Table

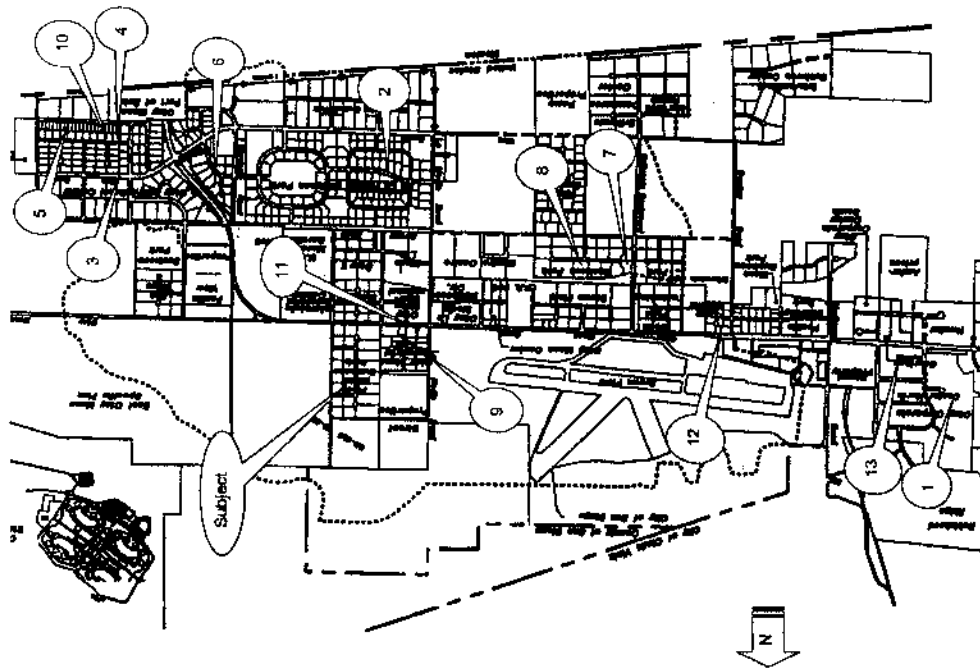
Street Frontage	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
	Corporate Center Drive	Avenida de la Fuente	Paseo De Las Americas	Marcosini Drive	Via De La Amistad
Subdivision	Ocean View Hills Corporate Center	De la Fuente Bus. Park	Olay International Center	Olay International Center	Olay International Center
APN	646-290-01	646-150-44	646-160-03	646-160-28	646-160-46,47
Lot Area (Acres)	0.99	1.75	1.01	1.08	1.08
Lot Area (SF)	43,124	76,230	43,996	47,015	47,015
Sale Date	12/4/2002	4/30/2002	11/7/2002	6/12/2002	3/28/2003
Sale Price	\$327,745	\$335,500	\$320,000	\$306,000	\$320,000
Price/SF	\$7.60	\$4.40	\$7.27	\$6.50	\$6.80
Bond Debt/SF	\$0.00	\$1.88	\$0.00	\$0.00	\$0.50
Total Price	\$7.60	\$6.28	\$7.27	\$6.50	\$7.30

Street Frontage	Sale 6	Sale 7	Sale 8	Sale 9	Sale 10
	Olay Center CL	Panasonic Way	Waterville Road	La Media Road	Marcosini Court
Subdivision	Olay International Center	Brown Field Business Park	Brown Field Business Park	Olay Mesa Industrial Park	Olay International Center
APN	646-141-19	646-220-01	646-220-05	646-250-04	646-160-27
Lot Area (Acres)	2.23 net	2.87	3.78	1.04	1.078
Lot Area (SF)	97,138	125,017	164,657	45,302	47,000
Sale Date	4/18/2002	1/21/2003	3/10/2003	11/2/2002	6/2/2003
Sale Price	\$565,529	\$1,001,000	\$1,050,000	\$350,000	\$350,000
Price/SF	\$5.83	\$8.01	\$6.38	\$7.73	\$7.45
Bond Debt/SF	\$1.00	\$0.00	\$0.00	\$0.00	\$0.20
Total Price	\$6.83	\$8.01	\$6.38	\$7.73	\$7.65

Olay Mesa Lot Sale Data Table - Continued

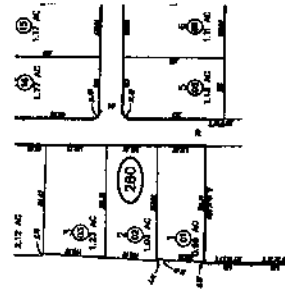
Street Frontage	Sale 11	Sale 12	Sale 13
	La Media Rd	1605 Cactus Road	Business Center Court
Subdivision	Olay Mesa Industrial Park	Olay Heights	Ocean View Hills Corporate Center
APN	646-250-02,23	646-270-02,11	646-180-2,3,4,5
Lot Area (Acres)	3.14	1.88	3.38
Lot Area (SF)	136,776	81,653	147,003
Sale Date	8/25/2003	4/25/2000	12/24/2002
Sale Price	\$1,000,000	\$655,000	\$1,402,850
Price/SF	\$7.31	\$10.45	\$9.50
Bond Debt/SF	\$0.00	\$0.00	\$0.00
Total Price	\$7.31	\$10.45	\$9.50


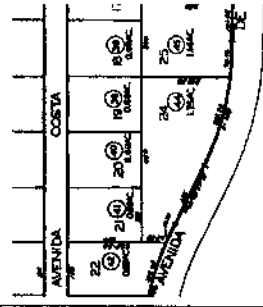
Land Sale Location Map


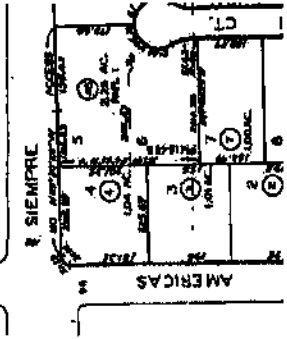


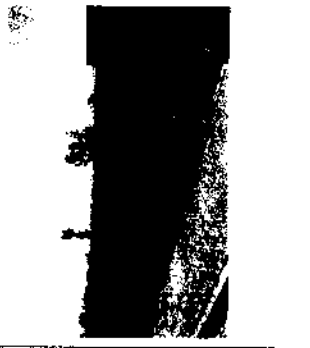
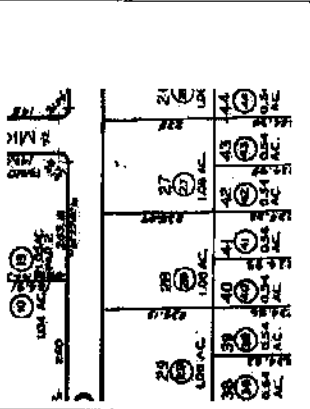
Sale 1

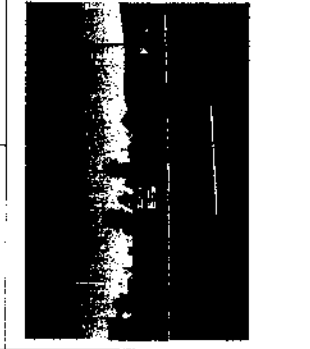
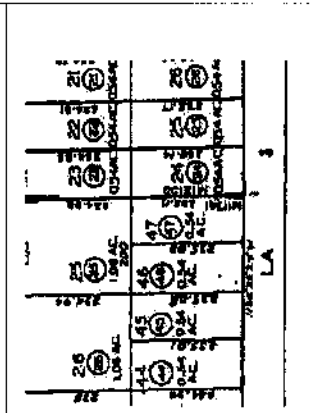
Location/Address	West side of Corporate Center Drive, south of Progressive Ave, Olney Mesa	
Assessor Parcel No.	645-280-01	
Legal Description	Lot 1 of Ocean View Hills Corporate Center Unit No. 2	
Site Data	Land Area: 0.99 Acre(s) Zoning: OMDD-1, City of San Diego Offsites: All to site Site Condition: Rough graded, finished lot with all infrastructure in place	
Proposed Use	Construct a 15,000 SF Industrial building	
Sale Data	Recording Date: 12/4/2002 Seller: Pardee Homes Buyer: Mehdi Govari	
	Document:	2002-1092683
Sale Price:	\$327,745	Price Per SF: \$7.60
		Bond Debt Bal/SF: \$0.00
		Total Cash Price: \$7.60
Terms:	Cash to seller	First Trust Deed: \$690,000 First Pacific Bank
Comments	No Mello-Roos financing applicable in this subdivision	


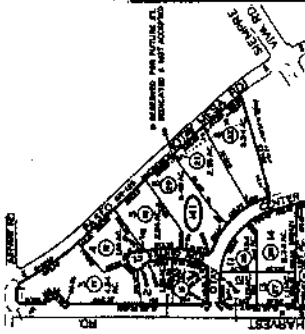



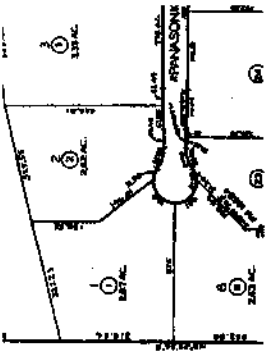
Sale 2	
Location/Address	8580 Avenida de la Fuente, Clay Mesa
Assessor Parcel No.	646-150-44
Legal Description	Lot 24 De la Fuente Business Park Unit No. 2
Site Data	
Land Area:	1.75 Acre(s); 76,230 SF Gross
Zoning:	Industrial - City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	The buyer will lease the property as a truck parking lot
Sale Data	
Recording Date:	4/30/2002
Seller:	Darwin & Kuel-Mei Ting, et al
Buyer:	South Clay Mesa Business Park L.L.C.
Sale Price:	
Price Per SF:	\$4.40
Bond Debt/SF:	\$1.30
Total Price:	\$5.70
Terms:	\$117,500 cash down
First Trust Deed:	\$218,000 Rancho Santa Fe National Bank
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance
	
	

Sale 3	
Location/Address	2495 Paseo De Las Americas, Clay Mesa
Assessor Parcel No.	646-160-03
Legal Description	Lot 3 Clay International Center Lots 8 and 9 Unit No. 2
Site Data	
Land Area:	1.01 Acre(s); 43,996 SF Gross
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct a multi-tenant industrial building
Sale Data	
Recording Date:	1/17/2002
Seller:	Jesus G. Munguia, et al
Buyer:	Jose and Sara Nakach
Sale Price:	
Price Per SF:	\$7.27
Bond Debt/SF:	\$0.90
Total Price:	\$8.17
Terms:	All cash to Seller
First Trust Deed:	N/A
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance
	
	


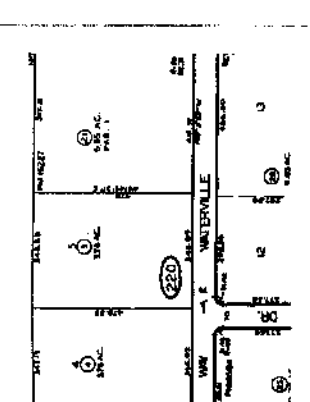
Sale 4	
Location/Address	South side of Marconi Drive, east of Marconi Court, Olay Mesa
Assessor Parcel No.	646-160-28
Legal Description	Lot 28, Olay International Center Unit No. 1
Site Data	
Land Area:	1.08 Acre(s)
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct a 16,000 SF industrial building
Sale Data	
Recording Date:	6/12/2002
Seller:	Charles J and Eva C. Thermen, Co-Trustees
Buyer:	L&S American West Two, LLC
Sale Price:	
Price Per SF:	\$306,000
Bond Debt/SF:	\$0.00 (paid off)
Total Price:	\$6.50
Terms:	
First Trust Deed:	N/A
Comments	Mello-Roos financing paid off by seller
	
	

Sale 5	
Location/Address	8700 Via De La Amistad, Clay Mesa
Assessor Parcel No.	646-160-46 & 47
Legal Description	Lots 46 and 47, Clay International Center Lots 8 and 9 Unit No. 1
Site Data	
Land Area:	1.08 Acre(s)
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct two freestanding industrial buildings
Sale Data	
Recording Date:	3/28/2003
Seller:	Anthony & Diana Karen Villeneuve, Trs.
Buyer:	IRE Enterprises, Inc.
Sale Price:	
Price Per SF:	\$320,000
Bond Debt/SF:	\$0.90
Total Price:	\$7.70
Terms:	
First Trust Deed:	\$50,000 cash down
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance
	
	

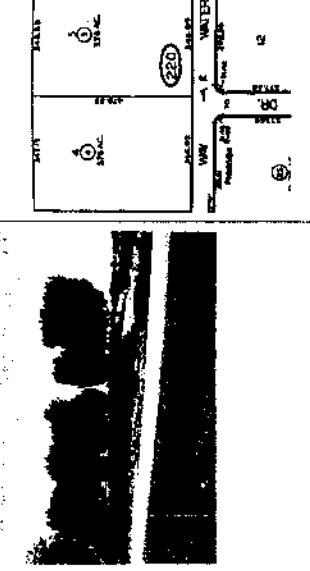

Sale 6	
Location/Address	2235 Olay Center Court, Olay Mesa CA
Assessor Parcel No.	646-141-19
Legal Description	Lot 5 of Olay International Center Lot No. 1
Site Data	
Land Area:	2.54 Acres; 110,842 SF Gross
Zoning:	2.23 Acres; 97,139 SF Net of Landscaping Esmt
Offsites:	OMIC - Business; City of San Diego
Site Condition:	All to site
Proposed Use	Rough graded, finished lot with all infrastructure in place Truck parking lot
Sale Data	
Recording Date:	4/18/2002 Document: 2002-0328815
Seller:	Olay International Center
Buyer:	Martha Yolanda Jimenez & Charles Alexander Camillo
Sale Price:	\$565,929
Bond Debt Balance:	\$1.00
Price Per SF:	\$56.83 (net area)
Total Price:	\$6.83 (net area)
Terms:	\$44,900 cash down First Trust Deed: \$289,500 1 st TD \$231,600 2 nd TD
Comments	Bond financing balance assumed by buyer estimated at \$1.00 psf by broker
	
	

Sale 7	
Location/Address	West end of Panasonic Way, Olay Mesa
Assessor Parcel No.	646-220-01
Legal Description	Lot 1, Brown Field Business Park Unit 1
Site Data	
Land Area:	2.87 Acre(s); 125,017 SF Gross
Zoning:	OM-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct an industrial building
Sale Data	
Recording Date:	1/21/2003 Document: 2003-0070829
Seller:	Mukul Development LLC
Buyer:	Waterville Properties LLC
Sale Price:	\$1,001,000
Price Per SF:	\$8.01
Bond Debt/SF:	\$0.00
Total Price:	\$8.01
Terms:	All cash sale First Trust Deed: N/A
Comments	No Meilo-Roos financing in this business park
	
	

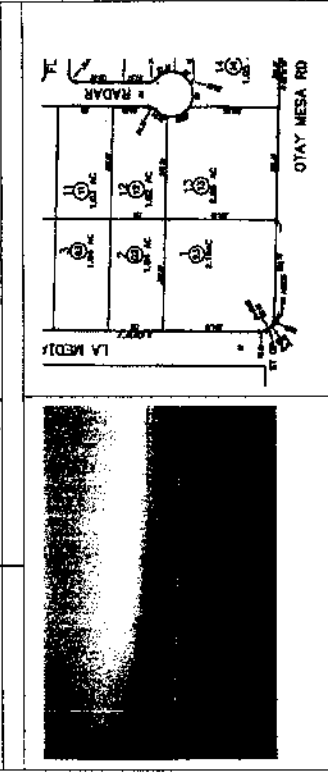
Sale 8	
Location/Address	North side of Waterville Road, east of Dublin Drive, Olney Mesa
Assessor Parcel No.	646-220-05
Legal Description	Lot 5, Brown Field Business Park Unit 1
Site Data	
Land Area:	3.78 Acre(s); 164,857 SF Gross and Net Area
Zoning:	OM-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Buyer is contractor/developer who will do a build-to-suit industrial
Sale Data	
Recording Date:	3/10/2003 Document: 2003-0267273
Seller:	Howard S. Leight
Buyer:	Managing G.P. Inc.
Sale Price:	\$1,050,000
Price Per SF:	\$6.38
Bond Debt/SF:	\$0.00
Total Price:	\$6.38
Terms:	All cash sale First Trust Deed: N/A
Comments	No Meilo-Roos financing for infrastructure

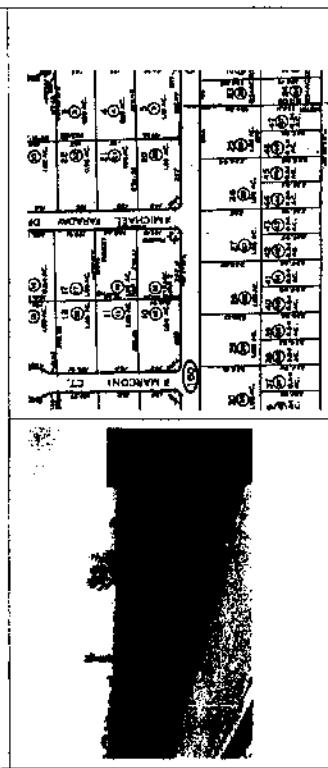
Sale 9	
Location/Address	East side of La Media Road, No. of Olney Mesa Road, San Diego
Assessor Parcel No.	646-250-04
Legal Description	Lot 4 of Olney Mesa Industrial Park, Map #12425
Site Data	
Land Area:	1.04 Acre(s); 45,302 SF Gross
Zoning:	Industrial - City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Use for truck parking
Sale Data	
Recording Date:	11/02/2002 Document: 2002-999804
Seller:	Leonor Ferrer
Buyer:	Raul & Josefina Gonzales
Sale Price:	\$350,000
Price Per SF:	\$7.73
Bond Debt/SF:	\$0.00
Total Price:	\$7.73
Terms:	\$120,000 cash down First Trust Deed: \$230,000 (Seller)
Comments	No Meilo-Roos financing for infrastructure, bond debt paid off in 1998 for entire subdivision

Sale 11	
Location/Address	Northeast corner of La Media Road and Otay Mesa Road, San Diego
Assessor Parcel Nos.	546-250-02 & 23
Legal Description	Lots 1 and 2 of Otay Mesa Industrial Park, Map #12425
Site Data	
Land Area:	3.14 Acre(s) 136,776 SF Gross
Zoning:	OM - Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place; drainage channel located along south boundary including riprap area
Proposed Use	Buyer plans to process site for conditional use permit for gas station
Sale Data	
Recording Date:	8/25/2003 Document No.: 2003-1031302
Seller:	D A M G V LLC
Buyer:	Ali Amani
Sale Price:	\$1,000,000 Price Per SF: \$7.31
	Bond Debt/SF: \$0.00
	Total Price: \$7.31
Terms:	All cash to seller First Trust Deed: N/A
Comments	No Mello-Roos financing for infrastructure, bond debt paid off in 1998 for entire subdivision; buyers also developing gas station at Cactus/OMR

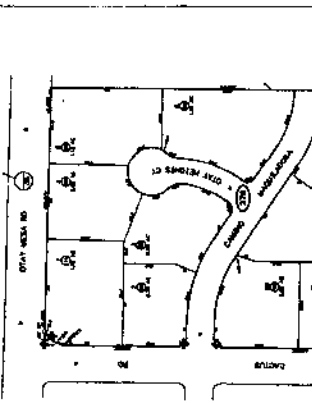


Sale 10	
Location/Address	South side of Marconi Drive, at Michael Faraday Drive, Otay Mesa
Assessor Parcel No.	546-180-27
Legal Description	Lot 27, Otay International Center Unit No. 1
Site Data	
Land Area:	1.079 Acre(s) 47,000 SF Gross
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Hold for future development
Sale Data	
Recording Date:	6/2/2003 Document: 2003-646752
Seller:	Calmax Fireplaces Equipment Manufacturing
Buyer:	Williamson and Andrew, G.P.
Sale Price:	\$350,000 Price Per SF: \$7.45
	Bond Debt/SF: \$0.70
	Total Price: \$8.15
Terms:	\$350,000 cash down First Trust Deed: N/A
Comments	Bond financing assumed and balance per city, buyer said he was not aware of bond debt when purchased and thought it was free and clear



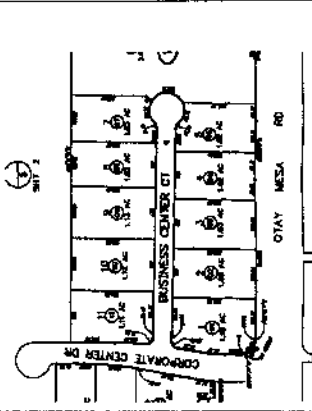
Sale 12

Location/Address	1605 Cactus Road, Olney Mesa, CA		
Assessor Parcel No.	646-270-02, 11		
Legal Description	Lots 1 and 2 Olney Heights Business Park Unit 1		
Site Data			
Land Area:	1.88 Acre(s):	81,893 SF Gross	
Zoning:	OMDD-C, City of San Diego		
Offsites:	All to site		
Site Condition:	Rough graded, finished lot with all infrastructure in place		
Proposed Use	Construct a gas station		
Sale Data			
Recording Date:	4/25/2000	Document:	2000-0210757
Seller:	Olney Heights, a Limited Partnership		
Buyer:	Alianahgar Amaniefrakti, et al as Co-Trustees of the Amenl Family Trust		
Sale Price:	\$856,000	Price Per SF:	\$10.45
		Bond Debt Bal/SF:	\$ 0.00
		Total Cash Price:	\$10.45
Terms:	Cash to seller	First Trust Deed:	\$435,000 First San Diego National Bank
Comments	No Mello-Roos financing applicable in this subdivision; buyer to process a CUP for gas station on this parcel; parcel commercially zoned		



Sale 13

Location/Address	South side of Business Center Court and north side of Olney Mesa Road, Olney Mesa		
Assessor Parcel No.	645-180-02 (portion), 03, 04, 05		
Legal Description	Lots 3, 4 and 5 and the east 50 feet of Lot 2 of Ocean View Hills, Corporate Center, Unit No. 1		
Site Data			
Land Area:	3.38 Acre(s):	147,688 SF Gross	
Zoning:	OMDD-1, City of San Diego		
Offsites:	All to site		
Site Condition:	Rough graded, finished lot with all infrastructure in place		
Proposed Use	Construct a DMV field office		
Sale Data			
Recording Date:	12/24/2002	Document:	2002-1180011
Seller:	Purdue Homes		
Buyer:	The State of California		
Sale Price:	\$1,402,850	Price Per SF:	\$9.50
		Bond Debt Bal/SF:	\$0.00
		Total Cash Price:	\$9.50
Terms:	Cash to seller	First Trust Deed:	N/A
Comments	No Mello-Roos financing applicable in this subdivision; sale price set in June 2002		



Lot Value Analysis

Sale No. 1 is situated within the Ocean View Hills Corporate Center, west of Brown Field. This sale is of a 0.99 acre lot located on Corporate Center Drive that was purchased by an owner/user to construct a 15,000 square foot industrial building. The lot was in a finished lot condition at the time of sale. There are no Mello-Roos bonds in this subdivision. The price per square foot indication is \$7.60.

Sale No. 2 is the April 2002 sale of a 1.75-acre lot in the De la Fuente Business Park. This lot was purchased by an entity who will lease the property as a truck parking lot. The De la Fuente Business Park has existing bond debt in the principal amount of \$1.30 per square foot. This park is situated south of the subject property with main access off of Allway Road and Siempre Vive Road. It does not front Otay Mesa Road/Highway 905 and is considered inferior in location.

Sale Nos. 3, 4, 5, 6 and 10 are situated within Otay International Center at the southeast end of Otay Mesa. Otay International Center is a 449-acre, industrial/commercial subdivision situated adjacent to the Mexican border. Although a variety of land uses exist in this subdivision including commercial border services, warehousing, truck and freight facilities, retail commercial, general industrial, business park, and mini/restaurant facilities, these sales represent purchases for industrial uses. There is existing Mello-Roos bond financing in this project that equates to \$0.90 to \$1.00 per square foot. Of the four sales, one sale, Sale No. 4, was purchased with the bond debt already paid off. Sales 4 and 10 are the most recent transactions and are adjacent to each other. The price per square foot, after consideration of bond financing, ranged between \$6.50 to \$8.17 per square foot. Sales 3, 4, 5 and 10 were purchased by investors with the intent to build either multi-tenant industrial or single-tenant buildings. Sale No. 6 was purchased for truck parking and has a net site area of 2.23 acres which is smaller than the gross lot area due to a rear landscaping easement that encompasses approximately 13,500 SF. The landscaping easement area is along the northwest boundary of the property fronting Otay Mesa Road. The price per square foot indication used in the adjustment grid is based on the net usable lot area.

Sale Nos. 7 and 8 represent two 2003 lot sales within Brown Field Business Park situated south of Brown Field. This subdivision will be close to future Interstate 905 when completed. Brown Field does not have any bond debt for subdivision infrastructure. The two sales indicated a price per square foot range of \$6.38 to \$8.01. Sale No. 8 at \$6.38 per square foot was an investor purchase of a 3.78-acre site. The buyer in this transaction reported a favorable price with firm negotiations between the buyer and seller and was purchased with the intent to develop a build-to-suit industrial building.

Sale Nos. 9 and 11 are located in the Otay Mesa Industrial Park, just west of the subject. Otay Mesa Industrial Park had originally financed infrastructure improvements at the time of development, but the bond financing was paid off in 1998. The sales presented in this analysis include a late 2002 lot sale of a one-acre site and the August 2003 closing of two lots. Both sales are in a relatively close range of \$7.31 to \$7.73 per square foot. Due to their proximity to the subject and similar frontage to Otay Mesa Road/Highway 905, these sales are given a significant amount of weight in my analysis. Sale 11 is proposed to be improved with a gas station after the buyer processes a conditional use permit. A drainage channel along the south property boundary reduces the useable area of this lot. This sale is compared to the subject's Lots 1 and 2 which have the Otay Mesa Road frontage and business services use designation.

Sales 12 and 13 are representative of parcels that have frontage and exposure to Otay Mesa Road and are intended for more commercial or business services use than as an industrial use. Sale 12 is commercially zoned and was purchased for development with a gas service station. The buyer did all the processing for the gas station conditional use permit. This sale is now over three years old and is inferior in market conditions. The parcel is generally comparable in location, corner access and visibility to the subject's Lot 1 and 2. The commercial zoning designation is somewhat comparable to the business services use permitted on the two subject lots. Sale 13 is December 2002 purchase by the State of California of several contiguous lots located on Business Center Court in the Ocean View Hills subdivision on the west side of Otay Mesa. The state plans to construct a DMV field office on this site. The property has comparable frontage and visibility to the subject on Otay Mesa Road. This was reported to be an arm's length transaction by the parties.

The sale data provided an unadjusted price range from \$5.70 to \$10.45 per square foot of land area. The sales have been adjusted to the subject for non-physical and physical elements of comparison. A summary of the comparisons considered for these elements follows.

- **Property Rights**
All of the sales are fee simple interest transactions and comparable to the subject.
- **Financing**
The sales were either cash or cash equivalent transactions with market financing. No adjustments for financing influence were applied.
- **Conditions of Sale**
All were considered typical conditions of sale.
- **Market Conditions**
Sales that occurred in early to mid-2002 were considered inferior in market conditions as it appears there has been a small upward movement in land value in this market over the past year. An adjustment ranging between two to three percent was applied to Sale Nos. 2, 4 and 6. Sale 12 took place in 2000 and is inferior in market conditions. An upward adjustment of five percent has been applied to this sale.
- **Location**
All of the sales are located within industrial subdivisions in Otay Mesa. Of the five subdivisions used in the market data, most had similar locations as the subject in relative close proximity to Otay Mesa Road/Highway 905 and ease of access. I have adjusted Sale No. 2 upwards by 10 percent as this subdivision sets back away from Otay Mesa Road and requires more travel on surface streets to gain access to the subdivision. No location adjustment is applied to the balance of the market data.
- **Size/Shape**
About half of the lots within the subject subdivision are close to two acres in size and the rest of the subdivision ranges between 4.3 to 5.5 acres. The sale data had a size range of about one acre to 3.78 acres. Typically, significantly larger sales are considered inferior in size based on my experience and observations that a larger parcel will sell for a lower price per square foot than smaller parcels depending on the size of the lot. I have chosen not to make a size adjustment to the market data, but rather consider size as a factor in my conclusion of retail lot value for each of the subject's different lot sizes.
- **Lot Condition**
Sale 11 has a drainage easement along the south lot boundary that reduces the net useable site area. This sale has been adjusted upward for this factor.
The subject is valued as an assumed finished site with all street improvements installed and all of the lots in the subdivision in a finished rough graded condition. All of the sales were reported to be in a finished lot condition. No adjustment to the market data is warranted.
- **Zoning**
Sales 1 through 10 are industrial lot sales with a similar industrial zoning designation within the Otay Mesa planning area compared to the subject industrial lots.
Sale 11 is industrially zoned but was purchased for use as a gas station. The buyer will need to process the conditional use permit to allow this use. This sale is compared to Lots 1 and 2 due to its corner frontage on Otay Mesa Road. It is inferior in zoning compared to these lots and has been adjusted upward.
Sale 12 is commercially zoned and compared to Lots 1 and 2 which have been designated for business support services use similar to a commercial zone.
Sale 13 is also compared to Lots 1 and 2 based on its business support services use potential.

The lot sale adjustment table that considers both the physical and non-physical elements addressed above follows on the next page.

Lot Sale Adjustment Table												
	Sale 1		Sale 2		Sale 3		Sale 4		Sale 5		Sale 6	
APN	045-288-01	045-150-44	045-160-03	045-160-26	045-220-01	045-220-05	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04
Lot Area (Acres)	0.96	1.75	1.01	1.06	2.87	3.78	1.04	1.04	1.04	1.04	1.04	1.06
Sale Date	12/4/2002	4/30/2002	1/17/2002	6/12/2002	1/21/2003	3/10/2003	11/2/2002	6/2/2003	11/2/2002	6/2/2003	6/2/2003	6/2/2003
Sale Price	\$327,745	\$335,500	\$320,000	\$305,000	\$1,001,000	\$1,050,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Price/SF	\$7.60	\$4.40	\$7.27	\$6.50	\$8.01	\$8.38	\$7.73	\$7.45	\$7.73	\$7.45	\$7.45	\$7.45
Mello-Roos	\$0.00	\$1.30	\$0.90	\$0.80	\$0.00	\$0.00	\$0.00	\$0.20	\$0.00	\$0.20	\$0.20	\$0.20
Total Price	\$7.60	\$5.70	\$8.17	\$6.50	\$8.01	\$8.38	\$7.73	\$7.65	\$7.73	\$7.65	\$7.65	\$7.65
Property Rights	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Financing	CE	CE	CE	CE	CE	CE	CE	CE	CE	CE	CE	CE
Conditions of Sale	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical
Market Conditions	Similar	Inferior	Similar	Inferior	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Subtotal	0.0%	3.0%	0.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$7.60	\$5.87	\$8.17	\$6.53	\$8.01	\$8.38	\$7.73	\$7.70	\$7.73	\$7.70	\$7.70	\$7.70
Location	Similar	Inferior	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Size/Shape	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Lot Condition	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Zoning	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Subtotal	0.0%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$7.60	\$6.46	\$8.17	\$6.53	\$8.01	\$8.38	\$7.73	\$7.70	\$7.73	\$7.70	\$7.70	\$7.70
Sale 7												
APN	045-141-19	045-220-01	045-220-05	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04	045-230-04
Lot Area (Acres)	2.23	2.87	3.78	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.06
Sale Date	4/18/2002	1/21/2003	3/10/2003	11/2/2002	6/2/2003	6/2/2003	6/2/2003	6/2/2003	6/2/2003	6/2/2003	6/2/2003	6/2/2003
Sale Price	\$255,929	\$1,001,000	\$1,050,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Price/SF	\$5.83	\$8.01	\$8.38	\$7.73	\$7.45	\$7.45	\$7.45	\$7.45	\$7.45	\$7.45	\$7.45	\$7.45
Mello-Roos	\$1.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.20	\$0.00	\$0.20	\$0.20	\$0.20
Total Price	\$5.83	\$8.01	\$8.38	\$7.73	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65
Property Rights	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Financing	CE	CE	CE	CE	CE	CE	CE	CE	CE	CE	CE	CE
Conditions of Sale	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical	Typical
Market Conditions	Inferior	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Subtotal	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$7.03	\$8.01	\$8.38	\$7.73	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65
Location	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Size/Shape	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Lot Condition	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Zoning	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar
Subtotal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$7.03	\$8.01	\$8.38	\$7.73	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65	\$7.65

Lot Value Conclusion

The adjusted range for the sale comparables considered for the industrial land use lots is from \$6.38 to \$8.17 per square foot with an overall average of \$7.39 per square foot. The adjusted sale data are arrayed below.

	Sale No.	Acres	Adjusted Price Per SF
Average	8	3.78	\$6.38
Min	2	1.75	\$6.46
Max	4	1.08	\$6.63
	6	2.23	\$7.03
	1	0.99	\$7.60
	5	1.08	\$7.70
	9	1.04	\$7.73
	7	2.87	\$8.01
	10	1.08	\$8.15
	3	1.01	\$8.17

Of the ten adjusted data items, seven indicate a value range of \$7.00 or higher indicating a probable bracket of \$7.00 to \$9.00 appropriate for the subject. Sales 5, 7, 8 and 10 closed in 2003 and with the exception of Sale 8 has a range from \$7.00 to \$8.15 per square foot. Sale 8 appears low relative to the rest of the data and has been given less weight. From a size viewpoint, all of the sales except Sale 8 are under three acres and most are around one acre in size. In general, smaller parcels will tend to sell for a higher price per acre than significantly larger parcels. However, there is insufficient data within this dataset to extract a size adjustment. There does not appear to be a significant difference in prices for lots within the size range of one to three acres. The size range for the subject lots is from 1.80 acres to 5.26 acres (usable) with an average of 2.78 acres. No size adjustment will be applied to the sale data.

Recent sales in the subject project are also included for consideration. Lot 18 is in escrow for a purchase price of \$6.15 per square foot plus bond debt of \$1.80 or a total price of \$8.05 per square foot. This lot will require a boundary adjustment with Lot 19 to create the desired 5.25 acre site. A drainage easement is found along the west boundary. If this area is deducted from the gross lot area, the indicated price increases to \$8.40 per square foot.

Lot 21 has a written offer to purchase at \$6.25 per square foot plus bond debt estimated at \$1.75 per square foot at the time of offer or a total price of \$8.00 per square foot. This lot has a flood water storage easement along the south boundary which reduces the usable area to 3.70 acres. Regan Tully, the listing broker at International Real Estate confirmed that the offer is based on usable lot area. He also indicated that an increased bond debt to \$1.80 psf will likely require an adjustment to the offer price.

Regan Tully has indicated that he has received several other offers to purchase lots along Air Way Road. These offers are in the range of \$6.00 to \$6.25 per square foot plus bond debt estimated at \$1.75 per square foot. The total price range considered by the buyers is then around \$7.75 to \$8.00. No offers have been received for the smaller lots due to an interest in marketing the larger lots first. The smaller lots are listed at \$7.00 to \$7.50 per square foot, but will need downward adjustment due to the higher bond debt. Mr. Tully believes that the smaller 2+ acre lots will sell for higher prices per square foot than the 4+ acre lots.

I have also considered a survey of current listings of finished lots in Olay Mesa. Lots in the competing Ocean View Hills Corporate Center are listed for sale starting at \$8.50 per square foot for lots around 1.0 acre in size. A 0.69 acre lot located in the De la Fuente subdivision is listed for sale at \$8.00 per square foot with no bond debt. Lots in the Sunroad Olay Park 1 subdivision are listed at \$7.00 to \$8.00 per square foot on a finished lot basis, depending on frontage and visibility to Olay Mesa Road. These lots are around 1.5 acres in size and will require finishing by the developer. It appears that the upper end of the market is in the range of \$8.00 to \$8.50 per square foot. This is confirmed by recent sale activity near this range.

		Sale 11	Sale 12	Sale 13	N/A	N/A
APN	646-250-02-23	646-270-02-11	645-180-2-3,4,5			
Lot Area (Acres)	3.14	1.88	3.39			
Sale Date	8/29/2003	4/29/2000	12/24/2002			
Sale Price	\$1,030,000	\$656,000	\$1,402,850			
Price/SF	\$7.31	\$10.45	\$9.50			
Mello-Ross	\$0.00	\$0.00	\$0.00			
Total Price	\$7.31	\$10.45	\$9.50			
Property Rights	Comparison	Adi.	Comparison	Adi.	Comparison	Adi.
Financing	Similar	Similar	Similar	Similar	Similar	Similar
Conditions of Sale	CE	CE	CE	CE	CE	CE
Market Conditions	Typical	Typical	Typical	Typical	Typical	Typical
Subtotal	Similar	Inferior	Similar	Similar	Similar	Similar
Adjusted Price	\$7.31	\$10.97	\$9.50			
Location	Similar	Similar	Similar	Similar	Similar	Similar
Size/Shape	Inferior	Similar	Similar	Similar	Similar	Similar
Lot Condition	Similar	Similar	Similar	Similar	Similar	Similar
Zoning	Inferior	Similar	Similar	Similar	Similar	Similar
Subtotal	Similar	Similar	Similar	Similar	Similar	Similar
Adjusted Price	\$9.50	\$10.97	\$9.50			

I estimate a value for the subject industrial lots at \$8.00 per square foot inclusive of bond debt. These unit values apply to the net saleable lot area derived by deducting the flood water storage easement from Lots 17 and 21 and the drainage easement from Lots 17 through 24.

Lots 1 and 2 have been designated for commercial/business service use and have the best visibility, frontage and access to Otay Mesa Road. Sales 11, 12 and 13 have a similar frontage and visibility. These sales adjust to a range from \$9.50 to \$10.37 per square foot. I have concluded at a value of \$10.00 per square foot for these two lots.

My conclusion of the retail lot value for each lot in Piper Ranch and the aggregate retail value for all the individual lots, assuming a finished lot condition, is shown in the following table.

Lot No.	APN	Gross Acres	Flood/Easement Area	Net Saleable Acres	Unit Value	Market Value	Allocated Assessment	Net Value (Rounded)
1	646-240-45	1.99	0.00	1.99	\$10.00	\$886,844	\$164,951	\$702,000
2	646-240-02	2.00	0.00	2.00	\$8.00	\$871,200	\$165,780	\$705,000
3	646-240-03	2.03	0.00	2.03	\$8.00	\$707,414	\$158,267	\$539,000
4	646-240-04	2.02	0.00	2.02	\$8.00	\$703,930	\$167,438	\$536,000
5	646-240-05	2.02	0.00	2.02	\$8.00	\$703,930	\$167,438	\$536,000
6	646-240-06	2.01	0.00	2.01	\$8.00	\$700,445	\$166,609	\$534,000
7	646-240-07	1.84	0.00	1.84	\$8.00	\$641,203	\$152,516	\$488,000
8	646-240-08	1.80	0.00	1.80	\$8.00	\$627,264	\$149,202	\$478,000
9	646-240-09	2.17	0.00	2.17	\$8.00	\$756,202	\$179,871	\$576,000
10	646-240-10	1.84	0.00	1.84	\$8.00	\$641,203	\$152,516	\$488,000
11	646-240-11	2.06	0.00	2.06	\$8.00	\$717,899	\$170,753	\$547,000
12	646-240-12	2.07	0.00	2.07	\$8.00	\$721,354	\$171,582	\$550,000
13	646-240-13	2.07	0.00	2.07	\$8.00	\$721,354	\$171,582	\$550,000
14	646-240-14	2.08	0.00	2.08	\$8.00	\$724,838	\$172,411	\$552,000
15	646-240-15	2.02	0.00	2.02	\$8.00	\$703,930	\$167,438	\$536,000
16	646-240-16	2.43	0.00	2.43	\$8.00	\$846,806	\$201,423	\$645,000
17	646-240-17	5.51	0.97	4.54	\$8.00	\$1,587,088	\$456,724	\$1,125,000
18	646-240-18	4.41	0.23	4.18	\$8.00	\$1,456,646	\$365,545	\$1,091,000
19	646-240-19	4.30	0.23	4.07	\$8.00	\$1,418,314	\$356,427	\$1,062,000
20	646-240-20	4.30	0.23	4.07	\$8.00	\$1,418,314	\$356,427	\$1,062,000
21	646-240-21	4.30	0.82	3.48	\$8.00	\$1,212,710	\$356,427	\$856,000
22	646-240-22	4.30	0.23	4.07	\$8.00	\$1,418,314	\$356,427	\$1,062,000
23	646-240-23	4.41	0.23	4.18	\$8.00	\$1,456,646	\$365,545	\$1,091,000
24	646-240-24	5.57	0.31	5.26	\$8.00	\$1,533,005	\$481,697	\$1,371,000
Totals ¹		69.55	3.25	66.30		\$23,451,933	\$5,765,000	\$17,684,000

¹ Totals represent the aggregate retail values

Bulk Sale Value

Introduction

The Bulk Sale Value is based on the assumption that all blocks of lots under a common ownership are sold either to a single buyer or to multiple buyers by the same seller. There are two blocks of common ownership lots as of the date of value. Piper Ranch LLC owns 16 lots and One Piper Ranch LLC owns 8 lots. These two groups are identified as the Piper Ranch LLC block and the One Piper Ranch LLC block for valuation purposes. A separate bulk sale value is estimated for each ownership block.

There are two methods that can be used to estimate the bulk sale value. The first method is a value estimate using the Sales Comparison Approach. Bulk purchases of industrial lots are compared to the subject property and a value conclusion is reached from this analysis. The second is a discounted cash flow (DCF) analysis. The DCF analysis is performed to estimate the present value of the future cash flows which could be generated from a sales program of the subdivision. Both methods are presented in this analysis, beginning with the Sales Comparison Approach.

Sales Comparison Approach

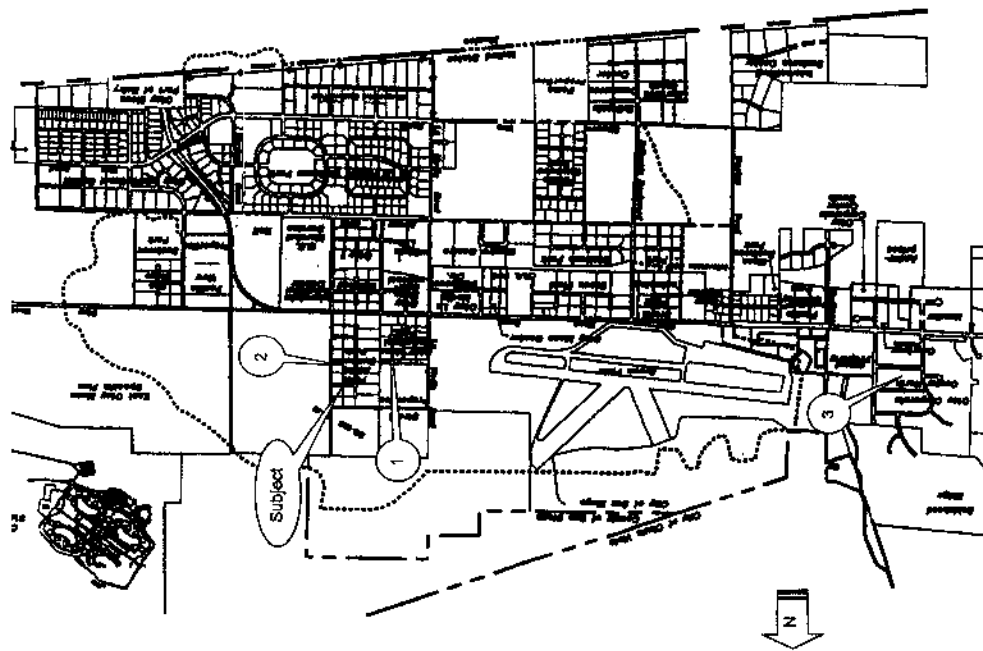
The Piper Ranch LLC ownership block has a total of 16 finished lots. Lot 17 is under a long term lease agreement with a build to suit tenant. Lot 18 is in escrow for purchase by the tenant in Lot 17. Lot 21 is not yet in escrow, but has an offer to purchase pending. The remaining 13 lots are available for sale or build to suit by the developer. The total gross acreage for this ownership is 53.19 acres with 37.09 acres of unsold inventory.

A sales search was made for sales of bulk purchases of finished lots in the Otay Mesa market area. Several sales were found and are presented in the following analysis.

Otay Mesa Bulk Sale Data Table

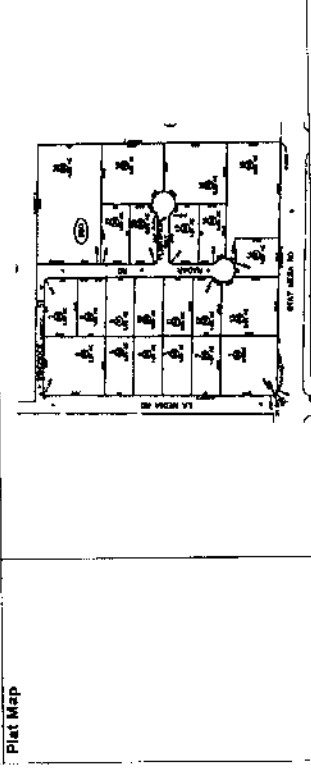
Location	Sale 1	Sale 2	Sale 3
	Radar Road, Otay Mesa	Piper Ranch Road, Otay Mesa	Business Center Court, Otay Mesa
Subdivision	Otay Mesa Industrial Park	Piper Ranch Business Park	Ocean View Hills Corporate Center
No. Lots	6	8	6
APN	646-250-14, 15, 18, 19, 21, 22	646-240-3, 4, 5, 6, 11, 12, 13, 14	645-180-08, 10, 11 and 645-280-05, 06 & 07
Site Area	14.37 acres	16.36 acres	6.71 acres
Average Lot Area	2.4 acres	2.0 acres	1.1 acres
Sale Date	8/6/2002	8/14/2003	7/16/03
Sale Price	\$3,632,000	\$3,741,368.40	\$2,192,500
Price/SF	\$5.80	\$5.25	\$7.50
Bond Debt/SF	\$0.00	\$1.00	\$0.00
Total Price	\$5.80	\$7.15	\$7.50

Bulk Sale Comparable Location Map



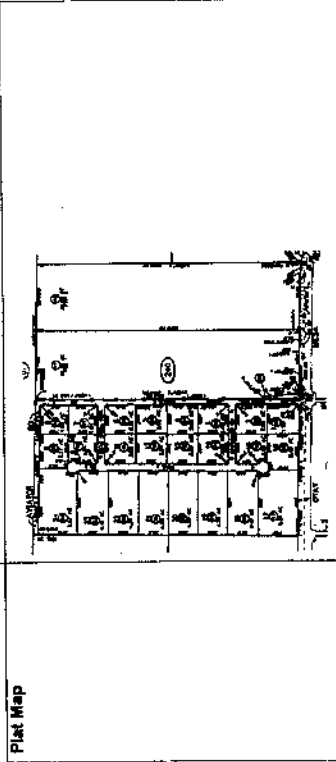
Bulk Sale 1

Location/Address	Six lots located on the east side of Radar Road, Olay Mesa
Assessor Parcel No.	646-250-14, 15, 18, 19, 21, 22
Legal Description	Lots 14, 15, 18, 19, 21 and 22 in Olay Mesa Industrial Park
Site Data	
Land Area:	14.37 Acres(s)
Zoning:	OM-Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lots with all infrastructure in place
Proposed Use	Construct a warehouse and provide an auction yard and storage yard for use by owner
Sale Data	
Recording Date:	8/8/2002
Seller:	Olay Industrial Park VI and VII, LLC (Two related seller entities)
Buyer:	S.V.D.P. Management Inc. c/o Father Joe Carroll
Document:	2002-672635; 672636
Sale Price:	\$3,632,000
Price Per SF:	\$5.80
Bond Debt Bat/SF:	\$0.00
Total Price:	\$5.80
Terms:	All cash sale
First Trust Deed:	N/A
Comments	Mello-Roos financing for infrastructure was paid off before the sale. The buyer is Saint Vincent de Paul who operates homeless shelters in San Diego and is a non-profit organization. The seller valued the property at \$6.75 per square foot and took charitable deduction off income taxes for the difference in value and sale price.



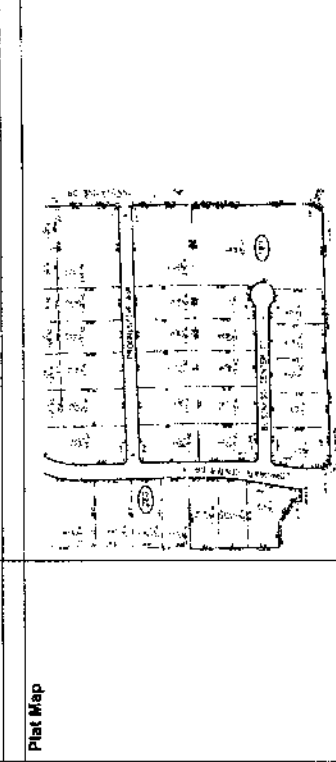
Bulk Sale 2

Location/Address	Eight lots located between Piper Ranch Road and Air Wing Road in the Piper Ranch Business Park, Olney Mesa, CA		
Assessor Parcel No.	646-240-3, 4, 5, 6, 11, 12, 13, 14		
Legal Description	Lots 3, 4, 5, 6, 11, 12, 13 and 14 in Piper Ranch Business Park		
Site Data	Land Area:	16.36 Acre(s)	712,642 SF Gross
Zoning:	OMDD - Industrial, City of San Diego		
Offsites:	All to site		
Site Condition:	Lots to be delivered in rough graded, finished lot condition with all infrastructure in place; expected delivery of lots by September 2003		
Proposed Use	Develop the lots with several build-to-suit and spec industrial buildings		
Sale Data	Sale Date:	8/14/2003	Document: 2003-0968162
Seller:	Piper Ranch, LLC		
Buyer:	One Piper Ranch, LLC		
Sale Price:	\$3,741,368.40	Price Per SF:	\$5.25
		Bond Debt Bal/SF:	\$1.90
		Total Price:	\$7.15
Terms:	All cash sale First Trust Deed: N/A		
Comments	Mello-Roos financing for infrastructure; buyer is assuming bond debt balance estimated currently at \$1.90 per square foot. Sale price established as of purchase agreement date of March 17, 2003.		



Bulk Sale 3

Location/Address	Six lots on Business Center Ct and Progressive Avenue in the Olney Corporate Center subdivision, Olney Mesa		
Assessor Parcel No.	645-180-09, 10, 11 and 645-280-05, 06 & 07		
Legal Description	Lots 9, 10, 11 of Ocean View Hills Corporate Center Unit No. 1 and Lots 5, 6 and 7 of Ocean View Hills Corporate Center Unit No. 2		
Site Data	Land Area:	6.71 Acre(s)	292,288 SF Gross
Zoning:	OMDD-I, City of San Diego		
Offsites:	All to site		
Site Condition:	Rough graded, finished lots with all infrastructure in place		
Proposed Use	Owner/User industrial; construct a 129,250 SF industrial building		
Sale Data	Recording Date:	7/18/2003	Document: 2003-0659253
Seller:	M & E DEVCO, LLC		
Buyer:	Paulus Enterprises, LLC		
Sale Price:	\$2,192,500	Price Per SF:	\$7.50
		Bond Debt Bal/SF:	\$0.00
		Total Price:	\$7.50
Terms:	\$1,097,500 cash down First Trust Deed: \$1,095,000 Union Bank		
Comments	Bulk purchase of six lots for an owner/user; no Mello-Roos financing; seller previously purchased property from Pardee Construction for same price in 1/2001.		



Sale Comparable Analysis

The sale data provided an unadjusted price range from \$5.80 to \$7.50 per square foot of total lot area. The sales have been adjusted for non-physical and physical elements of comparison. A summary of the adjustments considered for these elements follows.

- > **Property Rights** The subject property rights appraised are the fee simple as is the case with the sale data and no adjustment is warranted.
- > **Financing:** The sale data were considered to be cash equivalent transactions, as is the basis for this market value estimate.
- > **Conditions of Sale:** This element of comparison is for known unique conditions that may have affected the sale price of a transaction. Sale 1 was reported to be sold at a price below market since the buyer is a charity. The seller reported taking a charitable tax contribution tax deduction for the difference in price between the reported full price of \$6.75 per square foot and the actual sale price of \$3.90 per square foot. I have adjusted this sale upward to the reported full price.

> **Market Conditions:** This adjustment is for differences in market prices from the date of sale to the current date of value. Sale 1 closed in late 2002 and no market conditions adjustment is applicable. Sale 2 and 3 are both current transactions and no adjustment is applicable.

> **Bond Assmt:** The sale price for Sale 2 is adjusted upward for the bond assessment debt to be allocated to this property. This makes the price on a basis equivalent to the other three sales that did not have bond debt. The bond debt is then deducted from the reconciled market value estimate later in the analysis.

> **Location:** No adjustment is warranted; all the sales are in the surrounding submarket area.

> **Size:** The sale data are all significantly smaller than the subject in total lots and total acreage. The sales will have significantly lower holding costs due to absorption periods less than half the subject. This results in a difference in the amount of discount applied to the sales as a bulk purchase compared to the retail lot values. In addition, the shorter absorption period will result in a lower risk level for the purchase of these sales compared to the subject property. These factors require downward adjustments to the sale data. I have applied a downward adjustment of 10 percent for Sales 1 and 3, both of which have six lots compared to the subject's 13 lots. Sale 2 sold with 8 lots and warranted a downward adjustment estimated at 8 percent.

> **Lot Condition:** All of the sales were in a finished lot condition at the time of sale, similar to that assumed for the subject and no adjustment is warranted.

> **Zoning:** All of the sales are industrially zoned and no adjustment is applicable.

A summary of the adjustment grid applied to the sale data and the adjusted prices indicated by the data follows.

	Sale 1	Sale 2	Sale 3
Location	Radar Road, Okey Mesa	Piper Ranch Rd, Okey Mesa	Business Center Ct, Okey Mesa
Area (Acres)	14.37	16.36	6.71
No. Lots	8 lots	8 lots	8 lots
Sale Date	08/20/02	07/14/03	7/18/03
Sale Price	\$3,937,000	\$7,741,368	\$2,192,500
Price/SF	\$5.80	\$6.25	\$7.50
Mello-Rosa	\$0.00	\$1.90	\$0.00
Total Price	\$5.80	\$7.15	\$7.50
Property Rights	Similar	Similar	Similar
Financing	CE	CE	CE
Conditions of Sale	Charity	Typical	Typical
Market Conditions	Similar	Similar	Current
Subtotal	+16.0%	0.0%	0.0%
Adjusted Price	\$6.75	\$7.15	\$7.50
Location	Similar	Similar	Similar
Size (Total Area)	-10.0%	Superior	Superior
Lot Condition	Similar	Similar	Similar
Zoning	Similar	Similar	Similar
Subtotal	-10.0%	-8.0%	-10.0%
Adjusted Price	\$6.08	\$6.58	\$6.75

The adjusted data indicates a range of bulk sale value from \$6.08 to \$6.75 per square foot and an average adjusted price of \$6.47 per square foot. All of the sales are given generally equal weight in my final value reconciliation. All of the sales were generally similar to the subject except that they were significantly smaller in total size and required downward adjustment for the holding cost and risk level associated with a more extended absorption period forecast for the larger subject project.

Based on the above analysis, I have concluded at a value of \$6.60 per square foot of land area, before deduction of assessment debt. Deducting the bond assessment debt of \$1.90 per square foot results in a net value for the unsold bulk lots of \$4.70 per square foot of land area with 37.09 gross acres of unsold inventory.

A summary of my calculation of remaining net area and the value of the sold or committed lots for the Piper Ranch LLC ownership follows. The allocated value for Lot 17 with a new lot size and subject to a long term lease is based on the market unit value and the allocated assessment at \$1.90 per square foot. Lot 18 is based on the new lot area and the reported escrow price. The assessment amount is allocated at \$1.90 per square foot of gross lot area. Lot 21 is based on market value for this lot since the current offer is considered above the market data.

The average retail value of the 13 lots is calculated at \$745,350. This average value is used as a basis for estimating the annual lot sale revenue for the first year. The total number of lots sold is multiplied times the average lot value to arrive at the annual gross sale revenue for Year 1. The average lot value for the subsequent sell-out periods is calculated in the same manner. An average inflation rate of three percent per year has been applied to the future sale prices in Year 2.

Sales Rate Analysis

The sell-out period for the 13 lots remaining unsold is forecast based on a sales rate analysis of historical industrial lot sales in Clay Mesa. I have researched public records for sales of individual and bulk sales of finished lots in Clay Mesa subdivisions over the past several years. I have also considered future supply and demand for industrial lots in this market. Based on this data, a forecast has been made for the annual sales potential for the subject property.

I have researched public records and the Comps.com database of sales to tabulate the number of lots sales on an annual basis over the past several years. Finished lots under 10 acres in size were included in this tabulation. Lots that were absorbed by build-to-suit or new leasing were not included in this data. A summary of this data follows:

Lot Sales - Clay Mesa	2001	2002	YTD 2003
No. Finished Lot Sales	12	10	11
Total Acres - Sold	38.92	28.22	13.99
Bulk Sale Lots	6	6	14
Total Bulk Sale Acres	6.71	14.37	23.07
Total Lots Sales	18	16	25
Total Acres Sold	45.63	42.59	37.06

The sale data over the past several years indicates a rather stable trend in lots sold and acreage absorbed. Excluded from this data are larger lot parcels not considered finished or not within the industrial subdivision table previously presented in the Market Analysis section of this report. Suncoast sold 16 unfinished mapped lots to a single owner/user buyer in 2002. This purchase totaled 26.6 acres and is not reflected in the above table.

Future Developer/Competition

Of the seventeen major industrial subdivisions noted in Clay Mesa, five projects have potential for providing finished lot competition for the subject. A description of these projects follows.

Ocean View Hills Corporate Center: Ocean View Hills Corporate Center by Perdee Construction is located on the western edge of Clay Mesa, north of Clay Mesa Road approximately 2.5 miles west of the subject. This project has 35 finished lots with 22 available for sale. This project's most recent single lot sale was for \$7.82 per square foot. The lots in this project will be considered direct competition to the subject. There is no bond financing for this subdivision.

Brown Field Technology Park: This 21-lot mapped but undeveloped subdivision is located on the south side of Clay Mesa Road a mile west of the subject. The project is a development of Murphy Development who also owns and is developing lots in the Siempra Viva Business Park. Murphy Development reportedly is not actively pursuing development of this project at this time as it is focusing on the Siempra Viva Business Park. This project may be competition near the end of the subject's marketing period.

Clay Mesa Center: This is a small mapped but undeveloped subdivision located on the south side of Clay Mesa Road approximately 1/2 mile west of the subject. This project is being offered for sale in bulk,

Piper Ranch LLC Lots:	Gross Acres	Flood/Drainage	Net Acres	Market Value	Allocated Assessment	Net Value (Rounded)	Value Basis
Total Inventory	53.18	3.25	49.94	\$17,790,500	\$4,408,919	\$13,340,000	
Lot 17 (new)	6.55	1.01	5.54	\$1,930,579	\$542,830	\$1,388,000	Market Value
Lot 18 (new)	5.25	0.28	4.97	\$1,841,617	\$405,173	\$1,406,444	Sale Price
Lot 21	4.30	0.82	3.48	\$1,212,710	\$358,427	\$858,000	Market Value
Total Sold	16.10	2.11	13.99	\$4,984,906	\$1,334,529	\$3,650,444	
Remaining	37.09	1.14	35.95	\$12,765,794	\$3,074,390	\$9,689,556	

The total value for the bulk purchase of all 16 lots held by Piper Ranch LLC by this approach follows.

Unsold Inventory of 13 Lots:

Lot Area (SF)	@	37.09 acres	x	Value Per SF	=	Value
1,115,640				\$4.70		\$7,593,508
Total Value of 3 Sold Lots:						\$3,650,444
Total Bulk Value - 16 Lots ⁽¹⁾						\$11,243,952
Less: Cost to Complete Aviator Road and Piper Ranch Road Indicated Bulk Value						\$355,000
						\$10,888,952

(1) Value is net of bond assessment debt

The bulk value for the One Piper Ranch eight lots is based on the current purchase price which is considered to be a market transaction when compared to the other two bulk sale transactions considered in this analysis.

PIPER RANCH LLC BULK SALE VALUE BY SALES COMPARISON APPROACH **\$10,889,000**
ONE PIPER RANCH LLC BULK SALE VALUE **\$3,741,368**

Discounted Cash Flow Analysis - Bulk Sale Value of Piper Ranch LLC Lots

The DCF analysis estimates the net cash flow which can be generated from a lot sales program for the subject subdivision. The gross revenue source is the retail value (market value) of the individual lots as they are sold out during a sales program. The expenses associated with a sales program are selling and holding costs during the sell-out period. The net cash flow (before debt service) is valued using a discounted cash flow technique where each periodic cash flow is discounted to a present value indication using a discount or yield rate. The sum of the discounted cash flows results in the total present value or bulk sale value for the project. A discussion of each element of this analysis follows.

Gross Revenue Estimate

Gross revenues result from the sale of the individual lots to owners/users or other developers. The sales prices are based on the estimated individual lot values estimated in the previous valuation section. The total cumulative value of the unsold or non-committed 13 lots held by Piper Ranch LLC is \$9,689,556. This value is net of the allocated bond assessment debt.

unfinished for \$5.00 per square foot. This subdivision will not likely be considered competition for the subject until possibly late in the sell-out period, if at all.

Sumrod Olaj, 1. This project was mapped for 32 lots with the future Highway 905 crossing through the center. The subdivision is located directly south of the subject on Olaj Mesa Road. The developer sold the southern half of the project to an owner/user and is marketing the northern parcels. The project remains unfinished at this time. Sumrod will sell the project at finished lots for \$7.00 to \$8.00 per square foot or \$6.50 per square foot in bulk for the 16 lots. The property is also available for sale unfinished in bulk at \$3.10 per square foot. These lots will require finishing before being considered competition. They are considered secondary competition at the present time.

Sierone Viva Business Park. This subdivision is located adjacent to the border and west of the border crossing. The second and final phase of the subdivision was purchased by Michael Murphy in August 2000. The developer is focusing on marketing the lots on a build-to-suit basis. A recent transaction was made to Iron Mountain based on a build-to-suit with land value at \$7.00 per square foot. This project will be direct competition to the subject property for those potential buyers who would also consider a build-to-suit arrangement.

One Piper Ranch. This project consists of eight lots purchased from the developer of the Piper Ranch Business Park. MDC plans to develop the lots with build to suit and speculative development. This project will feature 12 buildings totaling 253,800 square feet of space. This project will not directly compete with the subject on a lot sale program level, but may compete with possible build-to-suit buyers.

Based on this data, there appears to be only one subdivision selling finished lots that directly compete with the subject. The other projects are either in unfinished condition, or are marketing to build-to-suit buyers. The subject will also compete with resale listings of finished lots in other existing subdivisions.

In terms of new industrial subdivision development, there are several industrial land parcels in the immediate area that could be developed in the next several years. However, I am not aware of any parcels that are close enough to having a final map and breaking ground such as to be considered competition in the immediate future. A 75-acre parcel of undeveloped land located southwest of the subject at La Media and Olaj Mesa Road sold in July 2002 to a developer who intends to develop this property. If this project is able to come on line within the next couple years, it would present competition to the subject.

I have concluded that the subject project should be able to attract at least 50% of the historical lot absorption in this market. Historical absorption has been in the range of 37 to 45 acres of finished lots per year. The subject has 37.09 gross acres in 13 lots of unsold inventory as of the date of value. Assuming an annual absorption of 20 acres, the absorption rate would be approximately 1.9 years. I have projected absorption of the remaining 13 lots based on 7 lots in the first year and the remaining 6 in Year 2. The three lots in escrow or off market are added to the discounted value to indicate the total bulk sale value. The cost of completing the unfinished street improvements and removal of the temporary cul-de-sac estimated at \$355,000 has been deducted from the bulk value.

Sales and Holding Costs

Sales costs are estimated at five percent of gross lot sales proceeds. This cost accounts for marketing, sales commissions and closing costs.

Holding costs during the sell-out period will include some project landscaping maintenance, real estate taxes on the unsold lot inventory and special assessment bond payments on the unsold inventory. The developer estimates a landscaping maintenance budget of around \$1,500 per month. Real estate taxes are calculated based on multiplying the market value of the lots times the real estate tax rate of \$1,17525 per \$100 of market value. I have used an average mid-year accounting for calculation of taxes due for each year. This assumes that the lot absorption will occur spread evenly over the year. Special assessments are based on the allocated bond financing debt previously presented in this report. The bond debt includes an interest carry provision for the first 18 months and is amortized over 30 years with an interest rate of 6.75 percent. No payments are due for the first 18 months. I have calculated the bond payments using the average mid-year accounting technique based on unsold inventory.

Discount Rate

The discount rate is the rate of return required by a developer to invest in the subject project. The rate of return includes a return on the equity investment and a developer's profit allowance for taking on the lot sale program over the duration of the sell-out period. The discount rate is therefore a combined measure of profit and rate of return on the investment. Although some analysts break out these two components, I have found in my experience that most calculations by developers are performed using a single rate. A typical profit allowance for subdivision development will typically be in the range of 8 percent to 12 percent of gross sale proceeds, depending on the level of risk and expertise needed in marketing and promoting the project.

The discount rate selected for the subject project is based in part on analyzing the levels and components of risk assumed by the developer. Land development projects have varying risk components during the life of the project. The first level is entitlement risk. This risk relates to unentitled projects where the developer will assume the risk of obtaining development entitlements from the various governing agencies. In the case of the subject, this risk has been removed since the project has a final map and will be finished lots as of the date of value. A second related risk is development cost risk. Again this risk has been removed from the subject project due to an assumed finished lot condition. The final elements of risk are for price and timing or absorption. These risks exist in the subject project. Price risk exists through the possibility of price changes during the sell-out period. The market could be affected by internal or external market forces that could adversely impact the finished lot values for the area and therefore expose the subject developer to this price change risk. The timing risk exists through the market forces impacting the demand for new finished lot supply and therefore possibly extending the sales absorption period.

The investment rate of return component of the discount rate is typically measured by comparison with yield requirements by real estate investors. I have researched published surveys of real estate investor yield expectations and find that most investors are requiring an investment rate of return on equity from 10 percent to 13 percent, depending on the real estate and risk.

In selecting an appropriate discount rate for the subject project, I have researched published data sources and interviewed developers active in this market. PriceWaterhouseCoopers, a national real estate firm, publishes a semi-annual survey of the national development land market. The most recent survey was published for the Fourth Quarter 2002. This survey of developers indicates a range of expected free and clear discount rates, including a developer's profit allowance, of 11 percent to 35 percent and an average of 20.21 percent for those surveyed. The range of rates subject to financing debt was from 15 percent to 30 percent with an average of 22.08 percent. Because of the blending of debt and equity rate of return requirements, the overall discount rate based on a free and clear investment will be less than a pure equity investment rate. The survey indicates that developers rate industrial property near the top of the list of desired projects compared to office, hotels and regional malls near the low end of their desirability list. The previously indicated range of discount rates included the spectrum of land development projects including residential.

A more specific survey of individual developers indicates that those focusing on industrial land development have free and clear discount rate requirements in the range of 11 percent to 15 percent while the rate subject to financing is much higher near 20 percent. I have performed my analysis on a free and clear basis. A typical land development project may obtain up to a 50 percent loan to value ratio with current land development interest rates in the range of 1.5 to 2 points floating over prime with a floor around 6.5 percent for credit worthy borrowers.

I have interviewed a local prominent developer in San Diego who develops residential, commercial, office and industrial projects throughout southern California. This developer indicates that they require a return on equity invested, including developer profit, in the range of 20 percent to 30 percent. This is an equity return assuming debt financing at around 50 percent loan to value ratio. The higher end of the yield rate range is for projects with more extended sell-out periods and entitlement risk. This developer is currently considering an investment of 80 acres of entitled, rough graded business park land that will need streets and utilities installed. The developer is considering a purchase price offer based on a 25 to 30 percent rate of return on equity, subject to debt financing. This project will have development cost risk as well as

price and timing risk. The rate of return range indicated by this developer is within the range of the national developer survey published by PriceWaterhouseCoopers.

Based on this analysis, I have selected a discount rate based on a free and clear equity investment of 15 percent for the subject property. A 15 percent discount rate applied on a free and clear basis is generally equivalent to a 28 percent yield rate on the equity investment assuming acquisition financing at a 50% loan to value ratio with a 150% repayment schedule. This equity yield rate is consistent with data provided by national surveys and local developer indicators.

A summary of the discounted cash flow analysis follows.

Discounted Cash Flow Analysis Piper Ranch LLC Ownership Lots			
	8/24/2003		8/24/2004
	Year		Year
	1	2	2
Lot Sale Revenue:			
Lot Inventory - EOY	13	6	0
Lot Inventory - Midyear		9.5	3
Lot Sales	13	7	6
Average Value Per SF		\$6.27	\$6.46
Lot Sale Revenue (Net of Assessments)	\$9,823,719	\$5,217,453	\$4,606,266
Sales and Holding Costs:			
Sales and Marketing @ 5%	\$491,186	\$260,873	\$230,313
Landscape Maintenance	\$36,000	\$18,000	\$18,000
Real Estate Taxes	\$115,030	\$87,422	\$27,607
Special Assessments	\$27,872	\$0	\$27,872
Subtotal Expenses	\$670,088	\$366,295	\$303,793
Net Cash Flow	\$9,153,631	\$4,851,158	\$4,302,473
Discount Factor @ 15% Yield Rate		0.8696	0.7561
Present Value of Cash Flow	\$7,471,686	\$4,218,398	\$3,253,288
Total Present Value - 13 Non-Committed Lots	\$7,471,686		
Market Value of Lot 17 (leased parcel)	\$1,386,000		
Sale Price of Lot 18	\$1,406,444		
Market Value of Lot 21	\$856,000		
Subtotal	\$11,122,130		
Less: Cost of Street Improvements	\$355,000		
Total Indicated Bulk Value (Net of Assessments)	\$10,767,130		
		(Extraordinary Assumption No. 2)	
		\$4.65 Per SF Gross	
INDICATED BULK SALE VALUE BY DCF ANALYSIS (PIPER RANCH LLC LOTS)			\$10,767,000

Reconciliation

Summary

The two approaches to value utilized to estimate the bulk sale value for the Piper Ranch LLC ownership of 16 lots provided the following value indications:

Sales Comparison Approach - Bulk Value	\$10,850,000
Discounted Cash Flow Analysis - Bulk Value	\$10,767,000

In reconciling these indications to a final estimate, I have considered the applicability and reliability of each approach from the viewpoint of a potential buyer. The Sales Comparison Approach considered three bulk purchases of finished lots in Clay Mesa, including the recent eight-lot sale in the subject subdivision. The data required adjustment for differences in total size and resulting differences in holding costs and sales absorption rate. The DCF directly reflected these factors and is a commonly used approach by investors in this property type. Both methods are considered supported by market evidence and have been given generally equal weight.

My reconciled opinion of the bulk sale value for the fee simple interest in the Piper Ranch LLC ownership of 16 lots, subject to special tax and special assessment liens as of the current date of value is \$10,830,000. The bulk sale value for the One Piper Ranch LLC ownership of 8 lots is \$3,741,368 which is rounded to \$3,742,000.

These value estimates are based on the general and extraordinary assumptions summarized on the following page. This value estimate is based also on the hypothetical condition that the project is in a finished lot condition with all grading and onsite improvements complete. As of the date of value, the project was under construction and approximately 95 percent complete. An as-is value estimate for the subject property as of the date of value is not within the scope of this assignment. This value estimate does reflect a deduction of \$355,000 for the estimated cost to complete Aviator Road and Piper Ranch Road as per the request of my client (Extraordinary Assumption No. 2).

PIPER RANCH LLC OWNERSHIP OF 16 LOTS:

CONCLUDED BULK SALE VALUE SUBJECT TO SPECIAL ASSESSMENT LIENS \$10,830,000

ONE PIPER RANCH LLC OWNERSHIP OF 8 LOTS:

CONCLUDED BULK SALE VALUE SUBJECT TO SPECIAL ASSESSMENT LIENS \$3,742,000

Limiting Conditions and Assumptions

This appraisal is made expressly subject to the following conditions and stipulations:

General Limiting Conditions and Assumptions:

1. No responsibility is assumed for matters which are legal in nature, nor is any opinion on the title rendered herewith. This appraisal assumes good title, responsible ownership and competent management. The property has been appraised as though free of indebtedness.
2. The factual data utilized in this analysis has been obtained from sources deemed to be reliable; however, no responsibility is assumed for its accuracy.
3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. The appraisers have no knowledge of the existence of such materials on or in the property. The appraisers, however, are not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The 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.
4. 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.
5. This appraisal is of surface rights only, and no analysis has been made of the value of subsurface rights, if any.
6. Disclosure of the contents of this appraisal report is governed by the By-Laws and Regulations of the Appraisal Institute.
7. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or this appraisal firm, or any reference to the Appraisal Institute or to its designations) shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media or other media for public communications without the prior written consent of the signatory of this appraisal report. Possession of this report or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with the proper written qualification and only in its entirety.
8. This appraisal has been prepared as a complete summary appraisal report prepared under Standards Rule 2-2(b) of USPAP.

Extraordinary Assumptions:

1. For purposes of this report, the existing lot lines and lot sizes as reflected on the recorded Piper Ranch Business Park Subdivision Map No. 12346 are utilized and the proposed lot boundary adjustment between Lots 17, 18 and 19 has not been reflected in this valuation per the request of my client.
2. I have been asked to assume that the cost to remove the temporary cul-de-sac on Piper Ranch Road and complete the street improvements for the balance of Piper Ranch Road and Aviator Road is \$355,000. This amount is assumed to be accurate and correct for the purposes of this assignment at the request of my client. An independent estimate of the cost to complete is not within the scope of this assignment and has not been performed.

Hypothetical Condition:

Since the project is presently under construction for streets, grading and infrastructure and are not complete as of the date of value, the retail and bulk sale value estimates are made under the hypothetical condition of finished lots with all infrastructure in place and ready for individual development.

Certification

I certify that, to the best of my knowledge and belief, ...

- 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 and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 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.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 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.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice.
- the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- as of the date of this report, Gary L. Rasmussen, MAI SRA has completed the requirements of the continuing education program of the Appraisal Institute.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant professional assistance to the person signing this report other than Wendy Rasmussen, a State Certified General Appraiser who assisted in the data verification and report writing aspects of this report.



Gary L. Rasmussen, MAI SRA
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. 002574
Expiration Date: 2/4/2004

Date: September 5, 2003

Addenda

Addendum A - Appraiser Qualifications

Qualifications of Gary L. Rasmuson, MAI SRA

Expertise:

Mr. Rasmuson has been actively appraising real estate since 1977 as an independent fee appraiser. Rasmuson Appraisal Consultants was established in 1984 and has valued over 1,000 properties to date. Specialties include the valuation for litigation purposes including easement and right-of-way appraisals, appraisal of motels/hotels, apartments, office buildings, industrial properties and all types of vacant land.

General appraisal experience includes valuation of residential subdivisions, industrial subdivisions, single-family residences, mobile home parks, estate valuations, partial interest valuation and retail commercial properties. Appraisal assignments have been performed primarily in San Diego County but have included within communities in Southern California and Arizona.

Business:

President – Rasmuson Appraisal Consultants
14665 Yukon Street, San Diego CA 92129
Phone: (658) 672-1796
Fax: (658) 672-3816
Email: gary@rasmusonappraisal.com

Selected List of Clients:

Arco	Fidelity Federal Bank
Bank of America	Great Western Bank
California Bank and Trust	Grossmont Bank
Caltrans	McMillin Communities
Centre City Development Corporation	Imperial Bank
City of Chula Vista	La Jolla Bank and Trust
City of Poway	Midas Realty Corporation
City of San Diego	Office of Thrift Supervision
City of Oceanside	Port of San Diego
City of Vista	Southern Pacific Bank
County of San Diego	San Diego City Schools
Commerce Bank	San Diego Gas & Electric Company
Daley & Heft	Union Bank of California
Higgs, Fletcher & Mack	U.S. Navy
John Burnham Company	Wells Fargo Bank
Washington Mutual Bank	

Memberships:

- > Appraisal Institute - MAI Designation (No. 6926); SRA Designation
Past National Director - 1994; San Diego Chapter President - 1984 (SREA)
Director - 1987-89; 1994-1997; Regional Representative - 1991-1997; Treasurer - 1990;
California Legislative Committee: 1992
- > State of California - California General Real Estate Appraiser
License No. AG002571; Expires February 4, 2004
- > International Right of Way Association - Member

Qualifications of Gary L. Rasmuson, MAI Continued...

Education:

Bachelor of Science, Business Administration, Economics Major
University of North Dakota - 1977

Successful completion of the following courses sponsored by Appraisal Institute:
Basic Appraisal Principles (1-A) Business Valuation - SREA
The Appraisal of Partial Acquisitions Standards of Professional Practice
Capitalization Theory and Techniques (1-B) Case Studies in Real Estate Valuation
Valuation Analysis and Report Writing Litigation Valuation

Seminars (Partial List):

Litigation Seminar Analysis of Problem Properties
Apartment Seminar Capitalization Update Seminar
Appraisal Regulation Seminar Fair Housing Seminar
Subdivision Analysis Seminar Hotel/Motel Valuation Seminar

Qualifications:

- > Qualified Expert Witness, Federal Bankruptcy Court
- > Qualified Expert Witness, California Superior Court
- > Appointed Special Master to Superior Court
- > Course Instructor – Appraisal Institute Course Capitalization Theory & Techniques 310 and Capitalization Theory & Techniques 510
- > Received Distinguished Service Award - 1991 San Diego Chapter of the Appraisal Institute

Addendum B -- MDC Amended Purchase Agreement

FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT AND ESCROW INSTRUCTIONS

This FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT AND ESCROW INSTRUCTIONS ("Amendment") is entered into as of March 17, 2002, by and between MASTER DEVELOPMENT CORPORATION, a California corporation ("Purchaser"), and PIPER RANCH LLC, a Delaware limited liability company ("Seller"), with reference to the facts set forth in the Recitals below.

RECITALS

A. Purchaser and Seller entered into a Purchase and Sale Agreement and Escrow Instructions dated May 17, 2002 ("Purchase Agreement") for the purchase and sale of certain Property, as defined therein. The transaction contemplated by the Purchase Agreement is the subject of Escrow No. 02-1761LG ("Escrow") with First American Title Insurance Company ("Escrow Holder"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Purchase Agreement.

B. Purchaser and Seller desire to amend the Purchase Agreement to (i) modify the definition of the Property, (ii) modify the Purchase Price, and (iii) memorialize the revised scope of Seller's grading obligations under the Purchase Agreement, to provide for the payment of the cost of such modified work by Purchaser and to make other modifications to the Purchase Agreement, as more fully provided below in this Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Amendment, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Purchaser and Seller hereby amend the Purchase Agreement as follows:

1. **Priority.** Section 1(a) of the Purchase Agreement is hereby modified to provide that the definition of the "Land" for all purposes under the Purchase Agreement shall mean Lots 3, 4, 5, 6, 11, 12, 13 and 14 of the Project (approximately 16.36 acres). Lots 21 and 22 of the Project shall not constitute a portion of the Land. Within ten (10) days after the full execution and delivery of this Amendment, Purchaser shall deliver to Seller complete copies of any and all plans, specifications, drawings, engineering studies prepared for the Property by or on behalf of Purchaser and all other Due Diligence Materials (as defined in Section 5 of the Purchase Agreement) relative to Lots 21 and 22, without any representation or warranty regarding the accuracy or sufficiency thereof for any purpose. Purchaser and Seller acknowledge and agree that no Lots have been or will be substituted for Lots 21 and 22 pursuant to Section 1 of the Purchase Agreement.

2. **Purchase Price.** Section 2(a) of the Purchase Agreement is hereby deleted and replaced with the following:

The purchase price ("Purchase Price") to be paid by Purchaser to Seller for the Property shall be Three Million Seven Hundred Forty-One Thousand

Three Hundred Sixty-Eight and 40/100 Dollars (\$3,741,368.40), subject to the provisions of Section 2(B) of this Agreement regarding the Put Notice and the Modified Purchase Price.

3. **Grading Modification Payment:** Concurrently with the execution and delivery of this Amendment, Purchaser shall deliver to Escrow Holder the sum of One Hundred Ninety-Nine Thousand and 00/100 Dollars (\$199,000.00) ("Grading Modification Payment"), in the form of a wire transfer, cash or certified or bank cashier's check for immediately available funds. The Grading Modification Payment shall be deposited into an interest-bearing account and shall be released to Seller for the payment of the Modified Grading Work (as defined in Section 4 below) on the terms and conditions of this Amendment. The Grading Modification Payment shall be non-refundable to Purchaser and shall not apply to the Purchase Price.

4. **Modified Grading Work:** Purchaser hereby acknowledges that Seller has caused, at the request of Purchaser, the following modifications to the mass rough grading portion of the Parcel Map Conditions (as defined in Section 4(c)(4) of the Purchase Agreement) on the Land (collectively, "Modified Grading Work"):

a. Overexcavation of the Land referenced above in this Section 2 pursuant to the redline contour plan and specifications dated as of November 19, 2002 ("Modified Contour Plan") prepared by Don O'Rourke of SB&O, Inc. and attached to this Amendment as Exhibit A.

b. Grading of the Land referenced above in this Section 2 in compliance with the original permitted grading contours specified in the Grading Plans for Piper Ranch Business Park prepared by Rick Engineering, preliminarily approved by the City of San Diego on September 16, 1988, consisting of Sheet Nos. 23680-27-D/Lots 5, 6, 11 and 12 and 23680-22-D/Lots 3, 4, 13 and 14, with select, compacted fill material. The fill material may be mined and/or exported by Seller's contractors. Select compacted fill may be less than a minimum of five feet (5') from overexcavation.

5. **Payment of Modified Grading Costs:** Seller shall (a) cause the project soil engineer to prepare a final completion report ("Completion Report") for the Modified Grading Work and cause the civil engineer to issue a certification ("Mass Grading Certification") that the Modified Grading Work has been completed in accordance with the requirements of Section 4 above, and (b) deliver copies of the Completion Report and the Mass Grading Certification to Purchaser for review and approval, which approval shall not be unreasonably withheld, conditioned or delayed. Upon approval of the Completion Report and the Mass Grading Certification, Purchaser shall notify Seller and Escrow Holder in writing and the full amount of the Grading Modification Payment shall be immediately released by Escrow Holder to Seller. Promptly following approval of the Completion Report and the Mass Grading Certification, Purchaser shall pay Seller an additional amount equal to the sum of Ten Thousand and 00/100 Dollars (\$10,000.00) in immediately available funds for all administrative costs and expenses incurred by Seller's engineer, Kinelsy-Horn, in connection with the Modified Grading Work.

6. **Modification of Land:** In the event that the Escrow does not close and the Purchase Agreement terminates for any reason other than a Seller default under the Purchase Agreement (e.g., a failure of a condition precedent to Purchaser's obligation to close or a Purchaser default),

Purchaser shall be obligated to immediately cause the modification of (or pay Seller the full amount of the cost to modify) the grade level of the Land to a condition approved by the City of San Diego or shall provide reasonable evidence to Seller that the City of San Diego approves the condition of the grading in its then existing condition. Notwithstanding the foregoing, however, in the event that the Escrow does not close and the Purchase Agreement terminates due to a failure of a condition precedent to Purchaser's obligation to purchase the Property provided in Section 4(c) of the Purchase Agreement where such failure was reasonably within the control of Seller, Purchaser shall not be obligated to cause a modification of (or to pay Seller the amount of the cost to modify) the grade level of the Land.

7. **Default by Seller:** The first sentence of Section 14(e) of the Purchase Agreement is hereby deleted and replaced with the following:

IN THE EVENT THAT SELLER SHALL DEFAULT AND FAIL TO CONSUMMATE THE TRANSACTION CONTEMPLATED BY THIS AGREEMENT FOR ANY REASON AND ESCROW FAILS TO CLOSE EXCEPT IN THE EVENT OF PURCHASER'S MATERIAL DEFAULT, PURCHASER AS ITS SOLE AND EXCLUSIVE REMEDY, MAY TERMINATE THIS AGREEMENT AND RECEIVE A REFUND OF THE DEPOSIT AND THE GRADING MODIFICATION PAYMENT AND MAY PURSUE SELLER FOR ACTUAL DAMAGES EQUAL TO PURCHASER'S ACTUAL OUT-OF-POCKET COSTS AND EXPENSES NOT TO EXCEED A MAXIMUM AGGREGATE SUM OF ONE HUNDRED FIFTY THOUSAND AND 00/100 DOLLARS (\$150,000.00), AND SELLER SHALL NOT BE LIABLE TO PURCHASER FOR ANY PUNITIVE, SPECULATIVE OR CONSEQUENTIAL DAMAGES.

8. **Counterparts:** This Amendment may be executed by the parties hereto in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

9. **Full Force and Effect:** Except as specifically amended hereby, the Purchase Agreement is not amended and shall continue in full force and effect in accordance with its terms. In the event of any conflict between the provisions of this Amendment and the provisions of the Purchase Agreement, the provisions of this Amendment shall control and be superceding

[signatures on following page]

Addendum C – Piper Ranch Grading Plans

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Purchase and Sale Agreement and Escrow Instructions on the day and year first written above.

"SELLER"

PIPER RANCH LLC,
a Delaware limited liability company

By: Osby Investors LLC, a Delaware
limited liability company,
Sole Member

By: BCL Osby Investments LLC, a
California limited liability company,
Manager

By: Paul LaBene,
Member

By: Mike Colarusso,
Member

"PURCHASER"

MASTER DEVELOPMENT CORPORATION,
a California corporation

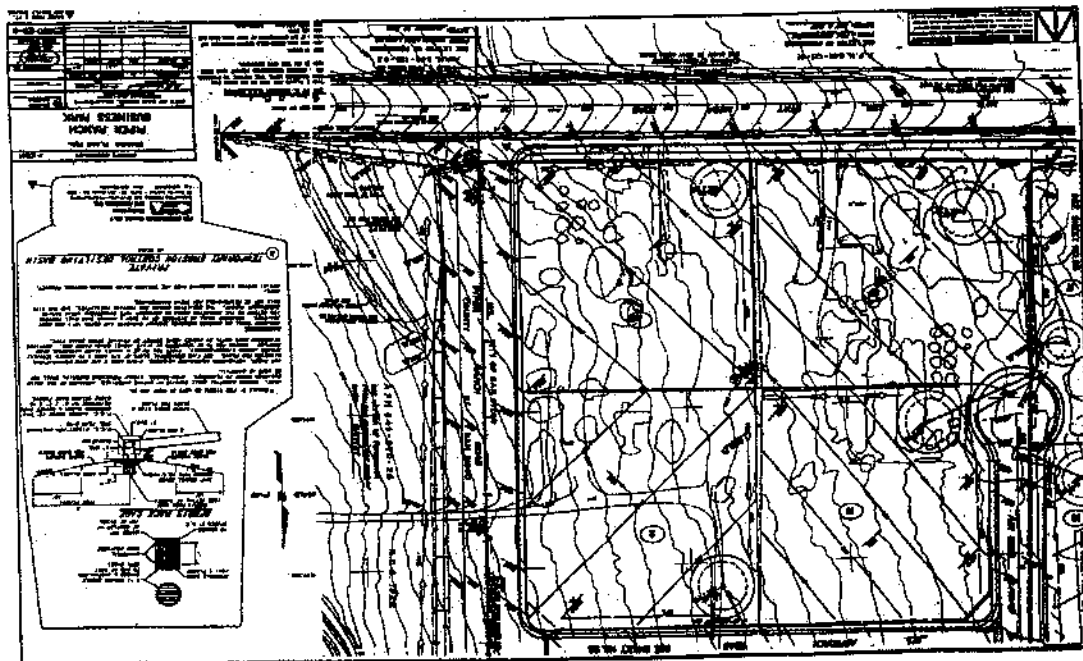
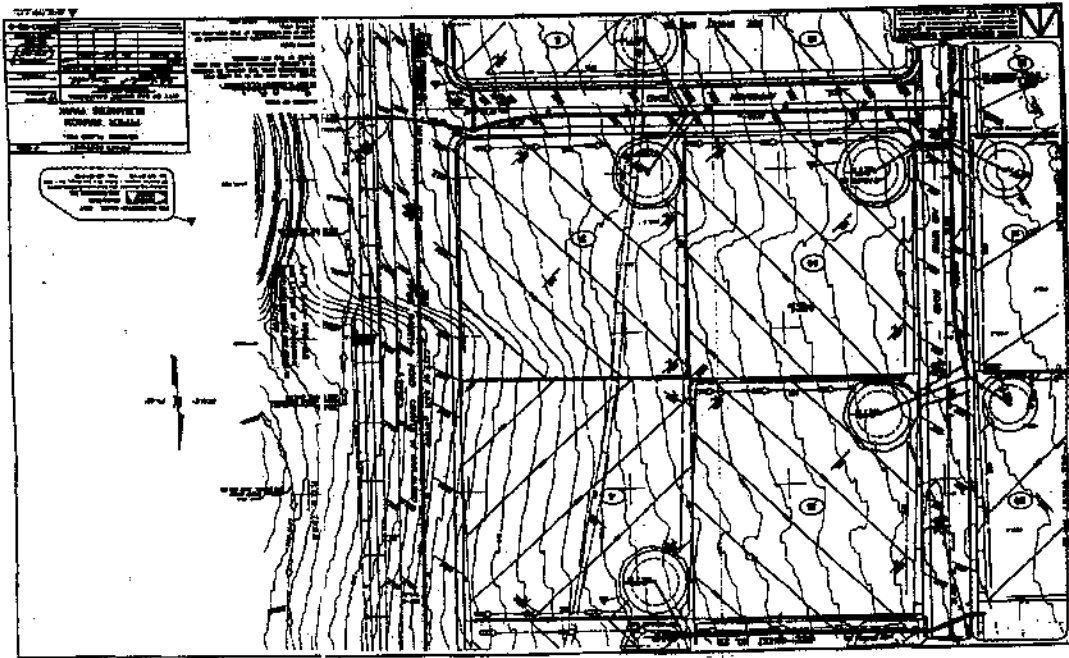
By: Bruce McDonald
President

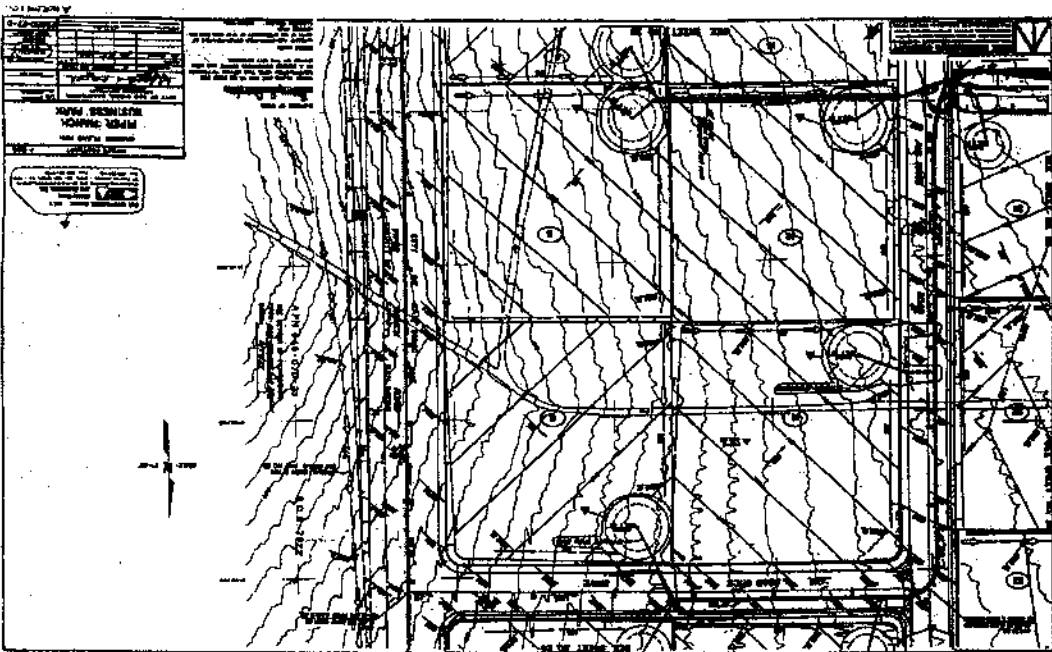
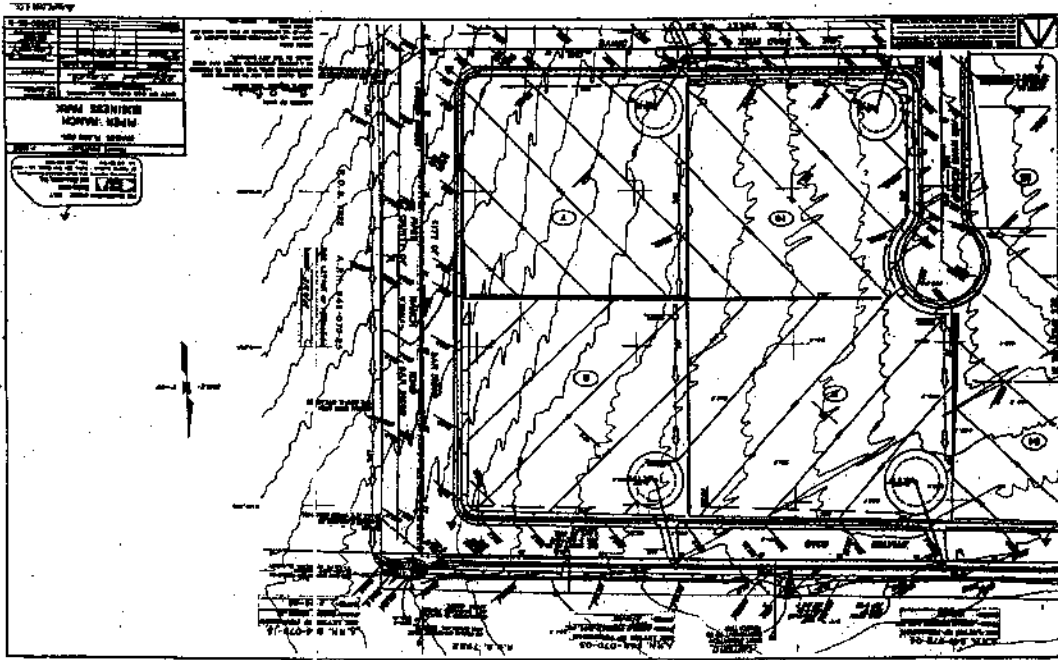
By: Bryan Beatrice
Vice President

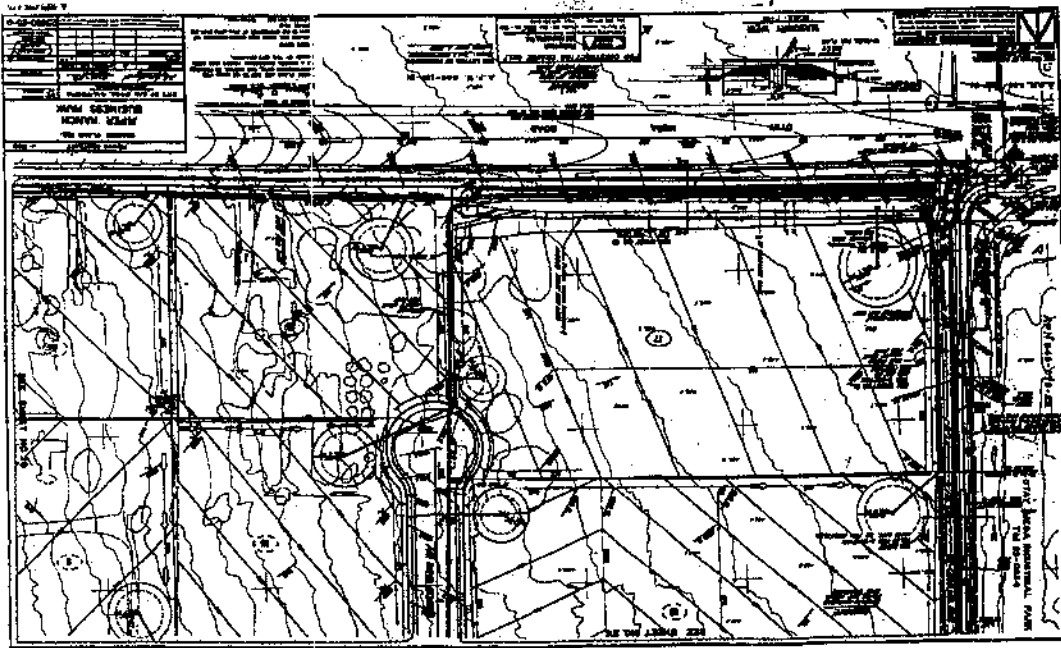
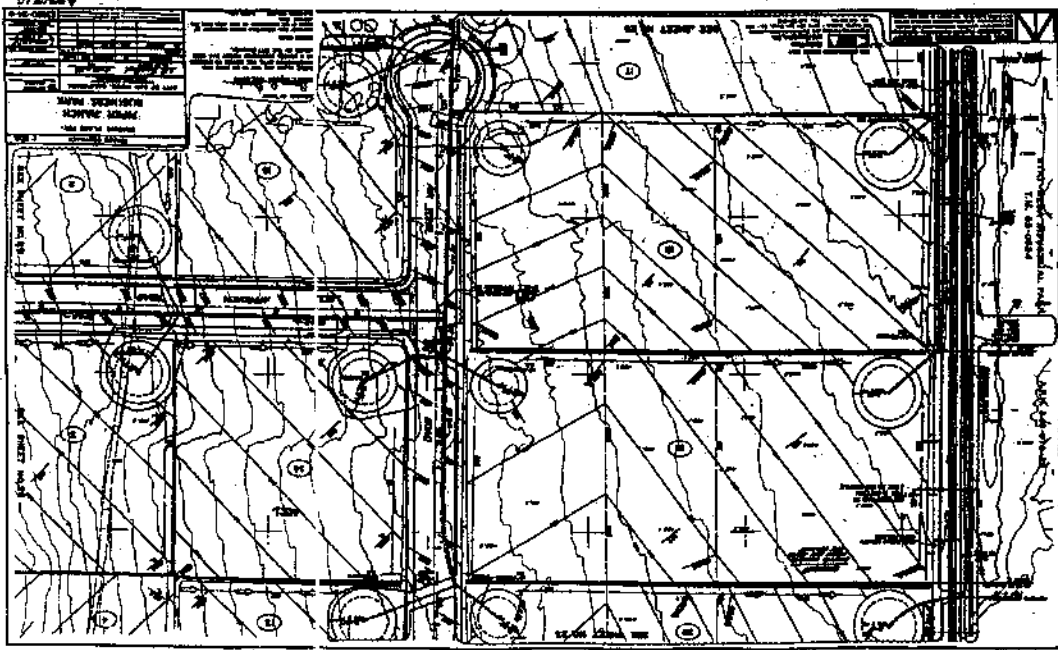
ACKNOWLEDGED BY ESCROW HOLDER:

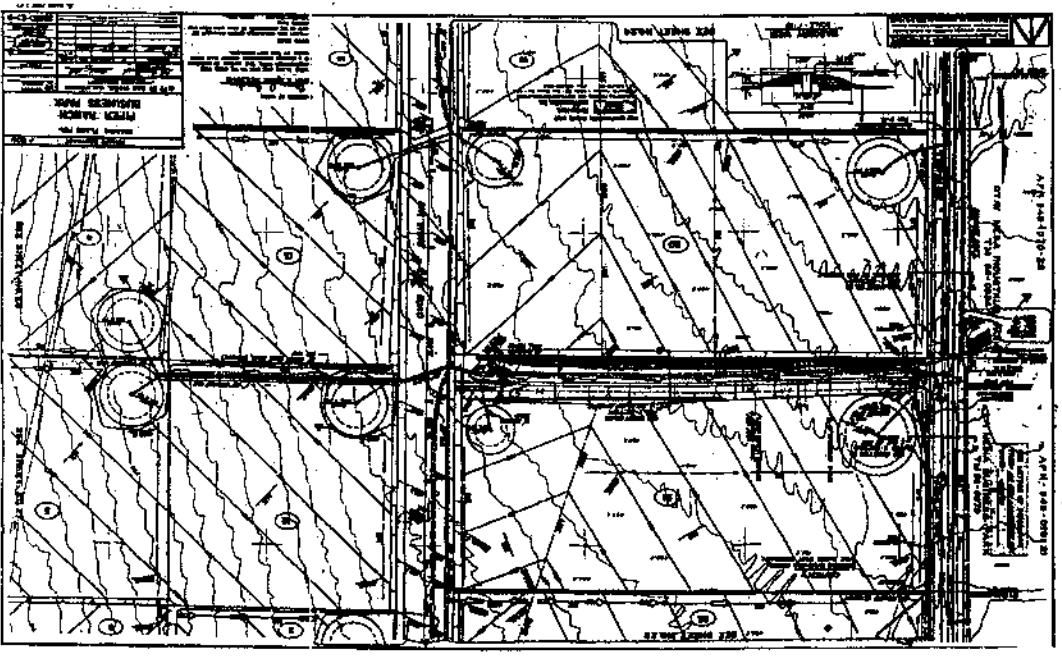
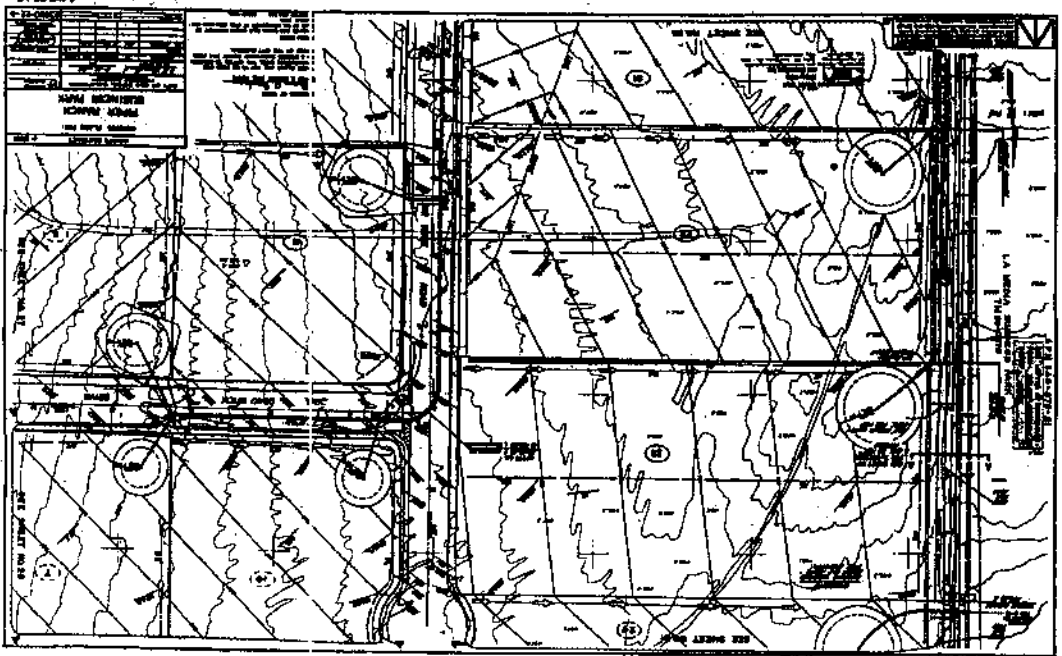
FIRST AMERICAN TITLE INSURANCE COMPANY

By: Lynn Graham, Sr. Escrow Officer

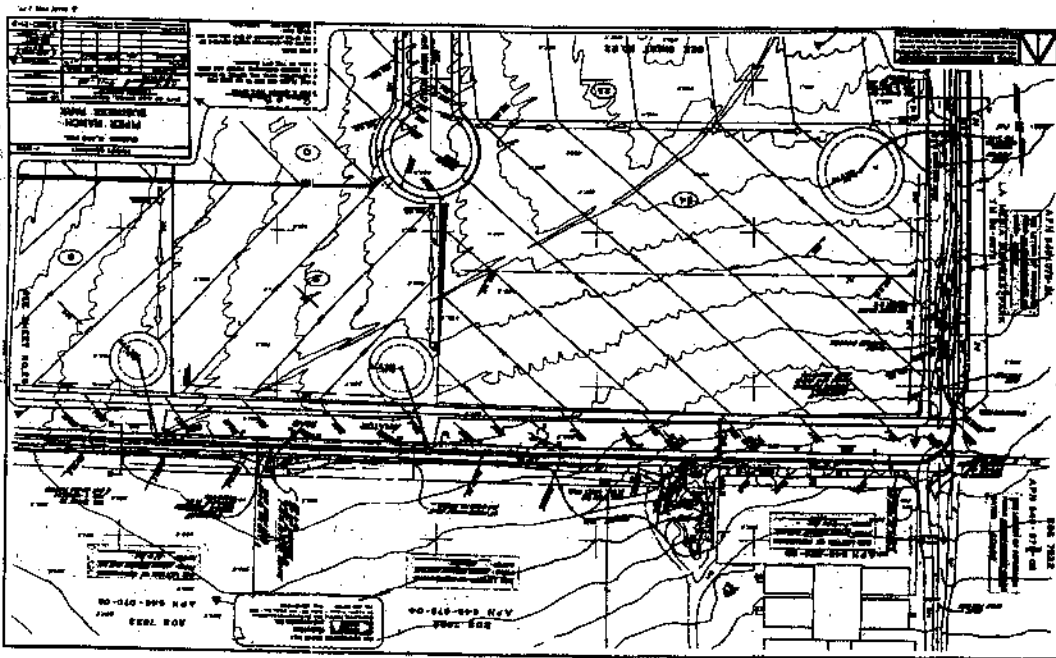








Addendum D



866-467-0644
866-667-9635 fax
10014 Jamboree Dr., Suite 110
San Diego, CA 92121



COMMERCIAL REAL ESTATE

August 5, 2003

**VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Michael Ubertaga
City Manager
202 C Street, MS 9A
San Diego, CA 92101

Mr. Ron Buckley
Senior Planner
City of San Diego
Development Services Division
1222 1st Avenue, Mail Station 501
San Diego, CA 92101

Re: Piper Ranch Business Park; Commercial Designation for Lots 1 and 2

Dear Gentlemen:

We are the owner of Piper Ranch Business Park, Tentative Map Number 16-0934 and Final Map 12346, which is comprised of twenty four (24) lots containing 80 gross acres of land. This letter constitutes our notice, pursuant to Municipal Code Chapter 10, Article 3, Division 11, Section 103.1103(e)(6), to designate Lots 1 and 2, containing 1.99 acres and 2 acres, respectively, as commercial/business support services as provided in Section 103.1103(e)(6).

The CCRs recorded for the Piper Ranch Business Park will also reflect this designation for Lots 1 and 2.

Please contact me if there is anything further that we need to do regarding this notice.

Very truly yours,

Piper Ranch, L.P.
By: 
Name: Aime Longworth
Title: Assistant Attorney

cc: Aime Longworth
Toby Halla
Kari Desgallier, Esq.

TRON AND
ASSOCIATES

APPENDIX B

ECONOMIC AND DEMOGRAPHIC 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 2003, and a land area of approximately 330 square miles, the City of San Diego (the "City") is the seventh 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.

Based on estimates published by the California Department of Finance in May 2003, the City's population grew by 11.4% between 1994 and 2003, with an average increase of approximately 14,544 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 its diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, telecommunications, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. Historically, the City has also benefited 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.

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 changes in economic conditions.

Population

As set forth in Table B-1 below, between January 1, 1994, and January 1, 2003, the City's population has increased by 130,900 (or by approximately 14,544 new residents annually during this period).

Table B-1
POPULATION GROWTH
Calendar Years 1994 through 2003

<u>Calendar Year⁽¹⁾</u>	<u>City of San Diego</u>	<u>Annual Growth Rate</u>	<u>County of San Diego</u>	<u>Annual Growth Rate</u>	<u>State of California</u>	<u>Annual Growth Rate</u>
1994	1,144,200	0.0%	2,604,400	0.4%	31,418,000	0.9%
1995	1,145,400	0.1%	2,613,100	0.3%	31,617,000	0.6%
1996	1,146,900	0.1%	2,621,100	0.3%	31,837,000	0.7%
1997	1,159,100	1.1%	2,653,400	1.2%	32,207,000	1.2%
1998	1,176,900	1.5%	2,702,800	1.9%	32,657,000	1.4%
1999	1,200,800	2.0%	2,751,000	1.8%	33,140,000	1.5%
2000	1,221,200	1.7%	2,805,900	2.0%	33,753,000	1.8%
2001	1,238,500	1.4%	2,856,000	1.8%	34,367,000	1.8%
2002	1,251,700	1.1%	2,908,500	1.8%	35,000,000	1.8%
2003	1,275,100	1.9%	2,961,600	1.8%	35,591,000	1.7%

(1) As of January 1 of the calendar year.

Source: State of California, Department of Finance.

Employment Summary

As seen in Table B-2, the City's unemployment rate for calendar year 2002 averaged 4.4%, up from a rate of 3.3% during calendar year 2001. The City's 2002 unemployment rate was below both the national rate of 5.8% and the State's rate of 6.7%. During 2002, average employment in the City was up by approximately 10,710 from 2001 levels. Preliminary data for November 2003, the latest available data, indicates that the City's unemployment rate was 4.1%, which continues to be lower than both the national rate of 5.9% and the State's rate of 6.4% for the same period.

Table B-2
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF SAN DIEGO RESIDENT LABOR FORCE
Calendar Years 1998 through 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2000</u>	<u>2002⁽¹⁾</u>
Civilian Labor Force					
City of San Diego					
Employed	584,100	604,700	623,200	633,620	644,330
Unemployed	21,700	19,600	19,600	21,620	29,410
Unemployment Rates					
City	3.6%	3.1%	3.1%	3.3%	4.4%
County	3.5%	3.1%	3.0%	3.2%	4.3%
California	5.9%	5.2%	4.9%	5.3%	6.7%
United States	4.5%	4.2%	4.0%	4.8%	5.8%

(1) Subject to future revision.

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

Table B-3 provides the California Employment Development Department's estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major

industry in the County from calendar years 1998 through 2002. Annual employment information is not regularly compiled by sector for the City alone. In prior years, industry data from Labor Market Information Division programs were classified using the Standard Industrial Classification (SIC). This method has now been replaced by the new North American Industry Classification System (NAICS). The table below reflects figures classified under the new system. As shown, total nonagricultural wage and salary employment in the County increased by 123,000 new jobs during this period. During calendar year 2002, employment in San Diego County increased by 10,100 new jobs over the prior year.

Table B-3
SAN DIEGO COUNTY
WAGE AND SALARY EMPLOYMENT
Calendar Years 1998 through 2002

INDUSTRY CATEGORY	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u> ⁽¹⁾
Natural Resources & Mining	300	300	300	300	300
Construction	60,200	67,000	69,700	75,100	76,000
Manufacturing	124,000	122,900	122,600	119,000	112,200
Nondurable Goods	30,400	30,500	30,400	29,800	27,800
Durable Goods	93,600	92,400	92,200	89,300	84,500
Transportation & Utilities	28,600	29,200	29,800	32,000	30,700
Trade	159,400	165,000	172,900	177,100	178,800
Wholesale	34,700	36,800	39,100	41,500	41,300
Retail	124,700	128,200	133,800	135,600	137,500
Financial Activities ⁽²⁾	66,000	70,400	71,200	72,000	73,800
Services ⁽³⁾	472,600	498,700	520,900	529,300	535,700
Government	194,500	199,300	206,600	213,800	221,000
Federal	43,300	42,500	42,100	40,200	39,900
State and Local	151,200	156,800	164,600	173,600	181,100
TOTAL NONAGRICULTURAL⁽⁴⁾	1,105,500	1,152,900	1,193,800	1,218,400	1,228,500

- (1) Subject to future revision.
(2) Includes finance, insurance, and real estate.
(3) Includes professional and business, information, educational and health, leisure and hospitality, and other services.
(4) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department.

During calendar year 2002, while the manufacturing sector experienced a decline (-6,800), there was a significant employment growth in the Government sector (+7,200) and the services sector (+6,400). The increase in the Government sector, which accounted for 18% of the total nonagricultural wage and salary employment in the County in 2002, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments. Preliminary estimates of the total nonagricultural wage and salary employment for the County for November 2003 reflect a slight increase (0.02%) over November 2002.

Taxable Sales

Taxable transactions at retail and other outlets in the City at the end of the Fourth Quarter of calendar year 2002, the most recent data available from the California State Board of Equalization, totaled \$4.4 billion, approximately the same as in the Fourth Quarter of calendar year 2001. Taxable transactions in the City during calendar year 2001 totaled approximately \$16.4 billion, up 1.7% from calendar year

2000, and up 32.1% from 1997. Table B-4 provides annual sales information by type of outlet for calendar years 1997 through 2001.

Table B-4
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 1997 through 2001
(in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u> ⁽¹⁾
RETAIL STORES					
Apparel	\$485,551	\$530,734	\$542,041	\$588,012	\$613,179
General Merchandise	1,354,698	1,436,535	1,597,102	1,794,468	1,861,711
Food	554,625	582,183	622,909	662,346	673,384
Eating and Drinking	1,380,894	1,496,032	1,603,968	1,772,507	1,851,358
Home Furnishings and Appliances	444,930	469,158	546,746	619,383	684,858
Building Materials and Farm Implements	603,365	716,231	809,022	944,386	1,093,716
Auto Dealers & Supplies	1,189,462	1,331,411	1,519,137	1,745,186	1,868,692
Service Stations	673,078	614,156	742,143	977,675	966,913
Other	<u>1,686,807</u>	<u>1,790,441</u>	<u>1,948,871</u>	<u>2,173,098</u>	<u>2,114,389</u>
Total Retail Stores	\$8,373,410	\$8,966,881	\$9,931,939	\$11,277,061	\$11,731,149
All Other Outlets	<u>\$4,024,433</u>	<u>\$4,343,598</u>	<u>\$4,563,715</u>	<u>\$4,822,132</u>	<u>\$4,640,363</u>
TOTAL ALL OUTLETS	<u>\$12,397,843</u>	<u>\$13,310,479</u>	<u>\$14,495,654</u>	<u>\$16,099,193</u>	<u>\$16,371,512</u>

(1) Data for calendar year 2001 were calculated by adding quarterly reports published by the California State Board of Equalization, and may be subject to future revision.

Source: California State Board of Equalization.

Tourism

Based on year-end data for 2002 from Smith Travel Research ("Smith Travel"), San Diego outperformed most major markets, ranking third highest among the top 25 hotel markets in terms of average occupancy rate during 2002 and sixth highest in terms of average daily room rate. Smith Travel has reported that for the ten months ended October 31, 2003, which included room revenues from activity related to Super Bowl XXXVII, the average occupancy rate was at 71.2%, and the third highest rate among the top 25 hotel markets. In addition, Smith Travel has reported that for the ten months ended October 31, 2003, the City's average room rate was \$112.55, up 1.7% from the prior year, the fourth largest increase among the top 25 markets.

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 B-5, visitor spending in the County totaled \$5.04 billion in 2002, up 7.2% from 1998 but down 1.6% from 2001. According to the San Diego Convention and Visitors Bureau, a decline in business spending, weakening consumer confidence, and the outbreak of war in Iraq have had an impact on the tourism industry nationwide. The San Diego Convention and Visitor's Bureau also reported that there were 7.5 million passenger arrivals at Lindberg Field in 2002, down by approximately 1.5% from 2001. For the ten months ended October 31, 2003, visitor spending totaled \$4.5 billion, a 4.4% increase from the same period in calendar year 2002, and the number of passenger arrivals totaled 6.4 million, a 1.9% increase from the same period in calendar year 2002. Both visitor numbers and spending include effects of the Super Bowl XXXVII in January 2003.

Table B-5
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING⁽¹⁾
Calendar Years 1998 through 2002
(in billions)

<u>Calendar Year</u>	<u>Amount</u>
1998	\$4.70
1999	4.88
2000	5.23
2001	5.12
2002	5.04

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

Source: San Diego Convention and Visitors Bureau.

The City is the focal point for tourism in the County. The San Diego Convention Center (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.

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, a world-renowned golf course, owned and operated by the City of San Diego. 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, the Super Bowl and World Series in 1998, and more recently the Super Bowl in 2003. In addition, the City was the site for the Republican National Convention held in August 1996. The Torrey Pines’ South Course is scheduled to play host to the United States Open Golf Tournament in 2008.

In September 2001, the expansion of the City’s Convention Center was completed, doubling the size of the existing facility to 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, in Fiscal Year 2003 the Convention Center generated approximately \$996.1 million in total regional economic impact (direct and indirect spending).

Military

Military and related defense spending is the second most important component of the San Diego economy, with only manufacturing making a larger contribution to San Diego County’s Gross Regional Product. Prior to 1990, San Diego’s civilian defense contractors were primarily concentrated in aerospace manufacturing. During the 1990’s, the focus of local defense contracting shifted from aerospace manufacturing to research and development, with shipbuilding and repair remaining an important component. This transformation received additional impetus with the relocation of the Space and Naval Warfare Systems Command (SPAWAR) to San Diego from Virginia, in 1997. SPAWAR is responsible

for administering contracts to meet the Navy's continuing need for state-of-the-art command and communications systems.

According to the San Diego Chamber of Commerce, defense related expenditures (active duty payroll and retirement benefits, base expenditures, and defense contracts) in the County during the federal Fiscal Year ended September 30, 2002, totaled approximately \$13.6 billion, up 30.1% from \$10.0 billion in 2001. With a total active duty military and civilian payroll of \$4.3 billion in the federal Fiscal Year 2002, San Diego continued to lead all counties in the nation in terms of combined military and civilian payrolls. In addition to active duty and civilian payroll, retirement benefits totaled approximately \$1.1 billion. Total defense contracts awarded to County-based businesses totaled \$6.9 billion during the federal Fiscal Year 2002, of which \$5.4 billion were awarded to procurement contracts and another \$1.5 billion to various classified contracts and subcontracts of less than \$1,000 each. According to the San Diego Chamber of Commerce estimate of June 1, 2002, active duty military personnel in the County totaled 104,734 and the civilian employment totaled 23,515.

International Trade

The value of exports presented in the table below is from RAND California, *Merchandise Exports from U.S. Customs District* series. In prior years, exports were reported based on Metropolitan Areas as reported by the International Trade Administration. The Customs District classification has been adopted because of the availability of more current data. Export values reflect exports of merchandise grown, produced, or manufactured in the U.S as well as re-exports of foreign merchandise. The total value of exports from San Diego Customs District grew approximately 31% in the five-year period from 1998 to 2002. While there was a slight decline in annual exports from 2000 to 2001, an increase was experienced in calendar year 2002, with the value of exports totaling approximately \$12.9 billion, up 4.3% from calendar year 2001. Year-to-date data as of September 2003 shows that the value of exports totaled approximately \$9.4 billion, a 2.7% drop from the same period in 2002.

Table B-6
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO
Calendar Years 1998 through 2002
(in billions)

<u>Calendar Year</u>	<u>Total Exports</u>
1998	\$ 9.8
1999	10.8
2000	12.7
2001	12.3
2002	12.9

Source: RAND California, Business and Economic Statistics.

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 B-7 lists the City's major employers. The list is compiled from information gathered by the City of San Diego. All of the businesses listed in the 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. The City makes no representation that the level of employment by these employers will continue or that such employer will be unaffected by economic downturns.

Table B-7
CITY OF SAN DIEGO
MAJOR EMPLOYERS⁽¹⁾
As of January 2003

Employer	Product/Service
10,000 or More Employees:	
San Diego Unified School District	Education
Sharp Health Care	Health Care
University of California, San Diego	Higher Education
5,000 - 9,999 Employees:	
Kaiser Permanente	Health Care
Qualcomm	Wireless Communications
San Diego Community College District	Higher Education
Scripps Health	Health Care
SBC/Pacific Bell	Utility
3,000 - 4,999 Employees:	
ADDECO Employment Services ²	Employment Services
Children's Hospital and Health Care	Health Care
Manpower Temporary Services	Employment Services
National Steel & Shipbuilding Company	Shipbuilding, Repair
Samsung ²	Electronics
San Diego State University	Higher Education
Science Applications International Corporation	Research and Development
Seaworld of California	Entertainment
Sempra Energy	Utility
Sony Technology Center	Electronics
UCSD Health Care	Health Care
United Parcel Service	Delivery Service
University of San Diego	Higher Education
2,000 - 2,999 Employees:	
Cox Communications	Communications
Grossmont-Cuyamaca Community College	Higher Education
Jack in the Box Inc.	Restaurants
Hewlett Packard Company ²	Electronic Instruments
Nordstrom	Department Store
Palomar Pomerado Health System	Health Care
Scripps Research Institute	Biomedical Research
Solar Turbines	Gas Turbine Manufacturing
Zoological Society of San Diego	Entertainment

(1) Does not include various major public employers, including the City, the County, the State, and the Federal Government with a combined total County employment of 221,000 as of January 2003.

(2) As of April 2002.

Source: City of San Diego.

Effective Buying Income

Table B-8 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1998 through 2002.

Table B-8
PER CAPITA EFFECTIVE BUYING INCOME⁽¹⁾
Calendar Years 1998 through 2002

Calendar <u>Year</u>	City of <u>San Diego</u>	County of <u>San Diego</u>	State of <u>California</u>	United <u>States</u>
1998	\$16,291	\$16,101	\$16,299	\$16,895
1999	17,443	17,270	17,245	17,691
2000	19,238	19,498	19,081	18,426
2001	19,723	19,092	18,652	18,491
2002	19,077	18,524	18,236	18,375

(1) Effective Buying Income is defined as the aggregate of wages, salaries, interest earnings, and all forms of public assistance income (such as Social Security and unemployment compensation) less personal tax payments, contributions to Social Security, and the value of income "in kind" from food stamps, public housing subsidies, medical care etc. Effective Buying Income is a proxy for "disposable" or "after-tax" income.

Source: Sales & Marketing Management Magazine "Survey of Buying Power".

Building Permits

Table B-9 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1999 through 2003. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects. The total valuation building permits in the City have grown by approximately 16% in the past 5 year period ended June 30, 2003. While data for Fiscal Year 2003, the latest data available, reflects a 9% drop in the valuation of building permits from Fiscal Year 2002, the decline was entirely due to a 40% drop in the valuation of non-residential building permits. The valuation of residential building permits continued to show a strong growth, with a 12% rise in the same period.

Table B-9
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1999 through 2003

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Valuation (in thousands)					
Residential	\$857,747	\$1,185,999	\$1,181,385	\$1,244,917	\$1,395,286
Nonresidential	<u>783,106</u>	<u>960,479</u>	<u>693,687</u>	<u>854,831</u>	<u>511,743</u>
Total	<u>\$1,640,853</u>	<u>\$2,146,478</u>	<u>\$1,875,072</u>	<u>\$2,099,748</u>	<u>\$1,907,029</u>
Number of New Dwelling Units:					
Single Family	2,612	2,084	2,075	2,347	2,351
Multiple Family	<u>2,856</u>	<u>5,662</u>	<u>3,829</u>	<u>4,000</u>	<u>5,272</u>
Total	<u>5,468</u>	<u>7,746</u>	<u>5,904</u>	<u>6,347</u>	<u>7,623</u>

Source: City of San Diego, Planning and Development Review Department.

Business Development Program

The City actively 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 San Diego Regional Economic Development Corporation, Sempra Energy, the San Diego Science and Technology Commission, and the San Diego Workforce Partnership. BEAR Program components include business incentives, targeted assistance, and sales and use tax rebates through the Business Cooperation Program, Business Outreach Program, and Business Finance Program.

A further element of the City's overall business development effort has focused on streamlining the permitting process and, when feasible, eliminating or reducing fees and permits. A major component of this streamlining effort has been to reduce development permit processing time by one-half.

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 1995, the City Council reduced the annual Business License Tax for all businesses with 12 or fewer employees to a flat fee of \$34 per business with no per employee charge. The City charges an annual fee of \$125 plus \$5 per employee for businesses with 13 or more employees.

Transportation

San Diego has a well-developed 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. Another major east-west connector, Route 56, is under construction; it is expected to be completed and open to traffic by summer 2004.

Public transportation through the City and surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). Starting July 2003, the San Diego Association of Governments took over project planning, finance, and other major functions, which were earlier controlled by MTDB. MTDB continues to be responsible for the day-to-day transit operations in the City and surrounding communities.

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.

Construction is in progress on the 6-mile Mission Valley East Trolley Extension. The project, scheduled for completion in 2004, will extend east from Qualcomm Stadium connecting Mission Valley with San Diego State University, La Mesa, and East County. The extension will include four new trolley stops, including a subterranean station at San Diego State University. The project is estimated to cost approximately \$435 million, including \$330 million in appropriations from the federal government. In

May 2003, the project received an additional \$63.9 million grant from the U.S. Department of Transportation.

A 43-mile Coaster Commuter rail line from Oceanside to downtown San Diego came into service in 1995. This line links the communities along the coast from Oceanside to Del Mar with downtown San Diego and is operated by North County Transit District.

Recently, MTDB granted the rights to operate an east-west rail line to the Carrizo Gorge Railway. It is anticipated that the line, which will connect San Diego and northern Baja California with the rest of Mexico and the United States, will open and begin shipping freight in calendar year 2003. This additional rail line will complement already existing rail service coming into San Diego County from the north and reduce shipping rates and times for companies moving products between San Diego, Mexico, and the Southwest.

In November 1987, voters approved Proposition A which, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City's budget for Fiscal Year 2004 included \$27.7 million in Proposition A funds. The one-half cent increase to the local sales tax, authorized by Proposition A, is scheduled to expire in 2008.

In June 1990, voters approved State Propositions 108, 111, and 116 which, 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. The City's budget for Fiscal Year 2004 included \$23.1 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.

Property Taxes

The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If not paid, the property is subject to default. Such property may be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1.5% per month from July 1 of the following year to the time of redemption. If

taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of the fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase in assessed value prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric and SBC Communications, Inc. In lieu of the property tax on these previously included assessed valuations, the City now receives from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

Table B-10 presents the assessed valuation within the City for each of the last ten Fiscal Years.

Table B-10
ASSESSED VALUATION^{(1) (2)}
Fiscal Years Ended June 30, 1994 through 2003
(in thousands except for percentages)

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemptions ⁽³⁾	Net Assessed Valuations ⁽⁴⁾⁽⁵⁾	Annual Assessed Valuation % Change
1994	\$60,586,129	\$4,218,892	\$ 64,805,021	\$2,360,741	\$ 62,444,280	1.13%
1995	60,939,995	4,371,923	65,311,918	2,420,027	62,891,891	0.72
1996	61,793,760	4,303,198	66,096,958	2,489,507	63,607,451	1.14
1997	61,893,902	4,353,543	66,247,445	2,355,174	63,892,271	0.45
1998	63,562,588	4,988,950	68,551,538	2,910,753	65,640,785	2.74
1999	68,648,609	5,337,916	73,986,525	2,994,814	70,991,711	8.15
2000	75,788,751	5,852,822	81,641,573	2,987,620	78,653,953	10.79
2001	82,195,239	6,347,101	88,542,340	3,249,480	85,292,860	8.44
2002	89,259,317	6,838,926	96,098,243	3,572,188	92,526,055	8.48
2003	96,534,652	6,959,602	103,494,254	3,189,764	100,304,490	8.41

(1) The official date of assessment is the first day of January preceding the Fiscal Year during which taxes are levied. For example, January 1, 2002 is the official assessment date for property taxes due during Fiscal Year 2003. The City receives preliminary estimates from the County Assessor in March and final assessment estimates in late June, or early July.

(2) Includes both locally assessed and State assessed utility property.

(3) Excludes homeowners' and business inventory exemptions.

(4) Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.

(5) The City does not participate in the Teeter Plan.

Source: City of San Diego Comprehensive Annual Financial Report, Fiscal Year 2002.

Table B-11 shows the City's secured tax collections for each of the ten Fiscal Years.

Table B-11
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 1993 through 2002
(in thousands except for percentages)

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Tax Levy</u> ⁽¹⁾	<u>Current Year</u> <u>Collections</u>	<u>Current Year</u> <u>Collections as</u> <u>Percentage of</u> <u>Current Tax Levy</u>	<u>Total Tax</u> <u>Collections</u>	<u>Total Collections as</u> <u>Percentage of</u> <u>Current Tax Levy</u> ⁽²⁾
1993	\$120,574	\$114,821	95.23%	\$119,867	99.41%
1994	109,881	105,911	96.39	110,738	100.78
1995	109,754	104,295	95.03	108,192	98.58
1996	111,281	108,137	97.18	110,513	99.31
1997	111,719	108,676	97.28	110,563	98.96
1998	116,912	114,311	97.78	117,429	100.44
1999	127,846	124,267	97.20	126,923	99.28
2000	141,963	137,859	97.11	140,225	98.78
2001	155,060	150,900	97.32	153,406	98.93
2002	167,077	163,357	97.77	165,446	99.02

(1) Commencing in Fiscal Year 1993, by action of the State Legislature, there was a permanent shift of some property taxes from cities to schools.

(2) Total Collections include unpaid taxes from previous years' tax levies collected in the current Fiscal Year.

Source: FY 1993 – 2001: City of San Diego Comprehensive Annual Financial Report.

FY 2002: County of San Diego.

APPENDIX C

FINANCIAL STATEMENTS OF OTAY INVESTORS, LLC

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OTAY INVESTORS, LLC
Balance Sheet (Accrual)
Consolidated Statement
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Cash	
Cash - Construction	316,705.71
Cash - Reserve	1,073,506.84
Cash - Money Market	32,126.24
Cash - Other	<u>202,440.32</u>
Total Cash	1,624,779.11
Other Current Assets	
Other Current Receivables	<u>31,718.71</u>
Total Other Current Assets	31,718.71
Total Current Assets	1,656,497.82
Investment in Real Estate	
Land	6,580,285.00
Land Improvements	6,912,093.51
Building	12,713.00
Closing/Cap Costs	<u>105,368.72</u>
Total Investment Real Estate	13,610,460.23
Other Assets	
Loan Costs	235,091.59
Organization Costs	<u>75,627.50</u>
Total Other Assets	310,719.09
TOTAL ASSETS	<u><u>15,577,677.14</u></u>
Current Liabilities	
Other Current Liabilities	<u>200,000.00</u>
Total Current Liabilities	200,000.00
Long Term Liabilities	
Mortgage Payable	
Original Mortgage Payable	<u>6,928,350.98</u>
Total Mortgage Payable	6,928,350.98
Security Deposits Payable	<u>56,347.48</u>
Total Long Term Liabilities	56,347.48
TOTAL LIABILITIES	<u>7,184,698.46</u>
Equity	
Owner's Distributions	-3,000,000.00
Owner's Contributions	11,425,000.00
Ptnr Contributions	250,000.00
Retained Earnings - Prior	<u>-282,021.32</u>
TOTAL EQUITY	8,392,978.68
TOTAL LIABILITIES & EQUITY	<u><u>15,577,677.14</u></u>

OTAY INVESTORS, LLC
Income Statement (Accrual)
Consolidated Statement
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	Month to Date	%	Year to Date	%
Other Income				
Interest Income	1,016.52	100.00	7,200.61	77.70
Miscellaneous	0.00	0.00	2,066.74	22.30
Total Other Income	1,016.52	100.00	9,267.35	100.00
TOTAL INCOME	1,016.52	100.00	9,267.35	100.00
Repairs and Maintenance				
Other R&M General Supplies	2,321.84	228.41	2,696.84	29.10
Other Contract Services	2,321.84	228.41	2,321.84	25.05
Total Repairs and Maintenance	4,643.68	456.82	5,018.68	54.15
Roads and Grounds				
Landscaping	-966.34	-95.06	160.10	1.73
Total Roads and Grounds	-966.34	-95.06	160.10	1.73
Administrative				
General Office Expense	48.03	4.72	506.79	5.47
Bad Debt Expense	0.00	0.00	1,070.79	11.55
Tenant Promotions/Advertising	1,163.63	114.47	1,121.90	12.11
Total Administrative	1,211.66	119.20	2,699.48	29.13
Management Costs				
Management Office Expense	1,080.90	106.33	5,232.74	56.46
Management Fees	5,000.00	491.87	60,000.00	647.43
Total Management Costs	6,080.90	598.21	65,232.74	703.90
Professional Fees				
Tax Services	5,650.00	555.82	5,650.00	60.97
Other Professional Fees	42.67	4.20	42.67	0.46
Total Professional Fees	5,692.67	560.02	5,692.67	61.43
Utilities				
Water/Sewer	46.30	4.55	282.44	3.05
Total Utilities	46.30	4.55	282.44	3.05
Taxes				
Real Estate Taxes	0.00	0.00	35,538.58	383.48
Other Tax	0.00	0.00	5,911.00	63.78
Total Taxes	0.00	0.00	41,449.58	447.26
TOTAL OPERATING COSTS	16,708.87	1,643.73	120,535.69	1,300.65
NET OPERATING INCOME (LOSS)	-15,692.35	-1,543.73	-111,268.34	-1,200.65
Inc. (Loss)/B Int,Amort,Grnd R	-15,692.35	-1,543.73	-111,268.34	-1,200.65
Income (Loss) B/Advisory Fees	-15,692.35	-1,543.73	-111,268.34	-1,200.65
NET INCOME (LOSS)	-15,692.35	-1,543.73	-111,268.34	-1,200.65

**Income Statement (Accrual)
Consolidated Statement
Jun 03**

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	<u>Month to Date</u>	<u>%</u>	<u>Year to Date</u>	<u>%</u>
Total of Totals	15,692.35	1,543.73	111,268.34	1,200.65

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APPENDIX D

SUMMARY OF INDENTURE

The following is a brief summary of certain provisions of the Indenture not otherwise summarized in the text of this Official Statement under the headings "THE BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Indenture in its entirety to which reference is made for the detailed provisions thereof.

DEFINITIONS

"Act" means, collectively, the Municipal Improvement Act of 1913 (Division 12 of the California Streets and Highways Code) and the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code).

"Administrative Expense Account" means the account within the Redemption Fund by that name established and held by the Trustee under the Indenture.

"Administrative Expenses" means the costs resulting from the administration and collection of Assessments, the administration or registration of the Bonds or the administration of the funds and accounts established under the Indenture, including the fees, costs and indemnifications due the Trustee or the City.

"Appraised Value" means the value of all or any portion of the property within the Assessment District, as set forth in a Qualified Appraisal Report prepared by a Qualified Appraiser.

"Assessed Valuation" means, with respect to any property, as of any date, the assessed valuation of such property, as such valuation is shown on the most recently equalized assessment roll.

"Assessment District" means the area designated "Assessment District No. 4096 (Piper Ranch)," formed by the City under the Act.

"Assessments" means the assessments levied within the Assessment District by the City Council under the proceedings taken pursuant to the Resolution of Intention.

"Auditor" means the auditor/controller of the County, or such other official of the County who is responsible for preparing property tax bills.

"Authorized Representative" means, with respect to the City, the Assistant City Manager of the City, the Deputy City Manager of the City and the City Treasurer, and his or her designees, and any other Person designated as an Authorized Representative in a Written Certificate of City filed with the Trustee.

"Beneficial Owner" means, whenever used with respect to a Bond, the person whose name is recorded as the beneficial owner of such Bond or a portion of such Bond by a Participant on the records of such Participant or such person's subrogee.

"Book-Entry Bonds" means the Bonds registered in the name of the nominee of DTC, or any successor securities depository for the Bonds, as the registered owner thereof in accordance with the Indenture.

"Bond Counsel" means a firm of nationally recognized bond counsel selected by the City and acceptable to the Trustee.

"Bond Year" means each twelve-month period beginning on September 3 in each year and extending to the next succeeding September 2, both dates inclusive; except that the first Bond Year shall begin on the Closing Date and end on September 2, 2004.

“Bonds” means the City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds issued under the Indenture.

“Business Day” means any day other than (a) a Saturday, Sunday or legal holiday, (b) a day on which banking institutions in the State of California or in any state in which the Office of the Trustee is located are authorized or required by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

“Capitalized Interest Account” means the account within the Redemption Fund by that name established and held by the Trustee under the Indenture.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Bonds.

“City” means the City of San Diego, and any successor thereto.

“City Clerk” means the City Clerk of the City.

“City Continuing Disclosure Certificate” means the Continuing Disclosure Certificate, dated as of December 15, 2003, executed by the City, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“City Council” means the City Council of the City.

“Closing Date” means January 14, 2004.

“Code” means the Internal Revenue Code of 1986.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the proceedings with respect to the Assessment District and the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee under the Indenture.

“County” means the County of San Diego.

“Deemed Escrow Bonds” means, as of any date of determination, Special Term Bonds in a principal amount equal to the amount then on deposit in the Deemed Escrow Bonds Account (excluding any investment earnings allocable to such amount).

“Deemed Escrow Bonds Account” means the account by that name within the Escrow Fund established and held by the Trustee under the Indenture.

“Developer” means the Piper Ranch LLC, and any successor thereto.

“Developer Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of December 15, 2003, by and between the Developer and the Trustee, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Bonds, including any such successor appointed in accordance with the Indenture.

“Escrow Disbursement Date” means the date on which amounts are transferred from the Escrow Interest Account and the Deemed Escrow Bonds Account in accordance with the Indenture; there shall be only one Escrow Disbursement Date.

“Escrow Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Escrow Interest Account” means the account by that name within the Escrow Fund established and held by the Trustee under the Indenture.

“Escrow Redemption Date” means September 2, 2005, the date on which Special Term Bonds are subject to mandatory redemption, in whole or in part, from and to the extent of any transfers from the Deemed Escrow Bonds Account to the Redemption Account in accordance with the Indenture.

“Federal Securities” means any of the following which at the time of investment are determined by the City to be legal investments under the laws of the State of California for the funds proposed to be invested therein: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City.

“Improvement Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Indenture” means the Indenture, as originally executed or as it may from time to time be amended or supplemented by any Supplemental Indenture.

“Independent Consultant” means any consultant or firm of such consultants selected by the City and who, or each of whom (a) is generally recognized to be qualified in the financial consulting field; (b) is in fact independent and not under the domination of the City; (c) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property within the Assessment District, or any real property within the Assessment District; and (d) is not connected with the City as an officer or employee thereof, but who may be regularly retained to make reports to the City.

“Interest Payment Dates” means March 2 and September 2 of each year, commencing September 2, 2004, so long as any Bonds remain Outstanding.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and specified to the Trustee in writing.

“Office of the Trustee” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the City by the Trustee in writing.

“Original Purchaser” means Stone & Youngberg LLC, as the original purchaser of the Bonds.

“Other District Bonds” means, as of the date of determination, any and all bonds, notes or other evidences of indebtedness issued under the Mello-Roos Community Facilities Act of 1982 then outstanding and payable at least partially from special taxes to be levied on parcels of property within the Assessment District.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions for disqualification of Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) disqualified under the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

“Participant” means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

“Participating Underwriter” has the meaning ascribed thereto in the City Continuing Disclosure Certificate and the Developer Continuing Disclosure Agreement.

“Permitted Investments” means the following:

- A. Federal Securities.
- B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - a. Farmers Home Administration (FmHA)- Certificates of beneficial ownership
 - b. Federal Financing Bank
 - c. Federal Housing Administration Debentures (FHA)
 - d. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
- C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself);
 - a. Federal Home Loan Bank System (FHLB)- Senior debt obligations
 - b. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) Participation Certificates or Senior debt obligations
 - c. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
 - d. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations
 - e. Resolution Funding Corp. (REFCORP) obligations
 - f. Federal Farm Credit System (FFCB)
Consolidated systemwide bonds and notes

- g. Tennessee Valley Authority (TVA)- Senior debt obligations
- h. Farmer Mac (FMAC)- notes.

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating of AAAM-G or AAA-m by S&P or a rating of Aaa by Moody's.

E. Negotiable Certificates of deposit issued by nationally or state-chartered bank or a state or federal savings institution or a state-licensed branch of a foreign bank (Yankee) with a maximum maturity of three years and having long-term ratings, at the time of purchase, equivalent to an "A" rating category by at least two nationally recognized statistical-rating organizations (NRSRO), e.g. "A1" by Moody's, "A" by S&P.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC.

G. Commercial paper (with maturities of not more than 270 days) rated, at the time of purchase, in the highest short-term rating category by at least two nationally recognized statistical-rating organizations (NRSRO), e.g. "P-1" by Moody's, "A-1" by S&P.

H. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

I. Bankers acceptances with a maximum term of one year issued by a bank which has an unsecured, uninsured and non-guaranteed obligation rating of "P-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

J. The Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code or any similar pooled investment fund administered by the State, to the extent such investment is held in the name and to the credit of the Trustee.

K. Repurchase Agreements, which must follow the following criteria:

a. Repurchase Agreements must be between the Trustee or the City and a major bank or primary dealer securities firm as the counter-party.

b. The counter-party, if a primary dealer, must be a reporting dealer to the Federal Reserve which is rated "A" or better by S&P and Moody's, or a major bank rated "A" or above by S&P and Moody's.

c. The Repurchase Agreement must meet the following criteria:

i. Securities which are acceptable for transfer as collateral are defined in paragraphs A-C, above.

ii. The term of the Repurchase Agreement may be up to 365 days.

iii. The collateral must be delivered to the City or the Trustee (if the Trustee is not supplying the collateral) or a third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

iv. The Repurchase Agreement may include an evergreen provision to permit the reinvestment of funds for additional consecutive periods not to exceed 365 days.

d. Valuation of Collateral:

i. The securities must be valued weekly, marked-to market at current market plus accrued interest.

ii. The value of collateral must be equal to 104% of the amount of cash transferred by the City or the Trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the City or the Trustee, then additional cash and/or acceptable securities must be transferred.

L. Any investment agreements (including Guaranteed Investment Contracts and Forward Purchase/Delivery Agreements) with a financial institution or insurer (provider) which must meet the following criteria:

a. If the investment agreement is uncollateralized the provider of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of “Aa” by Moody’s and “AA” by S&P.

b. If the investment agreement is fully collateralized the provider of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of “A” by both Moody’s and S&P. Securities which are acceptable for collateralization are defined in paragraphs A-C, above.

c. The investment agreement must be supported by appropriate opinions of counsel.

d. Meet the requirements of the City or the rating agency (if required).

M. Any cash sweep or similar account arrangement of or available to the Trustee, the investment of which are limited to investments described in paragraphs A through C, above, or repurchase agreements secured by any one or more obligations described paragraphs A through C, above, and any money market fund, the entire investments of which are limited to investments described in paragraphs A through C, above, or repurchase agreements secured by any one or more obligations described in paragraphs A through C, above, and which money market fund is rated by their respective highest rating categories by Moody’s and S&P.

“Person” means an individual, corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prepayment Account” means the account within the Redemption Fund by that name established and held by the Trustee under the Indenture.

“Project” means the improvements to be constructed and acquired described in the Resolution of Intention.

“Qualified Appraisal Report” means a real estate appraisal report which (a) has been prepared by a Qualified Appraiser; (b) uses a date of value that is no earlier than six months prior to the date on which the value reported in such appraisal report is used in accordance with the provisions of the Indenture; (c) is prepared in accordance with the applicable standards of the Appraisal Institute for such reports; and (d) is prepared in accordance with the applicable guidelines of the California Debt and Investment Advisory Commission for such reports, as such guidelines are in effect on the Closing Date.

“Qualified Appraiser” means a real estate appraiser (a) selected by the City, and (b) having an “MAI” designation from the Appraisal Institute.

“Rebate Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Rebate Requirement” has the meaning ascribed thereto in the Tax Certificate.

“Record Date” means the 15th calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day.

“Redemption Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Redemption Price” means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds under the Indenture.

“Representation Letter” means the Letter of Representations from the City to DTC, or any successor securities depository for the Bonds, in which the City makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

“Reserve Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Reserve Requirement” means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds; (b) maximum annual debt service on the Bonds; and (c) 125% of average annual debt service on the Bonds. Provided, however, that, in calculating such amounts, the principal amount of the Deemed Escrow Bonds, as of such date of calculation, and the annual debt service thereon, shall be excluded.

“Resolution of Intention” means Resolution No. R-297756 adopted by the City Council on March 24, 2003.

“Resolution of Issuance” means that resolution adopted by the City Council on December 8, 2003, authorizing the issuance of the Bonds.

“S&P” means Standard & Poor’s Ratings Services, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and specified to the Trustee in writing.

“Special Term Bonds” means Bonds maturing September 2, 2033 and assigned CUSIP number 797283SR0.

“Supplemental Indenture” means any indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means the Tax Certificate executed by the City at the time of issuance of the Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Transferred Principal Amount” means the amount to be transferred from the Deemed Escrow Bonds Account on the Escrow Disbursement Date, which amount shall be \$5,000 or an integral multiple of \$5,000.

“Treasurer” means the Treasurer of the City, or a designee thereof.

“Trustee” means Union Bank of California, N.A., a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture, appointed as provided in the Indenture.

“Written Certificate” and “Written Request” of the City mean, respectively, a written certificate or written request signed in the name of the City by its Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

THE BONDS

General. The City authorizes the issuance of the Bonds under and subject to the terms of the Resolution of Issuance and the Indenture, the Act and other applicable laws of the State of California for the purpose of providing a portion of the moneys to finance the construction and acquisition of the Project. The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee. Payment of principal of and premium, if any, on any Bond shall be made only upon presentation and surrender of such Bond at the Office of the Trustee.

The Indenture shall be deemed to be and shall constitute a contract among the City, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered under the Indenture and then Outstanding to secure the full and final payment of the principal of, premium, if any, and interest on all Bonds which may from time to time be authorized, executed, issued and delivered under the Indenture, subject to the agreements, conditions, covenants and provisions contained in the Indenture; and all agreements and covenants set forth in the Indenture to be performed by or on behalf of the City shall be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided in the Indenture or therein.

Transfer and Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount, in any authorized denomination. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations. The Trustee shall require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds under the Indenture during the 15 day period preceding the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall be open to inspection during regular business hours and upon 24 hours notice by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

Book-Entry Bonds. (a) Except as provided in subparagraph (c) under this caption, the registered Owner of all of the Bonds shall be DTC and the Bonds shall be registered in the name of Cede & Co., as nominee for DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Bond registered as of each Record Date in the name of Cede & Co. shall be made by wire transfer of same-day funds to

the account of Cede & Co. on the payment date for the Bonds at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

(b) The Bonds shall be initially issued in the form of separate single fully registered Bonds in the amount of each separate stated maturity of the Bonds. Upon initial issuance, the ownership of such Bonds shall be registered in the Registration Books in the name of Cede & Co., as nominee of DTC. The Trustee and the City may treat DTC (or its nominee) as the sole and exclusive Owner of the Bonds registered in its name for the purposes of payment of the principal, Redemption Price or interest with respect to the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners of Bonds under the Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Owners of Bonds and for all other purposes whatsoever, and neither the Trustee nor the City shall be affected by any notice to the contrary. Neither the Trustee nor the City shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, Redemption Price or interest with respect to the Bonds; any notice which is permitted or required to be given to Owners of Bonds under the Indenture; the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; or any consent given or other action taken by DTC as Owner of Bonds. The Trustee shall pay all principal, premium, if any, and interest with respect to the Bonds, only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal, premium, if any, and interest with respect to the Bonds to the extent of the sum or sums so paid. Except under the conditions of (c) below, no person other than DTC shall receive an executed Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Indenture with respect to record dates, the term "Cede & Co." in the Indenture shall refer to such new nominee of DTC.

(c) In the event (i) DTC, including any successor as securities depository for the Bonds, determines not to continue to act as securities depository for the Bonds; or (ii) the City determines that the incumbent securities depository shall no longer so act, and delivers a written certificate to the Trustee to that effect, then the City will discontinue the book-entry system with the incumbent securities depository for the Bonds. If the City determines to replace the incumbent securities depository for the Bonds with another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate fully registered Bond for the aggregate outstanding principal amount of Bonds of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the City, the Trustee and the successor securities depository for the Bonds as are not inconsistent with the terms of the Indenture. If the City fails to identify another qualified successor securities depository of the Bonds to replace the incumbent securities depository, then the Bonds shall no longer be restricted to being registered in the 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 for the Bonds, or its nominee, shall designate. In such event the Trustee shall authenticate and deliver a sufficient quantity of Bonds as to carry out the transfers and exchanges under the Indenture. All such Bonds shall be in fully registered form in denominations authorized by the Indenture.

(d) Notwithstanding any other provision of the Indenture to the contrary, so long as any Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest 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.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the City or the Trustee with respect to any consent or other action to be taken by Owners, the City or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

Refunding of Bonds. The Bonds may be refunded by the City under Divisions 11 or 11.5 of the California Streets and Highways Code upon the conditions set forth in proceedings therefor, all as determined by the City Council.

ISSUANCE OF BONDS

Costs of Issuance Fund. The Indenture establishes a separate fund to be known as the “Costs of Issuance Fund,” which shall be held by the Trustee in trust. On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount specified in the Official Statement under the caption “ESTIMATED SOURCES AND USES OF FUNDS.”

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the City stating (a) the Person to whom payment is to be made; (b) the amount to be paid; (c) the purpose for which the obligation was incurred; (d) that such payment is a proper charge against the Costs of Issuance Fund; and (e) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund; in each case together with a statement or invoice for each amount requested thereunder. On June 1, 2004, all amounts remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Improvement Fund and the Costs of Issuance Fund shall be closed.

Improvement Fund. The Indenture establishes a separate fund to be known as the “Improvement Fund,” which shall be held by the Trustee in trust. On the Closing Date, the Trustee shall deposit in the Improvement Fund the amount specified in the Official Statement under the caption “ESTIMATED SOURCES AND USES OF FUNDS.”

The moneys in the Improvement Fund shall be used and withdrawn by the Trustee from time to time to pay the costs of the Project. The moneys in the Improvement Fund shall be withdrawn by the Trustee upon submission of a Written Request of the City stating (a) the Person to whom payment is to be made; (b) the amount to be paid; (c) the purpose for which the obligation was incurred; (d) that such payment constitutes a cost of the Project and is a proper charge against the Improvement Fund; and (e) that such amounts have not been the subject of a prior disbursement from the Improvement Fund, in each case together with a statement or invoice for each amount requested thereunder.

Upon the filing of a Written Certificate of the City (x) stating that the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, or (y) stating that the Project has been substantially completed and that all remaining costs of the Project have been determined and specifying the amount to be retained therefor, the Trustee shall transfer and apply the amount, if any, remaining in the Improvement Fund (less any such retention) as directed in said Written Certificate, which directions shall be prepared in accordance with the provisions of Sections 10427 and 10427.1 of the Act, and the Improvement Fund shall be closed.

REDEMPTION OF BONDS

General. The Bonds are subject to optional and mandatory redemption prior to maturity as set forth in this Official Statement under the caption “THE BONDS – Redemption of the Bonds.” The Special Term Bonds are subject to mandatory redemption prior to maturity on the Escrow Redemption Date of September 2, 2005 as set forth under the caption “THE BONDS – Redemption of the Bonds.”

Mandatory Redemption from Escrow Fund Transfers. The Special Term Bonds shall be subject to mandatory redemption, in whole or in part, on the Escrow Redemption Date, from and to the extent of any transfers from the Deemed Escrow Bonds Account to the Prepayment Account in accordance with the Indenture, at a Redemption Price equal to the principal amount of the Special Term Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption.

Notice of Redemption. The Trustee on behalf of the District shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books at least 30 but not more than 60 days prior to the Redemption Date. Such notice shall state the date of the notice, the redemption date, the redemption place and the Redemption Price and shall designate the CUSIP numbers, the Bond numbers (except in the event of redemption of all of the Bonds of a maturity or

maturities in whole) and the maturity or maturities of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the Redemption Date. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the sufficiency of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the Redemption Date.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to any redemption as provided under the Indenture for the optional redemption of Bonds, among maturities as directed in a Written Request of the City; and (b) with respect to any redemption as a result of the prepayment of Assessments as provided under the Indenture, among maturities on a *pro rata* basis as nearly as practicable, and by lot among Bonds with the same maturity in such manner as shall be determined by the Trustee. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof a new Bond or Bonds of authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption. Notice having been mailed as aforesaid, and moneys for the redemption (including the interest to the applicable Redemption Date and including any applicable premium), having been deposited in the Redemption Fund or Prepayment Account, as applicable, the Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said Redemption Date, moneys for the redemption of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture shall be canceled upon surrender thereof and the Trustee shall deliver a certificate of destruction to the City.

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge and Assignment. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Assessments (including prepayments thereof), together with interest thereon (but excluding any penalty and interest charges imposed upon delinquent Assessments), and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund and the Administrative Expense Account) are under the Indenture pledged by the City to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge shall constitute a first lien on such assets. The Assessments, and any reassessments which may be issued thereon or in lieu thereof, together with interest thereon, shall remain and constitute a trust fund for the redemption and payment of the Bonds and the interest thereon.

Redemption Fund. (a) The Trustee shall establish, maintain and hold in trust a special fund designated the "Redemption Fund." Within the Redemption Fund, the Trustee shall establish and maintain a separate account designated the "Capitalized Interest Account." On the Closing Date, the Trustee shall deposit in the Capitalized Interest Account the amount specified in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS." Except as otherwise provided in the Indenture, the Trustee shall deposit in the Redemption Fund all Assessments (including prepayments thereof), together with interest thereon, and any other amounts required to be deposited therein by the Indenture or the Act (excluding any penalty and interest charges imposed upon delinquent Assessments).

(b) On or before each Interest Payment Date, the Trustee shall withdraw from the Redemption Fund for payment to the Owners of the Bonds the principal, if any, of and interest then due and payable on the Bonds; including principal due and payable by reason of mandatory sinking fund redemption of such Bonds as provided under the Indenture. Five Business Days prior to each Interest Payment Date, the Trustee shall determine if the amounts then on deposit in the Redemption Fund are sufficient to pay the principal, if any, of and interest due on the Bonds on such Interest Payment Date. In the event that amounts in the Redemption Fund are insufficient for such purpose, the Trustee, on or before such Interest Payment Date, shall withdraw from the Reserve Fund to the extent of any funds therein the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Redemption Fund. Amounts so withdrawn from the Reserve Fund and deposited in the Redemption Fund shall be applied to the payment of the Bonds. If, after the foregoing transfer, there are insufficient funds in the Redemption Fund to pay the principal, if any, of and interest on the Bonds, the Trustee shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal of the Bonds.

On September 2, 2004 all amounts on deposit in the Capitalized Interest Account shall be transferred to the Redemption Fund.

Prepayment Account. The Trustee shall establish and maintain a special account within the Redemption Fund designated the "Prepayment Account." The Trustee shall deposit in the Prepayment Account amounts received from the City representing the proceeds of the prepayment of any Assessment. Additionally, the Trustee shall deposit in the Prepayment Account amounts received from the City in connection with the City's exercise of its rights to optionally redeem Bonds as provided under the Indenture and amounts transferred from the Deemed Escrow Bonds Account in accordance with the Indenture.

Amounts in the Prepayment Account shall be disbursed therefrom for the payment of the Redemption Price of Bonds redeemed in accordance with the Indenture.

Administrative Expense Account. The Trustee shall establish and maintain a special account within the Redemption Fund designated the "Administrative Expense Account." On the Closing Date, the Trustee shall deposit in the Administrative Expense Account the amount specified in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS." Additionally, the Trustee shall deposit in the Administrative Expense Account amounts collected for Administrative Expenses.

The moneys in the Administrative Expense Account shall be used and withdrawn by the Trustee from time to time to pay Administrative Expenses upon submission of a Written Request of the City stating (a) the Person to whom payment is to be made; (b) the amount to be paid; (c) the purpose for which the obligation was incurred; (d) that such payment constitutes a Continuing Cost of the Bonds and is a proper charge against the Administrative Expense Account; and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Account; in each case together with a statement or invoice for each amount requested thereunder.

Reserve Fund. (a) The Trustee shall establish, maintain and hold in trust a special fund designated the "Reserve Fund." On the Closing Date, the Trustee shall deposit in the Reserve Fund the amount specified in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS." Additional deposits shall be made by the City as provided in the Act.

The City shall cause the Reserve Fund to be administered in accordance with Part 16 of the Act; provided, however, that proceeds from redemption or sale of properties, if and to the extent that payment of delinquent Assessments and interest thereon was made from the Reserve Fund, shall be credited to the Reserve Fund.

(b) Except as otherwise provided in this section, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Redemption Fund in the event of any deficiency at any time in the Redemption Fund of the amount then required for payment of the principal of, premium, if any, and interest on the Bonds or, in accordance with the provisions of this section, for the purpose of redeeming Bonds from the Redemption Fund.

(c) Transfers shall be made from the Reserve Fund to the Redemption Fund in the event of a deficiency in the Redemption Fund, as described under “*Redemption Fund*” above.

(d) Whenever, after the issuance of the Bonds, an Assessment is prepaid, in whole or in part, as provided in the Act, the Trustee, pursuant to a Written Request of the City, shall transfer from the Reserve Fund to the Prepayment Account an amount, specified in such Written Request, equal to the product of the ratio of the original amount of the Assessment, or portion thereof, so prepaid to the original amount of all unpaid Assessments, times the initial Reserve Requirement.

(e) So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on February 15 and August 15 of each year shall be withdrawn from the Reserve Fund by the Trustee and, prior to the date on which the Improvement Fund is closed in accordance with the Indenture, shall be deposited in the Improvement Fund and, thereafter, shall be deposited in the Redemption Fund.

(f) Whenever the balance in the Reserve Fund is sufficient to retire all the Outstanding Bonds, whether by advance retirement or otherwise, collection of the principal and interest on the Assessments shall be discontinued and the Reserve Fund shall be liquidated by the Trustee in retirement of the Outstanding Bonds, as directed by a Written Request of the City. In the event that the balance in the Reserve Fund at the time of liquidation exceeds the amount required to retire all of the Outstanding Bonds, the excess shall, after payment of amounts due to the Trustee, be transferred to the City to be used in accordance with the Act.

Escrow Fund. (a) The Trustee shall establish and maintain a special fund designated the “Escrow Fund.” Within the Escrow Fund, the Trustee shall establish and maintain a separate account designated the “Deemed Escrow Bonds Account” and a separate account designated the “Escrow Interest Account.” On the Closing Date there shall be deposited (i) in the Deemed Escrow Bonds Account the amount specified in the Official Statement under the caption “ESTIMATED SOURCES AND USES OF FUNDS”, and (ii) in the Escrow Interest Account the amount specified in the Official Statement under the caption “ESTIMATED SOURCES AND USES OF FUNDS.”

(b) On the second Business Day immediately preceding each Interest Payment Date occurring on or prior to the Escrow Redemption Date, the Trustee shall transfer from the Escrow Interest Account to the Redemption Fund an amount equal to the interest payable on the Deemed Escrow Bonds on such Interest Payment Date.

(c) On the Escrow Disbursement Date, upon receipt by the Trustee of all of the items specified in the following subsection (d), the Trustee shall make the following transfers:

(i) The Trustee shall transfer from the Escrow Interest Account to the Improvement Fund the amount specified in the certificate of the Independent Consultant delivered pursuant to the following subsection (d) as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(B) of the following subsection (d)).

(ii) The Trustee shall transfer from the Deemed Escrow Bonds Account to the Reserve Fund the amount specified in the certificate of the Independent Consultant delivered pursuant to the following subsection (d) as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(C) of the following subsection (d)).

(iii) The Trustee shall transfer from the Deemed Escrow Bonds Account to the Redemption Fund the amount, if any, specified in the certificate of the Independent Consultant delivered pursuant to the following subsection (d) as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraphs (iii)(D) of the following subsection (d)).

(iv) The Trustee shall transfer from the Deemed Escrow Bonds Account to the Improvement Fund the amount specified in the certificate of the Independent Consultant delivered pursuant to the following subsection (d) as the amount to be so transferred (which amount is the amount calculated pursuant to subparagraph (iii)(E) of the following subsection (d)).

(d) Transfers shall be made on the Escrow Disbursement Date pursuant to the preceding subsection (c) only if, no later than ten Business Days prior to the Escrow Disbursement Date, the Trustee has received all of the following:

(i) a Written Certificate of the City specifying the Escrow Disbursement Date, which shall be a date (A) no less than 75 days prior to the Escrow Redemption Date, and (B) no less than five Business Days prior to the Interest Payment Date next occurring after the date of receipt by the Trustee of such Written Certificate of the City;

(ii) a Written Certificate of the City certifying that, on the basis of the records of the County Tax Collector available to the City or information provided to the City by the County Tax Collector, there are no current defaults in the payment of any *ad valorem* real property taxes or special taxes or special assessments levied on property within the Assessment District owned by the Developer or its affiliates;

(iii) a certificate or certificates from one or more Independent Consultants which, when taken together, certify:

(A) the Transferred Principal Amount, which constitutes the amount to be transferred from the Deemed Escrow Bonds Account on the Escrow Disbursement Date;

(B) the amount to be transferred from the Escrow Interest Account to the Improvement Fund on the Escrow Disbursement Date, which amount shall be equal to the sum of (I) the product of (aa) a fraction, the numerator of which is equal to the Transferred Principal Amount and the denominator of which is equal to the amount on deposit in the Deemed Escrow Bonds Account on the day prior to the Escrow Disbursement Date, times (bb) the amount on deposit in the Escrow Interest Account on the day prior to the Escrow Disbursement Date;

(C) the portion of the Transferred Principal Amount that is to be transferred to the Reserve Fund on the Escrow Disbursement Date, which portion shall be an amount equal to the remainder of (I) the Reserve Requirement (calculated as if the principal amount of the Deemed Escrow Bonds had been reduced by virtue of such Transferred Principal Amount having already been transferred from the Deemed Escrow Bonds Account), less (II) the Reserve Requirement (calculated based on the principal amount of the Deemed Escrow Bonds just prior to such Transferred Principal Amount being transferred from the Deemed Escrow Bonds Account);

(D) the portion, if any, of the Transferred Principal Amount to be transferred to the Redemption Fund on the Escrow Disbursement Date, which portion shall be an amount which is sufficient to pay interest on a portion of the Bonds in a principal amount equal to the Transferred Principal Amount (which portion of the Bonds shall be deemed to be comprised of the Special Term Bonds) on each Interest Payment Date that will occur before Assessments can be enrolled and collected in an amount sufficient to pay such interest;

(E) the portion of the Transferred Principal Amount to be transferred to the Improvement Fund, which portion shall be an amount equal to the remainder of (I) the Transferred Principal Amount, less (II) the sum of (aa) the amount to be transferred to the Reserve Fund pursuant to the preceding paragraph (C), plus (bb) the amount, if any, to be transferred to the Redemption Fund pursuant to the preceding paragraph (D);

(F) that the sum of (I) the Assessed Valuation of parcels of property within the Assessment District for which a Qualified Appraisal Report has not been provided, plus (II) the Appraised Value of parcels of property within the Assessment District for which a Qualified Appraisal Report has been provided, as such Appraised Value is shown in such

Qualified Appraisal Report, is at least 3.5 times the sum of (aa) the aggregate principal amount of all Outstanding Bonds other than the Deemed Escrow Bonds (assuming that the principal amount of the Deemed Escrow Bonds is reduced by virtue of the transfer of the Transferred Principal Amount from the Deemed Escrow Bonds Account on the Escrow Disbursement Date), plus (bb) the aggregate principal amount of all fixed lien special assessments (other than the Assessments) levied on parcels of property within the Assessment District, based upon information from the most recent Fiscal Year for which such information is available, plus (cc) a portion of the aggregate principal amount of Other District Bonds equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of property within the Assessment District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent Fiscal Year for which such information is available.

(e) On the Business Day immediately preceding the Escrow Redemption Date, the Trustee shall transfer all amounts then on deposit in the Deemed Escrow Bonds Account to the Prepayment Account, which amounts shall be applied to the redemption of Bonds on the Escrow Redemption Date in accordance with the Indenture. On the Business Day immediately following the Escrow Redemption Date, the Trustee shall transfer any amounts remaining in any of the accounts in the Escrow Fund to the Redemption Fund.

Rebate Fund. (a) The Trustee shall establish and maintain a special fund designated the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the City. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds as provided under the Indenture or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this section and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in this section, shall be withdrawn by the Trustee and shall be transferred to the City to be expended for any lawful purpose of the City.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the City two Business Days prior to the making of such investment. Moneys in all funds and accounts shall be invested in Permitted Investments maturing not later than the date on which the City estimates that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds and, provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the City, the Trustee shall invest any funds held by it in Permitted Investments described in clause “D” of the definition thereof.

Subject to certain tax covenants under the Indenture and in the Tax Certificate, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Capitalized Interest Account, the Deemed Escrow Bonds Account and the Escrow Interest Account) shall be retained therein. Subject to such tax covenants under the Indenture and in the Tax Certificate, all interest, profits and other income received from the investment of moneys in the Capitalized Interest Account, the Deemed Escrow Bonds Account or the Escrow Interest Account shall, as and when received, prior to the date the Written Certificate

of the City described above under the caption "ISSUANCE OF BONDS – Improvement Fund" is received by the Trustee, be deposited in the Improvement Fund and, thereafter, be deposited in the Redemption Fund.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture shall be credited to such fund. All investments of amounts deposited in any fund or account created by or pursuant to the Indenture shall be acquired, disposed of, and valued at fair market value.

The Trustee or an affiliate thereof may act as principal or agent in the making or disposing of any investment and shall be entitled to its reasonable and customary fee therefor. Upon the Written Request of the City, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to this section. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

The Trustee shall be entitled to rely conclusively upon the Written Request of the City directing as to the fact that each such investment is permitted by the laws of the State of California, and shall not be required to make further investigation with respect thereto. With respect to any legal requirement embodied in any of the above types of investments (e.g., the existence, validity and perfection of security interests in collateral), the Trustee may conclusively rely on an opinion of counsel or a Written Certificate of the City, that such requirement has been satisfied.

COLLECTION AND APPLICATION OF ASSESSMENTS; PARTICULAR COVENANTS

Collection and Application of Assessments. (a) The City shall comply with all requirements of the Act, the Resolution of Issuance and the Indenture to assure the timely collection of the Assessments, and interest thereon, including, without limitation, the enforcement of delinquent Assessments. Any funds received by the City in and for the Assessment District (excluding any penalty and interest charges imposed upon delinquent Assessments), including, but not limited to, collections of Assessments (including prepayments thereof), and interest thereon, upon the secured tax rolls, collections of delinquent Assessments through foreclosure proceedings or otherwise, and collections of amounts for Administrative Expenses, shall as soon as practicable be transmitted directly to the Trustee, without deduction, to be deposited into the funds and accounts in the Indenture specified. The transfer of any such amounts shall be accompanied by a Written Certificate of the City that identifies which portion, if any, of the amounts so transferred constitute Assessments, or interest thereon, or prepayments of Assessments or amounts collected for Administrative Expenses.

(b) The Assessments and interest thereon, shall be payable and be collected in the same manner at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property. The Assessments, together with the interest thereon, shall be payable in annual series corresponding in number to the number of series of Bonds. An annual proportion of each Assessment, together with interest thereon, shall be payable in each year preceding the date of maturity of each of the several series of Bonds in an amount sufficient to pay such Bonds (other than Deemed Escrow Bonds), and interest thereon, when due. In addition, the City shall, in accordance with and subject to the limitations contained in the report for the Assessment District and in Section 8682 and Section 8682.1 of the Act, cause to be included in the annual assessment roll an amount estimated to be sufficient to pay Administrative Expenses for the following annual period.

The City shall, before the final date on which the Auditor will accept the transmission of the Assessments for inclusion on the next tax roll, prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the installments of such Assessments, together with interest thereon, and Administrative Expenses on the next secured tax roll of the County.

All sums received from the collection of the Assessments and of the interest thereon (excluding any penalty and interest charges imposed upon delinquent Assessments) shall be transferred by the City to the Trustee for deposit in the Redemption Fund. All amounts collected by the City for Administrative Expenses shall be transferred

by the City to the Trustee for deposit in the Administrative Expense Account. Any prepayments of Assessments shall be transferred by the City to the Trustee for deposit in the Prepayment Account; provided, however, that amounts attributable to the administrative costs of the prepayment of Assessments shall be transferred by the City to the Trustee for deposit in the Administrative Expense Account.

(c) Any Assessment may be prepaid at any time by paying, in whole or part, the unpaid amount thereof less, if available, the amount transferred to the Redemption Fund from the Reserve Fund in accordance with the Indenture, if any, together with the redemption premium, if any, as provided in the Indenture under the terms for Mandatory Redemption from Assessment Prepayments, and interest on such prepaid Assessment (if not collected in an Assessment installment) to the earliest Redemption Date for which notice of redemption may be given as provided in the Indenture.

Foreclosure. The City covenants that it will determine or cause to be determined, no later than August 15 of each Fiscal Year in which the Bonds are Outstanding, whether or not any owners of the real property within the Assessment District are delinquent in the payment of Assessment installments. If such delinquencies exist, the City shall order and cause to be commenced an action in the Superior Court to foreclose the lien of an Assessment or installment thereof not paid when due, not later than the next following November 1, against any parcel that is subject to delinquencies of more than \$12,500 or any group of parcels under common ownership with aggregate delinquencies of more than \$12,500; provided, however, that during any period in which the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the City shall commence foreclosure proceedings against any parcel that is subject to delinquencies of more than \$10,000 or any group of parcels under common ownership with aggregate delinquencies of more than \$10,000.

The City further covenants to diligently prosecute any such foreclosure action to judgment and foreclosure sale.

Upon the redemption or sale of the real property responsible for such delinquencies, the City shall apply the net proceeds thereof to: (a) deposit to the Reserve Fund the amount of any delinquency advanced therefrom in accordance with the Indenture; and (b) the balance, if any, shall be disbursed as set forth in the judgment of foreclosure or as required by law.

No Advances from Available Funds. The City shall not be obligated to advance available funds of the City to cure any deficiency which may occur in the Redemption Fund; provided, however, that said determination shall not prevent the City, in its sole discretion, from so advancing such funds.

Punctual Payment. The City shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Assessments and other assets pledged for such payment as provided in the Indenture and received by the City or the Trustee.

Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this section shall be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The City shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Assessments and other assets pledged under the Indenture while any of the Bonds are Outstanding.

Power to Issue Bonds and Make Pledge. The City is duly authorized pursuant to the Act to issue the Bonds and to enter into the Indenture and to pledge the Assessments and other assets purported to be pledged under

the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding obligations of the City in accordance with their terms, and the City and the Trustee (subject to the provisions thereof) shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Assessments and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with trust industry standards, in which complete and accurate entries shall be made of all transactions relating to the proceeds of the Bonds, the Assessments and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the City, during regular business hours and upon 24 hours' notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the City a monthly accounting of the funds and accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver such accounting for any fund or account that has a balance of zero.

Waiver of Laws. The City shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is under the Indenture expressly waived by the City to the extent permitted by law.

Tax Covenants. (a) The City shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the City shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. This covenant shall survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the City is of the opinion that for purposes of this section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the City shall so instruct the Trustee in writing, and the Trustee shall act in accordance with such instructions.

(c) Notwithstanding any provisions of this section, if the City shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this section and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure. The City under the Indenture covenants and agrees that it will comply with and carry out all of the provisions of the City Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the City Continuing Disclosure Certificate shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

The Trustee and the Developer have entered into the Developer Continuing Disclosure Agreement. The Trustee under the Indenture covenants and agrees that it will comply with and carry out all of the provisions of the Developer Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Developer or the Trustee to comply with the Developer Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default. The following events shall be Events of Default:

- (a) Failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise.
- (b) Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.
- (c) Failure by the City to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the City by the Trustee or the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 60 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the City within such 60 day period and the City shall thereafter diligently and in good faith cure such failure in a reasonable period of time.
- (d) The City shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

No Acceleration; Foreclosure. The principal of the Bonds shall not be subject to acceleration under the Indenture. If any Event of Default shall occur in the payment of principal of or interest on the Bonds then, and in each and every such case during the continuance of such Event of Default, the Trustee may or at the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall, commence foreclosure against any parcels of real property in the Assessment District with delinquent Assessments, or delinquent payments of interest thereon, or delinquent payments of amounts for Administrative Expenses, as provided in Section 8830 et. seq. of the Act.

Other Remedies. If an Event of Default shall have occurred under the Indenture, the Trustee shall have the right:

- (a) by mandamus, suit, action or proceeding, to compel the City and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by the Act;
- (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners' rights; or
- (c) upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the City and its officers and employees to account as if it and they were the trustees of an express trust.

Application of Assessments and Other Funds After Default. If an Event of Default shall occur and be continuing, all Assessments, and interest thereon (excluding any penalty and interest charges imposed upon delinquent Assessments), and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall, subject to the provisions of the Act, be applied by the Trustee as follows and in the following order:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(c) Any remaining funds shall be transferred by the Trustee to the Redemption Fund.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture; provided, however, that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bonds, unless (a) such Owner shall have 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 the Bonds then Outstanding, shall have made written request upon the Trustee to exercise the powers in the Indenture before granted or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity 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 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 under the Indenture declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of City. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as in the Indenture provided, but only out of the Assessments and other assets in the Indenture pledged therefor and received by the City or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the City, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

TRUSTEE

Duties and Liabilities of Trustee. (a) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) ***Removal of Trustee.*** The City may upon 30 days' prior written notice remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and the City shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) ***Resignation of Trustee.*** The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City, and to the Bond Owners at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(d) ***Appointment of Successor Trustee.*** Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that under any circumstances the successor Trustee shall be qualified as provided in subsection (e) of this section. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee under the Indenture, and after payment by the City of all unpaid fees and expenses of the predecessor Trustee, the such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and

obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then maintains a rating on the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(e) *Qualifications of Trustee.* The Trustee shall be a trust company or bank having the powers of a trust company, having (or if such bank or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state agency. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this section.

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under subsection (e) under the caption “*Duties and Liabilities of Trustee*” above, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the City, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or of the Bonds or shall incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to (i) the issuance of the Bonds for value; (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee; or (iii) the application of any moneys paid to the City or others in accordance with the Indenture except as the application of any moneys paid to it in its capacity as Trustee. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. The Trustee and its officers and employees may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith; provided, however, the Trustee shall in no event delay any payment with respect to the Bonds in anticipation of any such opinion.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the City, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during business hours and upon 24 hours' notice to the inspection of the City, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. Subject to the provisions of the Indenture, the City shall pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture. Subject to the provisions of the Indenture, the City further agrees, to the extent permitted by law, to indemnify, defend and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Indenture and under any related documents, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the City to indemnify and compensate the Trustee shall survive the termination and discharge of the Indenture and the resignation or removal of the Trustee.

MODIFICATION OR AMENDMENT

Amendments Permitted. (a) The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof, or reduce the interest rate borne thereby, or extend or accelerate the time of payment thereof; or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment; or (iii) permit the creation of any lien on the Assessments and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Assessments and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding.

(b) The Indenture and the rights and obligations of the City, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City

and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City in the Indenture contained, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(v) in any other respect whatsoever as the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture.

(c) Promptly after the execution by the City and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the City), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution and delivery of any Supplemental Indenture in accordance with the terms of the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the City, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture in accordance with the terms of the Indenture may, and if the City so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

DEFEASANCE

Discharge of Indenture. If the City shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and therein, then the Owners of such Bonds shall cease to be entitled to the

pledge of the Assessments and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the City to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the City all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the City shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the City or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the City under the Indenture shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the City.

Bonds Deemed To Have Been Paid. If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds shall be deemed to have been paid within the meaning and with the effect of discharge and defeasance under the Indenture. Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect of discharge and defeasance under the Indenture if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the City shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (b) there shall have been deposited with the Trustee either (i) money in an amount which shall be sufficient, or (ii) non-callable Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, shall be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bonds, which sufficiency shall be verified in a report of an independent firm of nationally recognized certified public accountants; and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that such Bonds, are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, shall be repaid to the City free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

MISCELLANEOUS

Limited Obligation. All obligations of the City under the Indenture and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Assessments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds. Notwithstanding any other provision of the Indenture, the City is not obligated to advance available funds from the City treasury to cure any deficiency in the Redemption Fund.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and Bond Owners. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the City and the Owners of the Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee shall, upon the Written Request of the City, in lieu of such cancellation and delivery, destroy such Bonds.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The City under the Indenture declares that it would have entered into the Indenture and each and every other section, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the City if made in the manner provided in this section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged may be regarded as Outstanding for the purposes of this section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with industry standards to the extent practicable, and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under the Indenture.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

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APPENDIX E

BOOK-ENTRY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Bonds, and other Bonds-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof.

The Depository Trust Company – Book-Entry Only System

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

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

ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

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

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered. Further, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

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

Discontinuance of DTC Services

In the event (i) DTC, including any successor as securities depository for the Bonds, determines not to continue to act as securities depository for the Bonds, or (ii) the City determines that the incumbent securities depository shall no longer so act, and delivers a written certificate to the Trustee to that effect, then the City will discontinue the book-entry system with the incumbent securities depository for the Bonds. If the City determines to replace the incumbent securities depository for the Bonds with another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate fully registered Bond for the aggregate outstanding principal amount of Bonds of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the City, the Trustee and the successor securities depository for the Bonds as are not inconsistent with the terms of the Indenture. If the City fails to identify another qualified successor securities depository of the Bonds to replace the incumbent securities depository, then the Bonds shall no longer be restricted to being registered in the 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 for the Bonds, or its nominee, shall designate. In such event the Trustee shall authenticate and deliver a sufficient quantity of Bonds as to carry out the transfers and exchanges provided in the Indenture. All such Bonds shall be in fully registered form in denominations authorized by the Indenture.

Notwithstanding any other provision of the Indenture to the contrary, so long as any Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest 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.

In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the City or the Trustee with respect to any consent or other action to be taken by Owners, the City or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

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APPENDIX F

FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS

FORM OF CITY CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated as of December 15, 2003, is executed and delivered by the CITY OF SAN DIEGO, a chartered city and municipal corporation organized and existing under and by virtue of the Constitution and laws of the State of California and its Charter (the “City”).

W I T N E S S E T H :

WHEREAS, pursuant to an Indenture, dated as of December 15, 2003 (the “Indenture”), by and between the City and the Union Bank of California, N.A., as trustee (the “Trustee”), the City has issued \$5,430,000 aggregate principal amount of City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds (the “Bonds”); and

WHEREAS, this Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the underwriters of the Bonds in complying with S.E.C. Rule 15c2-12(b)(5);

NOW, THEREFORE, for the benefit of the holders and beneficial owners of the Bonds, the City hereby promises and covenants as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 2 and 3 hereof.

“Disclosure Representative” means the Deputy City Manager, the City Treasurer or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent (if other than the City) from time to time.

“Dissemination Agent” means the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Listed Events” means any of the events listed in Section 4(a) hereof.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” means the Official Statement, dated December 17, 2003, relating to the Bonds.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” means each National Repository and each State Repository.

“Rule” means 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” means 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 Certificate, there is no State Repository.

Section 2. Provision of Annual Reports. (a) The City shall, or, if the City is not the Dissemination Agent, the City shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than eight months after the end of the City’s fiscal year (which currently would be April 1), commencing with the report for the 2002-03 fiscal year. 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 3 hereof; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(f) hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if the City is not the Dissemination Agent).

(c) If the Dissemination Agent does not provide an Annual Report to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, 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;

(ii) if the Dissemination Agent is the City, provide the Annual Report to each Repository, as provided herein and, if the Dissemination Agent is not the City, provide any Annual Report received by it to each Repository, as provided herein; and

(iii) if the Dissemination Agent is not the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(e) if the City is the Dissemination Agent, the City shall, or, if the City is not the Dissemination Agent, if received by the Dissemination Agent, the Dissemination Agent shall, provide an Annual Report to each Participating Underwriter described on Exhibit B attached hereto at the time such Annual Report is provided to the Repositories in accordance with this Section.

Section 3. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to that used for the City's audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The information described below:

(i) The principal amount of Bonds Outstanding as of December 31 of the prior calendar year.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement, as of December 31 of the prior calendar year.

(iii) The balance in the Improvement Fund as of December 31 of the prior calendar year.

(iv) The Assessment delinquency rate for the District as of December 31 of the prior calendar year; the number of parcels within the District delinquent in payment of Assessments as of December 31 of the prior calendar year; the amount of each delinquency; the length of time delinquent and the date on which foreclosure was commenced, or similar information pertaining to delinquencies deemed appropriate by the City; provided, however, that parcels with delinquencies of \$1,000 or less may be grouped together and such information may be provided by category.

(v) The status of foreclosure proceedings and a summary of the results of any foreclosure sales as of December 31 of the prior calendar year.

(vi) The identity of any property owner, representing more than 5% of the Assessment levy, delinquent in payment of Assessments as of December 31 of the prior calendar year.

(vii) An update, as of December 31 of the prior calendar year, of the information contained in Table 1 of the Official Statement.

(c) In addition to any of the information expressly required to be provided under subsections (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City 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 City shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the City 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) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (vii) Modifications to rights of Bond holders.
- (viii) Contingent or unscheduled Bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the Bonds.
- (xi) Rating changes.

(b) If the Dissemination Agent is not the City, the Dissemination Agent shall, before the close of the business day following the business day on which it obtains actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) of this Section.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) of this Section or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the City is not the Dissemination Agent and the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the City shall promptly notify the Dissemination Agent in writing; such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section.

(e) If the City is not the Dissemination Agent and, in response to a request under subsection (b) of this Section, the City determines that the Listed Event would not be material under applicable federal securities law, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f) of this Section.

(f) If the City is the Dissemination Agent and the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to each Participating Underwriter described on Exhibit B attached hereto.

If the City is not the Dissemination Agent and the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to each Participating Underwriter described on Exhibit B attached hereto.

Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

Section 5. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 4(f) hereof.

Section 6. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

Section 7. Amendment; Waiver. Notwithstanding any other provision hereof, the City may amend this Disclosure Certificate, and any provision hereof may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders; or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of holders.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information 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. The comparison shall include a 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 statements or information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4(f) hereof.

Section 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall), or any holder 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 City or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Trustee, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 11. Counterparts. This Disclosure Certificate 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.

IN WITNESS WHEREOF, the City has executed this Disclosure Certificate as of the date first above written.

CITY OF SAN DIEGO

By: _____

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO
FILE ANNUAL REPORT**

Name of Issuer: City of San Diego

Name of Bond Issue: City of San Diego Assessment District No. 4096 (Piper Ranch) Limited
Obligation Improvement Bonds

Date of Issuance: January 14, 2004

NOTICE IS HEREBY GIVEN that the City of San Diego (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.11 of the Indenture, dated as of December 15, 2003, by and between the City and Union Bank of California, N.A., as Trustee. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

City of San Diego

EXHIBIT B

PARTICIPATING UNDERWRITERS

Stone & Youngberg LLC
One Ferry Building
San Francisco, California 94111
Attention: Municipal Research Department

FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”), dated as of December 15, 2003, is by and between PIPER RANCH LLC, a Delaware limited liability corporation (the “Developer”), and UNION BANK OF CALIFORNIA, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, as trustee (the “Trustee”).

W I T N E S S E T H:

WHEREAS, pursuant to an Indenture, dated as of December 15, 2003 (the “Indenture”), by and between the City of San Diego (the “City”) and the Trustee, the City has issued \$5,430,000 aggregate principal amount of City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds (the “Bonds”);

WHEREAS, the Bonds are payable from and secured by assessments levied on certain of the property within City of San Diego Assessment District No. 4096 (Piper Ranch) (the “Assessment District”);

WHEREAS, the Developer is the owner of the property within the Assessment District and is acting as the master developer of the property; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Developer and the Trustee for the benefit of the holders and beneficial owners of the Bonds and in order to assist the underwriters of the Bonds in complying with S.E.C. Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 12. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

“**Affiliate**” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person, (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“**Annual Report**” means any Annual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

“Annual Report Date” means the date in each year that is four months after the end of the Developer’s fiscal year (December 31) which date, as of the date of this Disclosure Agreement, is May 1.

“Assumption Agreement” means an agreement between a Major Developer, or an Affiliate thereof, and the Trustee containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide annual reports and notices of significant events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

“Bond Counsel” means an attorney or a firm of attorneys whose experience in matters relating to the issuance of obligations by the states and their political subdivisions and the tax-exempt status of the interest thereon is recognized nationally.

“Developer” means Piper Ranch LLC, a Delaware limited liability company, and its successors.

“Development Plan” means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to the portion of the Property owned by such Major Developer in order for such portion of the Property to reach the Planned Development Stage, the time frame in which such improvements are intended to be made and the estimated costs of such improvements; the Developer’s Development Plan, as of the date hereof, is described in the Official Statement under the caption “THE ASSESSMENT DISTRICT – Property Ownership and Development – *The Development.*”

“Dissemination Agent” means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Trustee a written acceptance of such designation.

“Event of Bankruptcy” means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person’s debts or obligations, or offers to such Person’s creditors to effect a composition or extension of time to pay such Person’s debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person’s debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person’s creditors.

“Financing Plan” means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan; the Developer’s Financing Plan, as of the date hereof, is described in

the Official Statement under the caption “THE ASSESSMENT DISTRICT – Property Ownership and Development – *Development and Financing Plans.*”

“Financial Statements” means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business) identified in such Major Developer’s Development Plan as a source of funding for such Major Developer’s Development Plan; provided that, if such financial statements or reports are otherwise prepared as audited financial statements or reports, then Financial Statements means such audited financial statements or reports.

“Listed Events” means any of the events listed in Section 5(a) hereof.

“Major Developer” means any Property Owner, including the Developer, which owns Property that has not reached the Planned Development Stage that, together with Property that has not reached the Planned Development Stage owned by Affiliates of such Property Owner, is subject to 20% or more of the total Assessment on all of the Property in the District.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” means the Official Statement, dated December 17, 2003, relating to the Bonds.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Planned Development Stage” means, (a) with respect to any portion of the Property which the Developer intends to present to the marketplace for sale as finished pads, is the stage at which construction of such pads is completed and such portion of the Property is conveyed to the purchaser thereof (other than a purchaser that is an Affiliate of the Developer or other Major Developer conveying such portion of the Property), and (b) with respect to any portion of the Property on which the Developer intends to construct, or cause to be constructed, buildings or other commercial or industrial facilities, the stage at which certificates of occupancy have been issued by the City for all of such buildings or other facilities on such portion of the Property.

“Property” means the real property within the boundaries of the Assessment District that is not exempt from real property taxes.

“Property Owner” means any Person that owns a fee interest in any portion of the Property.

“Repository” means each National Repository and each State Repository.

“Rule” means 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.

“Semi-Annual Report” means any Semi-Annual Report provided by the Developer pursuant to, and as described in, Section 4 hereof.

“Semi-Annual Report Date” means the date in each year that is ten months after the end of the Developer’s fiscal year (December 31) which date, as of the date of this Disclosure Agreement, is November 1.

“Semi-Annual Reporting Period” means the six-month period ending on June 30.

“State Repository” means 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.

Section 13. Provision of Annual Reports. (a) The Developer shall provide, or cause to be provided, to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing May 1, 2004. 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 3 hereof; provided, however, that if audited Financial Statements are required to be provided, such audited Financial Statements may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date.

(a) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Developer shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Developer and the Dissemination Agent to determine if the Developer is in compliance with the first sentence of this subsection (b).

(b) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) 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;

(ii) provide any Annual Report received by it to each Repository, as provided herein; and

(iii) file a report with the City and the Developer 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 to which it was provided.

(a) The Developer shall, or if received by the Dissemination Agent, the Dissemination Agent shall, provide an Annual Report to each entity described on Exhibit B attached hereto at the time such Annual Report is provided to the Repositories in accordance with this Section.

Section 14. Content of Annual Reports. The Developer's Annual Report shall contain or incorporate by reference the following:

(a) Financial Statements for each Major Developer prepared in accordance with generally accepted accounting principles, as in effect from time to time. If audited Financial Statements are required to be provided, and such audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited Financial Statements, and the audited Financial Statements shall be filed in the same manner as the Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

(b) The following information with respect to each Major Developer:

(i) If information regarding such Major Developer has not previously been included in an Annual Report or in the Official Statement, the Development Plan of such Major Developer or, if information regarding such Major Developer has previously been included in an Annual Report or in the Official Statement, a description of the progress made in the Development Plan of such Major Developer since the date of such information and a description of any significant changes in such Development Plan and the causes or rationale for such changes.

(ii) If information regarding such Major Developer has not previously been included in an Annual Report or in the Official Statement, the Financing Plan of such Major Developer or, if information regarding such Major Developer has previously been included in an Annual Report or in the Official Statement, a description of any significant changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.

(iii) A description of any sales of portions of such Major Developer's Property during the fiscal year covered by such Annual Report, including the identification of each buyer and the number of acres sold.

(iv) A description of any buildings or other commercial or industrial facilities constructed by or on behalf of such Major Developer for which certificates of occupancy were received during the fiscal year covered by such

Annual Report and, if a lease with respect to any of such facilities was entered into during such fiscal year, the identification of the lessee and the number of square feet leased.

(v) A description of how many acres of Property were owned by such Major Developer as of the end of the fiscal year covered by such Annual Report, how many acres of such Major Developer's Property reached the Planned Development Stage during such fiscal year and how many acres of such Major Developer's Property had not reached the Planned Development Stage as of the end of such fiscal year.

(vi) A description of the remaining capacity, as of the end of the fiscal year covered by such Annual Report, in any lines of credit or other credit facilities identified in the Financing Plan of such Major Developer as a source of funding for such Major Developer's Development Plan.

(vii) An update of the status of any previously reported Listed Event described in Section 5 hereof.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Information for any or all of the items listed above may be combined for Major Developers that are Affiliates of each other. Any or all of the items listed above may be included by specific reference to other documents 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 Developer shall clearly identify each such other document so included by reference.

Section 15. Semi-Annual Reports. (a) The Developer's Semi-Annual Report shall contain or incorporate by reference the following information with respect to each Major Developer:

(i) a description of any sales of portions of such Major Developer's Property during the most recently ended Semi-Annual Reporting Period, including the identification of each buyer and the number of acres sold.

(ii) A description of any building or other commercial or industrial facilities constructed by or on behalf of such Major Developer for which certificates of occupancy were received during the most recently ended Semi-Annual Reporting Period and, if a lease with respect to any of such facilities was entered into during such Semi-Annual Reporting Period, the identification of the lessee and the number of square feet leased.

(iii) a statement as to whether or not such Major Developer and all of its Affiliates paid, prior to their becoming delinquent, all Assessment Installments levied on

the Property owned by such Major Developer and such Affiliates payable during the most recently ended Semi-Annual Reporting Period, and if such Major Developer or any of such Affiliates is delinquent in the payment of such Assessment Installments, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(iv) a description of any significant changes in the Development Plan of such Major Developer and the causes or rationale for such changes.

(v) a description of any significant changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.

In addition to such information expressly required to be included in the Semi-Annual Report, the Developer shall provide such further information, if any, as may be necessary to make the statements contained in such expressly required information, in the light of the circumstances under which they are made, not misleading.

(b) The Developer shall, or, upon receipt of such Semi-Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository a Semi-Annual Report which is consistent with the requirements of subsection (a), not later than each Semi-Annual Report Date, commencing November 1, 2004.

(c) Not later than 15 business days prior to the date specified in subsection (b) for providing a Semi-Annual Report to Repositories, the Developer shall provide such Semi-Annual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Semi-Annual Report, the Trustee shall contact the Developer and the Dissemination Agent to inquire if the Developer is in compliance with the first sentence of this subsection (c).

(d) The Dissemination Agent shall:

(i) determine prior to the date for providing the Semi-Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) provide any Semi-Annual Report received by it to each Repository, as provided herein; and

(iii) file a report with the Developer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) The Developer shall, or if received by the Dissemination Agent, the Dissemination Agent shall, provide each Semi-Annual Report to each entity described on Exhibit B attached hereto at the time such Semi-Annual Report is provided to the Repositories in accordance with this Section.

Section 16. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the Developer shall promptly give, or cause to be given notice of the occurrence of any of the following events with respect to each Major Developer:

(i) Any conveyance by such Major Developer of Property owned by such Major Developer to an entity that is not an Affiliate of such Major Developer, the result of which conveyance is to cause the transferee to become a Major Developer.

(ii) Any failure of such Major Developer, or any Affiliate of such Major Developer, to pay when due general property taxes or assessments with respect to its Property.

(iii) Any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay Assessment Installments when due.

(iv) The occurrence of an Event of Bankruptcy with respect to such Major Developer, or any Affiliate of such Major Developer, that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay Assessment Installments when due.

(v) Any significant amendments to land use entitlements for such Major Developer's Property, if material.

(vi) Any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Major Developer's Property, if material.

(vii) Any previously undisclosed legislative, administrative or judicial challenges to development on such Major Developer's Property, if material.

(viii) Any changes, if material, in the alignment, design or likelihood of completion of significant public improvements affecting such Major Developer's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities.

(ix) The assumption of any obligations by a Major Developer pursuant to Section 6 hereof.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (c).

(c) If the Trustee has been instructed by the Developer to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository.

Section 17. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement.

Section 18. Termination of Reporting Obligation. All of the Developer's obligations hereunder shall terminate (except as provided in Section 12 hereof) upon the legal defeasance, prior redemption or payment in full of all the Bonds. The Developer's obligations under this Disclosure Agreement with respect to a Major Developer (including its obligations with respect to itself as a Major Developer) shall terminate upon the earliest to occur of (a) the date on which such Major Developer is no longer a Major Developer, as defined herein, (b) the date on which the Developer's obligations with respect to such Major Developer are assumed under an Assumption Agreement entered into pursuant to Section 6 hereof, and (c) the date on which all Assessments levied on the Property owned by such Major Developer and its Affiliates are paid or prepaid in full; provided however, upon the occurrence of any of the events described in clauses (a) through (c), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event under Section 5 hereof.

Section 19. Dissemination Agent. The Developer 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 at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. If the Dissemination Agent is other than the Trustee, the Developer shall be responsible for paying the fees and expense of such Dissemination Agent.

Section 20. Amendment; Waiver. Notwithstanding any other provision hereof, the Developer and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Developer), and any provision hereof may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 2(a), 3 or 4 hereof, it may 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 (as defined in the Rule) with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of Bond Counsel approved by the City, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of Bond Counsel approved by the City, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

As required by the Rule, if an amendment is made to the provisions hereof specifying the accounting principles to be followed in preparing Financial Statements, the annual financial information 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. The comparison shall include a 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. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the manner as for a Listed Event under Section 5 hereof.

Section 21. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Developer 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 Developer 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 Developer 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.

Section 22. Default. In the event of a failure of the Developer to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall), or any holder 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 Developer or the Trustee, as the case may be, 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 Developer or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 23. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.

Neither the Trustee nor the Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have any responsibility for the content of any Annual Report. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Developer agrees to indemnify and save the Dissemination Agent (if other than the Trustee), its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to such Dissemination Agent's negligence or willful misconduct. The obligations of the Developer under this Section shall survive resignation or removal of such Dissemination Agent and payment of the Bonds.

Section 24. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Developer, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 25. 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.

IN WITNESS WHEREOF, the parties have executed this Disclosure Agreement as of the date first written above.

PIPER RANCH LLC

By: _____

**UNION BANK OF CALIFORNIA, N.A.,
AS TRUSTEE**

By: _____

Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING
BOARD OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligated Person: Piper Ranch LLC

Name of Bond Issue: City of San Diego Assessment District No. 4096 (Piper Ranch)
Limited Obligation Improvement Bonds

Date of Issuance: January 14, 2004

NOTICE IS HEREBY GIVEN that Piper Ranch LLC, Inc. has not provided an Annual Report with respect to the above-named Bonds as required by Section 2 of the Continuing Disclosure Agreement, dated as of December 15, 2003, by and between Piper Ranch LLC and Union Bank of California, N.A., as Trustee. [Piper Ranch LLC anticipates that the Annual Report will be filed by _____.]

Dated: _____

Union Bank of California, N.A., as
Trustee, on behalf of Piper Ranch LLC

cc: City of San Diego

EXHIBIT B

PARTICIPATING UNDERWRITERS

Stone & Youngberg LLC
One Ferry Building
San Francisco, California 94111
Attention: Municipal Research Department

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final opinion with respect to the Bonds in substantially the following form:

[Date of Delivery]

City of San Diego
202 C Street
San Diego, California 92101

City of San Diego
Assessment District No. 4096 (Piper Ranch)
Limited Obligation Improvement Bonds
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of San Diego (the “Issuer”) of \$5,430,000 aggregate principal amount of City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds (the “Bonds”) pursuant to the provisions of the Municipal Improvement Act of 1913, Sections 1000 *et seq.* of the California Streets and Highways Code, and the Improvement Bond Act of 1915, Sections 8500 *et seq.* of the California Streets and Highways Code (collectively, the “Act”) and the Indenture, dated as of December 15, 2003 (the “Indenture”) by and between the City and Union Bank of California, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Issuer dated the date hereof (the “Tax Certificate”), an opinion of counsel to the Issuer, certifications of the Issuer and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with this issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer.

We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against chartered cities and municipal corporations in the State of California. We express no opinion on the plans, specifications, maps and other engineering details of the proceedings, or upon the validity of the individual separate assessments securing the Bonds which validity depends, in addition to the legal steps required, upon the accuracy of certain of the engineering details. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special assessment obligations of the Issuer, payable solely from and secured by the unpaid assessments and certain funds held under the Indenture.
2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the City.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership of disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

