

FIRST IMPLEMENTATION AGREEMENT
 Naval Training Center Redevelopment Project

This First Implementation Agreement (this "Agreement") is entered into by and between the REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO ("Agency") and McMILLIN-NTC, LLC, a Delaware limited liability company ("Master Developer") as of May 9, 2002.

For and in consideration of the mutual covenants and conditions set forth herein, the Agency and Master Developer hereby agree as follows:

1. Recitals

a. The Agency and Master Developer have heretofore entered into that certain Disposition and Development Agreement dated as of June 26, 2000 (the "DDA"), which is incorporated herein by this reference. Any capitalized term contained in this Agreement that is not otherwise defined shall have the meaning attributed to such term in the DDA.

b. The purposes of the DDA include effectuating the Redevelopment Plan for the Naval Training Center Redevelopment Project (the "Redevelopment Project"), adopted by the City Council of the City of San Diego on May 13, 1997 and the Naval Training Center San Diego Reuse Plan (the "Reuse Plan"), adopted by the City Council of the City of San Diego on October 20, 1998, by providing, among other things, for the disposition and development of certain real property defined in the DDA as the "Site" by the Agency to the Master Developer and by the Master Developer to one or more Assignees (subject to the provisions of the DDA), and the development of a mixed-use project on the Site involving the construction and installation of public infrastructure improvements, the rehabilitation and reuse of existing buildings and construction of new buildings and improvements, as well as the development of a public waterfront park and recreation area on property to be owned by the City of San Diego located adjacent to the Site.

c. Pursuant to Section 1.8.c.(3) of the DDA, Master Developer has the right to pursue formation of a Community Facilities District or other district in order to finance certain

public improvement costs as described therein, in accordance with all applicable City policies and practices. To carry out this provision of the DDA, the Agency has agreed to cooperate reasonably with Master Developer to pursue formation of such district.

d. Paragraph b. of Section 9.10 of the DDA and paragraph b. of Section 2.24A of the form of Ground Lease attached to the DDA as Attachment No. 6 (the "Lease") provide that prior to the satisfaction of all "Phase Four Conditions Precedent" applicable to a Parcel (as that term is defined in Section 1.2 of the DDA), the Agency's right of reverter established in Section 9.10 of the DDA shall be senior in priority to any lien, including Permitted Mortgages and Permitted Leasehold Mortgages, such that if Agency exercises its right of reverter, all such liens, mortgages and leasehold mortgages will be extinguished and the Agency will be re-vested of title to the Parcel free and clear of all such liens, mortgages and leasehold mortgages.

e. Paragraph c. of Section 9.10 of the DDA and paragraph c. of Section 2.24A of the Lease provide that following satisfaction in full of all "Phase Four Conditions Precedent" applicable to the Property (as that term is defined in Section 1.2 of the DDA), the Landlord (e.g., the Agency) shall subordinate its right of reverter to the lien of any Community Facilities District or other financing bonds issued with respect to the Property and the lien of any Permitted Leasehold Mortgagee.

f. Paragraph b.(iii) of Section 2.30 of the Lease provides in part that any Leasehold Mortgage (as defined therein) shall be without subordination of the fee simple title of the Property.

g. Paragraph b.(iii) of Section 2.30 of the form of Lease applicable only to the Parcels to be leased to the Civic, Arts and Cultural Foundation (the "Foundation Lease") attached to the DDA as Attachment No. 20, provides in part that any Leasehold Mortgage (as defined therein) shall be without subordination of the fee simple title of the Property.

h. In order to pursue formation of a Community Facilities District, Master Developer and Agency mutually desire to amend the DDA and the form of the Lease attached to the DDA as Attachment No. 6 and the form of the Foundation Lease attached to the DDA as Attachment No. 20, to permit the Agency to take the following

actions: (i) if applicable, to convey Parcels to Master Developer and/or the Foundation subject to the special tax lien that would be imposed in connection with the formation of a Community Facilities District; (ii) prior to the satisfaction of the applicable Phase Four Conditions, to subordinate its right of reverter to the special tax lien that would be imposed in connection with the formation of a Community Facilities District; and (iii) prior to the conveyance to Master Developer or the Foundation, as the case may be, of a leasehold interest in any "Lease Parcel", to subject its fee simple title to the lien of the special tax at the time of formation of a Community Facilities District.

i. The purpose of this Agreement is to amend the DDA and the form of the Lease attached to the DDA as Attachment No. 6, and the form of the Foundation Lease attached to the DDA as Attachment No. 20, to facilitate the formation of a Community Facilities District and issuance of bonds of the Community Facilities District in the event the City of San Diego approves the formation of such District.

j. In addition, the purpose of this Agreement is to make minor changes to the form of other attachments to the DDA, specifically described below, to facilitate the formation of a Community Facilities District and the issuance of bonds of the Community Facilities District in the event the City of San Diego approves the formation of such District.

2. Amendments to DDA

a. Paragraph c.(4) of Section 1.8 of the DDA is hereby amended to read as follows (with added language shown in bold print):

(4) Upon the satisfaction of all Phase Four Conditions Precedent and the conveyance of such Parcel by Master Developer to an Assignee, or, **upon the formation of a Community Facilities District on any part of the Property, if authorized by the City of San Diego,** the Agency shall subordinate its right of reverter to any Permitted Mortgage, Community Facilities District or other district formed pursuant to State law to finance the Horizontal Improvements.

b. Paragraph c.(5) of Section 1.8 of the DDA is hereby amended to read as follows (with added language shown in bold print):

(5) The Foundation shall have the right to encumber any Parcel in the Civic, Arts and Cultural Center with a Permitted Leasehold Mortgage, and encumber such title, but only **(a) upon the formation of a Community Facilities District on any part of the Property, if authorized by the City of San Diego, or (b) for the purpose of obtaining financing necessary to pay Development Costs for Vertical Improvements directly allocable to such Parcel, when all Phase Three (Foundation) Conditions Precedent applicable to such Parcel have been satisfied and the Parcel has been conveyed to the Foundation. Notwithstanding the foregoing, the special tax lien relating to a Community Facilities District may be placed on title to any such Parcel by the Agency before the Parcel has been conveyed to the Foundation.** Subject to the conditions set forth in paragraph c. of Section 9.10 of this Agreement, Agency shall subordinate its right of reverter as to any Parcel conveyed to the Foundation.

c. Clause (6) of paragraph a. of Section 3.6 of the DDA is hereby amended to read as follows (with added language being shown in bold print):

(6) any other exceptions which are otherwise consistent with this Agreement and which are accepted in writing by Master Developer, **including, but not limited to, the special tax lien imposed on any portion of the Property in connection with the formation by the City of San Diego of a Community Facilities District.**

d. Paragraph b. of Section 9.10 of the DDA is hereby amended to read as follows (with added language being shown in bold print):

b. Prior to Satisfaction of Phase Four Conditions Precedent. **Except as provided in paragraph bb. of this Section 9.10,** prior to the satisfaction of all Phase Four Conditions Precedent applicable to a Parcel, the Agency's right of reverter established in this Section 9.10 shall be senior in priority to any lien, including Permitted Mortgages and Permitted Leasehold Mortgages, such that if Agency

exercises its right of reverter, all such liens, mortgages and leasehold mortgages will be extinguished and the Agency will be revested of title to the Parcel free and clear of all such liens, mortgages and leasehold mortgages.

e. Section 9.10 of the DDA is hereby amended to add a new paragraph bb., as follows:

bb. Community Facilities District.

- (1) Notwithstanding any provision contained in this Agreement or any other document, but subject to the provisions of paragraph (2), below, Agency shall subordinate its right of reverter established in this Section 9.10 to the special tax lien imposed on any portion of the Property in connection with the formation by the City of San Diego of a Community Facilities District, whether such formation occurs prior to or after satisfaction of the Phase Four Conditions Precedent, so that in the event the Agency exercises such right of reverter, the Agency would take the affected property subject to such special tax lien.
- (2) Agency's obligation to subordinate its right of reverter to the special tax lien imposed on any portion of the Property in connection with the formation of a Community Facilities District prior to the satisfaction of Phase Four Conditions Precedent shall be subject to Master Developer's delivery to Agency, not later than the issuance of any bonds secured by such special tax lien, of an unconditional irrevocable direct pay letter of credit (the "LOC") meeting the requirements set forth in Exhibit "A" to this Implementation Agreement.

f. Nothing contained in this First Implementation Agreement is intended to or shall be deemed to obligate the City of San Diego to pay the special tax applicable to any portion of the Property in connection with the formation of a Community Facilities District.

3. Amendments to Form of Lease

a. Paragraph b. of Section 2.24A of the form of Ground Lease attached to the DDA as Attachment No. 6 is hereby amended to read as follows (with added language being shown in bold print):

b. Prior to Satisfaction of Phase Four Conditions.
Except as provided in paragraph bb. of this Section 2.24A, prior to the satisfaction of all Phase Four Conditions Precedent applicable to the Property, the Landlord's right of reverter established in this Section 2.24A shall be senior in priority to any lien, including Permitted Leasehold Mortgages, such that if Landlord exercises its right of reverter, all such liens and leasehold mortgages will be extinguished and the Landlord will be revested of title to the Property free and clear of all such liens and leasehold mortgages.

b. Section 2.24A of the Lease is hereby amended to add a new paragraph bb., as follows:

bb. Community Facilities District.

- (1) Notwithstanding any provision contained in this Lease or any other document, but subject to the provisions of paragraph (2), below, Landlord shall subordinate its right of reverter established in this Section 2.24A to the special tax lien imposed on any portion of the Property in connection with the formation by the City of San Diego of a Community Facilities District, whether such formation occurs prior to or after satisfaction of the Phase Four Conditions Precedent, so that in the event Landlord exercises such right of reverter, Landlord would take the affected property subject to such special tax lien.
- (2) Landlord's obligation to subordinate its right of reverter to the special tax lien imposed on any portion of the Property in connection with the formation of a Community Facilities District prior to the satisfaction of Phase Four Conditions Precedent shall be subject to

Master Developer's delivery to the Landlord, not later than the issuance of any bonds secured by such special tax lien, of an unconditional irrevocable direct pay letter of credit (the "LOC") meeting the requirements set forth in Exhibit "A" to this Implementation Agreement.

c. Paragraph b.(iii) of Section 2.30 of the Lease is hereby amended to read as follows:

(iii) The Leasehold Mortgage shall be without subordination of the fee simple title of the Property. The term of any Leasehold Mortgage shall expire prior to the expiration of the term of this Lease. Provided, however, that in the event of the formation of a Community Facilities District on any part of the Property prior to the conveyance of a leasehold interest in such Parcel pursuant to the DDA, the following shall apply: the notice of the special tax lien shall create a lien on the interest described in the "Rate and Method" which the parties understand will be the fee simple title of the Property at the time of formation of such District and, concurrently with the Landlord's conveyance of the leasehold interest to Master Developer, the leasehold interest only.

4. Amendment to Form of Foundation Lease

Paragraph b.(iii) of Section 2.30 of the Foundation Lease attached to the DDA as Attachment No. 20 is hereby amended to read as follows:

(iii) The Leasehold Mortgage shall be without subordination of the fee simple title of the Property. The term of any Leasehold Mortgage shall expire prior to the expiration of the term of this Lease. Provided, however, that in the event of the formation of a Community Facilities District on any part of the Property prior to the conveyance of a leasehold interest in such Parcel pursuant to the DDA, the following shall apply: the notice of the special tax lien shall create a lien on the interest described in the "Rate and Method" which the parties understand will be the fee simple title of the Property at the time of formation of such District and, concurrently with the Landlord's

conveyance of the leasehold interest to Master Developer, the leasehold interest only.

5. Miscellaneous Amendments

a. To the extent that any of the forms of documents attached to the DDA refer to the DDA, such references shall mean the DDA as amended by this First Implementation Agreement.

b. The Agency agrees to insert into the Certificate of Completion issued for any Vertical Improvements rehabilitated, constructed or improved pursuant to the DDA the square footage of the "Floor Area" (as defined in the applicable Rate and Method) of the applicable Vertical Improvements. To implement this paragraph b., the forms of the Certificate of Completion respectively attached to the DDA as Attachment No. 13-A and 13-B are hereby amended to add a new section as follows:

5. The Agency hereby certifies that the completed improvements on the Property constitute _____ square feet.

6. Actions to Effectuate this Agreement

The parties agree to execute such other instruments, agreements and amendments to documents as may be necessary or appropriate to effectuate the DDA, as amended by this First Implementation Agreement.

7. DDA to Remain in Effect

Except as expressly provided otherwise in this First Implementation Agreement, the DDA remains in full force and effect, enforceable in accordance with its terms.

8. Counterparts; Date of Agreement

a. This Agreement is executed in five (5) duplicate originals, each of which is deemed to be an original, and may be signed in counterparts.

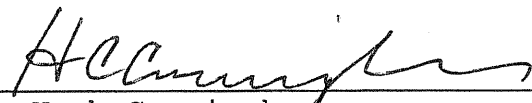
b. The date of this Agreement shall be the date when this Agreement shall have been executed by the Agency Executive Director or designee.

9. Time for Acceptance of Agreement

This Agreement, when executed by Master Developer and delivered to the Agency, must be authorized, executed and delivered by the Agency within thirty (30) days after such delivery to the Agency, or this Agreement may be terminated by Master Developer upon written notice to the Agency.

IN WITNESS WHEREOF, the Agency and Master Developer have executed this Agreement.


REDEVELOPMENT AGENCY OF THE
CITY OF SAN DIEGO

By: 
Hank Cunningham
Assistant Executive Director

APPROVED AS TO FORM AND LEGALITY
Casey Gwinn
Agency General Counsel


By: 

KANE, BALLMER & BERKMAN
Agency Special Counsel

By: 
Glenn F. Wasserman

McMILLIN-NTC, LLC

By: McMillin Companies, LLC, a
Delaware limited liability
company, its managing member

By: 
KIMBERLY K ELLIOTT
Vice President

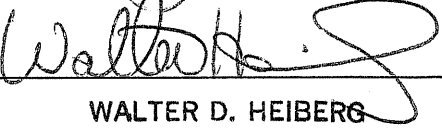
By: 
WALTER D. HEIBERG
Vice President

EXHIBIT "A" TO FIRST IMPLEMENTATION AGREEMENT

LETTER OF CREDIT REQUIREMENTS
[BEHIND THIS PAGE]

EXHIBIT "A"

LETTER OF CREDIT REQUIREMENTS

1. Definitions.

1.1 Incorporated Definitions. Capitalized terms not otherwise defined herein shall be defined as provided in the DDA, First Implementation Agreement and Rate and Method (defined below).

1.2 Defined Terms.

"Account Party" means the owner of land within the District as to which a Letter of Credit is provided.

"Act" means Mello-Roos Community Facilities Act of 1982, as amended, set forth at Title 5, Division 2, Chapter 2.5 of the California Government Code (commencing with Section 53311).

"Assessor's Parcel" shall have the meaning set forth in the Rate and Method.

"Affiliate" means any entity owned, controlled or under common ownership or control by or with, as applicable, an Account Party and includes all general partners of any entity which is a partnership. Control shall mean ownership of fifty percent (50%) or more of the voting power of or ownership interest in the respective entity.

"Beneficiary" means the Agency, as the beneficiary designated in a Letter of Credit.

"CFD No. 3 Bonds" shall have the meaning set forth in the Rate and Method.

"District" means Community Facilities District No. 3 (Liberty Station).

"Future Parcel" means an Assessor's Parcel, or portion thereof, within Improvement Area No. 2 classified as Undeveloped Property prior to issuance of the second series of CFD No. 3 Bonds.

"Installment Date" means April 10 and December 10, or the first succeeding business day if April 10 or December 10 falls on a non-business day.

"Letter of Credit" means an irrevocable direct pay letter of credit in substantially the form attached hereto.

"Letter of Credit Account" means a discrete, segregated account of the Agency into which shall be deposited the proceeds of draws on the Letter(s) of Credit.

“Letter of Credit Provider” means a federal or state chartered bank with a long-term debt rating of “A” (or its equivalent) or better by two nationally-acceptable credit rating agencies, or other financial institutions reasonably acceptable to the City Manager or his or her designee.

“Rate and Method” means the Rate and Method of Apportionment for Improvement Area No. 1 of Community Facilities District No. 3 (Liberty Station) and the Rate and Method of Apportionment for Improvement Area No. 2 of Community Facilities District No. 3 (Liberty Station) approved by the qualified electors within each Improvement Area.

“Released Parcel” means any Parcel as to which the Right-of-Reverter has been extinguished and released pursuant to the DDA.

“Right-of-Reverter” means the right-of-reverter applicable to a Parcel pursuant to Section 9.10 of the DDA.

“Secured Parcel” means a Parcel subject to the Right-of-Reverter that is not a Future Parcel.

“Special Taxes” means special taxes levied in accordance with the Rate and Method.

“Stated Amount” shall have the meaning set forth in Section 2.3.

“Substitute Letter of Credit” means a letter of credit satisfying all the requirements of a Letter of Credit required pursuant to Section 2 provided to replace, in whole or in part, a Letter of Credit previously provided.

“Taxable Property” shall have the meaning set forth in the Rate and Method.

“Third Party” means a person or entity wholly unrelated to an Account Party or an Affiliate of an Account Party.

“Transferee” means a Third Party that acquires all or any portion of a Secured Parcel.

“Undeveloped Property” shall have the meaning set forth in the Rate and Method.

2. Letter of Credit. Concurrently with, and as a condition of the issuance and sale of each series of CFD No. 3 Bonds or as otherwise applicable pursuant to Section 2.1, Master Developer shall cause to be delivered to Agency a Letter of Credit substantially in the form attached hereto, with such changes as may be approved by the Executive Director of the Agency, Master Developer and Letter of Credit Provider which Letter of Credit (i) shall be in the “Stated Amount” as defined below; (ii) shall be subject to renewal, replacement, reduction, early termination, expiration and draws by the Beneficiary as provided below; (iii) shall have a term ending on a June 30 at least one year from its date of issuance; and (iv) shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision, International Chamber of Commerce Publication No. 500).

2.1 Applicability of Requirement. Master Developer shall cause a Letter of Credit to be delivered, renewed and/or replaced to secure the payment of Special Taxes with respect to all Secured Parcels in the Stated Amount. Master Developer or the applicable Account Party shall bear all costs associated with obtaining and posting or renewing any Letter of Credit or obtaining and posting a Substitute Letter of Credit.

2.2 Beneficiary. As Beneficiary, Agency may draw on a Letter of Credit and provide for the reduction and termination of any Letter of Credit as may be required according to the terms of this Agreement.

2.3 Stated Amount. The “Stated Amount” of a Letter of Credit shall be an amount equal to 200% of the projected annual Special Tax levy on Secured Parcels owned by the Account Party and its Affiliates within CFD No. 3 in the next fiscal year; provided, however, that, for the calculation made with respect to the Stated Amount of the Letter of Credit to be delivered upon the issuance of the CFD No. 3 Bonds shall assume a special tax levy amount in the absence of capitalized interest. The calculations of the Special Tax to be levied as described in the preceding sentence shall be based on the land use classifications of all Taxable Property under the Rate and Method as of the date of calculation, as reasonably determined by District’s special tax consultant.

2.4 Letter of Credit Draws. The Beneficiary may draw upon the Letter of Credit in any of the circumstances described in 2.4.1 and 2.4.2 below.

2.4.1 The Beneficiary may draw upon the Letter of Credit if no less than ten (10) business days prior to an Installment Date the Account Party or its Affiliates does not demonstrate to the reasonable satisfaction of the Executive Director that Special Taxes due on the next Installment Date for all Secured Parcels have been paid. The total amount to be drawn under the Letter of Credit shall not exceed an amount equal to the Special Taxes for Secured Parcels owed and unpaid by the Account Party and its Affiliates. The amount drawn on the Letter of Credit shall be applied to pay such Special Taxes prior to the applicable Installment Date.

2.4.2 If (i) the Letter of Credit is not renewed within sixty (60) days of its expiration date, or a Substitute Letter of Credit not provided within sixty (60) days prior to the original Letter of Credit’s expiration date, or a Substitute Letter of Credit is not provided within sixty (60) days following the Beneficiary’s written notice to the Account Party that the long-term debt rating of the Letter of Credit Provider has been downgraded below the lesser of (x) “A” (or its equivalent) or (y) its rating at the time the Letter of Credit was provided and (ii) the requirements for release or termination of the Letter of Credit have not then been met, the full amount of the Letter of Credit may be drawn by Beneficiary and deposited in the Letter of Credit Account. Thereafter, amounts in the Letter of Credit Account may be applied by Beneficiary to pay Special Taxes on the same terms and conditions applicable hereunder to

draws on the Letter of Credit. At such time as the Letter of Credit is renewed, or a Substitute Letter of Credit is accepted by Agency, or the requirement for the Letter of Credit has been terminated pursuant to this section, the Beneficiary shall release all amounts in the Letter of Credit Account to the Letter of Credit Provider within ten (10) calendar days from the date of renewal, acceptance or termination.

2.5 Renewal and Substitution. The Letter of Credit shall be renewed, or a Substitute Letter of Credit reasonably satisfactory to Agency, with an effective date not later than the expiration date of the Letter of Credit being replaced provided, not less than sixty (60) calendar days prior to the expiration of the Letter of Credit or Substitute Letter of Credit then in effect. If a Substitute Letter of Credit is provided to Agency, then Agency shall return any existing Letter of Credit on the effective date of the Substitute Letter of Credit to the Letter of Credit Provider.

2.6 Reduction and Termination. The Stated Amount of the Letter of Credit shall be reduced and be recalculated in accordance with Section 2.3 above based upon the designation of Secured Parcels as Released Parcels and the transfer of Secured Parcels to a Third Party; provided, however, that Agency shall be required to recalculate such amount and reduce the Letter of Credit a maximum of four times each calendar year and no reduction shall be approved based upon the sale or transfer of property to a Third Party unless and until a Substitute Letter of Credit is provided by the Third Party. The Letter of Credit shall be terminated when there are no Special Taxes levied upon Secured Parcels.

2.7 Reduction and Termination Mechanics. Reduction or termination of a Letter of Credit shall occur automatically upon submission to the Letter of Credit Provider by Agency of a Certificate of Reduction or Termination in the form of Annex "3" or Annex "4" to the Form of Letter of Credit attached hereto. Agency shall deliver such Certificate of Reduction or Termination promptly upon receiving from the Account Party a certification which shall be made under penalty of perjury, and reasonable supporting documentation indicating (i) the legal description of all Secured Parcels owned by the Account Party and its Affiliates within the District, (ii) a recalculation of the new Stated Amount that the Account Party proposes be applicable to the Letter of Credit and (iii) if termination of the Letter of Credit is requested, a statement that the Account Party and its Affiliates no longer own Secured Parcels subject to Special Taxes and any Transferees have provided a Letter of Credit, if still required pursuant to the First Implementation Agreement.

The Account Party shall notify Agency of any events that will result in a reduction of the Stated Amount of the Letter of Credit and shall provide Agency with verification of said events. Account Party may provide Agency with a Substitute Letter of Credit in the reduced Stated Amount, and Agency shall release and return to the Letter of Credit Provider the Letter of Credit then in effect. The parties expressly acknowledge that the Account Party's failure to so notify District or to reduce the Letter of Credit at the times prescribed herein shall in no way effect or invalidate sale or transfer of property, or recordation of maps on property.

2.8 Transferees. If all or any portion of a Secured Parcel as to which a Letter of Credit has been provided is sold or transferred by the Account Party or any of its Affiliates to a Third Party, a Letter of Credit on the same terms specified herein will be furnished by Transferee with respect to all land owned by such Transferee and its Affiliates. The issuing financial institution and the form and terms of said Letter of Credit will be subject to reasonable prior approval by Agency. All terms provided in this Exhibit "A" shall be applicable to the Transferee by replacing the term "Account Party" at each place where it occurs in each section with the term "Transferee." Each provider of a Letter of Credit for a Transferee shall be an express third party beneficiary of the provisions of this Section 2. The Letter of Credit provided by an Account Party shall not be released or reduced as a result of a transfer to a Transferee required to post a Letter of Credit until such Letter of Credit is received by the Agency, and such property shall continue to be treated as owned by the Account Party for purposes of drawing on the Letter of Credit until the Letter of Credit from the Transferee is received.

FORM OF LETTER OF CREDIT

Redevelopment Agency of the
City of San Diego
202 C Street
San Diego, California 92101
Attn: NTC Project Manager

Dear Ladies and Gentlemen:

We hereby establish, at the request and for the account of _____, a _____ [INSERT LANDOWNERS NAME], (the "Account Party") in your favor, as "Beneficiary" pursuant to that certain First Implementation Agreement, dated as of _____, 2002, (the "Agreement") by and between the Redevelopment Agency of the City of San Diego ("Agency") and McMillin NTC, LLC ("Master Developer"), our Irrevocable Direct Pay Letter of Credit No. _____, in the amount of \$ _____ (the "Stated Amount"), effective immediately and expiring on _____ [June 30, at least ONE YEAR FROM ISSUANCE] (the "Stated Termination Date").

We hereby irrevocably authorize you to draw on us in an aggregate amount not to exceed the Stated Amount of this Letter of Credit set forth above and in accordance with the terms and conditions and subject to the reductions in Stated Amount as hereinafter set forth, (1) in one or more drawings by one or more of your drafts, each accompanied by your written and completed certificate signed by you in the form of Annex "1" attached hereto (any such draft accompanied by such certificate being your "Default Payment Draft"), and (2) in a single drawing by your draft, accompanied by your written and completed certificate signed by you in the form of Annex "2" attached hereto (any such draft accompanied by such certificate being your "Final Draft"). Draws may be presented by facsimile to () _____ followed by a mailed original.

Funds under this Letter of Credit are available to you against (1) your Default Payment Draft referring thereon to the number of this Letter of Credit and accompanied by your written and completed certificate signed by you in the form of Annex "1" attached hereto, and (2) your Final Draft referring thereon to the number of this Letter of Credit and accompanied by your written and completed Certificate signed by you in substantially the form of Annex "2" attached hereto. Each such draft and certificate shall be dated the date of its presentation, and shall be presented at our office located at _____ [must be an office within the U.S.] _____, Attn: _____, (or at any other office which may be designated by us by written notice delivered to you) on or before 9:00 a.m. (Pacific time) on the day (which shall be a banking day) of our making funds available to you hereunder. If we receive any of your drafts and certificates at such office, all in strict conformity with the terms and conditions of this Letter of Credit, not later than 9:00 a.m. (Pacific time) on a banking day prior to the termination hereof, we will honor the same on the same day in accordance with your payment instructions. If we receive any of your drafts and certificates at such office, all in strict conformity with the terms and conditions of

this Letter of Credit, after 9:00 a.m. (Pacific time) on a banking day prior to the termination hereof, we will honor the same on the next succeeding banking day in accordance with your payment instructions. The phrase "banking date" shall mean any day other than a Saturday, Sunday or a day which shall be in the State of _____ a legal holiday or a day on which banks are authorized or obligated by law or executive order to close.

The Stated Amount of this Letter of Credit shall be decreased upon (1) our payment of each Default Payment Draft or Final Draft by an amount equal to such payment or payments, and (2) upon our receipt of your written and completed certificate signed by you in substantially the form of Annex '3' attached hereto to the new Stated Amount in said Certificate.

This Letter of Credit shall automatically terminate upon the earliest of (i) the Stated Termination Date, (ii) our honoring your Final Draft presented hereunder, (iii) our honoring of a Default Payment Draft which has the effect of reducing the Stated Amount to zero (\$0.00), (iv) our receipt of your written and completed Certificate signed by you in substantially the form of Annex '4' attached hereto (such Certificate being your "Termination Certificate"), or (v) the date on which we receive written notice from you that an alternate letter of credit has been substituted for this Letter of Credit in accordance with the Agreement.

THIS LETTER OF CREDIT SETS FORTH IN FULL THE TERMS OF OUR UNDERTAKING, AND SUCH UNDERTAKING SHALL NOT BE IN ANY WAY MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY DOCUMENT, INSTRUMENT OR AGREEMENT REFERRED TO HEREIN OR IN WHICH THIS LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS LETTER OF CREDIT RELATES, ANY SUCH REFERENCE SHALL NOT BE DEEMED TO INCORPORATE HEREIN BY REFERENCE ANY DOCUMENT, INSTRUMENT OR AGREEMENT.

We hereby agree with you that each draft drawn in compliance with the terms of this credit shall be duly honored on presentation to us and shall be paid with our funds and not with any funds of the Account Party. Each draft shall be paid by wire transfer or check, as directed by you.

This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision, International Chamber of Commerce Publication No. 500). All communications with respect to this Letter of Credit shall be in writing specifically referencing the designated Number of this Letter of Credit and shall be addressed to us at _____, _____, Attn: _____.

Very truly yours,

AUTHORIZED OFFICIAL, BANK _____

By: _____

Annex "1"

CERTIFICATE FOR DRAWING UPON ACCOUNTS PARTY'S DEFAULT IN
PAYMENT OF SPECIAL TAXES

Irrevocable Letter of credit No. _____

[BANK _____]

The undersigned, a duly authorized officer or agent of the undersigned Beneficiary hereby certifies to _____ (the "Bank"), with reference to Irrevocable Letter of Credit No. _____ (the "Letter of Credit") issued by the Bank in favor of the Beneficiary, that:

The undersigned is the duly authorized officer or agent of the Beneficiary for the purposes of submitting this Certificate.

As of the date of this Certificate, which is a date not more than ten (10) business days prior to the next Installment Date, the Account Party has failed to pay Special Taxes imposed on the property owned by Account Party or its Affiliates within the boundaries of Improvement Area ___ of Community Facilities District No. 3 of the City of San Diego in the total amount of \$ _____ (the "Default Amount") which amount equals the unpaid Special Taxes.

Beneficiary hereby requests payment of the Default Amount and acknowledges that upon your payment of this draft the Stated Amount of the Letter of Credit shall be automatically reduced by the Default Amount to a new Stated Amount calculated as follows:

Existing Stated Amount	\$ _____
Default Amount	(_____)
New Stated Amount	\$ _____

Beneficiary hereby certifies for the benefit of Account Party that all amounts drawn hereunder shall be deposited to the Letter of Credit Account established under the First Implementation Agreement.

The capitalized terms not otherwise defined herein are used herein as defined in the Letter of Credit and the First Implementation Agreement.

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this Certificate as of the day of _____ day of _____, 20__.

REDEVELOPMENT AGENCY OF THE
CITY OF SAN DIEGO

By: _____
Name: _____
Title: _____

Hereunto Duly Authorized

Annex "2"

CERTIFICATE FOR FINAL DRAWING UPON
FAILURE OF ACCOUNT PARTY TO RENEW
IRREVOCABLE LETTER OF CREDIT NO. _____ OR PROVIDE SUBSTITUTE
LETTER OF CREDIT

[BANK _____]

The undersigned, a duly authorized officer or agent of the undersigned Beneficiary hereby certifies to _____ (the "Bank"), with reference to the Irrevocable Letter of Credit No. _____ (the "Letter of Credit") issued by the Bank in favor of the Beneficiary, that:

(a) The undersigned is the duly authorized officer or agent of the Beneficiary for the purposes of submitting this Certificate.

(b) Account Party has [failed to renew the Letter of Credit or provide a Substitute Letter of Credit prior to the Stated Termination Date of the Letter of Credit/failed to provide a Substitute Letter of Credit within sixty (60) days following our written notice to Account Party of a rating downgrading of the Bank]. The Stated Termination Date of the Letter of Credit is _____, ____.

(c) Beneficiary hereby requests payment of the entire Stated Amount of \$_____.

(d) Beneficiary hereby certifies for the benefit of Account Party that all amounts drawn hereunder shall be held in trust in the Letter of Credit Account and used or disbursed to or for the account of Account Party as provided in the First Implementation Agreement.

The capitalized terms not otherwise defined herein are used herein as defined in the Letter of Credit and the First Implementation Agreement.

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this Certificate as of the __ day of _____, 20__.

REDEVELOPMENT AGENCY OF THE
CITY OF SAN DIEGO

By: _____
Name: _____
Title: _____

Hereunto Duly Authorized

Annex "3"

CERTIFICATE FOR REDUCTION OF AMOUNTS AVAILABLE UNDER
IRREVOCABLE LETTER OF CREDIT NO. _____

DATED _____, 20__

[BANK _____]

The undersigned, a duly authorized officer or agent of the undersigned Beneficiary hereby certifies to _____ (the "Bank"), with reference to the Irrevocable Letter of Credit No. _____ (the "Letter of Credit") issued by the Bank in favor of the Beneficiary, that:

(a) The undersigned is the duly authorized officer or agent of the Beneficiary for the purposes of submitting this Certificate.

(b) Account Party or its Affiliate has either (i) sold or transferred property within Improvement Area ___ of Community Facilities District No. 3 of the City of San Diego or (ii) received a release of the Right-of-Reverter with respect to one or more Secured Parcels and has provided the Beneficiary with an approved recalculation of the Stated Amount of the Letter of Credit.

(c) The Stated Amount of the Letter of Credit is automatically reduced upon receipt by the Bank of this Certificate to an amount equal to \$_____ (United States Dollars _____).

The Capitalized terms not otherwise defined herein are used herein as defined in the Letter of Credit and the First Implementation Agreement.

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this Certificate as of the ___ day of _____, 20__.

REDEVELOPMENT AGENCY OF THE
CITY OF SAN DIEGO

By: _____
Name: _____
Title: _____

Hereunto Duly Authorized

Annex "4"

CERTIFICATE FOR TERMINATION OF
IRREVOCABLE LETTER OF CREDIT NO. _____

DATED _____, 20__

[BANK _____]

The undersigned, a duly authorized officer or agent of the undersigned Beneficiary hereby certifies to _____ (the "Bank"), with reference to the Irrevocable Letter of Credit No. _____ (the "Letter of Credit") issued by the Bank in favor of the Beneficiary, that:

(a) The undersigned is the duly authorized officer or agent of the Beneficiary for the purposes of submitting this Certificate.

(b) The Account Party and its Affiliates no longer own land within the Community Facilities District or only own land that is a Released Parcel or Future Parcel.

(c) Beneficiary hereby requests the Letter of Credit be automatically terminated upon delivery of this Certificate to Bank.

(d) The original of this Letter of Credit and any subsequent amendments are attached hereto and are hereby returned for immediate termination.

The capitalized terms not otherwise defined herein are used herein as defined in the Letter of Credit and the First Implementation Agreement.

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this Certificate as of the __ day of _____, 20__.

REDEVELOPMENT AGENCY OF THE
CITY OF SAN DIEGO

By: _____
Name: _____
Title: _____

Hereunto Duly Authorized

