

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 1998 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION — Tax Exemption" herein.

NEW ISSUE—BOOK-ENTRY ONLY

**RATINGS: S&P: "AAA"
Moody's: "Aaa"
(See "RATINGS" herein)**

\$59,465,000
CITY OF SAN DIEGO
Community Facilities District No. 1
(Miramar Ranch North)
Special Tax Refunding Bonds, Series 1998

Dated: July 1, 1998

Due: September 1, as described below

The City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998 (the "Series 1998 Bonds") are being issued to provide funds (1) to refund and defease the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City of San Diego Special Tax Bonds, 1991 Series A (the "1991 Series A Bonds") and the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City of San Diego Special Tax Bonds, 1995 Series B (the "1995 Series B Bonds") and, together with the 1991 Series A Bonds, the "Prior Bonds") which financed the public improvements within the District, (2) to establish a reserve fund for the Series 1998 Bonds and (3) to pay the costs of issuing the Series 1998 Bonds. See "PLAN OF REFUNDING" and "DESCRIPTION OF THE PROJECT" herein. Pursuant to the Indenture, additional bonds may be issued on a parity basis with the Series 1998 Bonds to refund any outstanding bonds under the Indenture. The Series 1998 Bonds and any additional bonds are referred to herein as the "Bonds."

The Series 1998 Bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 (the "Act") and are issued pursuant to an Indenture, dated as June 1, 1998 (the "Indenture"), by and between U.S. Bank Trust National Association, as trustee (the "Trustee") and the City of San Diego Community Facilities District No. 1 (the "District"). The Bonds will, subject to the terms of the Indenture, be secured by all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the Reserve Fund, the Redemption Fund and the Extraordinary Special Tax Account, in accordance with their terms, the provisions of the Indenture and the Act. The Special Tax will be collected in the same manner and at the same time as *ad valorem* property taxes are collected by the Treasurer-Tax Collector of the County of San Diego, State of California.

The Series 1998 Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest is payable semiannually on March 1 and September 1 of each year (commencing March 1, 1999). Purchasers will not receive certificates representing their interest in the Series 1998 Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 1998 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 1998 Bonds. See "THE SERIES 1998 BONDS" herein.

The Series 1998 Bonds are subject to redemption prior to maturity as described herein.

The scheduled payment principal of and interest on the Series 1998 Bonds when due will be guaranteed by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series 1998 Bonds as described herein.



Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture) or of the State of California, or any political subdivision thereof is pledged to the payment of the Series 1998 Bonds.

\$33,645,000 Serial Bonds							
Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Maturity Date (September 1)	Principal Amount	Interest Rate	Yield
1999	\$1,250,000	4.250%	3.700%	2007	\$2,315,000	4.250%	4.450%
2000	1,755,000	3.750	3.850	2008	2,415,000	4.375	4.500
2001	1,820,000	3.800	3.950	2009	2,520,000	4.500	4.550
2002	1,895,000	4.000	4.050	2010	1,010,000	5.000	4.650
2003	1,970,000	4.000	4.100	2010	1,625,000	4.500	4.650
2004	2,045,000	4.125	4.200	2011	2,755,000	4.700	4.750
2005	2,130,000	4.250	4.300	2012	2,050,000	5.250	4.850
2006	2,220,000	4.250	4.350	2012	840,000	4.750	4.850
				2013	3,030,000	5.375	4.950

\$25,820,000 4.750% Term Bonds Due September 1, 2020 - Priced to Yield 5.160%
(Plus Accrued Interest from July 1, 1998)

This cover page contains certain information for quick reference only. It is not a summary of this offering. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 1998 Bonds are offered when, as and if issued and delivered to the Underwriters, subject to the 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 Underwriters by O'Melveny & Myers LLP and for the District by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel. It is anticipated that the Series 1998 Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about July 14, 1998.

PaineWebber Incorporated

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

Dated: June 24, 1998

**CITY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 1
(MIRAMAR RANCH NORTH)**

CITY COUNCIL

Susan Golding, *Mayor*

Harry Mathis	Barbara Warden
Byron Wear	Valerie Stallings
Christine Kehoe	Judy McCarty
George Stevens	Juan Vargas

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
*Financial and Technical Services
Business Center
Deputy City Manager*

Charles Abdelnour
City Clerk

Conny M. Jamison
City Treasurer

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Trustee

U.S. Bank Trust National Association
Los Angeles, California

Special Tax Consultant

Dick Jacobs Associates
San Diego, California

Appraiser

Lipman Stevens Marshall & Thene, Inc.
San Diego, California

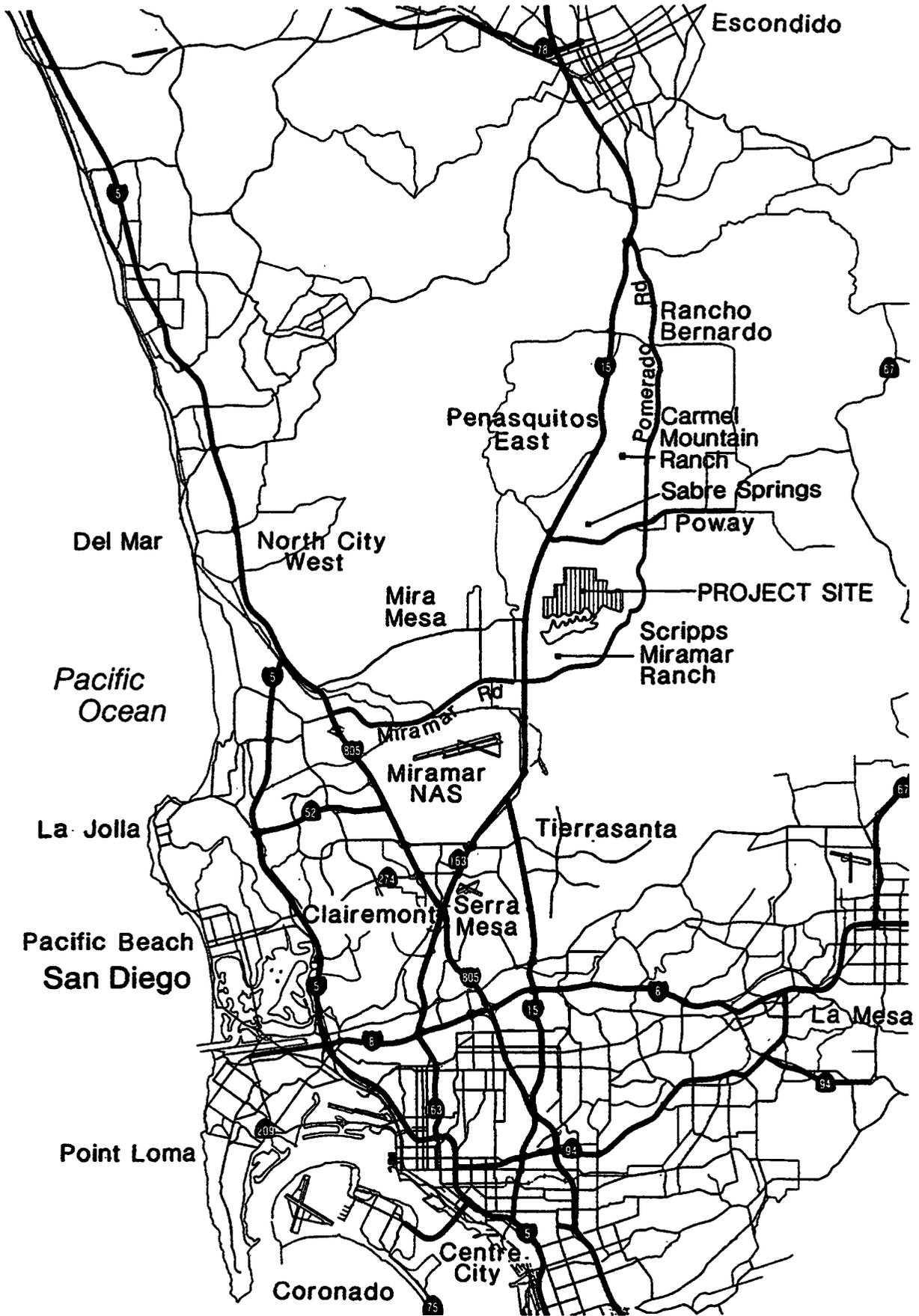
No dealer, broker, salesperson or other person has been authorized by the City, the District or the Underwriters to give any information or to make any representations with respect to the Series 1998 Bonds other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 1998 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 1998 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of such by the City, the District or the Underwriters. The information and expression of opinions stated herein are subject to change without notice, and neither delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the District, the Project or major property owners since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Office of the City Clerk of the City for further information in connection therewith.

This Official Statement is submitted in connection with the sale of the Series 1998 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 1998 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 1998 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.



Vicinity Map SCRIPPS RANCH VILLAGES

NO SCALE 




**SCRIPPS RANCH
VILLAGES**
SAN DIEGO, CALIFORNIA
MAY 1998

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OFFICIAL STATEMENT

\$59,465,000

**CITY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 1
(MIRAMAR RANCH NORTH)
SPECIAL TAX REFUNDING BONDS, SERIES 1998**

INTRODUCTORY STATEMENT

General

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by Community Facilities District No. 1 (Miramar Ranch North) of the City of San Diego, County of San Diego, State of California (the "District"), of \$59,465,000 aggregate principal amount of its bonds, designated City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998 (the "Series 1998 Bonds"). The Series 1998 Bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and to the Indenture of Trust, (the "Indenture") dated as of June 1, 1998, between the District and U.S. Bank Trust National Association, as trustee (the "Trustee"). The Series 1998 Bonds shall be issued only as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof and shall be dated as of and bear interest from July 1, 1998, at the rates set forth on the cover page hereof.

Brief descriptions of the Series 1998 Bonds, the Security for the Bond Bonds, the District, and the status of development within the District are included in this Official Statement together with summaries of certain provisions of the Series 1998 Bonds and the Indenture. See "THE INDENTURE." Such descriptions do not purport to be comprehensive or definitive. Capitalized and undefined terms used herein shall have the meanings ascribed thereto in the Indenture. All references herein to the Indenture are qualified in their entirety by reference to such document, copies of which are available for inspection at the Office of the City Clerk of the City.

Amount and Purpose of the Series 1998 Bonds

The Series 1998 Bonds are being issued to provide funds (1) to refund and defease the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City Of San Diego Special Tax Bonds, 1991 Series A (the "1991 Series A Bonds") and the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City Of San Diego Special Tax Bonds, 1995 Series B (the "1995 Series B Bonds" and, together with the 1991 Series A Bonds, the "Prior Bonds") which financed the public improvements within the District, (2) to establish a reserve fund for the Series 1998 Bonds and (3) to pay the costs of issuing the Series 1998 Bonds. See "PLAN OF REFUNDING" and "DESCRIPTION OF THE PROJECT" herein. Pursuant to the Indenture, additional bonds may be issued to refund any outstanding bonds under the Indenture. The Series 1998 Bonds and any additional bonds are referred to herein as the "Bonds."

Security for the Bonds

The Bonds will, subject to the terms of the Indenture, be secured by all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the

Reserve Fund, the Redemption Fund and the Extraordinary Special Tax Account, in accordance with their terms, the provisions of the Indenture and the Act. See "SECURITY FOR THE BONDS." The Bonds are payable from the Special Taxes to be included on the regular property tax bills sent by the Treasurer - Tax Collector (the "County Treasurer") of the County of San Diego, California (the "County") to the record owners of property within the District. Special Tax or Special Taxes means the special tax authorized to be levied in and for the District pursuant to the Act. The District has covenanted for the benefit of the owners of the Bonds that it will determine or cause to be determined, no later than August 15 of each year, delinquencies in the payment of Special Taxes and, if such delinquencies exist, cause to be commenced no later than October 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due, as and subject to certain limitations set forth herein. See "SECURITY FOR THE BONDS -- The Special Tax" and "SECURITY FOR THE BONDS--Covenant for Superior Court Foreclosure."

As additional security for the Bonds, \$4,426,837.50 of the proceeds of the Bonds will be deposited into the Reserve Fund (as hereinafter defined), such that at the time of issuance of the Bonds the amounts in the Reserve Fund will equal the Reserve Requirement. The Indenture provides that the 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 (as defined in the Indenture) on the Bonds, and (c) 125% of Average Annual Debt Service (as defined in the Indenture) on the Bonds. If the amount in the Reserve Fund is less than the Reserve Requirement, then the District has covenanted to restore the amount in the Reserve Fund to the Reserve Requirement by the inclusion of a sufficient amount in the next annual Special Tax levy. The ability of the City to increase the annual Special Taxes levied to replenish the Reserve Fund is subject to the maximum annual amounts of Special Taxes authorized by the qualified voters of the District. The moneys in the Reserve Fund will be used only for payment of the principal of, interest and any redemption premium on, the Bonds, including the Bonds, payments of rebate to the United States government and payments of Administrative Expenses (as defined below) for costs incurred in connection with foreclosure proceedings. See "SECURITY FOR THE BONDS--The Reserve Fund - *Reserve Fund*."

Bond Insurance for the Series 1998 Bonds

The scheduled payment principal of and interest on the Series 1998 Bonds when due will be guaranteed by a municipal bond insurance policy (the "Municipal Bond Insurance Policy") to be issued by MBIA Insurance Corporation ("MBIA") simultaneously with the delivery of the Series 1998 Bonds.

The District

The Mello-Roos Community Facilities Act of 1982, as amended, Section 53311 et seq. of the Government Code of the State of California (the "Act"), was enacted by the California Legislature to provide an alternative method of financing certain public facilities and services, especially in developing areas. Once duly established, a community-facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness.

The land within the District is in the final stages of development as a planned community by Miramar Ranch North, a California general partnership (the "Developer" or the "Partnership"). The District is located in the City, approximately 15 miles north of downtown San Diego and 10 miles inland. The site is located southwest of the City of Poway and north of the existing Scripps Ranch community. The District encompasses approximately 1200 acres, of which approximately 50% is proposed to be

developed and the remaining 50% will be classified as open space and parks. The site is located north of Miramar Lake, is irregular in shape and is characterized by moderately rolling hills. The Miramar Ranch North Community Plan, adopted by the City Council on March 4, 1980 and amended on July 10, 1986, May 21, 1987, April 16, 1991 and June 6, 1995 (the "Community Plan"), approved development of up to 4,589 residential units, including single family detached dwellings and apartments, up to 41 acres of commercial development, 77 acres of industrial development and various public improvements on the land in the District. The property within the District represents the majority of land within the Miramar Ranch North Community Planning Area and has received development approvals for 3,162 residential units and 33 acres of commercial development. As of March 31, 1998 the Developer has sold approximately 2,069 of the projected 3,162 residential lots within the District to 19 different entities (including 334 lots sold to entities with substantially the same ownership as the Developer), and 1,946 homes have been built and sold within the District. See "THE DISTRICT - Description of the Development." As of March 31, 1998, property representing approximately 1,169 residential units is classified undeveloped. See "THE DISTRICT - Land Development."

An appraisal of the property in the District, dated as of April 30, 1998 (the "Appraisal"), has been prepared by Lipman Stevens Marshall & Thene, Inc. of San Diego, California (the "Appraiser"). The purpose of the Appraisal was to ascertain the market value of the land in the District on the basis of certain assumptions, including that the costs of finishing the lots provided by the Developer to the Appraiser are accurate and that the lot values have been estimated as though they were not subject to the lien of the Special Tax. The appraisal includes the value of developed property, defined as properties for which building permits have been issued, and undeveloped property, defined as properties for which building permits have not been issued. The appraisal includes the aggregate assessed value of the developed property and the market value as determined by the appraiser of the undeveloped property. The appraisal does not provide a market value appraisal as to the value of the developed property.

The Appraiser has estimated the value of all the land in the District, including developed and undeveloped property, assuming completion of the public improvements financed with the proceeds of the Prior Bonds, to be \$467,006,142 as of March 31, 1998. The appraised value includes the value of improvements, including residences, within the District. Therefore the appraised value of many parcels will be substantially higher or substantially lower than the average per acre appraised value per parcel. The Special Taxes are levied on a parcel by parcel basis. No parcel will be responsible for the payment of Special Taxes for another parcel in the event of non-payment of Special Taxes by a parcel. The appraised value of the undeveloped property within the District, estimated to be responsible for approximately 18.8% of the 1998-99 Special Taxes and approximately \$11,180,000 of the Series 1998 Bonds, is \$77,710,000. See "SECURITY FOR THE BONDS -- Land Values" and Appendix A hereto. In addition, see "SPECIAL RISK CONSIDERATIONS -- Additional and Overlapping Debt" for a discussion of additional debt payable on a parity with the Series 1998 Bonds.

Neither the faith and credit nor the taxing power of the City, the County, the State of California (the "State") or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City or the County nor general obligations of the District, but are limited obligations of the District payable solely from the Special Taxes, as more fully described herein.

See the section of this official Statement entitled "SPECIAL RISK CONSIDERATIONS" for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Series 1998 Bonds.

Continuing Disclosure

At the time of the delivery of the Series 1998 Bonds, the City, on behalf of the District, will enter into a Continuing Disclosure Agreement (the "District Disclosure Agreement") with the Trustee, Brookfield Scripps Inc. will enter into a Continuing Disclosure Agreement with the Trustee (the "Brookfield Disclosure Agreement") and the Developer will enter into a Continuing Disclosure with the Trustee (the "Developer Disclosure Agreement"; the District Disclosure Agreement, the Brookfield Disclosure Agreement and the Developer Disclosure Agreement shall be collectively referred to as the "Continuing Disclosure Agreements"). The Continuing Disclosure Agreements will constitute written agreements for the benefit of holders of and owners of beneficial interests in the Series 1998 Bonds, to provide, or cause to be provided, annually certain financial information and operating data relating to the District, the Series 1998 Bonds, the District, ownership and development of the property in the District which is subject to the Special Tax, the occurrence of delinquencies in payment of the Special Tax, and the status of foreclosure proceedings, if any, respecting Special Tax delinquencies, and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). The District has never 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. See "CONCLUDING INFORMATION – Continuing Disclosure" herein. For a complete listing of items of information which will be provided. See APPENDIX F – "FORMS OF CONTINUING DISCLOSURE AGREEMENTS."

THE SERIES 1998 BONDS

Authority for Issuance

The Bonds are issued pursuant to the Act and the Indenture. The District was established and bonded indebtedness was authorized pursuant to provisions of the Act. In accordance with such provisions, qualified electors, comprised of the landowners within the District, were entitled to cast one vote for each acre, or portion of an acre, of land owned within the District. A two-thirds affirmative vote was necessary to authorize the incurring of indebtedness and the levy of the Special Tax to be collected in the District. Such affirmative vote was obtained at an election held on January 8, 1991.

Amount and Purpose of the Series 1998 Bonds

The Series 1998 Bonds are being issued to provide funds (1) to refund and defease the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City Of San Diego Special Tax Bonds, 1991 Series A (the "1991 Series A Bonds") and the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City Of San Diego Special Tax Bonds, 1995 Series B (the "1995 Series B Bonds" and, together with the 1991 Series A Bonds, the "Prior Bonds") which financed the public improvements within the District, (2) to establish a reserve fund for the Series 1998 Bonds and (3) to pay the costs of issuing the Series 1998 Bonds. See "PLAN OF REFUNDING" and "DESCRIPTION OF THE PROJECT" herein.

Description of the Series 1998 Bonds

The Series 1998 Bonds will be issued in the aggregate principal amount of \$59,465,000. The Series 1998 Bonds will be dated July 1, 1998, and interest on the Series 1998 Bonds will be paid semiannually on March 1 and September 1 (the "Interest Payment Dates") of each year, commencing March 1, 1999. The Series 1998 Bonds will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the rates shown on the cover page hereof. Interest on the Series 1998 Bonds shall be payable from the Interest Payment Date next preceding the date of authentication

thereof unless (i) a Series 1998 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding (a) the 15th calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day, and (b) any date established by the Trustee pursuant to the Indenture as a Record Date for the payment of defaulted interest on the Series 1998 Bonds, if any (the "Record Date"), in which event it shall bear interest from such Interest Payment Date, (ii) a Series 1998 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series 1998 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest shall be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 1998 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Series 1998 Bond which is not punctually paid or duly provided for on any Interest Payment Date shall be payable to the Person in whose name the ownership of such Series 1998 Bond is registered on the Registration Books at the close of business on a special Record Date to be established by the Trustee for the payment of such defaulted interest to be fixed by the Trustee, notice of which shall be given to such Owner not less than ten days prior to such special Record Date.

The Series 1998 Bonds will be issued in fully registered book-entry only form, without coupons, in the denomination of \$5,000 or any integral multiple thereof and will be dated as set forth on the cover page hereof. The principal of and interest on the Series 1998 Bonds will be payable in lawful money of the United States of America. The principal of the Series 1998 Bonds will 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 any Series 1998 Bond shall be made only upon presentation and surrender of such Bond at the Office of the Trustee. Interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 1998 Bond Owners (the "Bondowners" or "Owners") at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

Redemption

The Series 1998 Bonds are subject to optional redemption in whole or in part, on any Interest Payment Date on or after September 1, 2008, from any source of available funds, as provided in the Indenture, at the following Redemption Prices (expressed as percentages of principal amount of the Series 1998 Bonds to be redeemed), plus accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 2008 and March 1, 2009	101.0 %
September 1, 2009 and March 1, 2010	100.5
September 1, 2010 and thereafter	100.0

Mandatory Redemption from Special Tax Payments. The Series 1998 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 Special Taxes, at the following Redemption Prices (expressed as percentages of principal amount of the Series 1998 Bonds to be redeemed), plus accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 1998 through March 1, 2008	102.0 %
September 1, 2008 and March 1, 2009	101.0
September 1, 2009 and March 1, 2010	100.5
September 1, 2010 and thereafter	100.0

Mandatory Sinking Fund Redemption. The Series 1998 Bonds maturing September 1, 2020 (the Term Bonds”) are subject to mandatory sinking fund redemption, in part, on September 1 in each year commencing September 1, 2014, at a Redemption Price equal to the principal amount of the Series 1998 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, without premium, in the aggregate respective principal amounts in the respective years set forth below:

<u>Sinking Fund Redemption Date (September 1)</u>	<u>Principal Amount to be Redeemed</u>
2014	\$3,195,000
2015	3,350,000
2016	3,505,000
2017	3,670,000
2018	3,850,000
2019	4,030,000
2020 (final maturity)	4,220,000

If some but not all of the Term Bonds are optionally redeemed, the principal amount of Term Bonds to be redeemed pursuant to a sinking fund redemption on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the District in a Written Certificate of the District filed with the Trustee; *provided, however*, that the aggregate amount of such reductions shall not exceed the aggregate amount of Term Bonds to be optionally redeemed.

Selection of Bonds for Redemption. Whenever provision is made for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed among maturities from all Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the District, and (b) with respect to any redemption as described under the caption “Mandatory Redemption from Special Tax Payments” and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate. 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.

Notice of Redemption. The Trustee on behalf and at the expense 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, to the Original Purchaser, at least 30 but not more than 60 days prior to the date fixed for redemption to: (1) The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax - (516) 227-4039 or 4190; (2) Midwest Securities Trust Company, Capital Structures - Call Notification, 440 South LaSalle Street,

Chicago, Illinois 60605, Fax - (312) 663-2343; and (3) Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Fax - (215) 496-5058, and to one or more of the following: (1) Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; (2) Kenny Information Services Called Bond Service, 55 Broad Street, 28th Floor, New York, New York 10004; (3) Moody's Investors Service Municipal and Government, 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217; and (4) Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004 and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories and/or such other information services as the District may designate in a Written Certificate of the District delivered to the Trustee.

Such notice 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 date fixed for redemption. 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 date fixed for redemption.

Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, 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 date fixed for redemption, moneys for the Redemption Price 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 without liability to such Owners for interest thereon.

Partial Redemption of Bonds. Upon surrender of any Bonds to be redeemed in part only, the Trustee shall authenticate and deliver to the Bondowner thereof, at the expense of the District, a new Bond or Bonds of the same series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered with the same interest rate and same maturity. Such partial redemption will be valid upon payment of the amount required to be paid by such owner, and the District and the Trustee will be released and discharged thereupon from all liability to the extent of such payment.

Registration, 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 District shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same Series in 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 the same Series 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 of a Series pursuant to the Indenture during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

If any Bond shall become mutilated, the District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Series in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Series in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the Indenture and of the expenses which may be incurred by the District and the Trustee. Any Bond of a Series issued under the provisions of the Indenture in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Book-Entry and DTC

DTC will act as securities depository for the Series 1998 Bonds. The Series 1998 Bonds will be issued as fully registered bonds in the name of Cede & Co., DTC's partnership nominee. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the 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, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement of securities transactions, such as transfers and pledges, among DTC Participants through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The Rules applicable to DTC and DTC Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 1998 Bonds under the DTC system may be made through brokers and dealers who are or act through DTC Participants, which will receive a credit balance on the records of DTC. The ownership interest of each beneficial owner is in turn to be recorded through the records of the DTC Participant or Indirect Participant. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the DTC Participant or

Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership of the Series 1998 Bonds will be accomplished by entries made on the books of the DTC Participants who act on behalf of the beneficial owners and Indirect Participants.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF CERTIFICATES REPRESENTING THEIR OWNERSHIP OF THE SERIES 1998 BONDS AND WILL NOT BE OR CONSIDERED TO BE OWNERS THEREOF UNDER THE INDENTURE FOR PURPOSES OF REGISTRATION OR PAYMENT OR FOR ANY OTHER PURPOSE.

The Trustee will make payments of principal of and premium, if any, and interest on the Series 1998 Bonds to DTC or its nominee, Cede & Co., as Owner of the Series 1998 Bonds. The current practice of DTC is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC Participants or Indirect Participants to beneficial owners will be in accordance with standing instructions and customary practices, such as those which are now the case for municipal securities held in bearer form or registered in "street name" for the accounts of customers, and will be the responsibility of DTC Participants and Indirect Participants and not the responsibility of DTC, the Trustee, the Underwriters or the District, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District and the Trustee, disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants.

The Trustee and the District, so long as the DTC book-entry system is used for the Series 1998 Bonds, will send any notice of redemption or other notices only to DTC or its nominee. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 1998 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 1998 Bonds by the District will reduce the outstanding principal amount of Series 1998 Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 1998 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of Series 1998 Bonds for the beneficial owners. Any such selection of Series 1998 Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the District or the Trustee.

NEITHER THE DISTRICT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 1998 BONDS FOR PREPAYMENT.

The District and the Trustee cannot give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, redemption premium, if any, and interest on the Series 1998 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the beneficial owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC (or a successor securities depository) may discontinue providing its services as securities depository with respect to the Series 1998 Bonds at any time by giving reasonable notice to the District. The District, in its sole discretion and without the consent of any other person, may terminate the services of DTC (or a successor securities depository) with respect to the Series 1998 Bonds. The District undertakes no obligation to investigate matters that would enable the District to make such a determination.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC and DTC's Book-Entry System has been provided by DTC, and neither the District nor the Trustee take any responsibility for the accuracy thereof.

PLAN OF REFUNDING

The proceeds from the sale of the Series 1998 Bonds will be used to refund and defease the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City Of San Diego Special Tax Bonds, 1991 Series A (the "1991 Series A Bonds") and the outstanding Community Facilities District No. 1 (Miramar Ranch North) of the City Of San Diego Special Tax Bonds, 1995 Series B (the "1995 Series B Bonds" and, together with the 1991 Series A Bonds, the "Prior Bonds") which financed the certain public improvements within the District.

The proceeds from the sale of the Series 1998 Bonds, together with certain other moneys of the District, will be deposited with U.S. Bank Trust National Association, (the "Escrow Agent") pursuant to the Indenture and an Escrow Agreement (the "Escrow Agreement"), dated as of June 1, 1998, by and between the District, and the Escrow Agent. Such amounts held under the Escrow Agreement, together with certain other available moneys, including certain funds currently held pursuant to and under the bond indentures under which the Prior Bonds were issued, will be held in escrow and invested in direct obligations of the United States of America (the "Escrow Securities"), the principal of and interest on which will be used to pay in a timely manner the principal and interest with respect to the 1991 Series A Bonds to and including September 1, 2001 and to redeem the 1991 Series A Bonds on September 1, 2001 (the "1991 Series A Redemption Date") at a redemption price (the "1991 Series A Redemption Price") equal to 102% of the principal amount of the 1991 Series A Bonds being so redeemed and to pay in a timely manner the principal of and interest on the 1995 Series B Bonds to and including September 1, 2005 and to redeem the 1995 Series B Bonds on September 1, 2005 (the "1995 Series B Redemption Date") at a redemption price (the "1995 Series B Redemption Price") equal to 102% of the principal amount of the 1995 Series B Bonds being so redeemed.

The Escrow Securities and other monies held under the Escrow Agreement are pledged to the payment of the Prior Bonds to be refunded. Neither the principal of the Escrow Securities nor the interest thereon will be available for the payment of the Series 1998 Bonds.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the financing (exclusive of accrued interest) are set forth in the following table:

Sources:

Series 1998 Bond Proceeds	\$59,465,000.00
Less Original Issue Discount	(1,327,467.95)
Less Underwriter's Discount	(475,720.00)
Amounts Released from the Prior Bonds Indenture	<u>15,233,377.89</u>
Total Sources	\$72,895,189.94

Uses:

Deposit to Improvement Fund	\$ 6,785,009.27
Deposit to the Reserve Fund	4,426,837.50
Transfer to the Escrow Agent	60,727,210.25
Deposit to the Costs of Issuance Fund ⁽¹⁾	<u>956,132.92</u>
Total Uses	\$72,895,189.94

(1) Includes legal, special tax consultant, bond insurance, rating agency, printing and other miscellaneous Costs of Issuance.

DEBT SERVICE SCHEDULE

The annual debt service schedule for the Series 1998 Bonds (including mandatory sinking fund redemptions on their respective September 1 redemption dates) is set forth below:

Period Ending <u>September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
1999	\$ 1,250,000	\$ 3,172,540.00	\$ 4,422,540.00
2000	1,755,000	2,666,195.00	4,421,195.00
2001	1,820,000	2,600,382.50	4,420,382.50
2002	1,895,000	2,531,222.50	4,426,222.50
2003	1,970,000	2,455,422.50	4,425,422.50
2004	2,045,000	2,376,622.50	4,421,622.50
2005	2,130,000	2,292,266.26	4,422,266.26
2006	2,220,000	2,201,741.26	4,421,741.26
2007	2,315,000	2,107,391.26	4,422,391.26
2008	2,415,000	2,009,003.76	4,424,003.76
2009	2,520,000	1,903,347.50	4,243,347.50
2010	2,635,000	1,789,947.50	4,424,947.50
2011	2,755,000	1,666,322.50	4,421,322.50
2012	2,890,000	1,536,837.50	4,426,837.50
2013	3,030,000	1,389,312.50	4,419,312.50
2014	3,195,000	1,226,450.00	4,421,450.00
2015	3,350,000	1,074,687.50	4,424,687.50
2016	3,505,000	915,562.50	4,420,562.50
2017	3,670,000	749,075.00	4,419,075.00
2018	3,850,000	574,750.00	4,424,750.00
2019	4,030,000	391,875.00	4,421,875.00
2020	4,220,000	200,450.00	4,420,450.00
Total	<u>\$59,465,000</u>	<u>\$37,831,405.04</u>	<u>\$97,296,405.04</u>

SECURITY FOR THE BONDS

The Bonds are limited obligations of the District. The Bonds are, subject to the terms of the Indenture, secured by all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the Reserve Fund, the Redemption Fund and the Extraordinary Special Tax Account, in accordance with their terms, the provisions of the Indenture and the Act. **THE BONDS AND INTEREST THEREON ARE NOT PAYABLE FROM THE GENERAL FUNDS OF THE DISTRICT OR THE CITY. EXCEPT WITH RESPECT TO THE SPECIAL TAXES, NEITHER THE CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE CITY IS PLEDGED FOR THE PAYMENT OF THE BONDS OR THE INTEREST THEREON, AND NO OWNER OF BONDS MAY COMPEL THE EXERCISE OF ANY TAXING POWER BY THE DISTRICT OR, EXCEPT AS PROVIDED IN THE INDENTURE, BY THE DISTRICT, OR FORCE THE FORFEITURE OF ANY OF THEIR RESPECTIVE PROPERTY. THE PRINCIPAL OF AND INTEREST ON THE BONDS ARE NOT A DEBT OF THE DISTRICT OR THE CITY NOR A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THEIR RESPECTIVE PROPERTY OR UPON ANY OF THEIR RESPECTIVE INCOME, RECEIPTS OR REVENUES, EXCEPT THE NET TAXES.**

The Special Tax

Pursuant to the Act, the City Council adopted Resolution No. R-277110 on January 8, 1991, declaring the necessity for the establishment of the District to incur a bonded indebtedness up to \$73,000,000, subject to escalation to reflect changes in the costs of the Project, for the purpose of providing public facilities which are necessary for the development of the property thereon and calling a special election to submit the incurring of the bonded indebtedness to the qualified voters of the District.

Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted Resolution No. R-27111 on January 8, 1991, establishing the District and authorizing the submittal to the qualified voters of the District of the levy of Special Taxes within the boundaries of the District to pay principal of, and interest on, the Bonds.

At a special election held on January 8, 1991 the owner of the property within the boundaries of the District authorized the District to incur a bonded indebtedness in an amount not to exceed \$73,000,000, subject to escalation to reflect changes in the costs of the Project, and approved the rate and method of apportionment of the Special Tax to pay the principal of and interest on the Bonds.

Pursuant to the Act and certain resolutions adopted on November 30, 1993, the City Council (i) deleted the water distribution loop and the interest carry from the Project (See "DESCRIPTION OF THE PROJECT" below), (ii) reduced the authorized amount of bonded indebtedness to \$56,205,000 (subject to escalation) and (iii) reduced the Maximum Special Tax Rates and modified the Rate and Method of Apportionment to include the Extraordinary Special Tax (See "Rate and Method of Apportionment of Special Tax" below and Appendix A hereto).

The Special Tax, when levied, constitutes a lien on taxed parcels within the District, however, it does not constitute a personal indebtedness of the owners of property subject to taxation within the District. Moreover, additional liens for taxes and assessments on property within the District could come into existence in the future. There is no assurance that the property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See "SPECIAL RISK CONSIDERATIONS" herein.

In the Indenture, the District covenants to comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

Prior to August 1 of each year, the District shall ascertain from the Auditor and Controller of the County of San Diego (the "Auditor") the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year. In accordance with Ordinance No. 17588 (the "Ordinance"), the District shall effect the levy of the Special Taxes pursuant to a resolution to be adopted by the City Council by each August 1 that the Bonds are Outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the District shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

The District shall fix and levy the amount of Special Taxes within the District in accordance with the Rate and Method and in an amount sufficient to yield the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing year, including any necessary replenishment of the Reserve Fund for the Bonds and an amount estimated to be

sufficient to pay the Administrative Expenses during such year, taking into account the balances in such funds and in the Special Tax Fund; *provided, however*, that the obligation to so levy the Special Taxes shall be subject to the limitations in the Rate and Method as to the Maximum Special Tax that may be levied.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment 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 *ad valorem* taxes on real property.

Table 1 below sets forth the Special Tax levies and delinquencies for the last four Fiscal Years, commencing with Fiscal Year 1994-95.

Table 1
Community Facilities District No. 1
(Miramar Ranch North)
Special Tax Levy and Delinquencies
for Fiscal Years 1994-95 to the Present

Fiscal Year	Total Special Tax Levy	Amount of Special Tax Delinquencies	Percent Delinquent
1994-95	\$3,155,148	\$ 564	0.02%
1995-96	3,441,535	32,579	0.95
1996-97	4,812,207	55,160	1.15
1997-98	4,890,645	149,056 ⁽¹⁾	3.05 ⁽¹⁾

(1) As of May 10, 1998.

Source: The City of San Diego

When received, such Special Taxes pledged under the Indenture will be deposited in the Special Tax Fund held by the Trustee for deposit into the Redemption Fund, the Administrative Expenses Fund, or the Reserve Fund.

The following Table 2 summarizes the estimated coverage of annual debt service on the Series 1998 Bonds generated by the maximum authorized Special Tax at buildout of the Development as currently planned.

Table 2
Community Facilities District No. 1
(Miramar Ranch North)
Special Tax Refunding Bonds
At Buildout Coverage Analysis

<u>Year</u> <u>Ending 9/1</u>	<u>Maximum</u> <u>Tax</u> ⁽¹⁾	<u>Administrative</u> <u>Fees</u> ⁽²⁾	<u>Net Maximum</u> <u>Tax</u>	<u>Series 1998</u> <u>Debt Service</u>	<u>Tax Coverage</u> <u>Ratio</u>
1999	\$6,212,677.00	\$64,250.00	\$6,148,427.00	\$4,422,540.00	1.39
2000	6,212,677.00	66,177.50	6,146,499.50	4,421,195.00	1.39
2001	6,212,677.00	68,162.82	6,144,514.17	4,420,382.50	1.39
2002	6,212,677.00	70,207.71	6,142,469.29	4,426,222.50	1.39
2003	6,212,677.00	72,313.94	6,140,363.06	4,425,422.50	1.39
2004	6,212,677.00	74,483.36	6,138,193.64	4,421,622.50	1.39
2005	6,212,677.00	76,717.86	6,135,959.14	4,422,266.26	1.39
2006	6,212,677.00	79,019.40	6,133,657.60	4,421,741.26	1.39
2007	6,212,677.00	81,389.98	6,131,287.02	4,422,391.26	1.39
2008	6,212,677.00	83,831.68	6,128,845.32	4,424,003.76	1.39
2009	6,212,677.00	86,346.63	6,126,330.37	4,423,347.50	1.38
2010	6,212,677.00	88,937.03	6,123,739.97	4,424,947.50	1.38
2011	6,212,677.00	91,605.14	6,121,071.86	4,421,322.50	1.38
2012	6,212,677.00	94,353.29	6,118,323.71	4,426,837.50	1.38
2013	6,212,677.00	97,183.89	6,115,493.11	4,419,312.50	1.38
2014	6,212,677.00	100,099.41	6,112,577.59	4,421,450.00	1.38
2015	6,212,677.00	103,102.39	6,109,574.61	4,424,687.50	1.38
2016	6,212,677.00	106,195.46	6,106,481.54	4,420,562.50	1.38
2017	6,212,677.00	109,381.32	6,103,295.68	4,419,075.00	1.38
2018	6,212,677.00	112,662.76	6,100,014.24	4,424,750.00	1.38
2019	6,212,677.00	116,042.65	6,096,634.35	4,421,875.00	1.38
2020	6,212,677.00	119,523.93	6,093,153.07	4,420,450.00	1.38

(1) Based on developed property taxes for projected square footage within the District at buildout. Presently for the 1998-99 tax year maximum developed property tax equals \$3,561,924.00 and maximum undeveloped property tax equals \$3,074,560.00.

(2) Based on 3% escalation per year.

Source: The City of San Diego.

Pursuant to Rate and Method, the Special Tax levy for the 1998-99 Fiscal Year is expected to be comprised of the following: Residential Developed Property to be taxed at \$0.92 per square foot; Commercial Developed Property to be taxed at \$12,000 per acre; and, Undeveloped Property to be taxed at \$4,301.98 per acre, with Special Tax collections expected as set forth in Tables 3 and 4.

Table 3
Community Facilities District No. 1
(Miramar Ranch North)
Special Tax Refunding Bonds
Projected Special Taxes by Categories

<u>Land Use Category</u>	<u>Number of Parcels</u>	<u>1998-99 Special Tax Levy</u>	<u>Acres</u>
"Residential" Developed Parcels	1,947	\$3,391,764	230.42
"Commercial" Developed Parcels	10	170,160	14.18
"Undeveloped" Parcels	458	826,668	192.16
"Exempt" Parcels	<u>228</u>	<u>--</u>	<u>567.51</u>
Total	2,643	\$4,388,592	1,004.27

Table 4
Community Facilities District No. 1
(Miramar Ranch North)
Special Tax Refunding Bonds
Property Ownership Classified "Undeveloped"

<u>Property Owner</u>	<u>1998-99 "Undeveloped" Special Tax Levy</u>	<u>Undeveloped Acres</u>
Developer Related		
McMillin – BCED/Miramar Ranch North	\$ 40,825.79	9.49
Miramar Ranch North	695,544.13	161.68
SRV 2480 LLC	30,164.06	7.11
Scripps Ranch Villages Retail Center LP	13,164.06	3.06
Brookfield Miramar Inc.	3,441.58	0.80
Non-Developer Related		
Horton DRSD No. 18 Inc.	18,971.73	4.41
Nikko Capital Corp.	22,628.41	5.26
Other	<u>1,505.69</u>	<u>0.35</u>
Total	\$826,668.47	192.16

Pledge of Net Taxes

Under the Indenture, the District pledges and assigns to the Trustee all Net Taxes for the payment of principal of, premium, if any, and interest on the Bonds. "Net Taxes" means Gross Taxes less Administrative Expenses. "Gross Taxes" means (i) all Special Taxes and (ii) all proceeds derived from the sale of property collected pursuant to the foreclosure provisions of the Act and the Indenture for the delinquency of such Special Taxes. "Administrative Expenses" means the ordinary and necessary costs of administering the levy and collection of the Special Taxes and all other administrative costs and incidental expenses related to the Bonds or the Special Taxes during a Fiscal Year, including but not limited to annual audit fees, Trustee fees (including any fees and expenses of its counsel) and fees incurred in connection with the calculation of arbitrage rebate due to the government.

Except as otherwise provided in the Indenture, all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the Reserve Fund, the Redemption Fund and the Extraordinary Special Tax Account are hereby pledged 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 of such other assets shall constitute a first lien on such assets.

The Trustee shall establish and maintain a separate fund designated the "Special Tax Fund." As soon as practicable after the receipt by the District of any Special Tax Revenues, but in any event no later than the date ten Business Days prior to the Interest Payment Date after such receipt, the District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund and transfer to the funds indicated below the amounts described below in the following order of priority:

(a) *Bond Fund*. On the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Special Tax Fund to the Bond Fund Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date.

(b) *Reserve Fund*. On the Business Day immediately preceding each Interest Payment Date, the Trustee shall, after having made any transfers required to be made pursuant to paragraph (a), above, transfer from the Special Tax Fund to the Reserve Fund Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

Reserve Funds

The Trustee shall establish and maintain a special fund designated the "Reserve Fund" which shall initially be funded with proceeds of the sale of the Bonds, such that at the time of issuance of the Bonds the amounts in the Reserve Fund will equal the Reserve Requirement. The Indenture provides that the 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 (as defined in the Indenture) on the Bonds, and (c) 125% of Average Annual Debt Service (as defined in the Indenture) on the Bonds. If the amount in the Reserve Fund is less than the Reserve Requirement, then the District has covenanted to restore the amount in the Reserve Fund to the Reserve Requirement by the inclusion of a

sufficient amount in the next annual Special Tax levy. The ability of the City to increase the annual Special Taxes levied to replenish the Reserve Fund is subject to the maximum annual amounts of Special Taxes authorized by the qualified voters of the District. The moneys in the Reserve Fund will be used only for payment of the principal of, interest and any redemption premium on, the Bonds, including the Bonds, payments of rebate to the United States government and payments of Administrative Expenses for costs incurred in connection with foreclosure proceedings. There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Except as otherwise provided in the Indenture, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds or, in accordance with the provisions of the Indenture, for the purpose of redeeming Bonds. Transfers shall be made from the Reserve Fund to the Bond Fund in the event of a deficiency in the Bond Fund, in accordance with the Indenture.

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, until the date the Written Certificate of the District is filed with the Trustee pursuant to the Indenture, shall be deposited in the Bond Fund; *provided, however*, that before any such deposit shall be made, such amount shall be available for the payment of any rebate that may be owed under the Code, as specified in a Written Request of the District delivered to the Trustee.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the District, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

Bond Insurance

The scheduled payment principal of and interest on the Series 1998 Bonds when due will be guaranteed by a municipal bond insurance policy (the "Municipal Bond Insurance Policy") to be issued concurrently with the delivery of the Series 1998 Bonds by MBIA.

Land Values

The Appraisal was prepared to ascertain the market value as of March 31, 1998 for the land and then existing improvements in the District. The Appraiser assumed the completion of the public improvements being financed with the proceeds of the Prior Bonds. The Appraiser also assumed, among other things, that the costs of finishing the lots within the District provided to the Appraiser by the Developer are accurate and that the lot values have been estimated as though they were not subject to the lien of the Special Taxes. The appraisal includes the aggregate assessed value of the developed property and the market value of the undeveloped properties. See "SPECIAL RISK CONSIDERATIONS -- Appraised Value" See APPENDIX C -- "THE SUMMARY APPRAISAL REPORT" for a description of the assumptions made by the Appraiser. Based on the assumptions set forth in the Appraisal, the Appraiser estimated the value of the land and then existing improvements in the District, including residences and the improvements to be financed with the proceeds of the Bonds, to be \$467,006,142 as of March 31, 1998. It should be noted that the value of certain parcels on a per acre basis, such as parcels with completed residences, will be substantially higher than the value on a per acre basis of the

undeveloped property within the District. The District has only limited control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, will be on a parity with the Special Taxes. See "THE SECURITY FOR THE BONDS - Additional Bonds."

No assurance can be given that the value to debt ratios currently existing can or will be maintained during the period of time that the Bonds are outstanding in that the District has no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, is on a parity with the Special Taxes. See "THE SPECIAL RISK CONSIDERATIONS -Additional and Overlapping Debt."

Additional Bonds

The District may at any time issue one or more Series of Additional Bonds (in addition to the Bonds) payable from Net Special Tax Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued hereunder, but only subject to the following conditions, which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) The issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and under and pursuant hereto and shall have been provided for by a Supplemental Indenture which shall specify the following:

(1) The application of the proceeds of the sale of such Additional Bonds; *provided, however*, that such proceeds shall be applied only to the refunding of any Bonds issued hereunder, to the payment of Costs of Issuance incurred in connection with the issuance of such Additional Bonds, to making a deposit to the Reserve Fund so as to increase the amount on deposit therein to the Reserve Requirement or to funding capitalized interest on such Additional Bonds, or any combination thereof;

(2) The principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds;

(3) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; *provided, however*, that (i) the serial Bonds of such Series of Additional Bonds shall be payable as to principal annually on September 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds shall have annual mandatory sinking fund redemptions on September 1, (ii) the Additional Bonds shall be payable as to interest semiannually on March 1 and September 1 of each year, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve months and the interest shall be payable thereafter semiannually on March 1 and September 1, (iii) all Additional Bonds of a Series of like maturity shall be identical in all respects, except as to number or denomination, and (iv) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(4) The redemption premiums and terms, if any, for such Additional Bonds;

(5) The form of such Additional Bonds;

(6) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; *provided, however*, that the Reserve Fund shall be increased at the time that such Additional Bonds become Outstanding to an amount at least equal to the Reserve Requirement, and an amount at least equal to the Reserve Requirement shall thereafter be maintained in the Reserve Fund; and

(7) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof;

(b) The District shall be in compliance with all agreements, conditions, covenants and terms contained in the Indenture and in all Supplemental Indentures required to be observed or performed by it;

(c) If such Additional Bonds are being issued to refund Outstanding Bonds, Annual Debt Service in each Bond Year, calculated for all Bonds to be Outstanding after the issuance of such Additional Bonds, shall be less than Annual Debt Service in such Bond Year, calculated for all Bonds Outstanding immediately prior to the issuance of such Additional Bonds; upon the issuance of such Additional Bonds, the District shall be in compliance with all agreements, conditions, covenants and terms contained in the Indenture and in all Supplemental Indentures required to be observed or performed by it; and

(d) The District shall have received a certificate from one or more Independent Consultants which, when taken together, certify that (i) on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the proposed issuance of such Additional Bonds, the amount of maximum Special Taxes that may be levied on Developed Property within the District pursuant to the Act, the Ordinance and the Rate and Method for each Bond Year that the Bonds will be Outstanding is at least 110% of Maximum Annual Debt Service on all Bonds that will be Outstanding after the issuance of such Additional Bonds, and (ii) on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the proposed issuance of such Additional Bonds, the remainder of (1) the amount of maximum Special Taxes that may be levied on all parcels of land within the District pursuant to the Act, the Ordinance and the Rate and Method for each Bond Year that the Bonds will be Outstanding, less (2) the amount of maximum Special Taxes that may be levied on all parcels of land within the District that are owned by the Largest Taxpayer pursuant to the Act, the Ordinance and the Rate and Method for each Bond Year that the Bonds will be Outstanding, is at least 100% of Maximum Annual Debt Service on all Bonds that will be Outstanding after the issuance of such Additional Bonds. For purposes of making the certifications required by this paragraph (c), the Independent Consultants may rely on reports or certificates of such other persons as may be acceptable to the District and Bond Counsel.

As used herein, "Independent Consultant" means any consultant or firm of such consultants selected by the District 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 District or the City, (c) does not have any substantial interest, direct or indirect, with or in the District or the City, or any owner of real property in the District, or any real property in the District, and (d) is not connected with the District or the City as an officer or employee thereof, but who may be regularly retained to make reports to the District or the City.

So long as any of the Bonds remain Outstanding, the District shall not issue any Additional Bonds or obligations payable from Net Special Tax Revenues on a parity with the Bonds, except pursuant to the terms of the Indenture, and shall not issue any obligations payable from Net Special Tax Revenues

on a basis to the Bonds. The District may issue obligations payable from Net Special Tax Revenues on a basis subordinate to the Bonds.

Nothing contained in the Indenture shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued hereunder will be Outstanding.

Covenant for Superior Court Foreclosure

The District covenants with and for the benefit of the Owners of the Bonds that it will determine or cause to be determined, no later than August 15 of each year, whether or not any owners of property within the District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the District will order and cause to be commenced no later than October 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due; *provided, however*, that the District shall not be required to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the District for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the District determines that any single property owner in the District is delinquent in excess of \$10,000 in the payment of the Special Tax, then it will diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the obligee in the event the property is owned by or in receivership of FDIC. See "SPECIAL RISK CONSIDERATIONS - Bankruptcy," "- Payments by FDIC" and "- Billing of Special Tax."

Existing Liens

The District is unaware of any present or contemplated assessment district or community facilities district that includes property within the District except as described above.

THE BOND INSURANCE POLICY

The information under this heading has been provided solely by the Insurer and is believed to be reliable, but has not been verified independently by the District or the Underwriter. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the District or the Underwriter.

Bond Insurance Policy

The following information has been furnished by MBIA Insurance Corporation for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Insurer's Policy.

The Insurer's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's Policy

shall be made in such amounts and at such time as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 1998 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 1998 Bond. The Insurer's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; or (iii) any Preference relating to (i) or (ii) above. The Insurer's Policy also does not insure against nonpayment of principal of or interest on the Series 1998 Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 1998 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any Owner of a Series 1998 Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 1998 Bonds or presentment of such other proof of ownership of the Series 1998 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 1998 Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such Owners of the Series 1998 Bonds in any legal proceeding related to payment of insured amounts on the Series 1998 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such Owners or the Trustee payment of the insured amounts due on such Series 1998 Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

On February 17, 1998, the Company acquired all of the outstanding stock of Capital Markets Assurance Corporation ("CMAC") through a merger with its parent CapMAC Holdings Inc. Pursuant to a reinsurance agreement, CMAC has ceded all of its net insured risks (including any amounts due but unpaid from third party reinsurers), as well as its unearned premiums and contingency reserves to the Insurer. The Company is not obligated to pay the debts of or claims against CMAC.

As of December 31, 1997 the Insurer had admitted assets of \$5.3 billion (audited), total liabilities of \$3.5 billion (audited), and total capital and surplus of \$1.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 1998, the Insurer had admitted assets of \$5.4 billion (unaudited), total liabilities of \$3.6 billion (unaudited), and total capital and surplus of \$1.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service ("Moody's") rates the claims paying ability of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P"), rates the claims paying ability of the Insurer "AAA."

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the claims paying ability of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 1998 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 1998 Bonds. The Insurer does not guaranty the market price of the Series 1998 Bonds nor does it guaranty that the ratings on the Series 1998 Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE DISTRICT

Location and Terrain

The District is located in the City, approximately 15 miles north of downtown San Diego and 10 miles inland. The site is located southwest of the City of Poway and north of the Scripps Ranch Community. The District encompasses approximately 1200 acres, of which approximately 50% is to be developed and the remaining 50% is classified as open space and parks. The site is located north of Miramar Lake, is irregular in shape and is characterized by moderately rolling hills.

Summary of District Proceedings

Pursuant to the Act, the City Council adopted Resolution No. R-277110 on January 8, 1991, declaring the necessity for the establishment of the District to incur a bonded indebtedness up to

\$73,000,000, subject to escalation to reflect changes in the costs of the Project, for the purpose of providing public facilities which are necessary for the development of the property thereon and calling a special election to submit the incurring of the bonded indebtedness to the qualified voters of the District.

Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted Resolution No. R-27111 on January 8, 1991, establishing the District and authorizing the submittal to the qualified voters of the District of the levy of Special Taxes within the boundaries of the District to pay principal of, and interest on, the Series 1998 Bonds.

At a special election held on January 8, 1991 the owner of the property within the boundaries of the District authorized the District to incur a bonded indebtedness in an amount not to exceed \$73,000,000, subject to escalation to reflect changes in the costs of the Project, and approved the rate and method of apportionment of the Special Tax to pay the principal of and interest on the Series 1998 Bonds.

Pursuant to the Act and certain resolutions adopted on November 30, 1993, the City Council (i) deleted the water distribution loop and the interest carry from the Project (See "DESCRIPTION OF THE PROJECT" below), (ii) reduced the authorized amount of bonded indebtedness to \$56,205,000 (subject to escalation) and (iii) reduced the maximum Special Tax Rates and modified the Rate and Method of Apportionment to include the Extraordinary Special Tax (See "Rate and Method of Apportionment of Special Tax" below and Appendix A hereto).

The 1991 Series A Bonds funded \$28,493,830 in public improvements. Including incidental costs, the total bond amount was \$35,340,000. The 1995 Series B Bonds funded \$17,340,817 in public improvements. Including incidental costs, the total bond amount was \$20,865,000.

Rate and Method of Apportionment of Special Tax

The City Council and the qualified electors of the District have adopted and approved the Rate and Method of Apportionment of the Special Tax for the District as set forth in Appendix A hereto. The Rate and Method of Apportionment set forth in Appendix A hereto reflects the modification to the original Rate and Method of Apportionment approved by the Voters within the District on November 30, 1993. The Rate and Method of Apportionment of Special Tax basically provides that most residential property will be taxed per square foot of dwelling unit, while commercial property, industrial property, undeveloped property and other property will be taxed per acre.

The Rate and Method of Apportionment of Special Tax classifies each parcel of land within the District, as shown on the County Assessor's maps, into one of several Land Use Categories. See Appendix A hereto. The Maximum Special Tax Rate for each Land Use Category for each Fiscal Year is specified in Table 1 in the Rate and Method of Apportionment of Special Tax. See Appendix A hereto. For residential property during the 1998-99 Fiscal Year, the Maximum Special Tax Rate is \$0.92 per square foot of improvement. For all other Land Use categories, the Special Taxes are determined on a per-acre basis. For the 1998-99 Fiscal Year, the Maximum Special Tax Rates are \$12,000 per acre for commercial property, industrial property and other property and \$16,000 per acre for undeveloped property. The Rate and Method includes a building permit special tax which is no longer authorized to be levied.

The Rate and Method of Apportionment of Special Tax contains an escalation provision to allow an annual increase in the Maximum Special Tax Rate for non-exempt property by multiplying the Maximum Special Tax Rate for each Land Category by a fraction, the numerator of which is the annual percentage increase in costs of improvements in the District and the denominator of which is the percentage of square feet of improvements remaining to be constructed in the District. The District does

not currently anticipate any such increase in the Maximum Special Tax Rate. Each Fiscal Year the District shall levy the Special Tax at the Maximum Special Tax Rate upon all Developed Property, and to the extent necessary to satisfy the Annual Special Tax Levy, upon all Undeveloped Property. The Special Tax shall be levied upon an Assessor's Parcel of Developed Property for a maximum of 25 years. Any owner of Developed Property subject to the Special Tax may discharge the obligation to pay Special Taxes by prepayment under the terms of the Rate and Method of Apportionment of Special Taxes.

The Rate and Method of Apportionment of Special Taxes includes a provision for the payment of the Extraordinary Special Tax under certain circumstances. The Extraordinary Special Tax would equal, in the aggregate on all parcels within the District for which a building permit has not been issued, the amount necessary to provide in each year Series 1998 Bonds are outstanding 1.10 times the debt service on the Series 1998 Bonds (including amounts, if any, required to replenish the Reserve Fund) in each such year, less amounts reasonably projected to be available from Special Taxes to be levied within the District in such future years. The District does not currently anticipate, based on the current status of the development plan, any necessity to levy an Extraordinary Special Tax.

A copy of the Rate and Method of Apportionment of Special Taxes, as modified on November 30, 1993, is set forth in full in Appendix A hereto.

Environmental Review

An Environmental Impact Report ("EIR") pursuant to the California Environmental Quality Act ("CEQA") was certified for the Community Plan on March 4, 1980 (EQD No. 7-9-0630.) A supplemental EIR was certified for the amendment to the Community Plan on May 21, 1987 (EQD No. 85-0100). A mitigated negative declaration was certified for amendment to the Community Plan on June 6, 1995 (DEP No. 94-0089).

Supplemental EIRs were completed and certified for each phase of the project: (1) Scripps Ranch North Phase One Supplemental EIR, certified on December 19, 1988 (EQD Nos. 87-1087 and 87-1088); (2) Scripps Ranch North Phase Two Supplemental EIR, certified on January 8, 1991 (EQD No.89-0550); and (3) Scripps Ranch North Phase Three Supplemental EIR, certified on April 16, 1991 (EQD No. 90-0898).

Additionally, a determination of environmental exemption was filed with the County Clerk in the County on February 6, 1991 for the formation of the District and the issuance of Series 1998 Bonds. The environmental review of the construction of the Project is contained in the above documents.

The City believes that, other than the mitigation measures existing in the above-referenced EIRs, no other mitigation measures for environmental impacts of the Community Plan will have to be incorporated in subsequent development approvals for the Development, *provided* that the Development is substantially consistent with the Community Plan and the existing approvals. Final maps have been approved for all of the projects except for Neighborhoods #3520 and #4350. A final map for 106 of 118 total residential lots for Neighborhood #3520 was approved by the City Council on June 15, 1998 and is expected to be recorded shortly. Discretionary approvals are necessary to complete the Development of Neighborhood #4350 and will be subject to CEQA. Challenges to Neighborhood #4350 discretionary approvals could slow the rate of development in the District. See "SPECIAL RISK CONSIDERATIONS – Failure to Develop Properties"

Settlement Agreement

In February 1990, the City Council adopted an Emergency Interim Zoning Ordinance which caused the property within the District to be subject to the Resource Protection Ordinance and repealed the conceptual grading plan for a period of one year. The Developer filed suit against the City in both State and Federal courts. The City entered into a Settlement Agreement (the "Settlement Agreement") with the Developer in September 1990, which among other things, held in abeyance the Federal and State litigation until all approvals were granted. The Settlement Agreement set forth an expedited schedule for the processing and approval of all remaining entitlements, granted a deviation from the Resource Protection Ordinance, *provided* \$24 million credit against future impact fees, and imposed disincentives on the City if it breaches certain provisions of the Settlement Agreement.

Development Agreement

On January 8, 1991, the City Council adopted Ordinance No. 0-17583 approving the Development Agreement for the Development pursuant to Government code sections 65864 through 65869.5, and on February 21, 1991, the Development Agreement became effective. The City and the Developer entered into the Development Agreement in order to achieve the development of land uses permitted under the Community Plan (and amendments contemplated by the Development Agreement); to implement the provisions and conditions of the Settlement Agreement; and to ensure the provision of public services, public uses and infrastructure. The Development Agreement vests the right to develop the "Project" as defined in the Development Agreement, in accordance with the permitted uses, density and intensity of use in effect for the Development at the time of the effective date of the Development Agreement. The term of the Development Agreement is 16 years from the effective date and provides for annual review of the extent of good faith substantial compliance by the Developer within the terms of the Development Agreement. No binding case law exists in California which addresses the issue of enforceability of development agreements and the extent to which they would protect the right to proceed with the Development as currently planned if more restrictive local land use regulations are adopted in the future. See "SPECIAL RISK CONSIDERATIONS – Failure to Develop Properties."

The Partnership Agreement

The Developer is a California general partnership comprised of McMillin Scripps, Inc. ("McMillin"), and Brookfield Scripps Inc. ("Brookfield," and collectively, the "Partners"). The following information summarizing some of the material terms of the Partnership Agreement has been provided by the Developer. This information has been included because it is considered relevant to an informed evaluation of the Developer. No assurance can be given that the Partnership Agreement will not be amended, modified or dissolved.

Each of the Partners has made contributions to the capital of the Partnership. Brookfield's predecessor in the Partnership, BCE Development Properties, Inc., a Colorado corporation ("BCED Properties"), received a credit to its Partnership capital account for its contribution to the Partnership of the land within the District. BCED Properties and Brookfield have since contributed additional capital in the form of cash. McMillin Communities, the predecessor to McMillin in the Partnership, contributed cash to the Partnership upon its admission to the Partnership and has since contributed additional capital in the form of cash.

If the Partnership's Management Committee (which is compressed of an equal number of representatives of each Partner) determines that additional cash contributions from the Partners are required for the Partnership's activities, it may elect to call upon the Partners to contribute additional capital. At such time, the Partners must contribute the additional capital required in accordance with their

respective percentage obligations. Brookfield's percentage obligation provides for the predominant portion of the Partnership's capital contributions. McMillin's obligation to contribute additional capital in any one year is limited to a maximum amount. The balance, if any, will be loaned to McMillin by Brookfield, up to a maximum amount which, when reached, requires McMillin to again contribute capital in accordance with the appropriate percentage.

The failure by any Partner (the "Defaulting Partner") to make a required capital contribution allows the non-defaulting partner (the "Non-Defaulting Partner") to pursue any available remedy, or the Non-Defaulting Partner may loan the amount of the Capital contribution to the Defaulting Partner. In addition, the Non-Defaulting Partner may elect to purchase the Defaulting Partner's interest in the Partnership, initiate the put-call procedures described below, or to dissolve the Partnership. Except in response to a Defaulting Partner's failure to make a required capital contribution, the Partners may not lend money to the Partnership without the approval of the Partnership's Management Committee.

Each of the Partners is a general partner of the Partnership with an interest in the Partnership's capital. Distributions of cash, and allocations of profit and loss are made to the Partners in accordance with their respective percentage interests in those items.

The Partnership Agreement grants the right for a Partner to purchase the Partnership interest of the other Partner upon the occurrence of certain events. This "buy-sell" procedure is available if (i) a Partner fails to make a required capital contribution, (ii) a Partner engages in fraud or gross negligence, (iii) a Partner becomes bankrupt, or (iv) a controlling interest in a Partner is sold, or (v) a Partner attempts to sell or transfer its interest at its appraised fair market value.

The Partnership Agreement also grants the right for a Partner to sell its Partnership interest or to purchase the Partnership interest of the other Partner upon the occurrence of certain events. This "put-call" procedure is available if (i) the Partners are unable to reach agreement on a "Major Decision," including whether to call for additional capital contributions and whether to sell the Partnership's property, (ii) a partner fails to make a required capital contribution, or (iii) a Partner engages in fraud or gross negligence. The purchase price which would apply would be determined by how much the Partner exercising the right would be willing to pay for the Partnership's assets.

The Partnership Agreement provides that the Partnership will terminate and dissolve on December 31, 2010, upon the sale of substantially all the Partnership's assets, or with the approval of both Partners. The Partnership will also terminate if either Partner acquires the interest of the other, or if either Partner elects to terminate the Partnership in exercise of rights specifically granted by the Partnership Agreement, such as when one Partner fails to make a required capital contribution.

Land Development

The Property within the District is partially developed. All necessary grading permits have been obtained and 100% of the areas to be graded have been brushed and cleared. The mass grading has been completed in Phases 1 and 2, representing over 75% of the property to be sold. The mass grading for Phase 3 is 80% complete and in-tract streets are currently being built in the Neighborhoods #3400, #3460 and #3490.

All the improvements for Phase 1 have been completed and substantially all of the improvements have been completed in Phase 2 (other than the construction of the residences) and construction of improvements will continue until their completion. Improvements in Phase 3 (other than the construction of residences) are underway and most are expected for completion in mid- to late 1998.

As of May 1, 1998 approximately \$91,273,000 had been spent on the Development (for grading and construction of public improvements consisting of sewer, water, storm drain, streets, landscaping, lighting, traffic signals, etc.) out of a total estimated cost at completion of the Development as of May 1, 1998 of \$104,180,000. In addition, approximately \$52,333,000 had been spent and approved by the City for capital improvement projects ("CIPs") out of a total anticipated cost as of May 1, 1998 of approximately \$62,161,000 (excluding capitalized interest). The Developer's current plan for financing the estimated \$12,907,000 in grading and public improvement costs (excluding interest, taxes, marketing and other soft costs) required to complete the Development consists of draws on the current \$10,000,000 revolving line of credit with the Royal Bank of Canada and revenues from the sale of lots to merchant builders.

Of the projected 3,162 total residential units and 33 acres of commercial property, all except 118 single-family residential units (Neighborhood #3520) were subject to a final subdivision map as of March 31, 1998. A vesting tentative subdivision map and planned residential development permit have been approved for the remaining 118 lots. As of March 31, 1998 seventeen neighborhoods offered a variety of housing for sale and 1,946 homes had been sold.

Direct and Overlapping Debt

Set forth below in Table 5 is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated June 1, 1998. The Debt Report is included for general information purposes only. The District believes such information to be reliable but makes no representations as to its completeness or accuracy.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from property taxes, assessments or special taxes on land in the District. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the District or other public agencies at any time.

Additional Bonds payable from the Special Taxes may be issued pursuant to the Indenture. See "SECURITY FOR THE BOND BONDS - Additional Bonds." In addition, other public agencies may issue additional indebtedness on property within the District at any time.

Table 5
Community Facilities District No. 1
(Miramar Ranch North)
Direct and Overlapping Debt
As of June 1, 1998

1997-98 Assessed Valuation: \$342,349,728

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/1/98
San Diego County Water Authority	0.257%	\$ 22,783
Metropolitan Water District	0.042	233,144
San Diego Unified School District Lease Tax Obligations	0.665	2,469,171
City of San Diego	0.522	110,534
San Diego Open Space Park District	0.522	299,759
City of San Diego Community Facilities District No. 1	100.00	52,995,000 ⁽¹⁾
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$56,130,391
Less: San Diego Open Space Park District (100% self-supporting)		299,759
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$55,830,632
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Diego County General Fund Obligations	0.247%	\$1,324,570
San Diego County Pension Obligations	0.247	976,823
San Diego County Superintendent of Schools Certificates of Participation	0.247	5,706
San Diego Community College District Certificates of Participation	0.665	118,969
San Diego Unified School District Certificates of Participation	0.665	467,848
City of San Diego General Fund Obligations	0.522	1,142,267
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$4,036,182
Less: City of San Diego self-supporting bonds		26,231
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$4,009,951
GROSS COMBINED TOTAL DEBT		\$60,166,572 ⁽²⁾
NET COMBINED TOTAL DEBT		\$59,840,583

(1) Excludes refunding bonds to be sold.

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

Ratios to Assessed Valuation:

Direct Debt (\$52,995,000)	15.48%
Total Gross Direct and Overlapping Tax and Assessment Debt	16.40%
Total Net Direct and Overlapping Tax and Assessment Debt	16.31%
Gross Combined Total Debt	17.57%
Net Combined Total Debt	17.48%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/97: \$3,724

Source: California Municipal Statistics, Inc.

THE DEVELOPER

The following information regarding ownership of property in the District has been provided by the Developer. This information has been included because it is considered relevant to an informed evaluation of the Series 1998 Bonds, the District and the Development. No assurance can be given that the ownership of the land in the District will not change in the future. The following information should not be construed to suggest that the Series 1998 Bonds, or the Special Taxes that will be used to pay the Series 1998 Bonds, are recourse obligations of the Developer. See "SPECIAL RISK CONSIDERATIONS – Concentration of Ownership."

The Development is owned and managed by the Partnership, formed in February 1990 between the predecessors to McMillin and Brookfield, respectively. The Partnership was formed for the purpose of owning, developing, improving, and ultimately selling the sites in the master planned community known as Miramar Ranch North. A Management Committee, consisting of two representatives of each of the Partners is empowered to make all major and substantive decisions with respect to the Partnership. McMillin is the managing partner and project manager and as such, controls the management and operation of the Partnership's day-to-day affairs. See "THE DISTRICT -- The Partnership Agreement."

McMillin was formed by the shareholders of the previous partner, McMillin Communities. The stock ownership of McMillin is identical to McMillin Communities and the other McMillin corporate entities (collectively, the "McMillin Companies"). The McMillin Companies are a group of privately held entities owned entirely by the McMillin family headed by Corky McMillin, who started the first McMillin organization, McMillin Development, over 38 years ago as a real estate development and construction company. Today the McMillin Companies' combined corporate entities include separate but integrated companies involved in real estate acquisition, planning, development, home construction, sales, warranty and re-sales. For the past several years, McMillin Companies has been listed in the top 25 largest builders in California. In addition to the Development, the McMillin Companies have developed, or are in the process of developing several master planned communities in California, including Scripps Ranch (750 acres), Rancho Del Rey (1,600 acres), Bonita Long Canyon (650 acres), Orangecrest Hills (350 acres), Otay Ranch (1,030 acres), Temeku Hills (470 acres) and Calavera Hills (715 acres). McMillin has built over 12,000 homes and 37 commercial projects.

One of the most successful projects undertaken by McMillin Companies was the development of its Scripps Ranch North project directly south and adjacent to the Development. McMillin Companies completed the 1,880 unit 750-acre venture in 1992 and has maintained a strong and continual presence in Scripps Ranch since 1978, not only in the new home sales and resale marketplace but also through its community involvement. Scripps Ranch is a well-regarded and desirable community within the city of San Diego. The Development is a continuation of the planned community atmosphere established in Scripps Ranch.

The Agreement of General Partnership dated as of February 12, 1990 between the Partners of the Developer (as amended, the "Partnership Agreement") provides, among other things, that Brookfield will be responsible for the capital contributions required for the Development. In 1991, Brookfield was the sole funding source for the Development, providing the capital requirements for both Partners of the Developer. In early 1994, the Partnership arranged a \$10 million revolving line-of-credit with the Toronto-Dominion Bank for funding all development costs. In late 1997, the revolving line-of-credit with Toronto-Dominion Bank was replaced by one with Royal Bank of Canada with the same commitment amount. This line-of-credit facility is utilized for timing purposes and is expected to be paid down continually through proceeds of land sales.

Over the last few years, the ownership structure of Brookfield has been substantially simplified. BCE Development Corporation (predecessor to BF Realty Holdings) no longer has any ownership interest or involvement in Brookfield or the Development. There have been corporate name changes to the parent companies of Brookfield, however, the ownership interest remains the same. Brookfield is wholly owned by Brookfield Commercial Properties, Inc. (formerly Brookfield Development, Inc.) which is the principal U.S. operating entity and wholly owned subsidiary of Brookfield Commercial Properties Ltd. (formerly Brookfield Development Corp.) Brookfield Commercial Properties Ltd. is a private company wholly owned by Brookfield Properties Corp. (formerly Carena Development Limited.) Brookfield Properties Corp. is a real estate development company and is publicly traded on both the Toronto and Montreal Stock Exchanges, with Edper/Brascan ("Edper/Brascan") as the primary stockholder (over 50%). Edper/Brascan is a diversified public corporation listed on both the Toronto and Montreal Stock Exchanges and has equity interests in a number of companies operating in the natural resource, power generating and financial services sectors in addition to real estate which is owned through Brookfield Properties Corp. Brookfield Commercial Properties Ltd. is a diversified North American real estate development company with office, retail and land development projects. The property portfolio contains approximately 32 million square feet of leaseable space and over 8,500 acres of land to be developed. Brookfield Development Corporation's (and its subsidiaries') office buildings are located in Toronto, Denver, Chicago, Minneapolis and Orange County, California and include five office towers in excess of 1 million square feet each. The portfolio is, as of December 31, 1996, over 95% leased. Brookfield Development Corporation's (and its subsidiaries') retail centers are comprised of "stand-alone" properties and the retail component of mixed use complexes. These properties are located primarily in the downtown cores of Chicago and Minneapolis. Brookfield Development Corporation (and its subsidiaries') is presently developing land and selling serviced lots to residential, industrial, office and retail developers. Brookfield Development Corporation and its subsidiaries have entered into joint venture arrangements with local prominent developers on their remaining large tracts of land.

DESCRIPTION OF THE PROJECT

The Project consists of various public improvements and facilities as described in the Engineer's Report, including: streets and street facilities, including traffic signals; water transmission and distribution facilities; sewage and wastewater collection and transmission facilities; storm drainage facilities; electrical utility facilities; landscaping (including irrigation systems); acquisition of land, rights-of-way and easements for such facilities; acquisition and development of parks and recreational facilities; construction of and equipment for a fire station; and contribution for a library, mass transit study and regional park/open space system. On November 30, 1993, the Engineer's Report for the District was modified to delete the water distribution loop and interest carry.

On January 8, 1991, the City Council approved Resolution No. R-277108 which authorized the approval and execution of an Acquisition and Funding Agreement between the City, the District and the Developer (the "Acquisition and Funding Agreement"). On November 30, 1993, the Acquisition and Funding Agreement was modified to take into account the modifications to the District implemented on November 30, 1993. The Acquisition and Funding Agreement acknowledges the establishment of the District. The purpose of the District is to provide for funding of the formation of the District; the issuance of Series 1998 Bonds; and the acquisition and construction of certain authorized facilities and incidental expenses. Pursuant to the Acquisition and Funding Agreement the Developer shall construct certain authorized facilities or contribute toward the construction of such authorized facilities which will be or have been constructed or caused to be constructed by the City. The Acquisition and Funding Agreement provides for the acquisition of such authorized facilities by the District. The acquisition price to be paid by the District for the authorized facilities shall be made in monthly installment payments. Upon the substantial completion of each facility, the City will determine the acquisition price of each facility, less

any installment payments made to the Developer, and will pay the Developer the adjusted acquisition price. Once acquired from the Developer, such facilities shall be public facilities.

DESCRIPTION OF THE DEVELOPMENT

The 1,200-acre Miramar Ranch North Project is a master planned community being marketed as "Scripps Ranch Villages." Scripps Ranch Villages is being developed in three phases. A variety of housing products are offered in small villages within each phase, each village contains between 50 to 150 housing units. Approximately 50% of the planned housing units will be single-family detached homes, ranging in size and price from first time buyer cottages to luxury estate homes. The multi-family product will also offer variety, including, condominiums, townhouse and duplexes. A neighborhood commercial center has been built with a Vons (grocery) and Sav-On (drug store) with 184,000 square feet of retail space. A majority of the other retail space has been leased.

The District is located adjacent to and north of Miramar Lake. Miramar Lake offers a variety of recreational opportunities for the public. Scripps Ranch Villages will make extensive use of community and neighborhood parks, walking/biking/jogging trails, nature preserve areas and open space. Approximately half the project is devoted to such uses. The 13-acre Spring Canyon park which opened in spring, 1995 is located in Phase 1 adjacent to the new Robert E. Dingeman Elementary School which opened in fall, 1995. Phase 2 will include a 20-acre park, including a community recreation center, adjacent to the Thurgood Marshall Middle School which is near completion. The Phase 2 park and the middle school are projected to open in fall, 1998. The recreation center is scheduled to open one year later. Both schools have developed arrangements with the City to jointly utilize the park and recreation facilities. Phase 3 includes a lake view park which overlooks Lake Miramar and connects the community to the lake with a hiking trail. Other planned community amenities include a fire station and church site.

The Developer amended the Community Plan and rezoned the property previously designated for 63 acres of industrial uses to residential and commercial uses on June 6, 1995. This also created the opportunity for a larger and more cohesive retail center. Table 6 is a summary of current planned land uses:

**Table 6
Community Facilities District No. 1
(Miramar Ranch North)
Current Planned Land Uses**

Residential Dwelling Units	Phase 1	Phase 2	Phase 3	Total
Single-family	750	535	437	1,722
Townhome	270	0	0	270
Duplex	146	72	0	218
Condo	<u>536</u>	<u>117</u>	<u>300</u>	<u>953</u>
	1,702	724	737	3,163
Commercial	33 ac	0	0	33 ac

The Partnership has sold approximately 2,069 lots to 19 different entities. Of those entities, five entities, Scripps Heatherwood (1530) L.P., Scripps Larkspur (1620) L.P., Scripps Lakepoint (1340) L.P., and Scripps Autumn Ridge (2360), LLC have substantially the same ownership as the Developer and have purchased 334 of the 2,069 lots sold. Home sales within the project commenced in early 1993. As of March 31, 1998, 1,946 homes had been sold. Table 7 is a summary of construction and sales activity within the District.

**Table 7
Community Facilities District No. 1
(Miramar Ranch North)
Current Construction And Sales Activity**

<u>Merchant Building Entity</u>	<u>Lots Under Contract as of March 31, 1998</u>	<u>Lots Purchased as of March 31, 1998</u>	<u>Bldg. Permits For Dwelling Units Issued as of March 31, 1998</u>	<u>Homes Sold as of March 31, 1998</u>	<u>Types of Dwelling Units Proposed</u>
"Heatherwood" * Scripps Heatherwood (1530), L.P. a California limited partnership	118	118	118	118	Single Family Detached
"Larkspur" * Scripps Larkspur (1620), L.P. a California limited partnership	97	97	97	97	Single Family Detached
"Windchime" D.R. Horton, Inc. - San Diego, a Delaware Corp.	146	146	146	146	Paired Homes (Duplexes)
"Cobblecreek" * McMillin Homes II, Inc., a California Corp.*	122	122	122	122	Single Family Detached
"Prominence" UDC Homes, Inc. a Delaware Corp.	113	113	113	113	Single Family Detached
"Encore/Aspire" Shelf Project Partnership #121 L.P., a California limited partnership	270	270	270	270	Detached Condominiums
"Lakepoint Estates" * Miramar Ranch North Partnership (lot sales only)	21	21	21	21	Custom Lots
"Lakepoint" Scripps Lakepoint (1340) L.P., a California limited partnership*	7	7	7	7	Custom Homes
"Lakepoint" Investments, Inc. a California Corp. dba Continental Homes	74	74	74	74	Single Family Detached
"Triana" D.R. Horton, Inc. a Delaware Corp.	249	249	249	249	Triplex (Attached)
"Kensington" Shea Homes Limited partnership, a California limited partnership	106	106	106	106	Single Family Detached
"Autumn Ridge" * Scripps Autumn Ridge (2360), LLC, a Delaware limited liability company*	193	124	137	143	Single Family Detached
"Ivy Hill" Western Pacific Housing-Scripps L.P., a California limited partnership	133	133	133	130	4, 6 and 8-plex (Attached)
"Meadowbrook" UDC Homes, Inc., a Delaware Corp.	72	72	72	71	Paired Homes (Duplexes)
D.R. Horton San Diego No. 18, Inc., a California Corp.	117	117	24	24	Triplex (Attached)
"Deerfield" * Scripps Northridge L.P., a California limited partnership*	80	80	80	80	Single Family Detached
"Greenbrier" * Scripps Northridge L.P., a California limited partnership*	70	70	70	70	Single Family Detached
"Crestview" * Brookfield, a California Corp.	71	71	71	71	Single Family Detached
"Americana" * Brookfield, a California Corp.	92	49	55	34	Single Family Detached
"Waterford" * Brookfield, a California Corp.	55	0	3	0	Single Family Detached
"Presidio" SRV-2480, LLC*	90	42	4	0	Single Family Detached
TOTAL	2,296	2,081	1,972	1,946	

* Entities with substantially the same ownership as either Brookfield or McMillin.

None of the merchant builders unrelated to the Developer are responsible for more than 5% of the total Special Taxes.

With the exception of the multi-family site (Neighborhood #1720) which is being contracted for sale to Western Pacific, the remaining five residential neighborhoods are expected to be developed by McMillin and Brookfield affiliated entities, summarized in Table 8 as follows:

**Table 8
Community Facilities District No. 1
(Miramar Ranch North)
Current Development**

	<u>Entity</u>	<u>Projected Opening</u>	<u>Number of Units</u>
Neighborhood #3400	Brookfield	2nd Qtr '98	55
Neighborhood #3460	Brookfield/McMillin	4th Qtr '98	110
Neighborhood #3490	Brookfield/McMillin	3rd Qtr '98	154
Neighborhood #3520	Brookfield	2nd Qtr '99	118
Neighborhood #4350	Brookfield	1st Qtr '99	<u>300</u>
	Total		737

The Commercial/Recreation site (Neighborhood #1380) is currently being marketed to potential developers and users. The Developer is currently involved in preliminary discussions with the San Diego Unified School District for the sale of this 6.7 acre site. If such sale, or the sale to a similar public entity were to occur, the site would be classified as Exempt Property pursuant to the Rate and Method of Apportionment of Special Taxes and would not be subject to the levy of Special Taxes. The appraisal of undeveloped property includes this site.

SPECIAL RISK CONSIDERATIONS

General

To provide for the payment of debt service on the Bonds, it is necessary that unpaid Special Taxes be paid in a timely manner. Although the Special Taxes constitute liens on the parcels within the District, they do not constitute a personal indebtedness of the respective owners of such parcels. There is no assurance that current owners, including but not limited to The Partnership, or entities related to either Brookfield or McMillin, or any subsequent owners will be financially able to pay the Special Taxes or that they will pay such Special Taxes even though financially able to do so.

Failure by current owners, including but not limited to The Partnership, or entities related to either Brookfield or McMillin, or any subsequent owners of the parcels within the District to pay Special Taxes when due or the inability to sell the parcels within the District at foreclosure proceedings for amounts sufficient to cover delinquent Special Taxes levied against such parcels would result in the inability to make full or punctual payments of debt service to the Bond Owners.

The Partnership, or entities related to either Brookfield or McMillin, are responsible for approximately 20.9% of the Special Taxes to be levied in Fiscal Year 1998-99 on undeveloped property. See "THE DISTRICT – Property Ownership and Development." Until the Partnership, or entities related to either Brookfield or McMillin, transfers ownership of such parcels within the District to merchant builders or others, thereby diversifying the ownership of such parcels, the timely payment of the Bonds will depend upon the willingness and ability of the Partnership, or entities related to either Brookfield or

McMillin, to pay such installments of Special Taxes when due. The District has not undertaken to assess the financial condition of the Partnership, or entities related to either Brookfield or McMillin, or the likelihood that it will pay or will be able to pay the Special Taxes when due, and expresses no view concerning these matters.

The District reports that according to County records, as of May 13, 1998, neither the Partnership, or entities related to either Brookfield or McMillin, was delinquent in the payment of Special Taxes for parcels within the District.

Risks of Real Estate Secured Investments Generally

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of homes, commercial property or industrial buildings and/or sites in the event of sale or foreclosure, (ii) changes in real estate tax rate and other operating expenses, governmental rules (including, without limitation, zoning laws) and fiscal policies, and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Collection of Special Taxes

The Bonds and interest thereon are not payable from the general fund of the District or the City. Except with respect to the Special Taxes, neither the credit nor taxing power of the District or the City is pledged for the payment of the Bonds or the interest thereon, and no owner of Bonds may compel the exercise of any taxing power by the District or, except as provided in the Indenture, by the District, or force the forfeiture of any of their respective property. The principal of and interest on the Bonds are not a debt of the District or the City, nor a legal or equitable pledge, charge, lien or encumbrance upon any of their respective property or upon any of their respective income, receipts or revenues, except the Net Taxes.

In order to pay the principal of and interest on the Bonds Special Taxes levied on property within the District must be paid in a timely manner. If such Special Taxes are not paid in a timely manner, the only method of collecting delinquent Special Taxes is to foreclose the lien imposed by the Special Tax.

The District has covenanted to institute foreclosure proceedings to enforce the lien of the Special Tax and sell any land with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Taxes to protect its security interest. In the event such superior court foreclosure or foreclosures are necessary, there could be a delay in principal and interest payments to the owners of the Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the land subject to foreclosure and sale at a judicial foreclosure sale will be sold or if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Taxes. Although the Act authorizes the Board to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the execution sale if there is not other purchaser at such sale. See "SECURITY FOR THE BOND BONDS - Covenant for Superior Court Foreclosure" herein.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the district.

Under provisions of the Act, the Special Taxes are billed to the properties within the District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous Fiscal Year on the regular property tax bills sent to owners of such properties. Such Special Taxes are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. The delinquency rate, as a percentage of dollar amount levied, on property taxes levied within the District through June 30, 1997 was approximately 1.15%.

See "SECURITY FOR THE BOND BONDS - Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Property Ownership

Failure of the property owners in the District to pay Special Taxes, when due, could result in a delay in payment of the principal of and interest on the Bonds. See "Bankruptcy" below and "SECURITY FOR THE BOND BONDS - Covenant for Superior Court Foreclosure" herein. Although the Special Taxes will be secured by liens on parcels subject to the Special Tax within the District, they do not constitute a personal indebtedness of the owners of property within the District. There is no assurance that the owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. There is a concentration of ownership of land within the District. See "THE DISTRICT - Property Ownership and Development," herein.

If any property within the District becomes exempt from taxation through ownership by a nontaxable entity, such as a governmental agency, the Special Tax will be reallocated to the taxable properties within the District, subject to the Maximum Special Tax. See APPENDIX A - "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" herein. Such a reallocation would result in the owners of such land paying a greater amount of the Special Tax and such could have an adverse impact upon the likelihood of their paying the Special Tax.

Concentration of Ownership

Ownership of property in the District is not fully diversified. As of March 1, 1998, the Developer owns approximately 182.14 acres of property which is classified as undeveloped (See "THE DISTRICT- Description of the Development"). The Developer is continuing to develop the land within the District for sale to merchant builders and custom lot purchasers (the "Development"). See "THE DISTRICT- Land Development." The timely payment of the Bonds depends upon the willingness and ability of the Developer and other owners of property within the District to pay the Special Taxes when due. Failure of the Developer or other landowners to pay the annual Special Taxes when due could result in the rapid, total depletion of the Reserve Fund prior to reimbursement from the resales of property or delinquency

redemptions. In that event, there will likely be a default in payments of the principal of, and interest on, the Bonds.

Failure to Develop Properties

Land development operations are subject to comprehensive Federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect land development operations. The Developer has already received a significant number of the required governmental approvals necessary for the Development. On January 8, 1991 the City Council approved a development agreement with the Developer to provide for certain public facilities in exchange for assurances that the Developer may proceed with the Development (the "Development Agreement"). See "THE DISTRICT-Development Agreement." The Developer still needs planned residential development permits, for multi-family sites and planned commercial development permits for commercial sites. There can be no assurance, however, that as a result in change in law or circumstances or the enactment of voter initiatives, the completion of the Development as planned will not be substantially delayed or portions of the Development will not be completed as planned. As of May 1, 1998, there were approximately 118 residential lots remaining undeveloped and not subject to a final subdivision map. Final maps have been approved for all of the projects except for Neighborhoods #3520 and #4350. A final map for 106 of 118 total lots for Neighborhood #3520 was approved by the City Council on June 15, 1998 and is expected to be recorded shortly. Discretionary approvals are necessary to complete the Development of Neighborhood #4350 and will be subject to CEQA. Challenges to Neighborhood #4350 discretionary approvals could slow the rate of development in the District. In addition, there is the risk that future governmental restrictions, including, but not limited to, governmental policies restricting or controlling development within the District, will be enacted, and a risk that future land use initiatives approved by the voters in the City could add more restrictions and requirements on development within the District.

Moreover, there can be no assurance that the means and incentive to continue land development operations within the District will not be adversely affected by a deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes.

Another risk to the Bondowners involves the value of undeveloped property. As of March 1, 1998 approximately 192.16 gross acres, responsible for 18.8% of the 1998-99 Special Taxes within the District, is classified Undeveloped Property for purposes of the Rate and Method of Apportionment of Special Tax. Undeveloped property is less valuable per unit of area than developed land, especially if there are no plans to develop such property or if there are severe restrictions on the development of such property. The undeveloped property also provides less security to the Bondowners than developed property should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to continue to develop the land within the District as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on undeveloped property. The timely payment of the Bonds depends upon the willingness and ability of the Developer to pay the Special Taxes levied on the undeveloped property when due. See "Concentration of Ownership" above. A slowdown or stoppage in the development of the District could reduce the willingness and ability of the Developer to make Special Tax payments on undeveloped property, and could greatly reduce the value of such property in the event it has to be foreclosed upon. See "Appraised Value" below.

The failure to complete the Development as planned, or substantial delays in the completion of the Development due to litigation or other causes, may reduce the value of the property within the District, will increase the amount of Special Taxes to be paid by the owners of undeveloped property and may affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due. See "SECURITY FOR THE BONDS - Land Values."

Bond Insurance Policy

Payment of the principal of and interest on the Bonds will be insured by the Policy to be issued by the Insurer. See "BOND INSURANCE." A specimen of the Policy is attached as APPENDIX G hereto. The Policy does not, without the consent of the Insurer, secure payments due on the Bonds by reason of redemption (except mandatory sinking fund redemption) prior to maturity or acceleration of maturity. The enforceability of the Policy may be limited by any applicable bankruptcy, insolvency or other similar laws or enactments, including insurance laws and regulations now or hereafter enacted affecting the enforcement of creditors' rights or rights of holders of insurance policies or beneficiaries thereunder.

NEITHER THE UNDERWRITER, THE UNIVERSITY NOR THE AUTHORITY HAS MADE AN INDEPENDENT REVIEW OF THE FINANCIAL CONDITION OF THE INSURER AND EACH HAS RELIED SOLELY ON THE RATING OF THE INSURER BY MOODY'S INVESTORS SERVICE AND STANDARD & POOR'S RATINGS SERVICES.

Bankruptcy and Foreclosure Delays

The payment of Special Taxes, the ability of the District to foreclose the lien of a delinquent Special Tax, and the ability of the District to issue future Additional Bonds, as discussed in the section herein entitled "SECURITY FOR THE BOND BONDS," may be limited by bankruptcy, insolvency, or other laws generally affecting creditor's rights or by the laws of the State 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 Series 1998 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the lien of the Special Taxes to become extinguished, bankruptcy of a landowner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such event could increase the likelihood of a delay or default in payment of the Bonds and the possibility of delinquent Special Taxes not being paid in full. The payment of Special Taxes and the ability of the Board to foreclose the lien of a delinquent unpaid Special Taxes could be curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments.

Payments by FDIC

The ability of the City, on behalf of the District, to collect interest and penalties specified by state law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal governmental agencies has or obtains an interest. On June 4, 1991, the FDIC issued a Statement of Policy

Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special taxes, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. With respect to property in California owned by the FDIC on January 9, 1997 and that was owned by the RTC on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The FDIC has filed claims against the Orange County, California ("Orange County") in the United States Bankruptcy Court and in Federal District Court contending, among other things, that special taxes are not *ad valorem* taxes, and therefore not payable by the FDIC, and any special taxes previously paid by the FDIC must be refunded. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. On March 2, 1998, the Bankruptcy Court issued a tentative ruling supporting the FDIC's positions. The Federal District Court has not yet issued a ruling on the matter. If the Bankruptcy Court and the Federal District Court issue final rulings supporting the FDIC's positions, it is likely that Orange County will appeal the decisions. If Orange County does not appeal any such final decision, or if Orange County's appeal is unsuccessful, the District may not be able to collect Special Taxes with respect to property that is or becomes subject to FDIC receivership. The District does not believe based upon the secured tax roll as of January 1, 1997, that the FDIC presently owns any of the property in the District.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the District will be unable to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Bonds.

Additional and Overlapping Debt

Presently, land within the District is subject to \$60,166,572 total gross direct and overlapping bonded debt. See "THE DISTRICT - Direct and Overlapping Debt" herein. To repay direct and overlapping debt the owners of the land within the District must pay the annual Special Taxes, annual special assessments, and the general property tax levy. The ability of the District to collect the Special Taxes or issue and sell Additional Bonds could be adversely affected if additional debt is issued within the District. The land, at any time, could become subject to additional parity debt either by the formation of additional community facilities districts or the imposition of other taxes and assessments by public agencies other than the District. The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of the landowners to pay the Special Taxes and may increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes.

The City has covenanted that it will not cause the District to issue indebtedness payable from the Special Taxes on a parity with the Bonds except the Additional Bonds as permitted in the Indenture. See "THE BONDS -Additional Bonds." However, the City could, at any time, cause the District to issue indebtedness secured by a pledge of Special Taxes which is subordinate to the pledge of Special Taxes to repay the Bonds. In addition, the City may levy assessments on a parity with the Bonds and has no control over the amount of additional debt payable from taxes or assessments on all or a portion of the property within the District that may be issued in the future by other governmental entities or districts, including but not limited to school districts or any other district having jurisdiction over all or a portion of the land within the District. Nothing prevents the owners of land within the District from consenting to the issuance of additional debt by other public agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will have a lien on the property within the District on a parity with the lien of the Special Taxes.

Accordingly, the debt on the property within the District could greatly increase, without any corresponding increase in the value of the property within the District, and thereby severely reduce the ratio that exists at the time the Bonds are issued between the value of the property and the debt secured by the taxes and assessments thereon. The imposition of such additional indebtedness could also reduce the willingness and ability of the property owners within the District to pay the Special Taxes when due. See "Future -Indebtedness" below.

Moreover, in the event of a delinquency in the payment of a Special Tax levy, no assurance can be given that the proceeds of any foreclosure sale would be sufficient to pay the delinquent Special Taxes and any other delinquent special taxes, assessments or taxes. See "Appraised Value" below.

Appraised Value

The Appraisal was prepared for the purpose of estimating the market value of the land and existing improvements in the District as of March 31, 1998. The primary valuation method was a discounted cash flow analysis. A secondary method was based on comparable sales of acreage capable of being put to similar uses. In estimating the value of the land in the District, the Appraiser has assumed, among other things, the completion of all public improvements and facilities to be financed with the proceeds of the Bonds. No assurance can be given, however, that such public improvements will ever be built or will be built within the time period currently contemplated. In addition, the appraiser has assumed that the costs of finishing the lots provided by the Developer are accurate. To the extent the costs of completing the lots are in excess of the estimates provided by the Developer, the appraised value of the undeveloped property within the District would be adversely impacted. The Appraisal also assumed the value of the property within the District as if lien for the Special Taxes did not exist.

In estimating the value of the land in the District, the Appraiser has also assumed that such land will be developed in accordance with existing land use approvals and that the Developer will obtain permits for the development as currently planned. The Developer has entered into the Development Agreement with the City to provide certain public facilities in exchange for assurances that it may proceed with the Development. See "The District - The Development Agreement." However, in the event that future growth control initiatives and government regulations reduce the level of development assumed by the Appraiser, the value of land would likely be reduced from that estimated by the Appraiser. APPENDIX G – "THE SUMMARY APPRAISAL REPORT" for a description of other assumptions made by the Appraiser. No assurance can be given that each of the assumptions made by the Appraiser is accurate, or reasonable, under the existing circumstances.

No assurance can be given that should the parcels become delinquent due to unpaid Special Taxes, and be foreclosed upon and sold for the amount of the delinquency, that any bid would be received for such property or, if a bid is received, that such bid would be sufficient to pay such delinquent Special Taxes. Also, as development of land in the District progresses, parcels or portions thereof may be dedicated to exempt entities or may otherwise be exempted from the Special Tax levy. See "Insufficiency of Special Taxes" below.

In addition to the foregoing, property values are not evenly distributed throughout the District. Consequently, the ratios shown under "SECURITY FOR THE BONDS- Land Values" are not consistent among different parcels within the District. This disparity is significant because in the event of nonpayment of a Special Tax levy, the District's only remedy is to foreclose against the delinquent parcel.

Parity Taxes and Special Assessments

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually levied until they are paid. Such lien is on a parity with all special taxes and special assessments 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 Special Taxes have priority over all existing and future private liens imposed on the property. The City has no control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. Any such special taxes or assessments will have a lien on such property on a parity with the Special Taxes. See "Additional and Overlapping Debt" above.

Future Indebtedness

The owners of land in the District may eventually wish to construct improvements over and above those being financed with the proceeds of the Bonds. The cost of these additional improvements may well increase the public and private debt for which the land in the District is security over that contemplated by the Bonds, and such increased debt could reduce the ability or desire of the Developer and other property owners to pay the Special Taxes levied against the land in the District. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements will have a lien on a parity with the lien of the Special Taxes. See "Additional and Overlapping Debt" above.

Payment of Special Taxes

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties within the District on

the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. A summary of the District's current and recent Special Tax delinquencies is set forth in Table 1 entitled "Special Tax Levy and Delinquencies for Fiscal Years 1994-95 to the present under the caption "SECURITY FOR THE BOND BONDS - The Special Tax."

See "SECURITY FOR THE BONDS- The Reserve Fund" and "SECURITY FOR THE BONDS- Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

The body of knowledge with respect to the potential weaknesses of various special tax formulations is still somewhat limited; and there is no assurance that the particular special tax in a given community facilities district will adequately address the great variety of potential scenarios which could result from the manner in which development of the property within such district actually occurs (or fails to occur). The special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax.

Insufficiency of Special Taxes

Under the Rate and Method of Apportionment of Special Tax, the annual amount of Special Tax to be levied on each taxable parcel in the District will be based primarily on whether such parcel is developed or not. Most developed parcels are taxed on the number of units per parcel. Commercial property, industrial property, undeveloped property and other property (as defined in Appendix A hereto) are taxed on the acreage in each Assessor's Parcel. See Appendix A and "THE DISTRICT- Rate and Method of Apportionment of Special Tax." To the extent undeveloped property does not become developed property, collection of the Special Taxes will be dependent on the willingness and ability of the owners of undeveloped property to pay such Special Taxes when due. See "Failure to Develop Properties" and "Appraised Value" above for a discussion of the risks associated with undeveloped property.

The Rate and Method of Apportionment of Special Tax specifies a process for determining the amount of the Special Tax to be levied in order to equal the amount needed to be collected. Basically, developed property will be taxed at the maximum rates applicable, unless the amount levied exceeds the amount needed. If less money is needed, the amount of Special Tax on all developed property shall be reduced by the same percentage to produce the required annual Special Tax levy for the Fiscal Year. If the amount levied under the Maximum Special Tax Rate is insufficient, then undeveloped property would become subject to the Special Tax up to the Maximum Special Tax Rate until the District fully meets its required debt service payments. The amounts of the annual Special Taxes will be set each year on or before August 1.

The Special Tax does not provide for taxation in excess of the Rate and Method of Maximum Special Tax Rate, even if insufficient funds are available to pay the amount required to pay debt service on the Bonds. In the event of a drastic reduction in the number of units and/or the square footage of such units, or a substantial portion of land within the District becomes exempt because of public ownership, or otherwise, insufficient funds may be available to pay the debt service on the Bonds. In order to mitigate

such concern, the Rate and Method of Apportionment of the Special Tax was amended to include a provision for the payment of the Extraordinary Special Tax under certain circumstances. The Extraordinary Special Tax would equal, in the aggregate on all parcels within the District for which a building permit has not been issued, the amount necessary to provide in each year Bonds are Outstanding, 1.10 times the debt service on the Bonds in each such year, less amounts reasonably projected to be available from Special Taxes to be levied within the District in future years.

The Act provides that if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. If for any reason property subject to the Special Taxes becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, or another public agency, subject to the limitation of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax.

No assurance can be given that the total number of residential units and commercial properties in the District that will be developed, when multiplied by the applicable Special Tax Rates determined in accordance with the Rate and Method of Apportionment of Special Tax, together with Special Taxes levied on any undeveloped property in the District, will be sufficient to pay the annual debt service due on the Bonds. In addition, to the extent that undeveloped property does not become developed property, the maximum amount of Special Taxes that can be collected will be adversely affected, and the willingness and ability of the owners of such property to pay the Special Taxes when due could also be affected. See Appendix A and "THE DISTRICT - Rate and Method of Apportionment of Special Tax."

Limitations on Remedies

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Bond Resolution to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Bond Resolution. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Disclosures to Future Purchasers of Land within the District

The District has recorded a Notice of the Special Tax Lien in the Office of the County Recorder of the County. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser of land within the District or a lender will consider such Special Tax obligation in the purchase of such land or the lending of money thereon. In addition, California law requires that a subdivider selling land within a community facilities district provide a Notice of Special Tax to the prospective purchaser describing the special tax

and other information in a form prescribed by statute. Subsequent sellers of property subject to a continuing lien securing the levy of special taxes by community facilities district must also make a good faith effort to notify the prospective purchaser of the lien in a format prescribed by statute. Failure to disclose the existence of the Special Taxes may affect the willingness and ability, but will not affect the legal obligation of future owners of land within the District to pay the Special Taxes when due. Failure to disclose the existence of the Special Taxes or the full amount of the pro rata share of debt on the land in the District may affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

Natural Disasters

Natural disasters, including floods and earthquakes, could damage improvements and/or property in the District, or impair the ability of landowners within the District to develop their properties or to pay Special Taxes. The District is in a known earthquake region. However, current and future school facilities constructed in the District must be built to Field Act standards that are the highest standards designed to withstand earthquake damage.

Drought Conditions

California has recently experienced drought conditions, although rainfall in recent years has terminated the drought conditions throughout the State. Water service within the District is provided by San Diego County Water Authority (the "SDCWA"). While SDCWA currently anticipates being able to supply water for existing and new development within its service area for the foreseeable future, there can be no assurance that any renewal of drought conditions will not adversely affect SDCWA's ability to do so. Such failure could adversely affect the financial condition of the property owners and could slow or halt development efforts, thereby adversely affecting the willingness or the ability of the owners of property within the District to pay their Special Taxes when due.

Hazardous Substances

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

The value of the property within the District, as set forth in the various tables herein, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The District has independently verified, and is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly adversely affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Taxes.

Endangered and Threatened Species

There is no known presence of any endangered or threatened species of animal or plant life within the District. Future discovery of any endangered or threatened species could delay or halt further development of the Undeveloped Property in the District.

Land Value

If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Bonds. Reductions in property values due to a downturn in the economy, physical events such as earthquakes or floods, stricter land use regulations or other events could adversely impact the security underlying the Special Taxes.

No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes.

See "SECURITY FOR THE BONDS — Obligation of the District Upon Delinquency" for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. Although the Act authorizes the District to cause a foreclosure action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the District with regard to purchasing or otherwise acquiring any parcel of property sold at a foreclosure sale in any such action if there is no other purchaser at such sale. The District has not in any way agreed, nor does it expect, to be such a purchaser. See "— FDIC/Federal Government Interests in Properties" above for a discussion of the policy for the Federal Deposit Insurance Corporation regarding the payment of assessments and special taxes and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Parity of Taxes, Special Taxes, Bonds and Special Assessments

The Special Taxes and any penalties received with respect thereto constitutes a lien against the parcels within the District until they are paid. The lien of the Special Taxes is on a parity with all special assessments levied by other agencies and general property taxes wherever such special assessments and general taxes are imposed on the same property, and subordinate to liens of special taxes previously imposed. The Special Taxes have priority over all existing and future private liens imposed on the parcels within the District and over all future fixed special taxes.

The District does not have control over the ability of other local government agencies to issue indebtedness secured by assessments or special taxes against all or a portion of the parcels within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by assessments or special taxes. Any such assessments or special taxes may have a lien on such property on a parity with the

Special Taxes. The parcels within the District are currently subject, in the aggregate, to \$60,166,572 of direct and overlapping bonded debt, including the Bonds offered hereby. See "THE DISTRICT — Direct and Overlapping Debt" for a description of such authorized but unissued debt and all governmental debt secured by the parcels within the District.

Cumulative Burden of Parity Taxes, Special Assessments

The Special Taxes constitute a lien against the parcels of land on which they 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 District does not have control over the ability of other entities to issue indebtedness secured by *ad valorem* taxes, special taxes or assessments payable from all or a portion of the property within the District. In addition, the owners of property within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by *ad valorem* taxes, special taxes or assessments. Any such special taxes may have a lien on such property on a parity with the lien of the Special Taxes. See "SECURITY FOR THE BOND BONDS - Direct and Overlapping Debt."

Right to Vote on Taxes Act

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

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

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

It may be possible, however, for voters or the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with

certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See "SPECIAL RISK CONSIDERATIONS - Limitations on Remedies."

Ballot Initiatives and Legislative Measures

The Initiative was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process; and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provision for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the District or local districts to increase revenues or to increase appropriations or on the ability of a landowner to complete the development of property.

CONCLUDING INFORMATION

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series 1998 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, *provided, however*, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Series 1998 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 1998 Bonds.

In the further opinion of Bond Counsel, interest on the Series 1998 Bonds is exempt from California personal income taxes.

Owners of the Series 1998 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 1998 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series 1998 Bonds other than as expressly described above.

Legal Opinions

The validity of the Series 1998 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto and will accompany the Series 1998 Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Copies of this opinion will be available at the time of delivery of the Series 1998 Bonds. Payment of the fees and expenses of Bond Counsel is contingent upon the sale and delivery of the Series 1998 Bonds. Certain legal matters will be passed upon for the Underwriters by O'Melveny

& Myers LLP and for the District by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Disclosure Counsel.

Verification

Deloitte & Touche LLP, independent certified public accountants, will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Series 1998 Bonds of (a) computations relating to the adequacy of the Escrow Securities and the interest thereon to pay when due the scheduled payments of principal of, interest, redemption price, interest due to and to become due on the Prior Bonds on and prior to the specified redemption date thereof and (b) the computations of actuarial yields of the Series 1998 Bonds and of investments in the Refunding Fund for the Prior Bonds which were relied upon by the Bond Counsel for the Series 1998 Bonds in reaching its conclusion that the interest on the Series 1998 Bonds is excluded from gross income for federal tax purposes.

Underwriting

The Series 1998 Bonds are being purchased by PaineWebber Incorporated and E. J. De La Rosa & Co., Inc. (the "Underwriters"). The Underwriters have agreed to purchase the Series 1998 Bonds at a price of \$57,661,812.05 (being the principal amount of the Series 1998 Bonds less an Underwriter's discount of \$475,720.00, and an original issue discount of \$1,327,467.95), plus accrued interest. The bond purchase agreement for the Series 1998 Bonds provides that the Underwriters will purchase all of the Series 1998 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such bond purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 1998 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof. The offering prices may be changed from time to time by the Underwriters.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Series 1998 Bonds and a certificate of the City, acting on behalf of the District, to that effect will be furnished to the Underwriters at the time of the original delivery of the Series 1998 Bonds. The City is not aware of any litigation pending or threatened which questions the existence of the District or contests the authority of the City to levy and collect the Special Taxes in the District or which contests the authority to issue and retire the Series 1998 Bonds.

Ratings

Moody's Investors Service and Standard & Poor's Ratings Service have assigned the Series 1998 Bonds the ratings set forth on the cover page hereof, based on the issuance of the Municipal Bond Insurance Policy by the Insurer. Such ratings reflect only the view of such organizations, and an explanation of the significance of the ratings may be obtained by contacting them at: Moody's Investors Service, 99 Church Street, New York, New York 10007, and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., 25 Broadway, New York, New York 10004. Such ratings are not a recommendation to buy, sell or hold the Series 1998 Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either rating agency, if, in the judgment of such agency, circumstances so warrant. Any such

downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 1998 Bonds.

Professionals

Dick Jacobs Associates has served as special tax consultant in connection with the issuance of the Series 1998 Bonds and will deliver a certificate at closing with respect to the levy of Special Taxes and compliance with the requirements of the Indenture.

Continuing Disclosure

This Official Statement is in a form "deemed final" by the District for the purposes of Securities and Exchange Commission (the "SEC") Rule 15c2-12. At the time of the delivery of the Series 1998 Bonds, the City, on behalf of the District, will enter into a Continuing Disclosure Agreement (the "District Disclosure Agreement") with the Trustee, Brookfield will enter into a Continuing Disclosure Agreement with the Trustee (the "Brookfield Continuing Disclosure Agreement") and the Developer will enter into a Continuing Disclosure with the Trustee (the "Developer Disclosure Agreement"; the District Disclosure Agreement, the Brookfield Disclosure Agreement and the Developer Disclosure Agreement shall be collectively referred to as the "Continuing Disclosure Agreements"). The District has covenanted for the benefit of the Owners of the Series 1998 Bonds to provide annually certain financial information and operating data relating to the Series 1998 Bonds and the District (the "District Annual Report"), 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 Annual Report, see APPENDIX E – "FORMS OF CONTINUING DISCLOSURE AGREEMENT." Such information is to be provided by the District not later than eight (8) months after the end of the District's Fiscal Year (which currently would be March 1), commencing with the report for the 1997-1998 Fiscal Year. The Annual Report will be filed by the District 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 District has never 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.

The District Disclosure Agreement shall remain in full force and effect until such time as the principal of, redemption premiums, if any, and interest on the Series 1998 Bonds shall have been paid in full. The Developer Disclosure Agreement shall terminate (i) upon defeasance, prior redemption or payment in full of all of the Series 1998 Bonds; (ii) upon the sale of 95% of all residential lots within the District to individual homeowners and construction of 95% of all retail uses within the District, (iii) when based on building permits on file as of March 1 of the then current year, at least 95% of debt service on the Series 1998 Bonds from Developed Property, or (iv) when the Developer obligations are assumed by a successor owner and such successor owner assumes the Developer's obligations under the Developer Disclosure Agreement. In addition, the Developer Disclosure Agreement provides that the Developer will require each owner of land within the District for which the annual Special Tax levy represents 10% or more of the aggregate Special Tax levy within the District to provide audited financial statements, if and when available. The Brookfield Disclosure Agreement shall terminate upon the termination of the Developer Disclosure Agreement.

The provisions of the Disclosure Agreements are intended to be for the benefit of the owners of the Series 1998 Bonds and beneficial owners of the Series 1998 Bonds and in order to assist the participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) and shall be enforceable by the owners of Series 1998 Bonds, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the parties obligations under the respective Disclosure

APPENDIX A

COMMUNITY FACILITIES DISTRICT NO. 1 (MIRAMAR RANCH NORTH) CITY OF SAN DIEGO

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

INTRODUCTION

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

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

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

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

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

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

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

Building Permit Special Tax Account: Account established by the District for deposit of Building Permit Special Tax proceeds.

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

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

Company: Miramar Ranch North, a California general partnership.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Projected Special Taxes: Means an amount in each Fiscal Year in which the District bonds are outstanding, equal to the summation of special taxes anticipated to be collected from Developed Property and Undeveloped Property in such Fiscal Year. As of July 1, 1992 and annually as of each July 1 thereafter that any District bonds remain outstanding, the District shall cause a Special Tax Consultant to determine the projected maximum special taxes that could be levied on all Taxable Property within the District in each ensuing Fiscal Year in which District bonds are outstanding. The determination by the Special Tax Consultant of the Projected Special Tax shall be based upon the reasonable projections of development provided by the property owners of the Taxable Property within the District (projections to be provided to Special Tax Consultant by the property owners of Undeveloped Property on or before March 15 each Fiscal Year Projected Special Taxes are to be calculated until such time as Full Buildout

occurs); *provided, however*, such development projections may not exceed the maximum development permitted by then applicable final subdivision maps, tentative subdivision maps, the Community Plan, the Development Agreement and the Settlement Agreement.

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

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

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

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

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

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

- Land Use Category 1 - Residential Property
- Land Use Category 2 - Commercial Property
- Land Use Category 3 - Industrial Property
- Land Use Category 4 - Other Property
- Land Use Category 5 - Undeveloped Property
- Land Use Category 6 - Exempt Property

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

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

TABLE 1
MAXIMUM SPECIAL TAX RATES

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

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

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

Maximum Special Tax Rates for properties classified as Developed Property as of July 1 of the next Fiscal Year. However, such Maximum Special Tax Rates shall not be increased (to account for increases in construction costs) above the amounts shown on Table 2, below:

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

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

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

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

D. *Method of Apportionment of Special Taxes.*

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

2. The City Council shall determine for each Fiscal Year, the Annual Special Tax Levy, and, if applicable, the Extraordinary Special Tax levy pursuant to Section H.
3. The City Council shall levy the special taxes for each Fiscal Year, commencing on July 1, 1991 as follows:
 - (1) Levy the special tax at its Maximum Special Tax Rate upon all Developed Property; however, should this amount exceed the Annual Special Tax Levy and provided all bonds have been issued, the special tax will be proportionally reduced.
 - (2) Should this amount be insufficient to satisfy the Annual Special Tax Levy, the excess shall be levied uniformly upon all Undeveloped Property.
 - (3) If applicable, the Extraordinary Special Tax shall be levied uniformly upon all Undeveloped Property according to Section H.

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

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

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

1. Any owner of Developed Property subject to the special tax may discharge the special tax obligation in full, or in part at any time, by making payment as follows:
 - a. If all bonds of the District have not been issued, compute the present value of the remaining payments of special tax, utilizing a term determined in accordance with Section E above, at the weighted average coupon rate of the outstanding bonds using the Maximum Special Tax Rate for the Assessor's Parcel;

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

- b. Based on the development projections made in connection with the determination of the Projected Special Taxes, determine the Assessor's Parcel's special tax per square foot for Residential Property and special tax per acre for Commercial, Industrial and Other Property that will equate to the Debt Service Requirement.
- c. Subtract from the Assessor's Parcel's Maximum Special Tax Rate the special tax rate determined in 1.b. above to determine the special tax rate attributable to remaining bond authorization, if any. If no remaining bond authorization exists, skip to 1.f. and steps 1.d. and 1.e. will not apply.
- d. Determine the Assessor's Parcel's percentage of the Maximum Special Tax Rate attributable to remaining bond authorization by dividing 1.c. above by the Assessor's Parcel's Maximum Special Tax Rate.
- e. Multiply the percentage obtained in 1.d. above by the amount determined in 1.a. above to determine the amount of prepayment attributable to remaining bond authorization.
- f. Multiply the amount in 1.a. above by the owner's desired prepayment percentage to determine the prepayment amount. A Merchant Builder who desires to prepay all or part of the special taxes shall be required to use a prepayment percentage necessary to ensure that all Residential units within the same Neighborhood are subject to the same Maximum Special Tax rate as a result of the prepayment. Such uniform Maximum Special Tax rate shall be established at or prior to the issuance of the building permit for the first production Residential Unit within a Neighborhood. Special Tax prepayments to be made by a Merchant Builder shall be made at the issuance of building permits for each production Residential unit within a Neighborhood. Special Tax prepayments for model units shall be made at the time of issuance of the building permit for the first production Residential unit within the Neighborhood.
- g. Subtract from the amount in 1.f. the amount in 1.e. to determine the amount of prepayment attributable to bond redemption.

- (1) If the result is greater than zero, enter the positive amount at 1.h. and the amount determined in 1.e. at 1.j.
 - (2) If the result is less than or equal to zero, skip to 1.j. and enter the amount determined in 1.f.
- h. Enter the applicable amount from 1.g. and add the following:
- (1) call premium as required in the bond instrument;
 - (2) interest on the positive amount in 1.g. at the applicable bond rate for each year, if any, to the next bond call date.
- i. To the result of 1.h. above, subtract the following:
- (1) the Assessor's Parcel's pro rata share of the bond reserve fund allowance, computed at the rate used in establishing the reserve fund for outstanding bonds. This shall be determined by dividing the Assessor's Parcel's applicable square footage by the total square footage as determined in connection with the determination of Projected Special Taxes. For purposes of this determination, the square footage of Commercial, Industrial and Other Property shall be computed at 13,000 square feet per Acre. The Assessor's Parcel's pro rata share shall be multiplied by the quotient obtained by dividing 1.g. by the difference obtained in subtracting from the amount in 1.a. the amount in 1.e.
 - (2) the interest earnings to be generated at the reinvestment rate as determined by the City of San Diego from the discharge date to the next bond call date.
- j. Add the bond redemption amount in 1.i above, if any, to the amount attributable to remaining bond authorization in 1.g. above.
- k. To the result of 1.j. above, add the following items to determine the Assessor's Parcel's total prepayment required
- (1) unpaid special taxes, interest and penalties, if any, which have been entered on the assessor's roll;
 - (2) a \$250 administrative fee, increased by the same percentage increase in the Consumer Price Index, San Diego all urban consumers index, as of January 1st of each year.

2. The Maximum Special Tax Rate for Developed Property applicable to an Assessor's Parcel utilizing a prepayment percentage less than 100% shall be reduced in subsequent Fiscal Years by multiplying the Assessor's Parcel's Maximum Special Tax Rate by the prepayment percentage actually used in Section G. 1.f.

H. *Extraordinary Special Tax*

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

APPENDIX B

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture and does not purport to be complete. Reference is hereby made to the Indenture for further information. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture.

Funds and Accounts

The Indenture creates and establishes the following funds and accounts, to be maintained by the Trustee, for the administration and control of the Special Taxes:

- (1) Community Facilities District No. 1 Special Tax Refunding Bonds, Improvement Fund (the "Improvement Fund");
- (2) Community Facilities District No. 1 Special Tax Refunding Bonds, Special Tax Fund (the "Special Tax Fund");
- (3) Community Facilities District No. 1 Special Tax Refunding Bonds, Bond Fund (the "Bond Fund");
- (4) Community Facilities District No. 1 Special Tax Refunding Bonds, Costs of Issuance Fund (the "Costs of Issuance Fund");
- (5) Community Facilities District No. 1 Special Tax Refunding Bonds, Reserve Fund (the "Reserve Fund");
- (6) Community Facilities District No. 1 Special Tax Refunding Bonds, Redemption Fund (the "Redemption Fund");
- (7) Community Facilities District No. 1 Special Tax Refunding Bonds, Administrative Expense Fund (The "Administrative Expense Fund");
- (8) Community Facilities District No. 1 Special Tax Refunding Bonds, Extraordinary Special Tax Account (the "Extraordinary Special Tax Account"); and
- (9) Community Facilities District No. 1 Special Tax Refunding Bonds, Rebate Fund (the "Rebate Fund").

The Improvement Fund

The Trustee shall establish and maintain a separate fund designated the "Improvement Fund." A portion of the proceeds of the Series 1998 Bonds shall be deposited in the Improvement Fund in accordance with the Indenture. 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 upon submission of a Written Request of the District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment constitutes a cost of the Project and is a proper charge against the Improvement Fund, and (v) 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 District (i) 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 (ii) 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) to the Bond Fund to pay interest on the Bonds if such amount is less than \$50,000.

The Special Tax Fund

The Trustee shall establish and maintain under the Indenture a separate fund designated the "Special Tax Fund." As soon as practicable after the receipt by the District of any Special Tax Revenues, but in any event no later than ten Business Days after such receipt, the District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; *provided, however*, that any portion of any such Special Tax Revenues that represents prepaid Special Taxes that are to be applied to the payment of the Redemption Price of Bonds shall be deposited in the Redemption Fund.

Upon receipt of a Written Request of the District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund and transfer, first, to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date, and, second, to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

Administrative Expenses

On the Closing Date a portion of the proceeds of the Series 1998 Bonds shall be deposited in the Administrative Expense Fund. There shall additionally be deposited in the Administrative Expense Fund the amounts transferred from the Special Tax Fund pursuant to a Written Request of the District in order to have sufficient amounts available therein to pay Administrative Expenses.

The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the District 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 Administrative Expense Fund, and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested thereunder.

The Redemption Fund

The Trustee shall establish and maintain a special fund designated the "Redemption Fund." The Trustee shall deposit in the Redemption Fund amounts received from the District in connection with the District's exercise of its rights to optionally redeem Series 1998 Bonds pursuant to the Indenture and any other amounts required to be deposited therein pursuant to the Indenture or pursuant to any Supplemental Indenture.

Amounts in the Redemption Fund shall be disbursed therefrom for the payment of the Redemption Price of Series 1998 Bonds redeemed pursuant to the Indenture and to pay the Redemption Price of Additional Bonds redeemed under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Costs of Issuance Fund

The Trustee shall establish and maintain a separate fund designated the "Costs of Issuance Fund." A portion of the proceeds of the Series 1998 Bonds shall be deposited in the Costs of Issuance Fund in accordance with the Indenture. There shall be additionally be deposited in the Cost of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

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 District 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. The Indenture provides that amounts remaining unspent in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Bond Fund.

The Extraordinary Special Tax Account

The Trustee shall establish and maintain a special account designated the "Extraordinary Special Tax Account." As soon as practicable after the receipt by the District of any Special Tax Revenues that represent Extraordinary Special Taxes, but in any event no later than the date ten Business Days prior to the Interest Payment Date after such receipt, the District shall transfer such Extraordinary Special Taxes (which shall be identified as such at the time of such transfer) to the Trustee for deposit in the Extraordinary Special Tax Account. All amounts on deposit in the Extraordinary Special Tax Account shall be separately accounted for by the Trustee (and payments to the District in lieu of Extraordinary Special Taxes shall be held in trust by the District subject to the terms of the Indenture).

The amounts on deposit in the Extraordinary Special Tax Account shall be disbursed from time to time by the Trustee as follows:

(a) Prior to Full Buildout, the Trustee, pursuant to a Written Request of the District, shall apply amounts in the Extraordinary Special Tax Account, or the amounts in lieu of Extraordinary Special Taxes held by the District and transferred by the District to the Trustee, to (i) pay debt service on the Bonds by depositing in the Bond Fund at least one day prior to each Interest Payment Date in the event and only to the extent that the aggregate amount of the maximum Special Taxes (exclusive of any Extraordinary Special Taxes) which may be levied during any Fiscal Year and investment earnings reasonably anticipated to be earned will be insufficient to pay the scheduled debt service on the Bonds for each such Fiscal Year, and (ii) replenish the Reserve Fund to the Reserve Requirement.

(b) At the time of Full Buildout, as evidenced by a Written Certificate of the District filed with the Trustee, the Trustee, pursuant to a Written Request of the District, shall use the amounts on deposit in the Extraordinary Special Tax Account for the purposes described in (a) above and, in the event the projection of the Special Tax Consultant reveals that the maximum Special Taxes which may be levied on all Developed Property will not generate Special Taxes equal to or exceeding the Debt Service Requirement, the amounts in lieu of Extraordinary Special Taxes held in trust by the District.

In the event the projection of the Special Tax Consultant reveals that the Maximum Special Taxes which may be levied on all Developed Property will generate Special Taxes equal to or exceeding the Debt Service Requirement, the District shall release the amounts in lieu of Extraordinary Special Tax payments held in trust pursuant to the provisions of the Rate and Method to the payor of such amounts and the District, by Written Request of the District, shall direct the Trustee to transfer the amounts available in the Extraordinary Special Tax Account to the Improvement Fund or, if the Improvement Fund has been closed pursuant to the Indenture, to the Redemption Fund to be applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

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 District. 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 pursuant to Article X hereof 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 the Indenture and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the District, and shall have no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the District's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the District's calculations.

Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the Indenture, shall be withdrawn by the Trustee and remitted to the District.

Investment of Funds and Accounts

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated 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; *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 District, the Trustee will invest any funds held by it in Permitted Investments described in clause (D) of the definition thereof.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture shall be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued by the Trustee at the fair market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15. In making any valuations of Permitted Investments, the Trustees may utilize such securities pricing services as may be available to it, including those within its regular accounting system and rely thereon.

The Trustee may act as principal or agent in the making or disposing of any investment. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

“Permitted Investments” means the following, to the extent that such securities are otherwise eligible legal investments of the District:

A. Direct 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, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

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):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
7. U.S. Maritime Administration
Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

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):

1. Federal Home Loan Bank System
Senior debt obligations

2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System
Consolidated systemwide bonds and 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 by S&P of "AAAm-G"; "AAA-m"; or "AA-m" and if rated by Moody's rated "Aaa", "Aa1" or "Aa2".

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

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

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Insurer.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. 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.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Insurer.

Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repurchase contracts must be between the municipal entity and a dealer bank or securities firm
 - a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's, or
 - b. Banks rated "A" or above by S&P and Moody's.
2. The written repurchase contract must include the following:
 - a. Securities which are acceptable for transfer are:
 - (1) Direct U.S. governments, or
 - (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
 - b. The term of the repurchase contract may be up to 30 days
 - c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or 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).
 - d. Valuation of Collateral
 - (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repurchase contract plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.
3. Legal opinion must be delivered to the municipal entity stating that the repurchase contract meets guidelines under state law for legal investment of public funds.

"Federal Securities" means United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Covenants of the District

Punctual Payment

The District covenants that it will 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 Net Special Tax Revenues and other assets pledged for such payment as provided in the Indenture and received by the District or the Trustee.

Against Encumbrances

The District shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Special Tax Revenues and other assets pledged under the Indenture while any of the Bonds are Outstanding, except as permitted by the Indenture.

Tax Covenants

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 1998 Bonds, the District covenants that: (a) it 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 Series 1998 Bonds under Section 103 of the Code, and shall comply with the requirements of the Tax Certificate; (b) in the event that at any time the District is of the opinion that 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 District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions; and (c) if the District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action 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 Series 1998 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.

Extension of Payment of Bonds

The District will 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. The District may 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.

Continuing Disclosure to Owners

The District shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the District or the Trustee to comply with the 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 Series 1998 Bonds, and upon being indemnified to its satisfaction therefor, shall) or any holder or beneficial owner of the Series 1998 Bonds

may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Amendment of the Indenture

The Indenture and the rights and obligations of the District, 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 District and the Trustee may enter into with the written consent of the Insurer and 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 extend the time of payment, without the consent of the Owner of each Bond so affected, 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 Net Special Tax Revenues 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 Net Special Tax Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the District), 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.

The Indenture and the rights and obligations of the District, 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 District 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 District 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 under the Indenture reserved to or conferred upon the District;

(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 provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of Article III;

(iv) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(v) 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

(vi) in any other respect whatsoever as the District 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, in the opinion of Bond Counsel filed with the District and the Trustee.

Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to this subsection (b), the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the District), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Insurer and to the Owners of the Bonds at the respective addresses shown on the Registration Books.

Upon the execution of any Supplemental Indenture pursuant to this Article, 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 District, 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.

Events of Default; Remedies

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 District 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 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the District by the Trustee or the Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the District within such 30 day period and the District shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The District or the City shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

If any Event of Default shall occur as set forth in (a) or (b) 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, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in the District with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

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 District 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 District and the fulfillment of all duties imposed upon it by the Indenture and the Act;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any rights of the Trustee or the Owners under the Indenture; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the District and its officers and employees to account as if it and they were the trustees of an express trust.

If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and 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 Bond Fund.

The Trustee is appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor,

shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, the Indenture, the Act or any other law. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

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* 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.

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 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 to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; and 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 provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

No remedy under 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 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.

Notwithstanding anything to the contrary contained on the Indenture, so long as the Insurer is not in default under the Insurance Policy, (a) so long as the Series 1998 Bonds are the only Bonds

Outstanding, the Insurer, acting alone, shall have the right to direct all remedies upon the occurrence and during the continuance of an Event of Default, (b) the Insurer shall be deemed to be the Owner of all Series 1998 Bonds for the purpose of exercising all rights and privileges available to Owners, and (c) the Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner in accordance with the applicable provisions of the Indenture.

Defeasance

The Bonds may be paid by the District in any of the following ways, *provided* that the District also pays or causes to be paid any other sums payable under the Indenture by the District:

- (a) by paying or causing to be paid the principal of and interest and premium (if any) on the Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount pursuant to the Indenture to pay or redeem all Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, all of the Bonds then Outstanding.

If the District shall also pay or cause to be paid all other sums payable under the Indenture by the District, including without limitation any compensation due and owing the Trustee thereunder, then and in that case, at the election of the District (evidenced by a Written Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Special Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the District under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, and upon receipt of a Written Certificate of an Authorized Representative of the District and an opinion of Bond Counsel acceptable to the Trustee, each to the effect that all conditions precedent relating to the discharge and satisfaction of the obligations of the District have been satisfied, the Trustee shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the District.

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount pursuant to the Indenture to pay or redeem any or all Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), *provided* that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the District in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

The District may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Any moneys held by the Trustee in trust for the payment of the principal of, premium, if any, or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, shall be repaid to the District free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease.

Trustee

Removal of Trustee. The District 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 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 under the Indenture, 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.

Resignation of Trustee. The Trustee may at any time resign by giving written notice of such resignation to the District and to the Bond Owners notice of such resignation at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the District 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.

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. 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 District 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 District of all unpaid fees and expenses of the predecessor Trustee, then 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 District 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 set forth in the Indenture. Upon request of the successor Trustee, the District 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 District 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 District 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 District.

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 the Indenture 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.

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 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 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. 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. The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds. No provision of the Indenture or any other document related hereto shall require the Trustee to risk or advance its own funds. Before taking action under the Indenture hereof or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur. The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.

Insurance Policy Provisions

Payments under the Insurance Policy. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Series 1998 Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 1998 Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Insurer or its designee.

In addition, if the Trustee has notice that any Owner has been required to disgorge payments of principal or interest on the Series 1998 Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

Trustee As Attorney-In-Fact. The Trustee is designated, appointed, directed and authorized to act as an attorney-in-fact for Owners of the Series 1998 Bonds as follows:

(a) if and to the extent there is a deficiency in amounts required to pay interest on the Series 1998 Bonds, the Trustee shall (i) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective Owners; and

(b) if and to the extent of a deficiency in amounts required to pay principal of the Series 1998 Bonds, the Trustee shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Series 1998 Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such Owners.

No Discharge. Payments with respect to claims for interest on and principal of Series 1998 Bonds disbursed by the Trustee from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the District with respect to such Series 1998 Bonds, and the Insurer shall become the owner of such unpaid Series 1998 Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this Article or otherwise.

Irrespective of whether any such assignment is executed and delivered, the District and the Trustee will (a) they recognize that to the extent the Insurer makes payments, directly or indirectly (as by

paying through the Trustee), on account of principal of or interest on the Series 1998 Bonds, the Insurer will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the District, with interest thereon as provided and solely from the sources stated in the Indenture and the Series 1998 Bonds; and (b) they will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the Series 1998 Bonds, but only from the sources and in the manner provided under the Indenture for the payment of principal of and interest on the Series 1998 Bonds to Owners, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

APPENDIX C
SUMMARY OF THE APPRAISAL

LIPMAN STEVENS MARSHALL & THENE, INC.

LEEANNA T. DANTE
RICHARD J. HUTZLER
FRANK J. MARSH
L. RASMUSON, MAI

Real Estate Appraisers & Consultants

H.L. "BILL" LIPMAN, MAI, CRE
WALTER J. STEVENS, MAI
THOMAS O. MARSHALL, MAI
KEVIN M. THENE, MAI

May 11, 1998

Ms. Lucille Galvin, Property Agent
City of San Diego
Real Estate Assets Department
1200 Third Avenue, Suite 1700
San Diego, California 92101

RE: AP2168 - Scripps Ranch Villages CFD No. 1

Dear Ms. Galvin:

At your request, I have completed an appraisal of the referenced property. Scripps Ranch Villages is a master-planned community with a total of 39 neighborhoods in various stages of completion. At completion, the community will contain a total of 3,205 dwelling units plus commercial, institutional and open space elements. As of the date of value, March 31, 1998, 2,099 units either were completed or were issued building permits. The buildings for the anchor commercial tenants were under construction.

The purpose of the appraisal was to estimate the value of the property within CFD No. 1. The appraisal assumes that the infrastructure financed by CFD No. 1 is in place. The appraisal may be used in the underwriting of a refinancing of the bonds.

The value of CFD No. 1 includes the aggregate *assessed values of developed properties* (building permits have been issued), and the *market value of the undeveloped property* (land with no building permits). The assessed values have been obtained from county records. The market value of the undeveloped property has been estimated by discounted cash flow analysis.

This is a complete appraisal and a summary report in compliance with the Uniform Standards of Professional Appraisal Practice, and the Code of Ethics and Supplemental Standards of the Appraisal Institute. A self-contained report also has been delivered to you. The first value estimate reported below follows the *Appraisal Standards for Land-Secured Financings* published by the California Debt Advisory Commission.

As a result of my research and analysis, and subject to the assumptions and limiting conditions as stated in the report, I have estimated the value of CFD No. 1, as of March 31, 1998, as follows:

Developed Property (assessed value)
\$389,296,142

Undeveloped Property (market value)
\$77,710,000

Total Value
\$467,006,142

At the request of the bond underwriter, a hypothetical value has been estimated for the undeveloped property. The hypothetical value assumes that there is no special tax on property within the Community Facilities District, and that the same community facilities exist. This assumption departs from the California Debt Advisory Commission's *Appraisal Standards for Land-Secured Financings*. I have estimated the hypothetical value of the district under that condition as of March 31, 1998, as follows:

Developed Property (assessed value)
\$389,296,142

Undeveloped Property (hypothetical market value)
\$84,210,000

Total Value
\$473,506,142

The data and analysis that were basis of my opinion of market value are presented in the report that follows. I appreciate the opportunity to have been of service to the City of San Diego.

Sincerely,

LIPMAN STEVENS MARSHALL & THENE, INC.

Thomas O. Marshall

Thomas O. Marshall, MAI
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. AG002840

TM:mjv

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EXECUTIVE SUMMARY

Property	Scripps Ranch Villages master-planned community, with a total of 3,205 dwelling units (existing and proposed), 39.04 acres of land for retail development and institutional sites, and dedicated open space.
Location	The community is part of the Interstate 15 Corridor, City of San Diego, California and is north of Miramar Lake and the original Scripps Ranch community.
Size	The community encompasses approximately 1,200 acres of land, with 520 acres usable and the remainder natural open space. Approximately 215 acres are classified as "undeveloped."
Property Condition	There were 2,099 dwelling units classified as developed on the appraisal date. The remaining 1,106 units were classified as undeveloped, meaning by definition that building permits had not been issued. Developed properties included occupied homes, homes under construction, and finished lots. The undeveloped property consisted of finished lots and rough-graded properties.
Intended Use of the Report	The appraisal may be used by the client to evaluate the security of the real estate in the refinancing of the bond debt. This summary report may be included in the Official Statement.
Major Assumption	Finishing costs provided by the developer are accurate.
Estate Valued	The fee-simple estate encumbered by Mello-Roos, and the fee-simple estate as-if unencumbered by Mello-Roos.
Date of Value	March 31, 1998.

EXECUTIVE SUMMARY

Valuation Summary

CDAC Compliance (Encumbered by Mello-Roos)

Assessed Values of Developed Property.. \$389,296,142
Market Value of Undeveloped Property\$77,710,000
Total Value..... \$467,006,142

CDAC Departure (As-If Unencumbered by Mello-Roos)

Assessed Values of Developed Property.. \$389,296,142
Market Value of Undeveloped Property\$84,210,000
Total Value..... \$473,506,142

(California Debt Advisory Commission, *Appraisal Standards for Land-Secured Financings*, May 1994, page 7.)

Date of Report

May 11, 1998

Appraiser

Thomas O. Marshall, MAI

LIMITING CONDITIONS

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

1. No responsibility is assumed for matters that are legal in nature, nor is any opinion on the title rendered herewith. This appraisal assumes good title, responsible ownership and competent management. With the exception of Mello-Roos assessments, any liens or encumbrances that may now exist have been disregarded, and 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 appraiser. The appraiser has no knowledge of the existence of such materials on the property. The appraiser, however, is not qualified to detect such substances. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them.
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 appraiser 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 is a complete, self-contained appraisal report prepared under Standards Rule 2-2 (a) of USPAP.

CERTIFICATION

I certify, 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, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
- 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, Thomas O. Marshall, MAI 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.
- this appraisal was not based on a requested minimum valuation, a specific valuation or approval of a loan.
- no one provided significant professional assistance to the person signing this report.

Thomas O. Marshall

Thomas O. Marshall, MAI
Date: May 11, 1998
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. AG002840
Expiration Date: March 10, 2001

SUMMARY APPRAISAL REPORT

INTRODUCTION

Purpose of the Appraisal

The purpose of the appraisal was to estimate the value of the real property within the Scripps Ranch Villages community of San Diego, California, that is encumbered by Community Facilities District No. 1 bonds. The appraisal includes the value of *developed property*, defined as properties for which building permits have been issued, and *undeveloped property*, defined as properties for which building permits have not been issued. The appraisal includes the aggregate *assessed value* of the developed property, and the *market value* of the undeveloped property. The value of the fee-simple estate has been estimated as encumbered by Mello-Roos assessments and as-if unencumbered by Mello-Roos assessments.

Intended Use of the Appraisal

The appraisal may be used by the client to evaluate the security of the real estate in the refinancing of the bond debt. This summary may be included in the Official Statement.

Definitions

Market value is defined as:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;

SUMMARY APPRAISAL REPORT

4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

Identification of the Property

Most of Phase One and portions of Phases Two and Three of Scripps Ranch Villages are included as developed property for this appraisal. A total of 2,099 residential lots are in the developed category. The remaining 1,106 lots are in the undeveloped category, along with 20.42 acres of commercial land.

Date of Value

The date of value is March 31, 1998.

Exposure Time

An estimate of exposure time is one of the requirements of USPAP. Exposure time is not applicable to the developed property. There would be a number of potential buyers of the undeveloped property if it were on the market, based on current market conditions. Demand for residential building lots exceeds supply in the county. A reasonable estimate of exposure time is three months.

Ownership

Miramar Ranch North, a partnership of McMillin Communities, Inc. and Brookfield Development California, Inc., developed Scripps Ranch Villages and continues to own the undeveloped property that has not been sold to outside builders.

¹ *Uniform Standards of Professional Appraisal Practice*, 1998, p. 163.

SUMMARY APPRAISAL REPORT

History of the Subject

Prior to March 1990, title was solely held by BCE Development, who had acquired the property in 1985 following the default by the previous owner, Daon Corporation. McMillin Communities became a partner in the property on February 12, 1990. The developers filed a lawsuit against the City of San Diego in June 1990, after the City rescinded approvals for a 3,360-home development in response to a referendum initiated by the Save Miramar Lake Committee. The lawsuit was settled in September 1990. The developers agreed to reduce the number of units, and to remove most development from the slope on the north side of the lake. The City agreed to expedite the planning process, to culminate in official approval on January 8, 1991. The City also agreed to set up a Mello-Roos special tax district to finance up to \$56,500,000 of infrastructure, it agreed to waive most sensitive land restrictions, and it agreed to grant the developers a \$24 million credit against proposed citywide development fees.

The Series A bonds were issued in July, 1991. The first phase of public improvements included Scripps Poway Parkway, which created a link between Interstate 15 and Pomerado Road in Poway to the east. Major water, sewer and road improvements have been completed, along with a community park, an elementary school, and a middle school. Guest builders and McMillin/Brookfield entities have completed and sold homes in most of Phase One, and portions of Phases Two and Three. A Von's supermarket and attached retail stores were nearing completion on the date of value. The McMillin/Brookfield partnership intends to complete the residential component of Scripps Ranch Villages.

Scope of the Appraisal

A discounted cash flow land residual analysis was the primary valuation method. A study of sales of uncompleted master-planned communities was inconclusive because of a lack of comparable market data. I inspected the subject property and investigated neighborhood conditions and market trends. Sources of market data included published data (COMPS, Inc., TRW-REDI, the *San Diego Daily Transcript*, and other publications), contracts for lot sales in Scripps Ranch Villages, and our market database. Comparable data were verified with buyers, sellers, and/or brokers who were involved with the transactions.

The absorption study for the discounted cash flow analysis was prepared by Lipman Stevens Marshall & Thene, Inc. This is a complete appraisal and a summary report, as defined in the Uniform Standards of Professional Appraisal Practice. Market value has been estimated under two scenarios: compliance with CDAC appraisal standards, and departure from the CDAC standards with respect to discounting finished values for special assessments. The second scenario was requested by the bond underwriter.

SUMMARY APPRAISAL REPORT

PROPERTY DESCRIPTION

Location and Access

The subject is about 15 miles north of downtown San Diego and 10 miles inland. The subject is in the City of San Diego, north of the community of Scripps Ranch and southwest of the City of Poway. Interstate 15 is one-half mile west of the property, Poway Road is one-half mile to the north, Pomerado Road is one mile to the east, and Miramar Reservoir is directly to the south.

The primary access is from Scripps Poway Parkway, which intersects with Interstate 15 one-half mile to the west. That road extends east into the industrial section of Poway, and farther east to Highway 67. From the Mira Mesa Boulevard interchange, access to the project will be available by traveling north on Scripps Ranch Boulevard, a four-lane collector street that will be constructed through Scripps Ranch Villages. Cypress Canyon Road and Spring Canyon Road, both four-lane collector streets, will provide access from the east side of the subject. The location and access of Scripps Ranch Villages are positive features. It has good proximity to a major freeway and to the major centers of employment, recreation, and culture in San Diego. The subject also benefits from its association with Scripps Ranch, an established and highly regarded residential community.

Size and Shape

The community has irregular boundaries and contains an estimated 1,200 gross acres. The greatest east/west distance is two miles, and the north/south distance is roughly one and one-half miles. The southern boundary follows the contour of Miramar Reservoir. Approximately 520 acres are usable.

Topography

The subject is above Interstate 15, Poway Road and Miramar Reservoir, and the natural topography consists for the most part of a series of ridges and valleys. Cypress Canyon runs down from the east to the northwest corner of the subject, and it has numerous small tributary canyons on either side. The highest elevation on the subject is about 1,000 feet above sea level. The elevation drops down to about 500 feet at the base of Cypress Canyon. Parts of the subject overlook Miramar Reservoir, which is 700 feet above sea level.

The total area of the property to be developed is 520 acres. The remainder will be left as natural open space. The usable area is about 43 percent of the total land area. Some potentially usable

SUMMARY APPRAISAL REPORT

land north of Miramar Reservoir will be left undeveloped to preserve views from south of the lake.

Residential development will be located mainly on numerous mesas between the ridge north of Miramar Reservoir and Cypress Canyon. There are very good views from the higher elevations of the subject, including a distant view of the ocean, and a view of Miramar Reservoir. Because of the negative visual impact of proposed residential units along the slopes overlooking the lake, McMillin Communities has reduced the number of units visible from the lake from 700 to about 80. Commercial development is located along Scripps Poway Parkway at the north end of the project.

Utilities

Major utility services have been developed, and they were financed primarily by CFD No. 1 Series A and B bonds. The capital improvements include a water storage tank and booster pumps on the property. Sewer connections have been made northwest of the property in Rancho Peñasquitos, and southwest of the property at Mira Mesa Boulevard. On-site utilities are not financed by the CFD. The subject is served by San Diego Gas & Electric, and the City of San Diego is responsible for water and sewer. Utilities within the neighborhoods are financed privately.

Zoning and Planning

Future land use for Miramar Ranch North will be governed by a Development Agreement that was approved by the City of San Diego in January 1991. Miramar Ranch North is exempted from the provisions of the City's Resource Protection Ordinance governing environmentally sensitive lands. The City will grant a credit of up to \$24,000,000 against any future citywide impact fees that may be imposed by the City of San Diego.

The Development Agreement allows a maximum number of residential units to be developed as follows:

Year	Number of Permits
1991	450
1992	535
1993	636
1994	591
1995	538
1996	350
1997	<u>260</u>
Total:	3,360

SUMMARY APPRAISAL REPORT

The developer's schedule for Miramar Ranch North as of the date of this report called for a total of 3,205 residential units, phased in conformity with the above permit allocation schedule.

A library contribution by the developer of \$2,000,000 was required in the Development Agreement. McMillin Companies confirmed that this contribution was paid prior to the recording of the first final map for the overall development. The City agreed to purchase certain open space in the project, and to facilitate the creation of a Community Facilities District (Mello-Roos). The 55-page Development Agreement should be referenced for complete details.

Assessed Values and Taxes

Portions of the subject neighborhoods are approved and recorded subdivisions, with each of the lots within each neighborhood (improved and unimproved) being separately assessed with their own APN. Due to the quantity of data, separate APNs and assessed values have not been presented. The entire property is within San Diego County Assessor's Map Book 319.

The current tax rates (not including special taxes) for the individual tax rate areas are as follows:

Tax Rate Area:	8193: 1.12051%
	8012: 1.11861%
	8114: 1.11861%

Existing and Proposed Development

McMillin's business plan includes the following data for the entire CFD, including existing and proposed development:

Phase 1	No. of Units	Net Area
Multi-family:	515 units	
Single Family:	773 units	
Duplex:	146 units	
Cottage:	270 units	
Commercial:		32.8 acres
School:		10.3 acres
Park:		13.3 acres
Subtotal:	<hr/> 1,704 units	<hr/> 56.4 acres

SUMMARY APPRAISAL REPORT

Phase 2	No. of Units	Net Area
Single Family:	481 units	
Duplex:	80 units	
Cottage:	72 units	
Townhomes:	132 units	
Church:		6 acres
School:		5 acres
Fire Station:		1 acre
Park:		20 acres
Subtotal:	<hr/> 765 units	<hr/> 32 acres
Phase 3:		
Single family:	436 units	
Townhouse:	300 units	
Park:		6 acres
Subtotal:	<hr/> 736 units	<hr/> 6 acres
Total:	3,205 units	94.4 acres

Capital Improvement Projects (Mello-Roos)

The Series A bond, issued in 1991, funded \$28,493,830 in public improvements. Including incidental costs, the total bond amount was \$35,340,000. The Series B bond funded \$17,340,817 in public improvements, and the total bond amount is estimated at \$20,865,000. The total bond amount in CFD No. 1 will be approximately \$56,205,000.

Special tax revenues in CFD No. 1 are from the following sources: Residential, 6,326,500 square feet at \$0.92 per square foot (total \$5,820,380 per year); and commercial, 33.04 acres at \$12,000 per acre (total \$396,480 per year, grand total \$6,216,860 per year). The City calculates "assessable square footage" each January 1st based on properties for which building permits have been issued, and the special tax is calculated accordingly. The difference between the total special tax and the tax on developed property is assessed to undeveloped property, pro-rated among Assessor's parcels based on acreage.

SUMMARY APPRAISAL REPORT

The major items financed by CFD No. 1 are the Mercy Road / Interstate 15 interchange, Scripps Ranch Boulevard, Scripps Poway Parkway, Spring Canyon Road, Cypress Canyon Road, a water storage tank, parks, and grading.

HIGHEST AND BEST USE

Highest and Best use is defined as:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.²

The single family, multi-family, commercial and other non-residential uses planned for Scripps Ranch Villages are legally permissible based on the development agreement approved by the City of San Diego. In addition, all the undeveloped land has a recorded final map, or in a few cases approved tentative maps, which confers development rights. None of the property is subject to any building moratorium, and the property is not impacted by any environmental restrictions.

The subject includes completed homes, finished lots, and rough-graded lots. The completion of site work and development in Scripps Ranch Villages is physically possible.

The strong level of demand for new housing in the county ensures the feasibility of development of the remainder of Scripps Ranch Villages. The demand for residential lots exceeds the supply. The master plan limits the amount of commercial development. The valuation of the land by discounted cash flow analysis resulted in a positive net present value of the undeveloped property in its present condition, leading to the conclusion that it is financially feasible to continue with the proposed development.

Alternatives such as stopping development or applying for different land uses are not justified. The highest and best use of the property is to continue with the present business plan.

²*The Dictionary of Real Estate Appraisal*, Third Edition (Chicago: Appraisal Institute, 1993), p. 171

SUMMARY APPRAISAL REPORT

VALUATION

Valuation of the undeveloped property in bulk by discounted cash flow analysis first requires the valuation of the individual components. The components of the undeveloped lot inventory have been appraised using the Sales Comparison Approach. Comparable data were selected representing the single-family, multi-family residential and commercial uses planned for the Scripps Ranch Villages neighborhoods being appraised. The Cost Approach to value has not been used, and the Income Approach to value did not apply to vacant land.

The Sales Comparison approach is based on the premise that knowledgeable buyers will pay no more for a specific property than the cost of acquiring a substitute property of equal utility. The reliability of this technique depends on the degree of comparability of the property appraised with each sale; the length of time since the sale; the quantity, quality, and accuracy of the sales data; and the absence of unusual conditions affecting the sale. The sale prices are reduced to common units of comparison and, where appropriate, adjustments for dissimilarities are made to the sale prices of the comparable properties. When the indicated unit value is applied to the subject neighborhoods, an estimate of the market value for the subject neighborhoods results. The unit of measure used for the subject lots is the price per finished lot. Of note, finishing costs include all municipal fees except for building permit fees.

The market data are summarized in the attached tables. Details of the transactions and the analysis of the sales are included in the self-contained report.

Aggregate Land Value Summary for Undeveloped Property

Neighborhood	Total Value
1720	\$5,320,000
1350	\$2,989,305
1380	\$2,477,036
1320	\$3,654,135
1325	\$2,626,145
2350	\$4,625,000
2480	\$9,360,000
2540	\$2,700,000
2570	\$9,585,000
3400	\$10,400,000
3460	\$15,660,000
3490	\$15,800,000
3520	\$16,100,000
4350	<u>\$15,000,000</u>
Total:	\$116,296,621

SUMMARY APPRAISAL REPORT

The above values must be discounted for finishing costs, expenses incurred during development, and absorption. The discounting is accomplished by a discounted cash flow analysis method. The costs and expenses are known quantities or can be estimated fairly easily. A market absorption study is included in the self-contained report and was the basis of the lot absorption shown in the attached tables.

DISCOUNTED CASH FLOW ANALYSIS

The undeveloped property in Scripps Ranch Villages is appraised using the discounted cash flow analysis method. Market value is equal to the present value of future net cash flows using this valuation method. This is the primary method for appraising land that is proposed for master-planned communities. It also is the method that is recommended in the *Appraisal Standards for Land-Secured Financings* published by the California Debt Advisory Commission in May 1994.

The discounted cash flow analysis method accomplishes the valuation of undeveloped property in bulk, as-if purchased by a single buyer, by discounting future net revenues (quarterly, in this appraisal) that are anticipated to be generated by the development and sale of finished product. The variables of a discounted cash flow analysis are as follows:

- *Number and Type of Finished Properties:* This appraisal is based on sales of finished lots by the McMillin/Brookfield partnership to "guest builders." The number and type are established by the final recorded maps and the developer's business plan. Although the developer intends to build out the remainder of the community, sales to guest builders are common in master-planned communities, and there is an ample amount of comparable data. Using sales of finished homes as the starting point for the valuation is not necessary.
- *Value of Finished Lots:* The lots have been appraised in groups corresponding to the neighborhoods in the developer's business plan. Based on current and projected market trends over the next two years, the values are inflated by five percent annually.
- *Other Revenues:* The developer collects a master marketing fee of 0.75 percent of home prices. This is approximately equal to 2.3 percent of lot values.
- *Rate of Absorption:* I conducted an absorption study and reached conclusions regarding the future rate of absorption of homes and commercial property in Scripps Ranch Villages. Based on my analysis, the sales of finished lots are projected to be sold out by the end of 1999. The commercial absorption is projected to be completed by the end of 2001. The projected timing of sales of individual neighborhoods coincides with the current level of

SUMMARY APPRAISAL REPORT

site development and maintaining an appropriate mix of property types on the market at any time.

- *Direct and Indirect Costs:* I obtained the remaining costs of finishing the lots as of March 31, 1998, from the developer. They are assumed to be accurate. Costs are inflated by three percent per year over the absorption period. I have added all remaining fees (the values of the finished lots were estimated assuming all fees were paid, except those that are payable on issuance of building permits). Other indirect costs were marketing, overhead, and taxes (including special taxes on undeveloped properties).
- *Discount Rate:* The direct and indirect costs are subtracted from the projected gross sale proceeds in each quarter to obtain the estimated future cash flows. Each cash flow is then discounted using a rate of return that provides for a *safe rate* to a lender or investor for the use of their money, an *inflation premium* that compensates the lender or investor for the fact that the future loan or equity payments will be paid in dollars worth less than they are today, and a *risk premium* that compensates the lender or investor for the possibility of a loan default or investment loss. It is not necessary to estimate each component separately. The discount rate is estimated based on a survey of going rates in the investment market. I interviewed a number of knowledgeable sources regarding discount rates for comparable master-planned communities. I have estimated the discount rate at 20 percent (there is no separate expense line for developer profit in the DCF). To coincide with the probable timing of revenues and expenses, the discounting is calculated at mid-quarter.

As shown on the attached Discounted Cash Flow Analysis spreadsheet, the present value of the undeveloped property in Scripps Ranch Villages is \$77,710,000. This result accounts for the strong demand for homes in the current market, appreciating lot values, and the advanced degree of completion of the development.

VALUATION OF DEVELOPED PROPERTY

By definition, developed property includes all properties for which building permits had been issued as of the date of value. They included finished and occupied properties, properties under construction, and still-vacant properties. Based on the recommendations of the California Debt Advisory Commission, it is appropriate to report the assessed values of developed properties when the value-to-lien ratio is high. The assessed values were compiled by County of San Diego staff for this appraisal. The total was \$389,296,142. The total assessed value is likely to under-represent market value to the extent that values have risen since many of the sales took place.

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VALUATION AS-IF UNENCUMBERED BY MELLO-ROOS

At the request of the bond underwriter, a hypothetical value has been estimated for the undeveloped property. The hypothetical value assumes that there is no special tax on property within the Community Facilities District, and that the same community facilities exist. This assumption departs from the California Debt Advisory Commission's *Appraisal Standards for Land-Secured Financings*.

The most significant market data that were used to appraise the finished lots were in comparable districts. Any discount that exists is included in the data. In order to comply with the hypothetical value condition, this discount must be estimated and added to the finished lot values that have been estimated by direct sales comparison. The method of estimating the lot value premiums is discussed in the self-contained report. The results are shown on attached spreadsheets. The resulting value of the undeveloped land was \$84,210,000.

VALUATION SUMMARY

Under the two scenarios, the value of CFD No. 1 has been estimated as of March 31, 1998 as follows:

CDAC Compliance (Encumbered by Mello-Roos)

Assessed Values of Developed Property.....	\$389,296,142
Market Value of Undeveloped Property.....	\$77,710,000
Total Value	\$467,006,142

CDAC Departure (As-If Unencumbered by Mello-Roos)

Assessed Values of Developed Property.....	\$389,296,142
Market Value of Undeveloped Property.....	\$84,210,000
Total Value	\$473,506,142

(California Debt Advisory Commission, *Appraisal Standards for Land-Secured Financings*, May 1994, page 7.)

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

July 14, 1998

City of San Diego
Community Facilities District No. 1
(Miramar Ranch North)
202 C Street
San Diego, California 92101

\$59,465,000
City Of San Diego
Community Facilities District No. 1
(Miramar Ranch North)
Special Tax Refunding Bonds, Series 1998
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of San Diego Community Facilities District No. 1 (Miramar Ranch North) (the "Community Facilities District") of \$59,465,000 aggregate principal amount of City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998 (the "Bonds") pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982 (being Sections 53311 *et seq.* of the California Government Code, as amended) and an Indenture, dated as of June 1, 1998 (the "Indenture"), by and between the Community Facilities District and U.S. Bank Trust National Association, 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 Community Facilities District, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Community Facilities District and the Trustee, certifications of the Community Facilities District, the Trustee 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. Our engagement with respect to the Bonds has concluded with their 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 Community Facilities District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents 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 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 public bodies in the State of California. We express no opinion with respect to the plans, specifications, maps, financial report or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Tax levied upon any individual parcel. 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 obligations of the Community Facilities District, payable solely from the Net Special Tax Revenues and the other assets pledged therefor under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Community Facilities District.

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 or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

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 of the Notes made thereafter 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 1.2 million in 1998 and a land area of 330 square miles, the City of San Diego (the "City") is the sixth largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

The City's population grew by 14% between 1989 and 1998 for an average increase of 16,800 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

Another factor in the City's growth is an expanding diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, communications equipment, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. In addition to these expanding industries, the City benefits from a stable economic foundation composed of public and private higher education, health services, military, and local government.

Expansion in the high tech manufacturing and research component of the City's economic base has been led by the rapid emergence of telecommunications. Major participants in the City's telecommunications industry include manufacturers of personal communications equipment, radio/TV communications equipment, network communications equipment/systems, satellite communications equipment, and military surveillance/guidance systems. The City is the primary location for telecommunications firms in the County, with the Sorrento Valley area emerging as a major center in the development and manufacturing of products using wireless and digital technology.

Another component of the City's high tech industry is the biotechnology sector, which includes companies involved in developing chemical and biological products for use in the

treatment and diagnosis of diseases and various medical conditions. As with telecommunications, the biotechnology industry is concentrated in the City, with the highest concentration in the area around the University of California, San Diego. Growth in both biotechnology and other high tech industries has been facilitated by the City's well established research organizations. Among the more important research facilities located in the City are the Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Super Computer Center.

The City is also home to a growing software industry. Components within this industry include basic computer programming services, prepackaged software, systems integration services, and development of multimedia products.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Data contained under this caption is intended to portray economic, demographic, and business trends within the City. While not constituting direct revenue sources as such, these trends help explain changes in revenue sources such as property taxes, sales taxes, and transient occupancy taxes, which could be impacted by economic conditions.

Population

As set forth in Table 1 below, between January 1, 1989 and January 1, 1998, the City's population has increased by 151,600 (or by approximately 16,800 new residents annually in the nine year period).

Table 1
POPULATION GROWTH
Calendar Years 1989 through 1998

<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>
1989	1,073,200	0.0%	2,388,700	3.9%	29,063,000	2.6%
1990	1,110,500	3.5%	2,498,000	3.3%	29,760,000	2.4%
1991	1,126,000	1.4%	2,539,600	1.7%	30,296,000	1.8%
1992	1,141,300	1.4%	2,583,500	1.7%	30,845,000	1.8%
1993	1,156,200	1.3%	2,614,200	1.2%	31,303,000	1.5%
1994	1,163,000	0.6%	2,638,500	0.9%	31,661,000	1.1%
1995	1,170,200	0.6%	2,658,600	0.8%	31,910,000	0.8%
1996	1,179,500	0.8%	2,682,100	0.9%	32,223,000	1.0%
1997	1,199,000	1.7%	2,729,100	1.8%	32,670,000	1.4%
1998	1,224,800	2.2%	2,794,800	2.4%	33,252,000	1.8%

(1) As of January 1 of the calendar year

Source: State of California, Department of Finance

As indicated in the following table, enrollment in kindergarten through grade 12 in the San Diego Unified School District has continued to grow at a relatively moderate pace during the 1990's.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT AND ATTENDANCE
School Year 1993-94 through 1997-98

<u>School Year</u>	<u>Average Daily Attendance</u>
1993-94	123,223
1994-95	124,681
1995-96	126,300
1996-97	129,504
1997-98	133,633 ⁽¹⁾

(1) Estimate. Will be replaced with actual data after the close of the school year

Source: San Diego Unified School District, Controller

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 1997 averaged 4.3% which was down from a 5.4% rate during calendar year 1996. The City's 1997 unemployment rate was below both the national rate of 5.0% and the State rate of 6.3%.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE
Calendar Years 1993 through 1997

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Civilian Labor Force City of San Diego					
Employed	518,200	525,800	525,600	536,500	562,400
Unemployed	44,100	40,500	36,500	30,600	25,400
Unemployment Rates					
City	7.8%	7.2%	6.6%	5.4%	4.3%
County	7.7	7.0	6.4	5.3	4.2
California	9.2	8.6	7.8	7.2	6.3
United States	6.8	6.1	5.6	5.4	5.0

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

Table 4 provides the Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period 1993 to 1997. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 102,100 new jobs during this period.

Table 4
SAN DIEGO COUNTY
WAGE AND SALARY EMPLOYMENT
Calendar Years 1993 through 1997

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Mining	400	400	300	400	400
Construction	39,500	40,600	43,600	45,500	52,500
Manufacturing	117,500	114,100	114,900	117,500	122,100
Nondurable Goods	32,300	32,300	31,600	32,200	33,600
Durable Goods	85,200	81,800	83,300	85,200	88,500
Transportation, Communications, Utilities ⁽¹⁾	35,700	36,400	37,400	38,300	41,100
Trade	225,500	227,000	229,500	235,900	241,100
Wholesale	39,700	42,000	42,900	42,700	44,500
Retail	185,800	185,100	186,600	193,200	196,600
Finance, Insurance, Real Estate Services	62,200	59,100	55,800	57,400	60,900
Government	287,300	296,100	310,900	321,200	338,800
Federal	179,100	181,500	186,100	190,100	192,500
State and Local	44,300	45,400	45,700	45,800	44,900
State and Local	134,700	136,100	140,400	144,300	147,600
TOTAL NONAGRICULTURAL⁽²⁾	947,200	955,300	978,600	1,006,200	1,049,300

(1) Includes trucking and transit services, telephone and broadcast/cables services, and gas and electric services

(2) Figures may not add to total due to independent rounding

Source: State of California Employment Development Department

Since the industry employment data referenced above is organized by standard industrial classification codes, employment in the various high tech categories, such as Telecommunications, Biotechnology, and Software may not fall into a single employment sector alone. For example, some categories of firms in Telecommunications appear in Manufacturing, while certain other categories appear in Services.

The following is a discussion of the trends shown in the above Wage and Salary Employment table.

Manufacturing. During the early 1990's, manufacturing employment in the County recorded sharp declines, due primarily to the relocation of much of its aerospace industry. After bottoming out in 1994, manufacturing employment recorded consecutive annual increases of approximately 800 and 2,600 in 1995 and 1996, respectively. Manufacturing employment continued to grow in 1997, averaging 122,100 for the year, up by 4,600 jobs from 1996, with gains reported in most major categories, including electronics, industrial machinery and aerospace.

Construction. Construction employment in the County grew by approximately 7,000 during 1997, after increasing by approximately 1,900 during 1996.

Transportation, Communications and Utilities. The Transportation, Communications and Utilities industry classification recorded a net increase of 2,800 new jobs in the County during 1997. This included a gain of approximately 1,600 in Transportation and 1,300 in Communications, partially offset by a loss of approximately 100 jobs in the Electric and Gas Utilities category.

Wholesale and Retail Trade. Combined, the Retail and Wholesale Trade sectors account for 23% of total nonagricultural wage and salary employment during 1997. Wholesale trade added approximately 1,800 jobs in 1997, after a decline of approximately 200 during 1996. Retail trade employment increased by approximately 3,400 in 1997 after increasing by approximately 6,600 in 1996.

Finance, Insurance and Real Estate. Countywide employment in the Finance, Insurance and Real Estate sector increased by approximately 3,500 jobs during 1997, after adding approximately 1,600 jobs during 1996.

Services. Employment in the County's Services sector grew by approximately 17,600 jobs, or 5.5% in 1997, following a gain of 10,300 jobs the previous year. All of the major categories recorded year-to-year gains, led by Business Services (+6,400) and Engineering and Management (+3,100).

Much of the growth in the Engineering and Management category during 1996 and 1997 is related to gains in the Telecommunications and Biotechnology subcategories within this grouping. The strong growth in the Business Services category reflects increases in the Data Services and Software subcategories.

Government. The Government sector, which accounted for 18% of total 1997 nonagricultural wage and salary employment in the County, grew by approximately 2,400 jobs during 1997. This increase occurred in State and local government agencies, with almost all of the increase due to gains in public education. Federal employment was down by 900 jobs during the year.

Military Employment and Civilian Defense Spending. According to the San Diego Chamber of Commerce, the County, with a total military and civilian payroll of \$3.7 billion in the federal fiscal year 1996, continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled \$2.8 billion during the federal fiscal year 1996, down slightly from \$2.9 billion in the previous year. The Department of Defense also spent \$1.2 billion on base operation expenses, \$1.0 billion on retirement benefits, and another \$0.9 billion on various classified contracts, sub contracts, and other contracts of less than \$1,000 each. The 1996 total of \$9.6 billion represented only a fractional increase over the \$9.56 billion reported in 1995. According to the U.S. Department of Commerce's "Consolidated Federal Funds Report," the County ranked third in the nation in the dollar volume of federal expenditures and obligations by the Department of Defense during federal fiscal year 1996, behind only St. Louis, Missouri and Los Angeles, California. In 1995, Los Angeles County and San Diego County were ranked first and second, respectively. The San Diego Chamber of Commerce

estimates that as of June 1, 1996, total active duty military personnel in the County totaled 113,140 and the total civilian employment was 22,900.

Taxable Sales

According to the California State Board of Equalization, taxable transactions at retail and other outlets in the City during calendar year 1996 totaled approximately \$11.3 billion, up 6.9% from 1995, and up 16.9% from 1992. Table 5 provides annual sales information by type of outlet for the period 1992 through 1996.

Table 5
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 1992 through 1996
(in thousands)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Retail Stores					
Apparel	\$ 421,282	\$ 433,780	\$ 447,313	\$ 434,581	\$ 451,984
General Merchandise	1,024,472	1,043,784	1,054,734	1,074,910	1,120,672
Drug	181,573	175,783	178,139	173,447	183,977
Food	617,011	508,069	495,380	498,605	521,014
Packaged Liquor	76,271	68,333	61,625	61,532	62,141
Eating and Drinking	1,110,814	1,119,170	1,148,154	1,229,823	1,307,079
Home Furnishings and Appliances	329,786	346,672	405,446	447,654	492,104
Building Materials and Farm Implements	426,600	441,905	426,329	441,099	469,293
Auto Dealers & Supplies	839,980	902,145	958,513	1,042,689	1,089,331
Service Stations	608,878	610,907	607,873	604,944	672,559
Other	1,193,881	1,266,404	1,298,837	1,381,085	1,492,879
Total Retail Stores	6,830,548	6,916,952	7,082,343	7,390,369	7,863,033
All Other Outlets	2,823,557	2,760,162	2,975,794	3,167,820	3,426,610
Total All Outlets	\$ 9,654,105	\$ 9,677,114	\$ 10,058,137	\$ 10,558,189	\$ 11,289,643

Source: California State Board of Equalization

Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military.

As shown in Table 6, visitor spending in the County totaled \$4.37 billion in 1997, up 26.7% from 1993 and up 7.9% from 1996.

Table 6
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING
Calendar Years 1993 through 1997
(in billions)

<u>Calendar Year</u>	<u>Amount</u>
1993	\$ 3.45
1994	3.64
1995	3.80
1996	4.05
1997	4.37

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the transient occupancy tax (TOT) revenues have been exhibiting a strong upward trend since Fiscal Year 1993. The TOT revenues have grown by 67% between Fiscal Year 1993 and Fiscal Year 1997.

Table 7
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 1993 through 1997⁽²⁾

1993	\$ 44,282,502
1994	49,997,304
1995 ⁽³⁾	57,209,949 ⁽⁴⁾
1996	64,318,146
1997	75,475,762

(1) Includes General Fund portion of TOT (5.5¢ of 10.5¢) and balance (5¢ of 10.5¢) allocated to Special Promotional Programs

(2) Fiscal Year refers to the twelve month period from July 1 of the previous year to June 30 of the referenced year

(3) Rate increase from 9% (9¢ per \$1) of hotel room rates to 10.5% (10.5¢ per \$1) on August 1, 1994

(4) In the year ended June 30, 1994, the City began accounting for transient occupancy tax revenues on an accrued basis, rather than on a cash basis, as allowable under the National Council on Governmental Accounting (NCGA) Statement No. 1

Source: City of San Diego, Budget and Management Services

As shown in Table 8, contributing to the growth in visitor spending has been growth in convention spending. Estimated direct and indirect spending by both delegates and exhibitors in association with conventions hosted at the San Diego Convention Center totaled \$257.3 million in 1997, up 4% from 1996 and up by 61% from 1993.

Table 8
SAN DIEGO CONVENTION CENTER⁽¹⁾
Calendar Years 1993 through 1997

<u>Calendar Year</u>	<u>Estimated Spending⁽²⁾</u>	<u>Number of Conventions</u>	<u>Total Delegate Attendance</u>
1993 ⁽³⁾	\$160,112,046	52	236,600
1994	210,435,456	48	232,600
1995	243,669,716	49	330,510
1996	247,375,380	52	285,812
1997	257,276,865	59	290,802

-
- (1) Table includes only the San Diego Convention Center; it does not include other sources of convention activity in the San Diego region
(2) These estimates are based on historical spending patterns since the opening of the Convention Center in 1989
(3) Convention spending was down in 1993 due to the impact of the recession and the rescheduling of several larger conventions to 1992 in order to coincide with the America's Cup in the Spring of 1992

Source: San Diego Convention and Visitors Bureau

The City is the focal point for tourism in the County. The Convention Center, approximately 75% of the County's hotel and motel rooms, and all of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, and Balboa Park -- home to the San Diego Zoo and a host of other cultural and recreational activities. According to the San Diego Convention and Visitors Bureau, total attendance at all of these attractions, including museums, totaled 20.5 million during 1997, up 1.7% from 1996.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City hosted the America's Cup in 1992 and 1995 and the Super Bowl in January 1998. In addition, the City was the site for the Republican National Convention held in August 1996.

Associated with the growth in tourism has been an increase in traffic through San Diego's Lindbergh Field International Airport. According to the San Diego Unified Port District, in 1997 there were 7.2 million arrivals, up 4.3% from 1996. In January 1998, the San Diego Unified Port District completed a \$238 million expansion to the airport. Features of this expansion include an expanded terminal, a new pedestrian bridge, and improved roadways and parking lots.

International Trade

The table below is from the International Trade Administration's *Exporter Location Series*. This data is compiled on an f.a.s. (free alongside ship) basis and includes domestic exports and re-exports. The total value of exports from the County during 1996 totaled \$6.7 billion, up 13.6% from 1995.

Table 9
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO COUNTY
Calendar Years 1992 through 1996
(in billions)

<u>Calendar Year</u>	<u>Total Exports</u>
1992	\$ 4.4
1993	4.4
1994	4.9
1995	5.9
1996	6.7

Source: International Trade Administration

Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. Table 10 provides information published in the *1997-98 Business Referral Directory* of the Greater San Diego Chamber of Commerce. All of the businesses listed in the following page 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 are employed within the City.

Table 10
CITY OF SAN DIEGO
MAJOR EMPLOYERS ⁽¹⁾
Calendar Year 1997

<u>Employer</u>	<u>Product/Service</u>
10,000 or More Employees:	
San Diego Unified School District	Education
Scripps Health	Health Service
Sharp Health Care	Health Service
University of California, San Diego	Higher Education
5,000 - 9,999 Employees:	
San Diego Community College District	Higher Education
Kaiser Permanente	Health Service
National Steel & Shipbuilding Company	Shipbuilding, Repair
Qualcomm	Wireless Communications
3,000 - 4,999 Employees:	
Cubic Corporation	Electronic Systems
Foodmaker	Restaurants
FPA Medical Management	Medical Management Services
Palomar Pomerado Health System	Health Service
Price Costco	Warehouse/Shopping Clubs
Home Depot	Building Materials
Pacific Bell	Utility
San Diego Gas & Electric/Enova Corporation	Utility
San Diego State University	Higher Education
Science Applications International Corporation	Research and Development
Solar Turbines	Gas Turbine Manufacturing
University of California Medical Center	Health Service
2,000 - 2,999 Employees:	
Bank of America	Banking
Catholic Diocese of San Diego	Churches/Schools
Lucky Stores	Food Services
Manpower Temporary Services	Employment Service
Mercy Hospital & Health Centers	Health Service
Sony Technology Center	Electronics
Target Stores - San Diego	Retail
Ace Parking	Parking Stations and Garages
Hewlett Packard Company	Electronic Instruments
Scripps Medical Clinic	Health Service
University of San Diego	Higher Education
Scripps Research Institute	Biomedical Research
Wal-Mart	Retail
Wells Fargo Bank	Banking

(1) Does not include various major public employers, including the City, the County, and the federal government with a combined total employment of 176,700

Source: Greater San Diego Chamber of Commerce

Effective Buying Income

Table 11 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1992 through 1996. The estimates for each calendar year are published in the September issue of the following calendar year (i.e., data for 1997 will be published in the September 1998 issue). The purpose of this table is to show the EBI within the City of San Diego as compared to other locations.

Table 11
PER CAPITA EFFECTIVE BUYING INCOME
Calendar Years 1992 through 1996

<u>Calendar Year</u>	<u>City of San Diego</u>	<u>County of San Diego</u>	<u>State of California</u>	<u>United States</u>
1992	\$16,181	\$15,947	\$16,124	\$15,255
1993	16,667	16,485	16,672	16,064
1994	17,220	17,034	17,275	16,918
1995 ⁽¹⁾	14,770	14,609	14,759	14,965
1996	15,139	14,975	15,068	15,555

- (1) Prior to 1995, estimates of EBI were based on the Bureau of Economic Analysis definition of "personal income" less personal tax payments. Beginning in 1995, the estimates were based on the Census Bureau's definition of "money income" less personal tax payments. Since the Census definition excludes certain sources of income, such as interest and rents, employer contributions to private pension funds, and Medicaid and Medicare, the overall figures from 1995 onwards were lower compared to the prior years. (According to Sales & Marketing Management Magazine, "personal income" is greater than "money income" by 11-14%.) In addition, because of geographic differences in sources of income, per capita EBI estimates based on "money income" for some areas, such as California and San Diego, were below the national average.

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

Building Permits

Table 12 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1993 through 1997. The valuation of non-residential permits includes both private commercial construction and publicly funded, non-tax generating projects.

Table 12
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1993 through 1997

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Valuation (in thousands):					
Residential	\$319,210	\$475,87	\$432,957	\$396,681	\$541,443
Nonresidential	<u>301,123</u>	<u>325,24</u>	<u>382,514</u>	<u>450,301</u>	<u>478,887</u>
Total	<u>\$620,333</u>	<u>\$801,12</u>	<u>\$815,471</u>	<u>\$846,982</u>	<u>\$1,020,330</u>
Number of New Dwelling Units:					
Single Family	1,118	1,86	1,440	1,468	2,197
Multiple Family	<u>881</u>	<u>99</u>	<u>1,212</u>	<u>774</u>	<u>1,014</u>
Total	<u>1,999</u>	<u>2,85</u>	<u>2,652</u>	<u>2,242</u>	<u>3,211</u>

Source: City of San Diego, Development Services Department

Business Development Program

The City recognizes the need to improve the local business climate and aggressively support economic development and job creation activities. To achieve this, the City has established a comprehensive Business Development Program. A key element of this program is the Business Expansion and Retention Program (BEAR Program) which represents a proactive effort on the part of the City to work directly with businesses to improve the retention rate among local firms and to expand the level of investment and job growth. This program was created in mid 1995 by integrating the City's existing business development activities to provide centralized coordination, data management, and to expand operational relationships with partnership agencies such as the Economic Development Corporation and San Diego Gas & Electric Corporation. Some of the BEAR Program components include Business Incentives, Targeted Assistance, Business Cooperation Program, Business Outreach, and Business Finance.

The primary focus of the City's overall business development effort has been on streamlining the current permitting process and, when feasible, eliminating or reducing existing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center to reduce the development permit processing time by as much as one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process into a "one-stop" process.

The City also operates the Business Resource Station, an interactive information center designed to provide aspiring entrepreneurs with everything they need to know about starting a small business in the City. In 1994, the City Council reduced the Business License Tax for all businesses with 12 or fewer employees from \$125 and \$5 per employee to \$70 per business and \$3 per employee, and in 1995 reduced it even further, to a flat fee of \$34 per business with no per employee charge.

Transportation

San Diego has a well-developed and relatively uncongested highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west.

Public transportation through the City and metropolitan surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to the southern part of the County and East County. The East Line extension to Santee was completed in June 1996. This 3.6 mile extension connects El Cajon with Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. Another extension that provides service from downtown to the historical Old Town section of the City was completed in June 1996. In addition, the Mission Valley extension, which connects Old Town with the Mission Valley shopping area, ending at the Mission San Diego, opened in December 1997.

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

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. Through Fiscal Year 1997, the City has been allocated \$138.1 million in Proposition A funds and expects to receive an additional \$57.8 million through Fiscal Year 2000.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program through the year 2000. Increased revenues to the City resulting from Proposition 111's increased gas tax subventions are estimated at \$66.7 million over the ten year period from 1991 through 2000. Through Fiscal Year 1997, the City has received approximately \$40.8 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.

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

The City is a charter city and operates 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.

Accounting Practices

The City's accounting policies conform to generally accepted accounting principles applicable to governmental units. The City's Governmental Funds and Expendable Trust and Agency Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Certain fines and forfeitures, however, are recorded when received as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt¹, which are recognized when due, and (2) employee annual leave and claims and judgments for litigation and self-insurance which are recorded in the period due and payable. Proprietary Fund, Pension Trust, and Nonexpendable Trust Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

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 285 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, 1997 were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

The City's annual budget, which is published in November, 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 Budget and Management Services Division. 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 during April/May.

City Council review of the proposed budget is conducted during May and June. The first two meetings are dedicated to public comment, while the balance of the 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

¹Includes general obligation bonds, special assessment bonds, tax allocation bonds, contracts payable, notes payable, capital lease obligations, liability claims and accrued annual leave.

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 is adopted no later than the last Council meeting in August.

The Budget and Management Services Division 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.

LABOR RELATIONS

Most City employees are represented by one of four labor organizations. Currently, the American Federation of State and County Municipal Employees (Local 127) represents approximately 2,220 employees; The Municipal Employees Association (the "MEA") and Unrepresented Employees represents approximately 4,290 employees; The Police Officers Association (the "POA") represents approximately 1,960 employees; and the International Association of Firefighters (Local 145) represents approximately 920 employees.

In November 1997, the City Council approved an extension to the POA agreement through June 30, 2000. Under this extension, POA will receive a 2% increase effective July 1, 1998, a 4% increase effective July 1, 1999 and a 2% increase effective January 1, 2000. The agreements with the employees represented by MEA, Local 127, and Local 145 will expire on June 30, 1998. In May 1998, the City Council approved agreements with MEA, Local 127, and Local 145 providing for an 8% increase over a three year period: 2% in January 1999, 4% in January 2000, and 2% in July 2000.

PENSION PLAN

All City full-time employees participate with the full-time employees of the San Diego Unified Port District (the "District") in the City Employees' Retirement System ("CERS"). CERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general and safety (police and fire) members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service, and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

The City's last actuarial valuation dated June 30, 1997 (the assumptions or calculations made therein are not formally approved by the CERS Board of Administration), stated the funding ratio (Valuation of Assets available for Benefits to Total Actuarial Accrued Liability), of the CERS fund to be 94.2%. The CERS fund has an Unfunded Actuarial Accrued Liability

(UAAL) of \$105.6 million as of June 30, 1997. The UAAL is the difference between total actuarial accrued liabilities of \$1.822 billion and assets allocated to funding of \$1.717 billion. The UAAL is amortized over a 30 year period which started July 1, 1991, with each year's amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 1997 there were 24 years remaining in the amortization period.

INSURANCE, CLAIMS, AND LITIGATION

The City is self-insured for its Workers' Compensation, Long Term Disability, and Health Indemnity employee group health coverage. Workers' Compensation, Long Term Disability, and Health Indemnity employee group health coverage are accounted for in the Self Insurance Fund, which is one of the City's Internal Service Funds. For Workers' Compensation, Long Term Disability, and health coverage, each participating fund contributes an amount equal to an actuarially determined rate multiplied by the gross salaries payable from that fund. The Internal Service Funds have a net fund equity of \$4,665,000 at June 30, 1997. This includes a fund equity deficit in the Self Insurance Fund of approximately \$28,305,925 which represents unfunded estimated claims and claim settlements related to Workers' Compensation, Long Term Disability, and Health Indemnity employee group health coverage. It is anticipated that individual claims settlements will be funded through participating fund contributions subsequent to the filing of a claim and prior to its settlement.

The City carries excess insurance for its public liability claims. The first \$1,000,000 per claim is paid by the City. Losses in excess of \$1,000,000 per occurrence are paid for by the excess insurance. The City also maintains a reserve for liability claims within the Self Insurance Fund.

The City participates in the joint purchase of insurance with a number of counties in the "County Supervisors Association of California - Excess Insurance Authority (CSAC-EIA)." This joint purchase of the City's "all risk" property insurance, insuring approximately \$909 million of City property, provides "occurrence form" coverage for any loss to City property up to \$400 million per loss, with a \$25,000 deductible. There is no sharing of the limits among the City and member counties unless the loss is considered one occurrence for policy purposes.

Earthquake coverage is provided to the City Hall building and City lease financed locations in the amount of \$100 million effective March 31, 1998. No other City structures share in this coverage and it is fully dedicated to the City Hall and such lease financed structures. This earthquake coverage of \$100 million is shared with the member counties in the CSAC-EIA pool, except for the County of San Diego which purchases its own earthquake insurance. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future.

The City is a public agency which is subject to liability for the negligent acts or omissions of its officers and employees acting within the scope of their duty. The City has a self-insured liability of \$1 million. For liability between \$1 million and \$24 million, the City purchases commercial insurance in layers, for its public liability exposure.

INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Investment Pool" or the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Investment Officer. The City is the only participant in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity, and return. The Tax Anticipation Note proceeds and Repayment Fund are invested in the City Pool.

Oversight and Reporting Requirements

The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor and Comptroller, and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council, and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in March 1990 and is comprised of the City Auditor and Comptroller, the Financial and Technical Services Manager, and three investment professionals from the private sector. The Committee is charged with oversight responsibility to review on an ongoing basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the City Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics, and other statistical security reports which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City's Investment Guidelines. The Guidelines have been written with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, corporate medium term notes, money market instruments, and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. A reverse repo is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the City Pool's use of the money. There were no reverse repos outstanding as of March 31, 1998. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 50% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year; it measures its performance against the Merrill Lynch 3 to 6 month U.S. Treasury Bill Index. The remaining 50% of funds are managed in

a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; it measures its performance against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

The Pool does not engage in securities lending transactions.

Pool Liquidity and Other Characteristics

The Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of March 31, 1998, approximately 19% of the pool investments mature within 60 days, 22% within 91 days and 41.6% within 183 days (on a cumulative basis). As of March 31, 1998, the Pool had a weighted average maturity of 1.16 years (422 days); its weighted yield was 5.97%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio has a duration of .33 years as of March 31, 1998 and the Core portfolio has a duration of 1.62 years as of March 31, 1998. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by .33% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.62% for every 1% increase in market interest rates. The Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. In general, the composition and value of investments under management in the City's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities and fluctuations in interest rates.

APPENDIX F

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 1 (MIRAMAR RANCH NORTH) CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 1998 by and between Brookfield Scripps Inc., a California corporation ("Brookfield Scripps"), and U.S. Bank Trust National Association, in its capacities as Trustee and Dissemination Agent (the "Trustee") in connection with the issuance and sale by The City of San Diego Community Facilities District No. 1 (Miramar Ranch North), County of San Diego, State of California (the "District"), of \$59,465,000 aggregate principal amount of its bonds, designated City of San Diego City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998 (the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of June 1, 1998 (the "Indenture") between City of San Diego Community Facilities District No. 1 (Miramar Ranch North) (the "District") and the Trustee. Brookfield Scripps is a general partner of Miramar Ranch North, a California general partnership, which is the developer of Scripps Ranch Villages. A portion of the Scripps Ranch Villages is included within the boundaries of the District. Brookfield Scripps and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by Brookfield Scripps, the Dissemination Agent, and the Trustee for the benefit of the Beneficial Owners (as defined below) and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). Brookfield Scripps, the Dissemination Agent and the Trustee acknowledge that neither the City of San Diego (the "City"), nor the District have undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and have no liability to any person, including any Owners of the Bonds, with respect to any such reports, notices or disclosures.

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

"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, five percent (5%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or in under common control with such Person or any Affiliate of such Person or (c) each of such Person's executive officers, directors, joint venturers and partners; *provided, however*, that in no case shall either the City or the District be deemed to be an Affiliate of Brookfield Scripps for purposes of this Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or

cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Annual Report” shall mean the annual report of Brookfield Scripps provided to public shareholders and prepared pursuant to applicable Canadian securities laws.

“Beneficial Owner” shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean U.S. Trust Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by Brookfield Scripps and which has filed with the Trustee a written acceptance of such designation.

“District” shall mean City of San Diego Community Facilities District No. 1 (Miramar Ranch North).

“Equity Securities” of any Person shall mean (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the Official Statement of the District, dated July 24, 1998, relating to the Bonds.

“Participating Underwriter” shall mean PaineWebber Incorporated and E.J. De La Rosa & Co., Inc. who are the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual, fiduciary, or other capacity.

“Repository” shall mean each National Repository and each State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) Brookfield Scripps shall, or, upon written direction, shall cause the Dissemination Agent to, not later than April 1, commencing April 1, 1999, provide to each Repository a copy of the Annual Report for the preceding fiscal year of Brookfield Scripps (presently January 1 to December 31). If Brookfield Scripps's fiscal year changes, it shall give notice of such change in the manner provided under Section 4. If the Annual Report for the preceding fiscal year is not available by April 1, it shall be provided to each Repository as soon as it becomes available.

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, Brookfield Scripps shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent) or written notice that Brookfield Scripps has provided the Annual Report to the Repositories if it is still required to be provided. Brookfield Scripps shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If by fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Trustee has not received a copy of the Annual Report or the notice described in subsection (b), the Trustee shall contact Brookfield Scripps and the Dissemination Agent to determine if Brookfield Scripps is in compliance with subsection (a).

(d) If the Annual Report is available but the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(e) The Dissemination Agent shall:

- (1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and
- (2) to the extent it has received confirmation of such filing, file a report with Brookfield Scripps 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.

Section 4. Reporting of Changes or Termination.

(a) This Section 4 shall govern the giving of notices of any of the following events ("Listed Events"):

- (i) changes in Brookfield Scripps's fiscal year;

- (ii) termination of Brookfield Scripps' obligation pursuant to Section 5; and
- (iii) an amendment of this Disclosure Agreement as described in Section 7.

(b) Within ten (10) business days of obtaining actual knowledge of occurrence of a Listed Event, Brookfield Scripps shall instruct the Dissemination Agent to file a notice of such Listed Event with each Repository within three (3) business days of receipt of Brookfield Scripps's instruction.

Section 5. Termination and Assignment of Reporting Obligation. Brookfield Scripps's obligations under this Disclosure Agreement shall terminate upon the following events:

- (i) defeasance, prior redemption or payment in full of all of the Bonds; or
- (ii) upon the sale of 95% of all residential lots within the District to individual homeowners and construction of 95% of all retail uses within the District.

Upon the occurrence of any such termination event prior to final maturity of the Bonds, notice of such termination shall be provided as set forth in Section 4.

Section 6. Dissemination Agent; Administrative Expenses. Brookfield Scripps 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. The initial Dissemination Agent shall be U.S. Bank Trust National Association. The Dissemination Agent may resign by providing 30 days written notice to Brookfield Scripps and the Trustee. The reasonable costs and expenses incurred by Brookfield Scripps in providing, or having provided the Annual Report and Notices of Listed Events to the Repositories (but excluding the costs of preparing the Annual Report and the legal review, if any) shall be an administrative expense reimbursable out of the Administrative Expense Fund of the District, subject to availability of funds and the District's review and approval of a completed payment request form and documentation evidencing such costs and expenses, *provided* that any such payment shall be made only after payment of annual debt service, reserve fund replenishments and other costs and expenses of the District payable out of the Administrative Expense Fund.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, Brookfield Scripps, the Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and Dissemination Agent shall agree to any amendment so requested by Brookfield Scripps, *provided* neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, *provided* that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3 or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel acceptable to Participating Underwriter, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and**

(c) The amendment or waiver either (1) is approved by the Beneficial Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Beneficial Owners, or (2) does not, in the opinion of nationally recognized bond counsel, materially adversely impair the interests of the Beneficial Owners.

Section 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent Brookfield Scripps 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 Brookfield Scripps 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, Brookfield Scripps shall have no obligation under this Agreement 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 Brookfield Scripps, the Dissemination Agent or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Bonds, shall, or any Bondholder may, take such actions as may be necessary and appropriate, including seeking mandate or specified performance by court order, to cause Brookfield Scripps, the Dissemination Agent or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. Notwithstanding the foregoing, the Trustee shall only be required to take such actions with respect to a failure by Brookfield Scripps or the Dissemination Agent (if the Trustee is not the Dissemination Agent) to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys. 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 Brookfield Scripps or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and Trustee shall have only such duties as are specifically set forth, in this Disclosure Agreement, and Brookfield Scripps agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: July 14, 1998

“BROOKFIELD SCRIPPS”

BROOKFIELD SCRIPPS INC., a California corporation

By: _____

By: _____

**U.S. BANK TRUST NATIONAL
ASSOCIATION as Trustee and as
Dissemination Agent**

By: _____

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

To: Brookfield Scripps Inc.

Name of Bond Issue: City of San Diego Community Facilities District No. 1 (Miramar
Ranch North) Special Tax Refunding Bonds, Series 1998

Date of Issuance: July __, 1998

NOTICE IS HEREBY GIVEN that Brookfield Scripps Inc. has not provided an Annual Report as required by Section 3 of the Continuing Disclosure Agreement dated as of June 1, 1998 between Brookfield Scripps and U.S. Bank Trust National Association. [Brookfield Scripps anticipates that the Annual Report will be filed by _____].

Dated: _____

U.S. BANK TRUST NATIONAL
ASSOCIATION
on behalf of Developer

cc: Brookfield Scripps Inc.

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

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 1998 by and between City of San Diego Community Facilities District No. 1 (Miramar Ranch North) (the "District"), and U.S. Bank Trust National Association, in its capacities as Trustee and Dissemination Agent (the "Trustee") in connection with the issuance and sale by the District of \$59,465,000 aggregate principal amount of its bonds, designated City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998 (the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of June 1, 1998 (the "Indenture") between City of San Diego Community Facilities District No. 1 (Miramar Ranch North) (the "District") and the Trustee. The District and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District, the Dissemination Agent and the Trustee for the benefit of the holders of the Bonds and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below).

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

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean U.S. Trust Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Trustee a written acceptance of such designation.

"District" shall mean City of San Diego Community Facilities District No. 1 (Miramar Ranch North).

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement of the District, dated July 24, 1998, relating to the Bonds.

“Participating Underwriter” shall mean PaineWebber Incorporated and E.J. De La Rosa & Co., Inc. who are the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent by written direction thereto, not later than April 1st following the end of the District’s fiscal year, commencing with the fiscal year ending June 30, 1998, to provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If by fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with subsection (a).

(d) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(e) The Dissemination Agent shall:

- (1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and
- (2) to the extent that it has received confirmation of filing, file a report with the District 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.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following (expressed as of September 30 of the then current fiscal year, unless otherwise specified):

- (a) The principal amount of the Bonds outstanding.
- (b) The balances of all funds and accounts established by the Indenture as of the end of the preceding fiscal year.
- (c) The status of the construction of the public improvements financed from the proceeds of the Bonds. This status shall include a statement as to the estimated sufficiency of the funds on deposit in the Improvement Fund to complete acquisition or construction of the Bond financed improvements. This status need not be reported in any Annual Report following the Annual Report in which the District reports that such improvements have been substantially acquired or completed.
- (d) A table showing (i) the assessed values of each of the properties within the District for which the special tax obligation remains unpaid based upon the most current available information from the Assessor's Office of the County of San Diego, (ii) whether each such property is "Developed Property" or "Undeveloped Property" as such terms are defined in the rate and method of apportionment of the special tax contained in Appendix A to the Official Statement and (iii) the amount of the special taxes levied on each such property for the fiscal year to which the assessed value is applicable.
- (e) The status of the payment of special taxes for the properties within the District which were due and payable during the preceding fiscal year, including as to delinquent parcels:
 - (1) the number of parcels delinquent in the payment of special taxes;
 - (2) the aggregate amount of the delinquent special taxes;
 - (3) as to any parcel for which the delinquent special taxes represents more than 5% of the aggregate special taxes within the District;
 - (i) the identity of the parcel;

- (ii) the identity of the owner(s) of such parcel;
- (iii) the aggregate amount of delinquent property taxes, assessments (both fixed lien and annual) and special taxes and the accrued penalties and interest on such aggregate amount; and

(4) the assessment delinquency rate for such preceding fiscal year.

(f) The status of any judicial foreclosure proceedings initiated by the District as a result of the delinquency in the payment of special taxes and the summary of the results of foreclosure sales, if available.

(g) As to any parcel for which the annual special tax levy represents more than 5% of the aggregate special tax levy within the District:

- (1) names of the owners of such parcels;
- (2) percentage of the special tax levy allocated to such parcels;
- (3) status of development of such parcels;
- (4) significant amendments to applicable District granted land use entitlements;
- (5) status of any significant conditions of approval of development imposed by the District as to any undeveloped parcel; and
- (6) status of any significant legislative, administrative or judicial challenges to the development of any undeveloped parcels or to the use or continuing use of any parcel known to the District.

(h) The audited financial statement for the District (which may be in the form of excerpts from the City's Comprehensive Annual Financial Report) for the preceding fiscal year (or if not available at the time of filing, the unaudited financial statements). The audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; *provided, however*, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared.

(i) An update as of end of the preceding fiscal year of the District of "CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. #1 (Miramar Ranch North) OVERLAPPING BONDED DEBT REPORT" contained in the Official Statement.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities,

which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of the Bondowners;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds;
- (11) Rating changes; and
- (12) Initiation of bankruptcy proceedings by the District.

(b) The Trustee shall, promptly after obtaining actual knowledge of the occurrence of any of the Listed Events, contact the representative of the District specified in Section 12. to receive notices herewith and inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). In the absence of direction to report the event, the Dissemination Agent shall not report such event. The Dissemination Agent and the Trustee may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer of the

Trustee at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would constitute material information for Bondowners under applicable Federal securities law.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable Federal securities law, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District 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. Notwithstanding the foregoing:

- (1) notice of the occurrence of a Listed Event described in subsections (a)(1), (3) or (4) shall be given by the Dissemination Agent unless the District gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and
- (2) notice of Listed Events described in subsections (a)(8) and (9) shall 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 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon final maturity of the Bonds or upon the earlier defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent. The District 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. The initial Dissemination Agent shall be U.S. Bank Trust National Association. The Dissemination Agent may resign by providing thirty (30) days written notice to the District and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District, the Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Dissemination Agent and the Trustee shall agree to any

amendment so requested by the District, *provided, however*, neither the Dissemination Agent nor the Trustee shall be obligated to enter any such amendment that modifies or increases the duties or obligations of such party hereunder), and any provision of this Disclosure Agreement may be waived, *provided* that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (1) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners, or (2) does not, in the opinion of nationally recognized bond counsel, materially adversely impair the interests of the Owners or the Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change in accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing the District's financial statement, (1) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles, and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District 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 District 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 District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the holders including Beneficial Owners of at least 25% aggregate

principal amount of Outstanding Bonds, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has otherwise been indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys) or any Bondholder, including any Beneficial Owner, may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or 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 District or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.

Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid, as an administrative expense of the District, compensation by the District for the services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders, or any other party. Neither the Trustee nor the Dissemination Agent shall have any liability to the Bondholders or any party other than the District for any monetary damages or financial liability of any kind whatsoever related to or arising from any breach of this Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District:

City of San Diego
Financial Management Department
202 C Street, M.S. 8-A
San Diego, California 92101
Attention: Director of Financial Management

To the Dissemination Agent:

[Same as the Trustee so long as the Trustee
is the Dissemination Agent]

To the Trustee:

U.S. Bank Trust National Association
550 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Corporate Trust

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriters and holders, including Beneficial Owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF SAN DIEGO, acting for and in the name of and on
behalf of City of San Diego Community Facilities District No. 1
(Miramar Ranch North)

By: _____
City Manager

U.S. BANK TRUST NATIONAL ASSOCIATION as Trustee
and as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of San Diego, acting on behalf of City of San Diego
Community Facilities District No. 1 (Miramar Ranch North)

Name of Bond Issue: City of San Diego Community Facilities District No. 1 (Miramar
Ranch North) Special Tax Refunding Bonds, Series 1998

Date of Issuance: July __, 1998

NOTICE IS HEREBY GIVEN that the City of San Diego, acting on behalf of City of San Diego Community Facilities District No. 1 (Miramar Ranch North) (the "District"), has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated June 1, 1998 between the District and U.S. Bank Trust National Association. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

U.S. BANK TRUST NATIONAL ASSOCIATION
as Trustee and Dissemination Agent on behalf of
the District

cc: District

**CITY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 1
(MIRAMAR RANCH NORTH)
CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 1998 by and between Miramar Ranch North, a California general partnership (the "Developer"), and U.S. Bank Trust National Association, in its capacities as Trustee and Dissemination Agent (the "Trustee") in connection with the issuance and sale by The City of San Diego Community Facilities District No. 1 (Miramar Ranch North), County of San Diego, State of California (the "District"), of \$59,465,000 aggregate principal amount of its bonds, designated City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998 (the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of June 1, 1998 (the "Indenture") between City of San Diego Community Facilities District No. 1 (Miramar Ranch North) (the "District") and the Trustee. The Developer and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Developer, the Dissemination Agent and the Trustee for the benefit of the Beneficial Owners (as defined below) and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). The Developer, the Dissemination Agent and the Trustee acknowledge that neither the City of San Diego (the "City") nor the District have undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and have no liability to any person, including any Owners of the Bonds, with respect to any such reports, notices or disclosures.

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

"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, five percent (5%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or in under common control with such Person or any Affiliate of such Person or (c) each of such Person's executive officers, directors, joint venturers and partners; *provided, however*, that in no case shall either the City or the District be deemed to be an Affiliate of the Developer for purposes of this Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"Annual Report" shall mean any Annual Report provided by the Developer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Assumption Agreement" shall mean an undertaking of a Major Owner, or an Affiliate thereof, for the benefit of the Beneficial Owners of the Bonds containing terms substantially similar and equivalent to this Disclosure Agreement, whereby such Major Owner or Affiliate

agrees to provide Annual Reports and notices of Listed Events with respect to the portion of the property in the District owned by such Major Owner and its Affiliates. Notwithstanding the foregoing, financial statements of the type required to be included in a Form 10-K shall only be required from a Person executing an Assumption Agreement, or Affiliate thereof, which is otherwise obligated to file Form 10-K with the SEC.

“Beneficial Owner” shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean U.S. Trust Bank National Association, 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.

“District” shall mean City of San Diego Community Facilities District No. 1 (Miramar Ranch North).

“Equity Securities” of any Person shall mean (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

“Government Authority” means any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Major Owner” shall mean a property owner owning land in the District which, together with land owned by Affiliates of such Major Owner, is subject to the levy of 5% or more of the annual special taxes within the District.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the Official Statement of the District, dated July 24, 1998, relating to the Bonds.

“Participating Underwriter” shall mean PaineWebber Incorporated and E.J. De La Rosa & Co., Inc. who are the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual, fiduciary, or other capacity.

“Repository” shall mean each National Repository and each State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Developer shall, or shall cause the Dissemination Agent by written direction thereto, not later than April 1, commencing April 1, 1999, to provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents composing a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements described in Section 4 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 Developer’s fiscal year changes, it shall give notice of such change in the manner provided under Section 5.

(b) Not later than fifteen (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). The Developer shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If by fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, 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 subsection (a).

(d) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(e) The Dissemination Agent shall:

- (1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and
- (2) to the extent it has received confirmation of such filing, file a report with 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.

Section 4. Content of Annual Reports. The Developer's Annual Report shall contain or incorporate by reference the following:

(a) An update as of the most recently ended fiscal year of the District (currently June 30) of Tables 6, 7 and 8 (including updates of any accompanying text) in the Official Statement;

(b) Development activity within the District over the preceding fiscal year of the District including the number of dwelling units for which sales have closed, land or lot sales including the amount of land or lots sold and the name of the purchasers other than individual homebuyers or custom lot purchasers;

(c) Significant amendments to land use entitlements affecting the District known to the Developer;

(d) Status of any major preconditions imposed by any Government Authority for commencement or continuation of development within the District known to the Developer;

(e) Status of any major legislative, administrative or judicial challenges to or affecting the construction of the development within the District or the time for the construction of the development known to the Developer;

(f) Until such time as the Developer owns land within the District for which the annual special tax levy represents 10% or less of the aggregate special tax levy within the District, audited financial statements for the Developer prepared in accordance with generally accepted accounting principles. If audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the audited financial statements shall be filed in the same manner as the Annual Report when they become available. In addition, owners of land within the District for which the annual special tax levy represents 10% or more of the aggregate special tax levy within the District shall provide audited financial statements, when and if prepared and available, as set forth herein. The requirements to provide audited financial statements set forth herein shall also terminate upon the receipt of an opinion of nationally recognized bond counsel acceptable to the Participating Underwriters that provision of audited financial statements is not required under the Rule.

(g) Status of bankruptcy or insolvency proceedings, if any, commenced by or against the Developer as-of the date of the Annual Report;

(h) Status of Developer's loans or lines of credit relating to the Developer's land within the District, the names of lenders and whether any material defaults exist thereunder as of the date of the Annual Report; and

(i) The approximate amount of expenditures by the Developer towards completion of the development of the land within the District for sale to merchant builders and custom lot

purchasers (the "Development"), an update of the estimated costs to complete the Development and revenues generated from lot sales within the District by the Developer.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Developer or related entities or the Issuer, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated 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 incorporated by reference.

Section 5. Reporting of Changes or Termination.

(a) This Section 5 shall govern the giving of notices of any of the following events ("Listed Events"):

- (i) changes in the Developer's fiscal year;
- (ii) termination of Developer's obligation pursuant to Section 6; and
- (iii) an amendment of this Disclosure Agreement relating to accounting principles, as described in Section 7.

(b) Within ten (10) business days of obtaining actual knowledge of occurrence of a Listed Event, the Developer shall instruct the Dissemination Agent to file a notice of such Listed Event with each Repository within three (3) business days of receipt of the Developer's instruction.

Section 6. Termination and Assignment of Reporting Obligation.

(a) The Developer's obligations under this Disclosure Agreement shall terminate upon the following events:

- (i) defeasance, prior redemption or payment in full of all of the Bonds;
- (ii) upon the sale of 95% of all residential lots within the District to individual homeowners and construction of 95% of all retail uses within the District;
- (iii) when based on building permits on file as of March 1 of the then current year, at least 95% of debt service on the Bonds is paid from Developed Property as defined in the Rate and Method; or
- (iv) with respect to a Major Owner or its Affiliate and land and activities of a Major Owner or its Affiliate upon execution of an Assumption Agreement by the Major Owner or its Affiliate.

Upon the occurrence of any such termination event prior to final maturity of the Bonds, notice of such termination shall be provided as set forth in Section 5.

(b) If a portion of the property in the District owned by Developer, or any Affiliate of Developer, is conveyed to a Person that, upon such conveyance, will be a Major Owner, the obligations of Developer hereunder with respect to the property in the District owned by such Major Owner and its Affiliates may be assumed by such Major Owner or by an affiliate thereof. In order to effect such assumption, such Major Owner or Affiliate shall enter into an Assumption Agreement. Upon such assumption, Developer shall no longer be required to include in its Annual Report or prepare an Annual Report containing any of the information described in Section 4 with respect to the property owned by the Major Owner and its Affiliates, the development activity, status of listed items, audited financial statements and the Major Owner and its affiliates shall assume, and Developer shall be relieved of all duties, obligations and liabilities under this Agreement relating to the Major Owner and its affiliates, including without limitation, the preparation of an Annual Report and notices of Listed Events. The Developer shall notify the Dissemination Agent and the Trustee in writing of any such assumption.

Section 7. Dissemination Agent; Administrative Expenses. 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. The initial Dissemination Agent shall be U.S. Bank Trust National Association. The Dissemination Agent may resign by providing 30 days written notice to the Developer and the Trustee. The reasonable costs and expenses incurred by the Developer in preparing the Annual Report (but excluding the cost of preparation of financial statements and the cost of legal review, if any) and providing, or having provided the Annual Report, audited financial statements and Notices of Listed Events to the Repositories shall be an administrative expense reimbursable out of the Administrative Expense Fund of the District, subject to availability of funds and the District's review and approval of a completed payment request form and documentation evidencing such costs and expenses, *provided* that any such payment shall be made only after payment of annual debt service, reserves fund replenishments and other costs and expenses of the District payable out of the Administrative Expense Fund.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer and the Trustee may amend this Disclosure Agreement (and the Trustee and Dissemination Agent shall agree to any amendment so requested by the Developer; *provided, however*, neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, *provided* that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel acceptable to Participating Underwriter, have complied with the requirements of the Rule at the time of

the original issuance of the Bonds, after taking into account any amendment or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (1) is approved by the Beneficial Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Beneficial Owners, or (2) does not, in the opinion of nationally recognized bond counsel, materially adversely impair the interests of the Beneficial Owners.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Developer shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change in accounting principles, on the presentation) of financial information or operating data being presented by the Developer. In addition, if the amendment relates to the accounting principles to be followed in preparing the audited financial statement(s), (1) notice of such change shall be given in the manner described in Section 5, and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statement(s) as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. 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 Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Developer, the Dissemination Agent or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Bonds, or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer, the Dissemination Agent or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. Notwithstanding the foregoing, the Trustee shall only be required to take such actions with respect to a failure to comply by Brookfield Scripps or the Dissemination Agent (if the Trustee is not the Dissemination Agent) to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has otherwise been indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys. 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 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.

Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and Trustee 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 and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid, as an administrative expense of the District, compensation for the services provided hereunder in accordance with its schedule of fees as amended from time to time and all reasonable expenses, legal fees and advances incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have not any duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bondholders, or any other party. Neither the Trustee nor the Dissemination Agent shall have any liability to the Bondholders or any party other than the Developer for any monetary damages or financial liability of any kind whatsoever related to or arising from any breach of this Agreement. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Developer:

Management Committee
c/o Chief Financial Officer
McMillin Scripps, Inc.
2727 Hoover Avenue
National City, CA 91950

To the Trustee:

U.S. Bank Trust National Association
550 South Hope Street, Suite 500
Los Angeles, CA 90071
Attention: Corporate Trust Department

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Trustee, the Dissemination Agent, the Participating Underwriters and the Beneficial Owners, and shall create no rights in any other person or entity.

[Remainder of this page intentionally left blank]

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

“DEVELOPER”

MIRAMAR RANCH NORTH, a California
general partnership

By: McMILLAN SCRIPPS, a California
corporation

By: _____

By: _____

By: BROOKFIELD SCRIPPS, a California
corporation

By: _____

By: _____

U.S. BANK TRUST NATIONAL
ASSOCIATION as Trustee and Dissemination
Agent

By: _____

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Developer: Miramar Ranch North
Name of Bond Issue: City of San Diego Community Facilities District No. 1 (Miramar
Ranch North) Special Tax Refunding Bonds, Series 1998
Date of Issuance: July __, 1998

NOTICE IS HEREBY GIVEN that the Miramar Ranch North has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Agreement dated as of June 1, 1998 between the Miramar Ranch North and First Trust of California. [Miramar Ranch North anticipates that the Annual Report will be filed by _____.]

Dated: _____

U.S. BANK TRUST NATIONAL
ASSOCIATION as Trustee and Dissemination
Agent on behalf of Miramar Ranch North

cc: Miramar Ranch North

APPENDIX G

FORM OF THE MUNICIPAL BOND INSURANCE POLICY



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: _____
Assistant Secretary

SPECIMEN