

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located):

COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ) (STATE: CALIFORNIA)

**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ) IMPROVEMENT AREA NO. 4
SPECIAL TAX BONDS SERIES A OF 2004**

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer:

Community Facilities District No. 2 of the City of San Diego CUSIP: 802808

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

X Electronic: ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2003.

Paper (no. of pages attached)

If information is also available on the Internet, give URL: NOT AVAILABLE _____

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Report for FY 2003

(Financial information and operating data should not be filed with the MSRB.)

B. Financial Statements or CAFR pursuant to Rule 15c2-12

See the Annual Report, Sections 1(a).

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

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

D. Notice of Failure to Provide Annual Financial Information as Required

E. Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name PATRICIA T. FRAZIER Title DEPUTY CITY MANAGER
Employer CITY OF SAN DIEGO
Address 202 C STREET, MAIL STATION 9B City SAN DIEGO State CA Zip Code 92101
Telephone (619) 236-6070 Fax (619) 236-7344
Email Address _____ Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name: VIVIAN SAVEDRA Title: VICE PRESIDENT
Employer: UNION BANK OF CALIFORNIA, N.A.
Address: 120 S. SAN PEDRO STREET, SUITE 400 City: LOS ANGELES State: CA Zip Code: 90012
Telephone: (213) 972-5673 Fax: (213) 972-5694
Email Address _____ Relationship to Issuer: TRUSTEE

Investor Relations Contact, if any:

Name LAKSHMI KOMMI Title FINANCING SERVICES MANAGER
Telephone (619) 236-6928 Email Address _____

**ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2003
RELATING TO**

**\$9,965,000
COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)
IMPROVEMENT AREA NO. 4
SPECIAL TAX BONDS SERIES A OF 2004**

(CUSIP Number 802808)

The following Annual Reports are being provided by the City of San Diego (the “City”) on behalf of the Community Facilities District No. 2, pursuant to the Continuing Disclosure Certificate executed by the City in its capacity as Dissemination Agent (the “City Dissemination Agent”), relating to Community Facilities District No. 2 (Santaluz), Improvement Area No.4, Special Tax Bonds, Series A of 2004 (the “IA 4 2004 A Bonds”) for the fiscal year ended June 30, 2003.

This Annual Report, including any amendment or supplement hereto, is intended to be deposited by the City Dissemination Agent with each of the Nationally Recognized Municipal Securities Information Repositories (the “NRMSIRs”), approved by the Securities and Exchange Commission, set forth in Exhibit A and with the Participating Underwriter, set forth in Exhibit B.

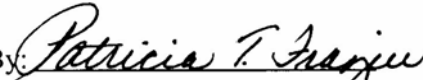
This Annual Report is provided solely for the purposes of the Continuing Disclosure Certificate. The filing of this Annual Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the City, Community Facilities District No. 2 (Santaluz), the IA 4 2004 A Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this Annual Report relates (other than as contained in this Annual Report), or any other date specified with respect to any of the information contained in this Annual Report, or that any other information exists, which may have a bearing on the security for the IA 4 2004 A Bonds, or an investor’s decision to buy, sell, or hold the IA 4 2004 A Bonds. Certain information contained in this Annual Report has been obtained from other sources which are believed to be reliable. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the City and Community Facilities District No. 2 (Santaluz).

The City has no obligation to update this report other than as expressly provided in the Continuing Disclosure Certificate.

Any statements regarding the IA 4 2004 A Bonds, other than a statement made by the City in an official release or subsequent notice or annual report, published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board or the NRMSIRs, are not authorized by the City. The City shall not be responsible for the accuracy, completeness or fairness of any such unauthorized statement.

DATED: March 30, 2004

CITY OF SAN DIEGO

By: 
PATRICIA T. FRAZIER
Deputy City Manager

Distribution: Union Bank of California, N.A. (Trustee and Dissemination Agent)
UBS Financial Services (Participating Underwriter)

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission:

Bloomberg Municipal Repositories

100 Business Park Drive
Skillman, NJ 08558
Email: Munis@Bloomberg.com
Phone: (609) 279-3225
Fax: (609) 279-5962

Standard & Poor's J.J. Kenny Repository

55 Water Street, 45th Floor
New York, NY 10041
E-mail: nrmsir_repository@sandp.com
Phone: (212) 438-4595
Fax: (212) 438-3975

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, NY 10038
Email: NRMSIR@FTID.com
Phone: (212) 771-6999
Fax: (212) 771-7390

DPC Data, Inc.

One Executive Drive
Fort Lee, NJ 07024
E-mail: nrmsir@dpcdata.com
Phone: (201) 346-0701
Fax: (201) 947-0107

EXHIBIT B

Participating Underwriter

UBS Financial Services, Inc.
Attn: Los Angeles Municipal Securities Group
777 South Figueroa Street, 50th Floor
Los Angeles, California 90017

\$9,965,000
COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)
IMPROVEMENT AREA NO. 4
SPECIAL TAX BONDS SERIES A OF 2004

Annual Report Under the Continuing Disclosure Certificate

This Annual Report includes information required by the Continuing Disclosure Agreement for Community Facilities District No. 2 (Santaluz) Improvement Area No. 4, Special Tax Bonds Series A of 2004, except for the Comprehensive Annual Financial Report of the City of San Diego (the "CAFR") for the Fiscal Year ended June 30, 2003 (see item 1(a) below):

1. Annual Report For Community Facilities District No. 2 (Santaluz):

- (a) **Financial Statements.** This Annual Report does not include the Comprehensive Annual Financial Report of the City of San Diego (the "CAFR") for the year ended June 30, 2003 (the "2003 CAFR"). The City found errors in the CAFR for the fiscal year ended June 30, 2002 (the "2002 CAFR"), as well as other 2002 financial statements of the City. It is the opinion of the City Auditor and the City Outside Auditor (Caporicci and Larson) that, in accordance with accounting and auditing professional guidelines, discovered errors related primarily to footnotes, and were not material either individually or in the aggregate in the context of the 2002 CAFR taken as a whole. The City has retained the accounting firm of KPMG LLP, to perform a full scope audit and render an opinion on the basic financial statements in the 2003 CAFR. The City currently expects to have the audited 2003 CAFR ready for publication in June of 2004, although no assurance can be given that the audited 2003 CAFR will in fact be published by then. At such time as the audited 2003 CAFR is published, this Annual Report will be appropriately amended.

On January 27, 2004 and again on March 12, 2004 the City voluntarily disclosed information on the City's pension plan, errors with respect to the 2002 CAFR, and the Fiscal Year 2002 audited financial statements of the Metropolitan Wastewater Utility for the Fiscal Years ended June 30, 2002 and 2001 (the "Voluntary Disclosures"). Copies of such Voluntary Disclosures may be obtained from any of the Nationally Recognized Municipal Securities Information Repositories (Exhibit A) or from the Investor Relations contact listed on page 2 of the Municipal Secondary Market Disclosure Cover Sheet that prefaces this Annual Report.

\$9,965,000
COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)
IMPROVEMENT AREA NO. 4
SPECIAL TAX BONDS SERIES A OF 2004

Annual Report Under the Continuing Disclosure Certificate

- (b) **Financial and Operating Data.** The first Annual Report shall consist of a copy of the Official Statement and the financial statements described above.

A copy of the Official Statement for the Improvement Area No. 4 Special Tax Bonds Series A of 2004, is enclosed.

Source: Office of the City Treasurer - Special Districts Administration

ADDITIONAL INFORMATION

On February 13, 2004, the City of San Diego was notified by the U.S. Securities and Exchange Commission of an investigation into certain previous bond issues by the City. At the same time, the United States Attorney's office began its own investigation regarding previous bond issues by the City. The City intends to fully cooperate with both investigations. To the best knowledge of the City and Community Facilities District No. 2 (Santaluz), these investigations do not involve matters directly related to the Community Facilities District No. 2 (Santaluz).

Source: Office of the City Treasurer - Special Districts Administration

NEW ISSUE—BOOK-ENTRY ONLY

NO RATING

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. See “LEGAL MATTERS—Tax Exemption” herein.

\$9,965,000
COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)
IMPROVEMENT AREA NO. 4
SPECIAL TAX BONDS SERIES A OF 2004

Dated: Delivery Date

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

The Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 Special Tax Bonds Series A of 2004 (the “Bonds”) are being issued and delivered primarily to finance various public improvements needed to develop property located within Improvement Area No. 4 of Community Facilities District No. 2 (Santaluz) (the “District”). The District has been formed by and is located in the City of San Diego, California (the “City”).

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and pursuant to a Bond Indenture, dated as of February 1, 2004 (the “Bond Indenture”), by and between the District and Union Bank of California, N.A. as trustee (the “Trustee”). The Bonds are special, limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of certain taxable land within Improvement Area No. 4 of the District (“Improvement Area No. 4”) and from certain other funds pledged under the Bond Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the City Council of the City and the qualified electors within Improvement Area No. 4. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes.” The City Council of the City is the legislative body of the District.

The Bonds are being issued in book-entry form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on September 1, 2004 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See “THE BONDS—General Provisions” and APPENDIX H—“BOOK-ENTRY ONLY SYSTEM” herein.

Neither the faith and credit nor the taxing power of the City, the County of San Diego, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special tax obligations of the District payable solely from Special Taxes and certain other amounts held under the Bond Indenture as more fully described herein.

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

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. THE PURCHASE OF THE BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE BONDS ARE NOT SUITABLE INVESTMENTS FOR MANY INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “SPECIAL RISK FACTORS” FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE (See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, as counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about February 25, 2004.

UBS FINANCIAL SERVICES INC.

Dated: February 13, 2004

MATURITY SCHEDULE

(Base CUSIP: 802808)†

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP†</u>	<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
2005	\$ 95,000	1.65%	1.65%	BX2	2012	\$210,000	4.00%	4.00%	CE3
2006	105,000	2.15	2.15	BY0	2013	235,000	4.15	4.15	CF0
2007	120,000	2.50	2.50	BZ7	2014	255,000	4.35	4.35	CG8
2008	135,000	2.85	2.85	CA1	2015	270,000	4.50	4.50	CH6
2009	155,000	3.15	3.15	CB9	2016	280,000	4.60	4.65	CJ2
2010	170,000	3.40	3.40	CC7	2017	290,000	4.70	4.75	CK9
2001	190,000	3.75	3.75	CD5	2018	305,000	4.80	4.85	CL7

\$2,200,000 5.40% Term Bonds due September 1, 2024 Yield: 5.55% CUSIP†: CM5

\$4,950,000 5.50% Term Bonds due September 1, 2033 Yield: 5.67% CUSIP†: CN3

† Copyright 2003, American Bankers Association. CUSIP data herein in provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The District takes no responsibility for the accuracy of such data.

**CITY OF SAN DIEGO, CALIFORNIA
CITY COUNCIL**

Dick Murphy, *Mayor*

Scott Peters
Michael Zucchet
Toni Atkins
Charles Lewis

Brian Maienschein
Donna Frye
Jim Madaffer
Ralph Inzunza

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

Charles G. Abdelnour
City Clerk

Mary E. Vattimo
City Treasurer

BOND COUNSEL AND DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates
Irvine, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

REAL ESTATE APPRAISER

D.F. Davis Real Estate, Inc.
San Diego, California

TRUSTEE

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

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

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the City or the District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the District or any other parties described herein since the date hereof. All summaries of the Bond Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

All information material to the making of an informed investment decision with respect to the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “IMPROVEMENT AREA NO. 4” and “THE DEVELOPMENT AND PROPERTY OWNERSHIP.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE CITY NOR THE DISTRICT PLANS TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

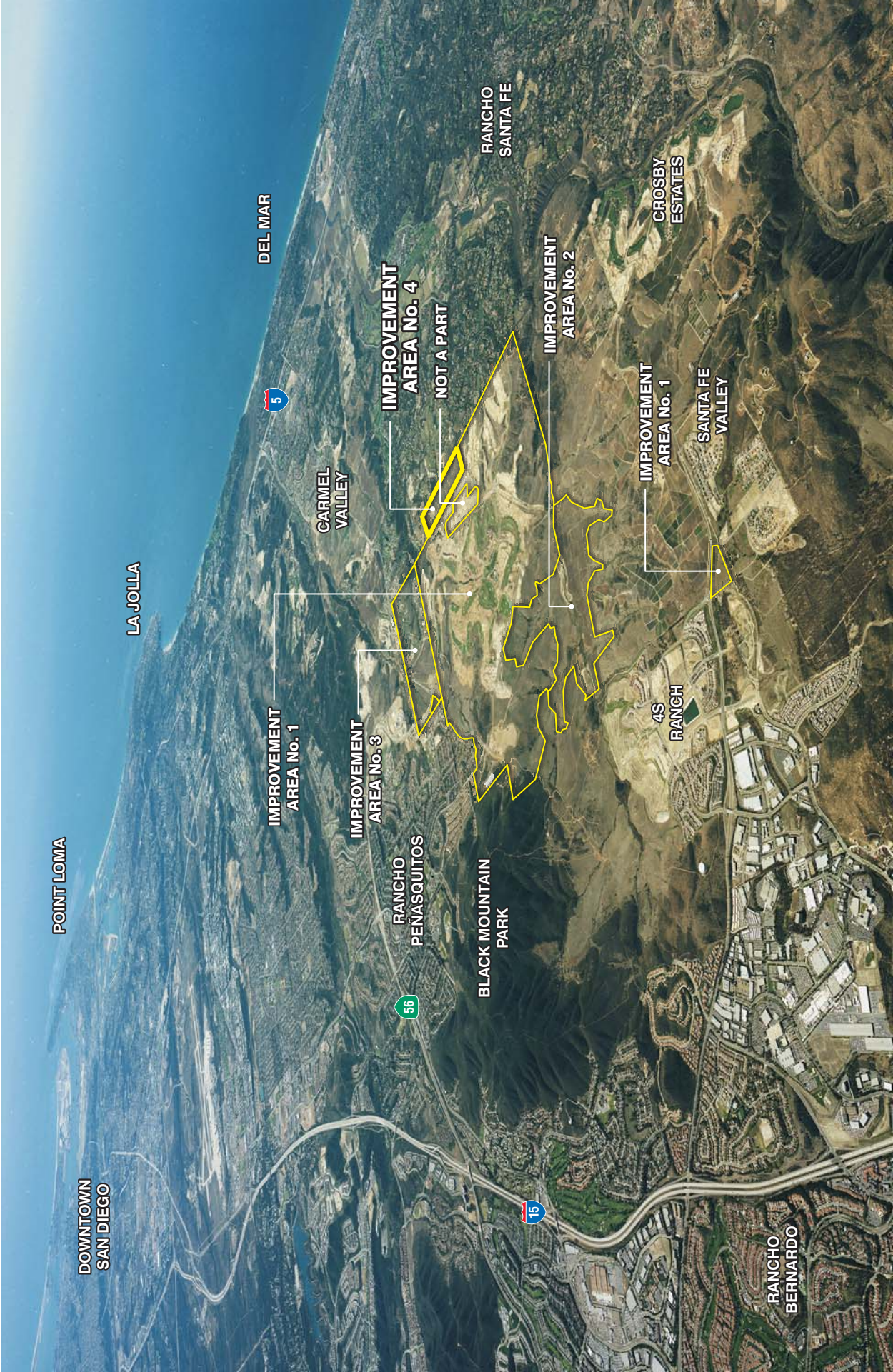
THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

Table of Contents

<u>Section</u>	<u>Page</u>
INTRODUCTION.....	1
Update of Certain Information Since the Date of the Preliminary Official Statement.....	1
General	1
The District and Improvement Area No. 4.....	1
Sources of Payment for the Bonds	3
Description of the Bonds.....	3
Tax Matters	4
Professionals Involved in the Offering.....	4
Continuing Disclosure.....	4
Bond Owners' Risks.....	5
Other Information.....	5
ESTIMATED SOURCES AND USES OF FUNDS.....	5
THE BONDS	6
General Provisions	6
Authority for Issuance.....	6
Debt Service Schedule.....	7
Redemption	8
Registration, Transfer and Exchange	10
SOURCES OF PAYMENT FOR THE BONDS	10
Limited Obligations.....	10
Special Taxes.....	11
Reserve Account of the Special Tax Fund	14
Issuance of Parity Bonds for Refunding Purposes	14
IMPROVEMENT AREA NO. 4.....	16
General Description of Improvement Area No. 4	16
Description of Authorized Facilities.....	16
Estimated Direct and Overlapping Indebtedness.....	16
Expected Tax Burden	17
Principal Taxpayers	19
Delinquency History.....	19
Estimated Appraised Value-to-Lien Ratios.....	19
Estimated Assessed Value-to-Lien Ratios.....	22
THE DEVELOPMENT AND PROPERTY OWNERSHIP	24
General Description.....	24
The Developers	24
Proposed Development.....	26
Developer Financing	27
Status of Entitlement Approvals.....	28
Infrastructure Requirements and Construction Status	29
Appraisal	29
SPECIAL RISK FACTORS	30
Concentration of Ownership	30
Limited Obligations.....	30
Insufficiency of Special Taxes	31
Failure to Develop Properties.....	31
Future Land Use Regulations and Growth Control Initiatives	32

Table of Contents
(Continued)

<u>Section</u>	<u>Page</u>
Endangered Species.....	33
Natural Disasters	33
Hazardous Substances.....	34
Methane Gas.....	34
Parity Taxes, Special Assessments and Land Development Costs.....	34
Disclosures to Future Purchasers.....	35
Special Tax Delinquencies.....	35
Non-Cash Payments of Special Taxes.....	36
Payment of the Special Tax is not a Personal Obligation of the Owners.....	36
Land Values.....	36
FDIC/Federal Government Interests in Properties.....	37
Bankruptcy and Foreclosure.....	38
No Acceleration Provision.....	39
Loss of Tax Exemption.....	39
Limitations on Remedies.....	39
Limited Secondary Market.....	39
Proposition 218.....	40
Ballot Initiatives.....	41
 CONTINUING DISCLOSURE.....	 41
 LEGAL MATTERS.....	 42
Tax Exemption.....	42
Litigation.....	43
No Rating.....	43
Legal Opinion.....	43
Underwriting.....	43
Financial Interests.....	44
Pending Legislation.....	44
Additional Information.....	45
 APPENDIX A RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.....	 A-1
APPENDIX B APPRAISAL REPORT	B-1
APPENDIX C SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SAN DIEGO	C-1
APPENDIX D SUMMARY OF BOND INDENTURE.....	D-1
APPENDIX E CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT.....	E-1
APPENDIX F CONTINUING DISCLOSURE AGREEMENT OF THE DEVELOPER	F-1
APPENDIX G FORM OF OPINION OF BOND COUNSEL.....	G-1
APPENDIX H BOOK-ENTRY ONLY SYSTEM.....	H-1



Aerial Oblique View (Looking Southwest)
CFD No. 2
IMPROVEMENT AREA No. 4

\$9,965,000
COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)
IMPROVEMENT AREA NO. 4
SPECIAL TAX BONDS SERIES A OF 2004

INTRODUCTION

Update of Certain Information Since the Date of the Preliminary Official Statement

On February 13, 2004, the City of San Diego was notified by the U.S. Securities and Exchange Commission of an investigation into certain previous bond issues by the City. At the same time, the United States Attorney's office began its own investigation regarding previous bond issues by the City. The City intends to fully cooperate with both investigations. To the best knowledge of the City and Community Facilities District No. 2 (Santaluz), these investigations do not involve matters directly related to the Bonds. See APPENDIX C — "Pending Investigations Regarding Prior Bond Issues of the City" herein.

General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX D — "SUMMARY OF BOND INDENTURE — Definitions" herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance of the \$9,965,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 Special Tax Bonds Series A of 2004 (the "Bonds"). The proceeds of the Bonds will be used to construct and acquire various public improvements needed with respect to the proposed development of certain land within Community Facilities District No. 2 (Santaluz) (the "District") comprising Improvement Area No. 4, to fund the Reserve Account securing the Bonds, to pay capitalized interest to September 1, 2004 on the principal amount of the Bonds, and to pay costs of administration and issuance of the Bonds.

In addition to Improvement Area No. 4 of the District ("Improvement Area No. 4"), the District also includes Improvement Area No. 1, Improvement Area No. 2 and Improvement Area No. 3, which are authorized to issue bonds secured by special taxes levied on all property within those improvement areas. None of the special taxes levied within Improvement Area Nos. 1, 2 and 3 is pledged or available to repay the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California) (the "Act"), and a Bond Indenture dated as of February 1, 2004 (the "Bond Indenture") by and between the District and Union Bank of California, N.A. (the "Trustee"). The Bonds are secured under the Bond Indenture by a pledge of and lien upon Special Taxes (as defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Bond Indenture.

The District and Improvement Area No. 4

Formation Proceedings. The District has been formed by the City of San Diego (the "City") pursuant to the Act.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners within such district and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On February 11, 2003, the City adopted resolutions establishing and annexing Improvement Area No. 4 to the District and held an election pursuant to the Act, whereby the landowners who comprised the qualified voters of the Improvement Area No. 4, authorized the District to incur bonded indebtedness on behalf of Improvement Area No. 4 in an aggregate principal amount not to exceed \$10,500,000. The District has previously adopted a resolution approving the rate and method of apportionment of the Special Taxes for Improvement Area No. 4 to pay the principal of and interest on the Bonds as set forth in APPENDIX A hereto (the "Rate and Method"). The City Council of the City acts as the legislative body of the District.

Development Status. There are three separate developers which own the property in and are undertaking to develop Improvement Area No. 4. Western Pacific Housing, Inc., a Delaware corporation ("Western Pacific"), is developing 72 single family homes and 26 affordable condominium units in Improvement Area No. 4. Pardee Homes, a California corporation ("Pardee") is developing 52 single family homes and 10 affordable housing units in Improvement Area No. 4. Pulte Home Corporation, a Michigan corporation ("Pulte"), is developing 66 single family homes in Improvement Area No. 4. Collectively Western Pacific, Pardee and Pulte are referred to herein as the "Developers." For certain information concerning the Developers, see "THE DEVELOPMENT AND PROPERTY OWNERSHIP — The Developers."

Improvement Area No. 4 consists of approximately 115 gross acres. Improvement Area No. 4 is located in the City in the northwestern area of San Diego County, roughly halfway between Interstate 5 and Interstate 15, approximately 20 miles north of downtown San Diego, and approximately 6 miles north of the La Jolla/Golden Triangle Area. Based on current land use approvals and projections, the land within Improvement Area No. 4 is expected to be developed into 190 single family homes and 36 affordable condominium or apartment units. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP."

Development of the land within Improvement Area No. 4 is ongoing. As of January 5, 2004, the Developers had completed in-tract infrastructure for 177 of the 190 proposed single family homes and 26 of the 36 affordable condominium units. In addition, as of January 5, 2004, the Developers had obtained building permits for 143 of the 190 proposed single family homes and all 36 proposed condominium or apartment units. As of such date, 143 of the 190 proposed single family homes and 21 of the 36 proposed condominium homes had been sold and 63 single family homes and 21 condominium homes had closed escrow. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP — The Developers."

D.F. Davis Real Estate, Inc. (the "Appraiser") has conducted an appraisal (the "Appraisal") of the land within Improvement Area No. 4 and has concluded, based upon the assumptions and limiting conditions contained in the Appraisal, that as of September 1, 2003, the value of land within Improvement Area No. 4 was \$106,925,930, assuming the public improvements to be financed by the Bonds are complete. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP — Appraisal" and APPENDIX B — "APPRAISAL REPORT."

Sources of Payment for the Bonds

Special Taxes. As used in this Official Statement, the term “Special Tax” is that tax which has been authorized pursuant to the Act to be levied against certain land within Improvement Area No. 4 pursuant to the Act and in accordance with the Rate and Method. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Bond Indenture, the District has pledged to repay the Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Bond Indenture.

The Special Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund.”

Foreclosure Proceeds. The District has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor’s Parcels (as defined in the Rate and Method) with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all Assessor’s Parcels with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” herein. There is no assurance that the property within Improvement Area No. 4 can be sold for the appraised value or assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within Improvement Area No. 4. See “SPECIAL RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT” herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Parity Bonds and Liens. The District may, without the consent of the Beneficial Owners of the Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the Bonds (“Parity Bonds”); provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. See “SOURCES OF PAYMENT FOR THE BONDS — Issuance of Parity Bonds for Refunding Purposes.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within Improvement Area No. 4 which could adversely affect the willingness of the landowners to pay the Special Taxes when due. See “SPECIAL RISK FACTORS — Parity Taxes, Special Assessments and Land Development Costs” herein.

Description of the Bonds

The Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical

delivery of the Bonds. In the event that the Book-Entry Only System described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Bond Indenture. See APPENDIX H — “BOOK-ENTRY ONLY SYSTEM.”

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the Book-Entry Only System is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX H — “BOOK-ENTRY ONLY SYSTEM.”

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

Tax Matters

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

Professionals Involved in the Offering

Union Bank of California, N.A. will act as Trustee under the Bond Indenture and as the initial Dissemination Agent under the Developer Disclosure Agreements. See APPENDIX F. UBS Financial Services Inc. is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Fieldman, Rolapp & Associates is acting as Financial Advisor to the City in connection with the Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, as Underwriter’s Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant and D.F. Davis Real Estate, Inc., San Diego, California, as Appraiser.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see “LEGAL MATTERS — Financial Interests” herein.

Continuing Disclosure

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

filed by the District, Western Pacific and Pardee, the semiannual reports to be filed by Western Pacific and Pardee and notices of material events to be provided by the District, Western Pacific and Pardee.

Bond Owners’ Risks

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency. *The purchase of the Bonds involves significant investment risks, and the Bonds are not suitable investments for many investors.* See “SPECIAL RISK FACTORS” herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Bonds and the Bond Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Bond Indenture, the Bonds and the constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Bond Indenture.

Copies of the Bond Indenture, the Continuing Disclosure Certificate, the Developer Disclosure Agreements and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at the Office of the City Clerk at 202 C Street, San Diego, CA 92101, Attention: City Clerk.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Bonds	\$ 9,965,000.00
Less Original Issue Discount	<u>(164,477.90)</u>
TOTAL SOURCES	\$ 9,800,522.10

Uses of Funds

Project Account	\$ 8,379,670.77
Reserve Account	714,350.00
Interest Account ⁽¹⁾	259,395.08
Cost of Issuance Account	310,000.00
Administrative Expense Account	25,000.00
Underwriter’s Discount	<u>112,106.25</u>
TOTAL USES	\$ 9,800,522.10

⁽¹⁾ Represents capitalized interest on the principal amount of the Bonds until September 1, 2004.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on September 1, 2004 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the Bonds are held in book-entry form, principal and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the Bonds. See APPENDIX H — “BOOK-ENTRY ONLY SYSTEM.”

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

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

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

Authority for Issuance

The Bonds are issued pursuant to the Act and the Bond Indenture. As required by the Act, the City Council of the City has taken the following actions with respect to establishing the District and the Bonds:

Resolutions of Intention: On January 7, 2003, the City Council of the City adopted a resolution stating its intention to annex Improvement Area No. 4 to the District and to authorize the levy of a special tax therein, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed \$10,500,000 within Improvement Area No. 4.

Resolutions of Formation: Immediately following a noticed public hearing opened on February 11, 2003, the City Council of the City adopted resolutions which established Improvement Area No. 4; authorized the levy of a special tax within Improvement Area No. 4; and declared the necessity to incur bonded indebtedness of \$10,500,000 within Improvement Area No. 4.

Resolution Calling Election: The resolutions adopted by the City Council of the City on February 11, 2003 also called for an election by the landowners in Improvement Area No. 4 for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness, and the establishment of an appropriations limit.

Landowner Election and Declaration of Results: On February 11, 2003, an election was held at which the landowners within Improvement Area No. 4 approved a ballot proposition authorizing the annexation of Improvement Area No. 4 to the District, the issuance of up to \$10,500,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for Improvement Area No. 4. On February 11, 2003, the City Council adopted resolutions approving the canvass of the votes and declaring that Improvement Area No. 4 be annexed to the District with full legal effect, that Improvement Area No. 4 be subject to the levy of the Special Taxes, to incur the bonded indebtedness on behalf of Improvement Area No. 4, and to have the established appropriations limit for Improvement Area No. 4.

Special Tax Lien and Levy: A Notice of Special Tax Lien for Improvement Area No. 4 was recorded in the real property records of the County on February 20, 2003, as a continuing lien against the property in Improvement Area No. 4.

Ordinance Levying Special Taxes: On February 24, 2003, the City Council adopted Ordinance No. O-19152 levying the Special Tax within Improvement Area No. 4.

Resolution Authorizing Issuance of the Bonds: On January 26, 2004, the City Council adopted a resolution approving issuance of the Bonds in a principal amount not to exceed \$10,500,000.

Debt Service Schedule

The following table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional or extraordinary redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part and the Bond Indenture requires redemption of Bonds from the proceeds of any Special Tax prepayments. See “SOURCES OF PAYMENT FOR THE BONDS – Special Taxes” and “THE BONDS — Redemption — *Extraordinary Redemption.*”

<i>Period Ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2004	\$ --	\$ 259,395.08	\$ 259,395.08
2005	95,000	502,055.00	597,055.00
2006	105,000	500,487.50	605,487.50
2007	120,000	498,230.00	618,230.00
2008	135,000	495,230.00	630,230.00
2009	155,000	491,382.50	646,382.50
2010	170,000	486,500.00	656,500.00
2011	190,000	480,720.00	670,720.00
2012	210,000	473,595.00	683,595.00
2013	235,000	465,195.00	700,195.00
2014	255,000	455,442.50	710,442.50
2015	270,000	444,350.00	714,350.00
2016	280,000	432,200.00	712,200.00
2017	290,000	419,320.00	709,320.00
2018	305,000	405,690.00	710,690.00
2019	320,000	391,050.00	711,050.00
2020	340,000	373,770.00	713,770.00
2021	355,000	355,410.00	710,410.00
2022	375,000	336,240.00	711,240.00
2023	395,000	315,990.00	710,990.00
2024	415,000	294,660.00	709,660.00
2025	440,000	272,250.00	712,250.00
2026	465,000	248,050.00	713,050.00
2027	490,000	222,475.00	712,475.00
2028	515,000	195,525.00	710,525.00
2029	545,000	167,200.00	712,200.00
2030	575,000	137,225.00	712,225.00
2031	605,000	105,600.00	710,600.00
2032	640,000	72,325.00	712,325.00
2033	675,000	37,125.00	712,125.00
Total	<u>\$ 9,965,000</u>	<u>\$ 10,334,687.58</u>	<u>\$ 20,299,687.58</u>

Redemption

Optional Redemption. The Bonds maturing on or after September 1, 2012 may be redeemed, at the option of the District from any source of funds on any Interest Payment Date on or after September 1, 2004, in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 2012	103%
September 1, 2012 and March 1, 2013	102
September 1, 2013 and March 1, 2014	101
September 1, 2014 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The Bonds maturing on September 1, 2024 (the “2024 Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 2019, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth

below. The 2024 Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 2024 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2024

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2019	\$320,000
2020	340,000
2021	355,000
2022	375,000
2023	395,000
2024*	415,000

* Maturity

The Bonds maturing on September 1, 2033 (the “2033 Term Bonds” and together with the 2024 Term Bonds, the “Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 2025 and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2033 Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 2033 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2033

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2025	\$440,000
2026	465,000
2027	490,000
2028	515,000
2029	545,000
2030	575,000
2031	605,000
2032	640,000
2033*	675,000

* Maturity

If the District purchases Term Bonds during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above, the District is required to notify the Trustee at least 45 days prior to the redemption date as to the principal amount purchased, and the amount purchased will be credited at the time of purchase, to the extent of the full principal amount of the purchase. In the event of a partial optional redemption or extraordinary mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis in increments of \$5,000.

Extraordinary Redemption. The Bonds are subject to extraordinary redemption as a whole, or in part, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund”), at the

following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 2012	103%
September 1, 2012 and March 1, 2013	102
September 1, 2013 and March 1, 2014	101
September 1, 2014 and any Interest Payment Date thereafter	100

Notice of Redemption. The Trustee is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the original purchasers of the Bonds and the respective registered Owners of the Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the Bonds called for redemption is set aside for that purpose in the Redemption Account, the Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Bonds at the place specified in the notice of redemption, and no interest will accrue on the Bonds called for redemption from and after the redemption date, and the Owners of the redeemed Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Bonds or portions of Bonds only to the Redemption Account and shall have no rights, except with respect to the payment of the redemption price from the Redemption Account.

Registration, Transfer and Exchange

Registration. The Trustee will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Trustee.

Transfer or Exchange. Whenever any Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Bond Indenture and from no other sources.

The Special Taxes are the primary security for the repayment of the Bonds. Under the Bond Indenture, the District has pledged to repay the Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses of up to the Administrative Expenses Cap) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein) established under the Bond Indenture. Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof and the net proceeds, exclusive of penalties and interest relating to delinquencies thereof, of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien.

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

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the City Council established Improvement Area No. 4 on February 11, 2003, for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within Improvement Area No. 4. At a special election held on February 11, 2003, the owners of the property within Improvement Area No. 4 authorized the District to incur indebtedness in an amount not to exceed \$10,500,000, and approved the Rate and Method which authorizes the Special Tax to be levied to repay District indebtedness, including the Bonds, with respect to Improvement Area No. 4.

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

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to

pay the principal of and interest on the Bonds when due. See “SPECIAL RISK FACTORS — Insufficiency of Special Taxes” herein.

Rate and Method of Apportionment of Special Taxes. All capitalized terms used in this section shall have the meaning set forth in APPENDIX A.

Under the Rate and Method, all Taxable Property in Improvement Area No. 4 will be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Sections C, D and E of the Rate and Method.

A parcel will be classified as Developed Property if it is Taxable Property (other than Taxable Property Owner Association Property and Taxable Public Property) for which a building permit for new construction or renovations was issued after January 1, 2002, but prior to March 1 of the fiscal year preceding the Special Tax levy. Developed Property will be further assigned to land use classes for Residential Property and Non-Residential Property. The Maximum Annual Special Tax for Developed Property will be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax due on such property. The Assigned Special Tax rates are set forth in Table 1 of the Rate and Method and beginning on July 1, 2004 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied, escalate by 2% of the rate in effect for the previous year. On July 1 of the eleventh and twelfth Fiscal Year, the Assigned Special Taxes may be increased by up to 2% of the amount in effect for the prior Fiscal Year to the extent necessary to meet the Special Tax Requirement. The maximum Special Tax rates do not increase after the twelfth Fiscal Year in which Special Taxes are levied. For Fiscal Year 2003-04, the Assigned Special Tax rates range from \$2,713.18 for a residential unit of less than 3,600 square feet to \$4,358.88 for residential units greater than 4,600 square feet. Residential units designated as Affordable Units are specially classified and the Assigned Special Tax Rate for Affordable Units is \$102.00 per unit. The Fiscal Year 2003-04 rate for Non-Residential Property is \$15,322.88 per acre. The Fiscal Year 2003-04 Backup Special Tax for Developed Property is \$15,323 per acre. The Fiscal Year 2003-04 maximum Special Tax rate for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property is \$15,323.00 per acre, and this maximum rate will increase at the same rate of increase as described above for Developed Property.

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

Prepayment of Special Taxes. Under the Rate and Method, the owner of a parcel which is within a Final Map may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes made after the date of issuance of the Bonds will result in an extraordinary redemption of Bonds. See “THE BONDS — Redemption — *Extraordinary Redemption.*” As of January 5, 2004, prepayments of Special Taxes in the amount of \$34,114 have been made by an individual owner.

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

The District has made certain covenants in the Bond Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District’s ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes payable from Developed Property to less than 110% of Maximum Annual Debt Service on Outstanding Bonds and Parity Bonds. See “SPECIAL RISK FACTORS — Proposition 218.” Second, the District has covenanted not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and any Parity Bonds remaining Outstanding following such tender. See “SPECIAL RISK FACTORS — Non-Cash Payments of Special Taxes.”

Although the Special Taxes constitute liens on taxed parcels within Improvement Area No. 4, they do not constitute a personal indebtedness of the owners of property within Improvement Area No. 4. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners therein. See “SPECIAL RISK FACTORS — Parity Taxes, Special Assessments and Land Development Costs” herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled “SPECIAL RISK FACTORS.”

Under the terms of the Bond Indenture, all Special Tax revenues received by the District are to be deposited in the Special Tax Fund. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund. Special Tax revenues deposited in the Special Tax Fund are to be applied by the Trustee under the Bond Indenture in the following order of priority: (i) to deposit up to \$50,000 to the Administrative Expense Fund to pay Administrative Expenses; (ii) to pay the interest on the Bonds when due; (iii) to pay the principal of the Bonds when due; (iv) to pay any scheduled Sinking Fund Payment; (v) to replenish the Reserve Account to the Reserve Requirement; (vi) to make any required transfers to the Rebate Fund; and (vii) to the Surplus Fund for the purposes outlined in the Bond Indenture. See APPENDIX D — “SUMMARY OF BOND INDENTURE.”

Proceeds of Foreclosure Sales. The net proceeds, exclusive of penalties and interest, received following a judicial foreclosure sale of land within the District resulting from a landowner’s failure to pay the Special Taxes when due are included within the Special Tax revenues pledged to the payment of principal and interest on the Bonds under the Bond Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the

unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$10,000 or more by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX D — “SUMMARY OF BOND INDENTURE — Other Covenants of the District” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See “SPECIAL RISK FACTORS — Land Values” herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for ad valorem taxes.

Reserve Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Bond Indenture provides that the amount in the Reserve Account shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the maximum annual debt service on the Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds and any Parity Bonds (the “Reserve Requirement”).

Subject to the limits on the maximum annual Special Tax which may be levied within Improvement Area No. 4, as described in APPENDIX A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; (ii) redeem the Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of the Bonds. In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Account will be added to the amount being prepaid and be applied to redeem Bonds. As described in the Rate and Method, the Reserve Account Credit will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Account Credit if the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX D — “SUMMARY OF BOND INDENTURE — Reserve Account” herein.

Issuance of Parity Bonds for Refunding Purposes

Subject to the limitations set forth in the Bond Indenture, the District may, at any time after the issuance and delivery of the Bonds, and without the consent of the Owners or the Beneficial Owners, issue additional bonds (“Parity Bonds”) payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such

amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued pursuant to the Bond Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds issued to effect a partial refunding may only be issued in accordance with the specific conditions precedent to the issuance of any such Parity Bonds as set forth in the Bond Indenture. See APPENDIX D — “SUMMARY OF BOND INDENTURE — Conditions for the Issuance of Parity Bonds” herein.



Subject

North
No Scale
Base Map by SANDAG

Regional Location
CFD No. 2
IMPROVEMENT AREA No 4

IMPROVEMENT AREA NO. 4

General Description of Improvement Area No. 4

Improvement Area No. 4 consists of approximately 115 gross acres of the District located in the northern portion of the City in northwestern San Diego County, roughly halfway between Interstate 5 and Interstate 15 approximately 20 miles northeast of the City's downtown area and 6 miles north of the La Jolla/Golden Triangle Area.

Description of Authorized Facilities

The facilities authorized to be acquired or constructed by the District with the proceeds of the Bonds and any Parity Bonds consist of various public improvements described in Table 1 below. Table 1, as shown below, lists each infrastructure improvement and its estimated cost. The improvement costs will be paid with proceeds of the Bonds and the proceeds of Special Taxes levied for such purpose and, to the extent that costs exceed those amounts, from other funds to be provided by the Developers.

TABLE 1

ESTIMATED COSTS OF PROJECTS

<i>Project</i>	<i>Cost Estimate</i>
Offsite water and sewer improvements (The Ranch and Mirasol developments) ⁽¹⁾	\$ 825,000 ⁽¹⁾
Community Park Improvements	3,200,000
El Camino Real Improvements	4,456,000
Total	<u>\$ 8,481,000</u>
Amount Expected to be Financed by the District	<u>\$ 8,481,000⁽²⁾</u>

⁽¹⁾ Amount shown represents a fair share allocation of water and sewer improvements installed, excluding costs funded by other sources.

⁽²⁾ Amounts in excess of the net proceeds of the Bonds will be paid in part from prepaid Special Taxes and Special Taxes collected in fiscal year 2003-04.

Source: The District.

Estimated Direct and Overlapping Indebtedness

Within the boundaries of Improvement Area No. 4 are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within Improvement Area No. 4 and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within Improvement Area No. 4. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within Improvement Area No. 4 for fiscal year 2003-04 is shown in Table 2 below (the "Debt Report").

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

TABLE 2

**DIRECT AND OVERLAPPING DEBT SUMMARY
CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2
IMPROVEMENT AREA NO. 4⁽¹⁾**

<i>Overlapping District</i>	<i>Fiscal Year 2003-04 Total Levy</i>	<i>Amount of Levy on Parcels in the District</i>	<i>Percent of Levy on Parcels in the District</i>	<i>Total Debt Outstanding⁽²⁾</i>	<i>Share of Total Debt Outstanding⁽²⁾</i>
Poway Unified School District CFD No. 8 ⁽³⁾	N/A	N/A	N/A	N/A	N/A
Metropolitan Water District G.O. Bond	\$ 99,306,818	\$ 2,378	0.0024%	\$ 475,265,000	\$ 11,380
City of San Diego Public Safety Communication System	\$ 2,003,233	\$ 2,988	0.1491%	\$ 14,390,000	<u>\$ 21,461</u>
				Estimated Share of Overlapping Debt Allocable to IA No. 4	\$ 32,841
				Plus: CFD No. 2 IA No. 4 2004 Bonds	<u>\$ 9,965,000</u>
				Estimated Share of Direct and Overlapping Debt Allocable to IA No. 4	\$ 9,997,841

⁽¹⁾ Numbers have been rounded for purposes of presentation. Calculations based upon such numbers may result in different totals.

⁽²⁾ As of September 1, 2003.

⁽³⁾ Authorized to issue up to \$80 million.

Source: David Taussig & Associates, Inc.

The Poway Unified School District Community Facilities District No. 8 (“Poway CFD No. 8”) is authorized to issue up to \$80,000,000 of bonds, a portion of which will be paid from special taxes levied on developed property within Improvement Area No. 4. The District has not been informed that Poway CFD No. 8 has any immediate plans to issue bonds, but it is likely that bonds will be issued as additional development occurs in Poway CFD No. 8 and on property in other portions of the Poway Unified School District.

Expected Tax Burden

It is expected that the total tax burden on residential units in Improvement Area No. 4 will be less than 2% of the initial sales price of the units. Table 3 below sets forth an estimated property tax bill for three class-types of single family detached units under the Rate and Method: Class 1 units greater than 4,600 square feet; Class 3 units ranging in size from 4,100 to 4,399 square feet; and Class 6 units less than 3,600 square feet. The estimated tax rates and amounts presented herein are based on currently available information. The actual amounts charged may vary and may increase in future years.

TABLE 3

**SAMPLE PROPERTY TAX BILL
PROJECTED FOR FISCAL YEAR 2003-04
FOR TYPICAL SINGLE FAMILY DETACHED UNITS
IMPROVEMENT AREA NO. 4**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Total Assessed Valuation</i>	<i>Class 1⁽¹⁾ Units</i>	<i>Class 3⁽²⁾ Units</i>	<i>Class 6⁽³⁾ Units</i>
SALES PRICE ⁽⁴⁾		\$ 944,000.00	\$ 816,990.00	\$ 745,224.00
TOTAL ASSESSED VALUE ⁽⁵⁾		\$ 937,000.00	\$ 809,990.00	\$ 738,224.00
AD VALOREM PROPERTY TAXES⁽⁶⁾				
Basic Levy	1.00000%	\$ 9,370.00	\$ 8,099.90	\$ 7,382.24
San Diego City Zoological Exhibits	0.00500%	46.85	40.50	36.91
San Diego City Public Safety Communication Systems	0.00180%	16.86	14.58	13.29
San Diego County Water Authority	0.00067%	6.28	5.43	4.95
Metropolitan Water District	<u>0.00610%</u>	<u>57.16</u>	<u>49.41</u>	<u>45.03</u>
Total Ad Valorem Property Taxes	1.01357%	\$ 9,497.15	\$ 8,209.82	\$ 7,482.42
ASSESSMENTS AND SPECIAL TAXES				
Poway Unified School District CFD No. 8 ⁽⁷⁾		\$ 2,295.72	\$ 2,295.72	\$ 2,295.72
County Mosquito/Rat Control ⁽⁸⁾		3.00	3.00	3.00
Metropolitan Water District Standby Charge ⁽⁹⁾		11.51	11.51	11.51
San Diego County Water Authority Water Availability Charge ⁽¹⁰⁾		10.00	10.00	10.00
City of San Diego CFD No. 2 (Santaluz) ⁽¹¹⁾		4,358.88	3,558.27	2,713.18
Estimated City of San Diego Landscape Maintenance District ⁽¹²⁾		<u>600.00</u>	<u>600.00</u>	<u>600.00</u>
Total Assessments and Special Taxes		\$ 7,279.11	\$ 6,478.50	\$ 5,633.41
TOTAL, ALL PROPERTY TAXES		<u>\$ 16,776.26</u>	<u>\$ 14,688.32</u>	<u>\$ 13,115.83</u>
Total Effective Tax Rate		1.77715%	1.79786%	1.75998%

⁽¹⁾ Homes greater than 4,600 square feet.

⁽²⁾ Homes ranging in size from 4,100 square feet to 4,399 square feet.

⁽³⁾ Homes less than 3,600 square feet.

⁽⁴⁾ Based on the lowest actual sales price as stated in the Appraisal Report. Sales price is used to determine Total Effective Tax Rate.

⁽⁵⁾ For residential properties only, assessed value and ad valorem taxes incorporate owner-occupied assessed valuation exemption of \$7,000.

⁽⁶⁾ Based on rates for Fiscal Year 2003-04 for Tax Rate Area 008-187. Tax rates subject to change.

⁽⁷⁾ Based on Fiscal Year 2003-04 Special Tax rate of \$2,295.72 per detached unit.

⁽⁸⁾ Based on Fiscal Year 2003-04 rate of \$3.00 per dwelling unit.

⁽⁹⁾ Based on Fiscal Year 2003-04 rate of \$11.51 per dwelling unit for parcels less than one acre.

⁽¹⁰⁾ Based on Fiscal Year 2003-04 rate of \$10.00 per dwelling unit.

⁽¹¹⁾ Based on Fiscal Year 2003-04 Special Tax rates for each class-type.

⁽¹²⁾ Estimation based on information provided by Springbrook Realty Advisors, Inc., consultant to the Developers.

Source: David Taussig and Associates, Inc.

Principal Taxpayers

Table 4 below sets forth the Special Tax levy for Fiscal Year 2003-04, based on the ownership as of September 1, 2003 and land use status in Improvement Area No. 4 as of March 1, 2003. Table 4A sets forth the Special Taxes projected to be levied in Fiscal Year 2004-05 based on ownership and land use status in Improvement Area No. 4 as of September 1, 2003.

TABLE 4
PRINCIPAL TAXPAYERS FOR
FISCAL YEAR 2003-04⁽¹⁾

<i>Owner</i>	<i>2003-04 Special Tax Levy</i>	<i>Percentage of Special Tax Levy</i>
Individual Owners	\$ 127,385.92	71.95%
Western Pacific	39,835.84	22.50
Pulte	<u>9,829.70</u>	<u>5.55</u>
Total	\$ 177,051.46	100.00%

⁽¹⁾ Based on ownership as of September 1, 2003 and land use status as of March 1, 2003.
Source: David Taussig & Associates, Inc.

TABLE 4A
PROJECTED
PRINCIPAL TAXPAYERS FOR
FISCAL YEAR 2004-05⁽¹⁾

<i>Owner</i>	<i>Projected Special Tax Levy</i>	<i>Percentage of Special Tax Levy</i>
Individual Owners	\$ 146,583.80	23.55%
Western Pacific	199,095.66	31.98
Pardee	168,128.62	27.00
Pulte	<u>108,746.94</u>	<u>17.47</u>
Total	\$ 622,555.02	100.00%

⁽¹⁾ Based on ownership and land use status as of September 1, 2003.
Source: David Taussig & Associates, Inc.

Delinquency History

The Special Tax levy for property within Improvement Area No. 4 for fiscal year 2003-2004 is \$177,051.46. As of January 5, 2004, there were no Special Tax delinquencies.

Estimated Appraised Value-to-Lien Ratios

The value of the land within Improvement Area No. 4 is important because in the event of a delinquency in the payment of Special Taxes the District may foreclose only against delinquent parcels. Table 5 below sets forth the estimated value-to-lien ratios for the parcels within Improvement Area No. 4 owned by the individual homeowners as a group and by Western Pacific, Pardee and Pulte based upon the land ownership status and the values within the Appraisal as of September 1, 2003. The estimated value-to-lien ratio for taxable parcels within Improvement Area No. 4, based upon the principal amount of the Bonds,

overlapping debt relating to the Metropolitan Water District General Obligation Bonds and the City of San Diego Public Safety Communication System and the land values as set forth in the Appraisal is 10.62 to 1.

TABLE 5
ESTIMATED VALUE-TO-LIEN RATIOS
BASED ON APPRAISAL VALUES

<i>Property Owner⁽¹⁾</i>	<i>Assumed FY 2004-05 Special Tax⁽²⁾</i>	<i>Percentage of Assumed FY 2004-05 Special Tax</i>	<i>CFD No. 2, IA No. 4 2004 Bonds Outstanding⁽³⁾</i>	<i>Metropolitan Water District G.O. Bonds Outstanding⁽⁴⁾</i>	<i>City of San Diego Public Safety Communication System G.O. Bonds Outstanding⁽⁴⁾</i>	<i>Total Direct and Overlapping Debt</i>	<i>Appraised Values⁽⁵⁾</i>	<i>Estimated Appraised Value-to-Lien Ratios⁽⁶⁾</i>
Developed Property								
Pardee Homes	\$ 32,211	5.17%	\$ 515,592	\$ 1,061	\$ 890	\$ 517,543	\$ 4,107,659	7.94 to 1
Pulte Home Corporation	108,747	17.47	1,740,671	2,078	4,141	1,746,890	17,709,834	10.14 to 1
Western Pacific Housing, Inc.	142,892	22.95	2,287,216	2,066	4,121	2,293,403	26,785,800	11.68 to 1
Individual Homeowners	<u>146,584</u>	<u>23.55</u>	<u>2,346,311</u>	<u>2,606</u>	<u>5,193</u>	<u>2,354,110</u>	<u>36,051,955</u>	<u>15.31 to 1</u>
Subtotal	\$ 430,434	69.14%	\$ 6,889,790	\$ 7,811	\$ 14,345	\$ 6,911,946	\$ 84,655,248	12.25 to 1
Undeveloped Property								
Pardee Homes	\$ 135,917	21.83%	\$ 2,175,579	\$ 2,215	\$ 4,415	\$ 2,182,209	\$ 13,088,549	6.00 to 1
Western Pacific Housing, Inc.	<u>56,204</u>	<u>9.03</u>	<u>899,631</u>	<u>1,354</u>	<u>2,701</u>	<u>903,686</u>	<u>8,394,150</u>	<u>9.29 to 1</u>
Subtotal	\$ 192,121	30.86%	\$ 3,075,210	\$ 3,569	\$ 7,116	\$ 3,085,895	\$ 21,482,699	6.96 to 1
TOTAL:	\$ 622,555	100.00%	\$ 9,965,000	\$ 11,380	\$ 21,461	\$ 9,997,841	\$ 106,137,947	10.62 to 1

⁽¹⁾ Reflects ownership as of the September 1, 2003 date of the Appraisal Report for Improvement Area No. 4.

⁽²⁾ Reflects amount of Special Taxes based on development status as of September 1, 2003. Excludes parcel that has prepaid in the amount of \$34,114.

⁽³⁾ Allocated based on assumed fiscal year 2004-05 levy.

⁽⁴⁾ Allocated based on fiscal year 2003-04 levy.

⁽⁵⁾ As stated in Exhibit B of the Appraisal. Excludes value of the prepaid parcel valued at approximately \$788,000.

⁽⁶⁾ Represents Appraised Value column divided by the Total Direct and Overlapping Debt column.

Source: David Taussig & Associates, Inc.

Estimated Assessed Value-to-Lien Ratios

Table 6 below sets forth the estimated assessed value-to-lien ratios for property ownership within Improvement Area No. 4 based upon ownership status as of September 1, 2003 and the assessed values included on the fiscal year 2003-04 Assessor's roll. The assessed value of the taxable land within Improvement Area No. 4 for fiscal year 2003-04 is \$36,880,808. The estimated assessed value-to-lien ratio of the property within Improvement Area No. 4 calculated as described in Table 6 below is 3.69 to 1.

TABLE 6

ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS

Property Owner ⁽¹⁾	Assumed FY 2004-05 Special Tax ⁽²⁾	Percentage of Assumed FY 2004-05 Special Tax	CFD No. 2, IA No. 4 2004 Bonds Outstanding ⁽³⁾	Metropolitan Water District G.O. Bonds Outstanding ⁽⁴⁾	City of San Diego Public Safety Communication System G.O. Bonds Outstanding ⁽⁴⁾	Total Direct and Overlapping Debt	Assessed Values ⁽⁵⁾	Estimated Assessed Value-to- Lien Ratios ⁽⁶⁾
Developed Property								
Pardee Homes	\$ 32,211	5.17%	\$ 515,592	\$ 1,061	\$ 890	\$ 517,543	\$ 1,529,051	2.95 to 1
Pulte Home Corporation	108,747	17.47	1,740,671	2,078	4,141	1,746,890	7,117,560	4.07 to 1
Western Pacific Housing, Inc.	142,892	22.95	2,287,216	2,066	4,121	2,293,403	7,080,840	3.09 to 1
Individual Homeowners	146,584	23.55	2,346,311	2,606	5,193	2,354,110	8,925,408	3.79 to 1
Subtotal	\$ 430,434	69.14%	\$ 6,889,790	\$ 7,811	\$ 14,345	\$ 6,911,946	\$ 24,652,859	3.57 to 1
Undeveloped Property								
Pardee Homes	\$ 135,917	21.83%	\$ 2,175,579	\$ 2,215	\$ 4,415	\$ 2,182,209	\$ 7,586,949	3.48 to 1
Western Pacific Housing, Inc.	56,204	9.03	899,631	1,354	2,701	903,686	4,641,000	5.14 to 1
Subtotal	\$ 192,121	30.86%	\$ 3,075,210	\$ 3,569	\$ 7,116	\$ 3,085,895	\$ 12,227,949	3.96 to 1
TOTAL:	\$ 622,555	100.00%	\$ 9,965,000	\$ 11,380	\$ 21,461	\$ 9,997,841	\$ 36,880,808	3.69 to 1

(1) Reflects ownership as of the September 1, 2003 date of the Appraisal Report for Improvement Area No. 4. Ownership status for future estimated value-to-lien ratio tables shall reflect the ownership as shown on the most recent assessment roll of the San Diego County Assessor preceding the date of the Annual Report.

(2) Reflects amount of Special Taxes based on development status as of September 1, 2003. Excludes parcel that has prepaid.

(3) Allocated based on assumed fiscal year 2004-05 levy.

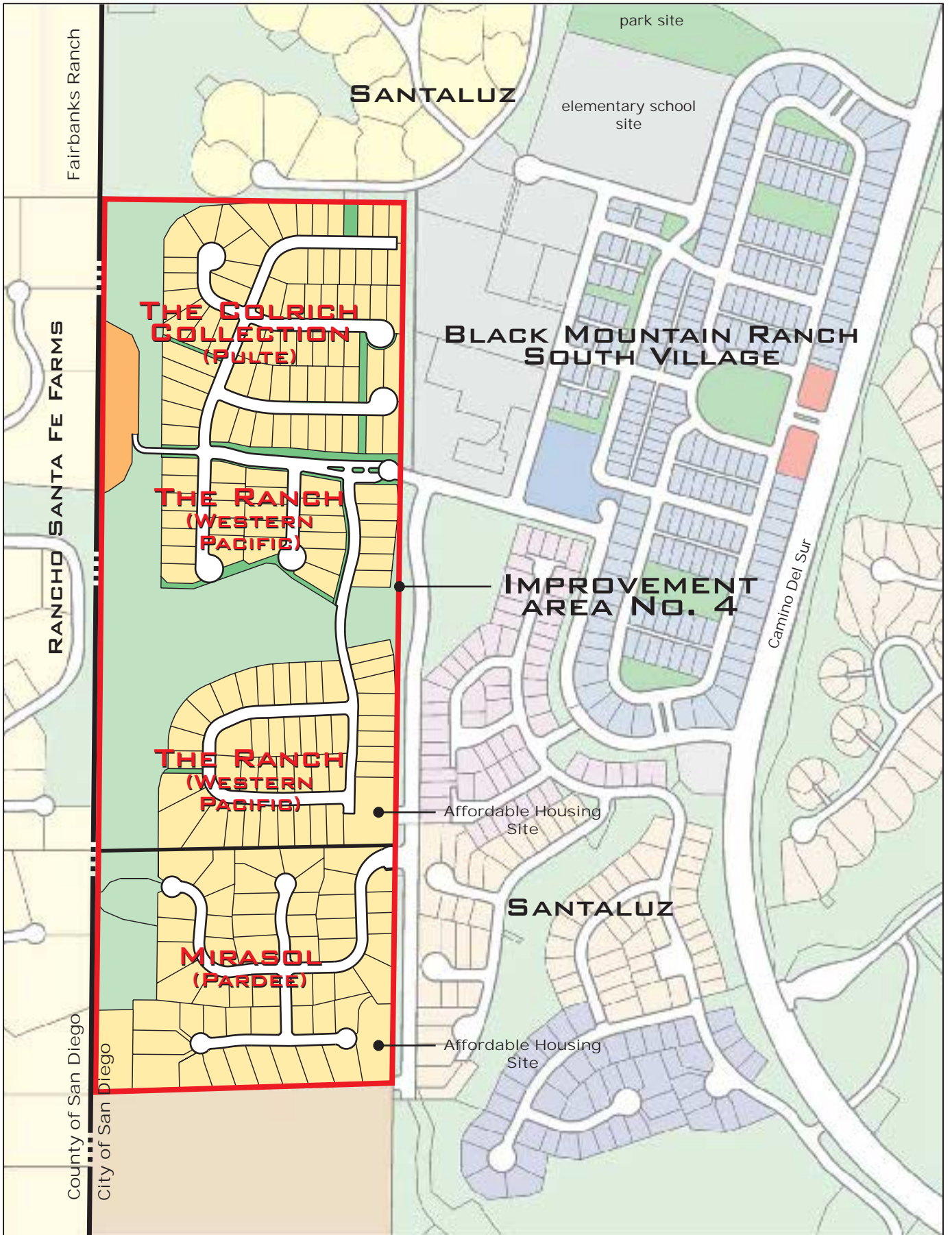
(4) Allocated based on fiscal year 2003-04 levy.

(5) Assessed values for fiscal year 2003-04.

(6) Represents Assessed Value column divided by the Total Direct and Overlapping Debt Column.

Source: David Taussig & Associates, Inc.

(This page intentionally left blank)



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

THE DEVELOPMENT AND PROPERTY OWNERSHIP

Except for the information under the captions "Appraisal," Western Pacific, Pardee and Pulte have each provided the information in this section.

The information herein regarding ownership of property in Improvement Area No. 4 has been included because it is considered relevant to an informed evaluation of the Bonds. The inclusion in this Official Statement of information related to existing owners of property should not be construed to suggest that the Bonds, or the Special Taxes that will be used to pay the Bonds, are recourse obligations of the property owners. A property owner may sell or otherwise dispose of land within Improvement Area No. 4 or a development or any interest therein at any time.

No assurance can be given that the proposed development within Improvement Area No. 4 will occur as described below. As the proposed development progresses and homes are sold, it is expected that the ownership of the land within Improvement Area No. 4 will become more diversified. No assurance can be given that additional development of the land within Improvement Area No. 4 will occur, or that it will occur in a timely manner or in the configuration or intensity described herein, or that the existing owners of property will retain ownership of any of the land within Improvement Area No. 4. The Bonds and the Special Taxes are not personal obligations of any property owners and, in the event that a property owner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any property owner. As a result, other than as provided herein, no financial statements or information is, or will be, provided about the property owners in Improvement Area No. 4. The Bonds are secured solely by the Special Taxes and other amounts pledged under the Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS."

General Description

There are currently three residential developments within Improvement Area No. 4. See Location Map on opposite page. The three developments, The Colrich Collection at Santa Monica, The Ranch at Santa Monica and Mirasol are expected to consist of a total of 190 single family detached dwelling units and 36 affordable condominium and apartment units. The developments are in northwestern San Diego County approximately 20 miles north of the City's downtown area and 6 miles north of the La Jolla/Golden Triangle area. All three developments have recorded final tract maps for the total units proposed to be built. As of January 5, 2004, building permits have been issued for 143 of the proposed single family detached dwelling units and for all 36 proposed affordable condominium and apartment units. As of such date, 63 single family detached dwelling units and 21 affordable condominium units have closed escrow to end users.

The Developers

Pulte. The developer of the residential units in The Colrich Collection at Santa Monica ("The Colrich Collection") is Pulte Home Corporation, a Michigan corporation ("Pulte"). Pulte is a subsidiary of Pulte Diversified Companies, Inc. ("Diversified"), which is a subsidiary of Pulte Homes, Inc., a publicly traded holding company listed on the NYSE under the symbol "PHM" and headquartered in West Bloomfield, Michigan. Pulte Homes, Inc. is the parent corporation of companies with operations in two primary segments: homebuilding and financial services. Pulte Homes, Inc. was founded in 1956 and is the nation's largest single-family homebuilder with a homebuilding segment focused on entry-level, first-time and second-time move up buyers and operations in 42 markets located in the United States, as well as Puerto Rico, Mexico and Argentina. Pulte Homes, Inc.'s financial services segment consists primarily of Pulte Mortgage Corporation

("PMC"), a full service mortgage bank, providing financing to Pulte Homes, Inc. and Pulte homebuyers and to the general public. PMC operates in substantially the same markets as Pulte Home Corporation.

Pulte Homes, Inc. is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly the Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N. W., Washington, D.C. 20549 and the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such files can also be accessed over the Internet at the SEC's website at www.sec.gov. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the NYSE at 20 Broad Street, New York, New York 10005. Pulte Homes, Inc., is actively traded on the NYSE. The trade symbol is PHM.

Western Pacific. The developer of the residential units in The Ranch at Santa Monica ("The Ranch") is Western Pacific Housing, Inc., a Delaware corporation ("Western Pacific"). Western Pacific is a subsidiary of D.R. Horton, Inc., a Delaware corporation ("D.R. Horton"), a public company whose common stock is traded on the New York Stock Exchange under the symbol "DHI." Western Pacific continues to operate and market homes under the Western Pacific name.

D.R. Horton is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly the Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N. W., Washington, D.C. 20549 at prescribed rates. Such files can also be accessed over the Internet at the SEC's website at www.sec.gov. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the NYSE at 20 Broad Street, New York, New York 10005.

D.R. Horton and its subsidiaries, including Western Pacific, design, construct, market and sell single-family residences, townhomes and condominiums primarily to entry-level and "move-up" buyers and is a geographically diverse homebuilder in the United States of America. In February 2002, Schuler Homes, Inc., a Delaware corporation ("Schuler Homes"), Western Pacific's then parent company, merged with and into D.R. Horton. D.R. Horton and its subsidiaries delivered approximately 35,934 homes and had approximately \$8.7 billion in revenues for the twelve months ended September 30, 2003. D.R. Horton believes that, on a combined basis, the company is one of the largest homebuilders in Southern California and in the State of California based on the number of units constructed.

D.R. Horton and its subsidiaries also provide mortgage banking and title agency services to many of their homebuyers. Western Pacific operates in the major metropolitan markets of Orange County, the Inland Empire (Riverside and San Bernardino Counties), the Sacramento Valley, San Diego County, Los Angeles/Ventura Counties and the Bay Area surrounding San Francisco and San Jose.

Pardee. The developer of the residential units in Mirasol is Pardee Homes, a California corporation, ("Pardee"). Pardee is a California corporation originally formed in 1968 under the name Pardee Construction Company. Pardee is a land development and homebuilding company headquartered in Los Angeles, California.

Pardee has homebuilding operations in Los Angeles County, Ventura County, Orange County, Riverside County, the San Diego area and the Las Vegas area. During fiscal year 2002, Pardee closed 2,234 homes nationwide, and Pardee Homes closed 2,289 homes nationwide in fiscal year 2003.

Pardee is a wholly owned subsidiary of Weyerhaeuser Real Estate Company (“WRECO”), a national residential, commercial and industrial construction firm with operations in major metropolitan areas including Los Angeles, San Diego, Las Vegas, Seattle, Dallas, Maryland and Virginia. WRECO is also an investor in real estate joint ventures and limited partnerships both as a general and limited partner. WRECO is a wholly owned subsidiary of Weyerhaeuser Company (“Weyerhaeuser”), an international forest and paper products company that grows and harvests trees, produces building products and materials, pulp and paper products and packaging products, builds single- and multi-family homes and develops land. Weyerhaeuser was founded in 1900 and is headquartered in Washington State. Weyerhaeuser’s stock is listed on the New York Stock Exchange under the symbol “WY.”

Weyerhaeuser is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly the Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N. W., Washington, D.C. 20549 at prescribed rates. Such files can also be accessed over the Internet at the SEC’s website at www.sec.gov. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the NYSE at 20 Broad Street, New York, New York 10005.

Collectively, Pulte, Western Pacific, and Pardee are referred to as the “Developers.”

Proposed Development

The Colrich Collection. At The Colrich Collection, all of the 66 homes within the development have been constructed or are under construction. As of January 5, 2004, 64 homes had been sold and 37 of such homes sold had closed escrow. The two remaining unsold homes consist of model homes which have been released for sale.

The homes in The Colrich Collection range in size from 3,353 square feet to 4,270 square feet. As of January 5, 2004, sales prices for the two remaining model homes offered for sale are anticipated to range from \$1,175,000 to \$1,399,000, including installed options, upgrades and location and view premiums. The lots in The Colrich Collection range in size from 10,000 square feet to 21,900 square feet, with a minimum net pad size of 10,000 square feet.

Based on current economic and market conditions, Pulte expects to complete its development of The Colrich Collection by July 2004. Pulte’s development expectations could change, however, due to economic and market conditions, or other factors.

The Ranch. At The Ranch, as of January 5, 2004, building permits had been issued for 60 of the 72 proposed single family detached homes. As of January 5, 2004, 68 homes had been sold, 26 of which had closed escrow. As of January 5, 2004, 34 homes were under construction. The homes in The Ranch range in size from 4,039 square feet to 5,481 square feet and base sales prices currently range from \$977,990 to \$1,106,990, including locational and view premiums. Options are anticipated to be available to add amenities to the homes and to increase the home sizes by 526 to 720 square feet depending on the model. The lots in The Ranch range in size from 10,700 square feet to 2.6 acres, with a minimum net pad size of 10,000 square feet.

The Ranch is also expected to include 26 affordable condominium units. Sales of such units are restricted to buyers earning no more than 65% of median income for San Diego County, adjusted for family size. As of January 5, 2004, building permits had been issued for all 26 proposed affordable condominium units and 21 of the units had been sold and closed escrow. The remaining 5 units are complete and are being offered for sale to qualified buyers. The sales prices for the one to three bedroom condominium units currently range from \$97,300 to \$128,200 for units ranging from 739 to 1,451 square feet.

Based on current economic and market conditions, Western Pacific expects to complete its development of The Ranch by the end of 2004. Western Pacific's development expectations could change, however, due to economic and market conditions, or other factors.

Mirasol. At Mirasol, building permits had been issued as of January 5, 2004 for 17 of the 52 proposed single family detached homes. As of January 5, 2004, 11 homes had been sold and the first closings are scheduled for April 2004. The homes in Mirasol are expected to range in size from 3,140 square feet to 4,572 square feet. As of January 5, 2004, base sales prices for the homes were expected to range from \$916,500 to \$1,026,500, including locational premiums. Options are anticipated to be available to add amenities to the homes and to increase the home sizes by 181 to 546 square feet depending on the model. The lots in Mirasol range in size from 10,900 square feet to 31,300 square feet with a minimum net pad size of 10,000 square feet.

Mirasol is also expected to include 10 affordable apartment units which are planned to range in size from 751 to 1,207 square feet. The units are required to be rented to individuals or families earning no more than 65% of median income for San Diego County, adjusted for family size. As of January 5, 2004, building permits had been issued for all 10 affordable apartment units and construction of these units had commenced with completion scheduled for Summer 2004.

Based on current economic and market conditions, Pardee expects to complete its development of Mirasol by the end of 2005. Pardee's development expectations could change, however, due to economic and market conditions, or other factors.

Developer Financing

The full development of The Colrich Collection, The Ranch and Mirasol requires the expenditure of substantial amounts both directly related to the property and for other infrastructure improvements located outside Improvement Area No. 4. There can be no assurance that each of the Developers will have timely access to, or willingness to expend, the sources of funds (as shown below) which will be necessary to construct the various public facilities and other capital improvements necessary to accommodate the proposed development. There may be substantial changes in the sources and uses of funds shown below. Although the information below reflects current projections, many factors beyond the Developers' control, or a decision by any of the Developers or their parent companies to alter current construction or financing plans, makes it likely that actual sources and uses will differ from the projections.

The Developers and their parent companies will expend funds for the development of the property in Improvement Area No. 4 only if they determine that doing so is in their best interests. All expectations of the Developers described below are based upon their current and actual knowledge and present facts and circumstances, and such expectations may change as the result of facts and circumstances occurring, or discovered, after the date of this Official Statement. In short, the Developers have no legal obligation of any kind to expend funds for the development projects in Improvement Area No. 4 and there is no assurance of any kind that the Developers' expectations described below will actually materialize or that the money necessary in order to implement their development plans for the property in Improvement Area No. 4 will in fact be available for such purposes.

Pulte. As of January 1, 2004, Pulte expects the remaining in-tract, home construction, carrying, marketing and miscellaneous costs for The Colrich Collection to be approximately \$4.1 million. In addition, Pulte's share of off-tract improvements is anticipated to be approximately \$2.5 million. The in-tract and home construction costs are expected to be financed through internal sources made available to Pulte by its parent companies. The off-tract improvements are expected to be funded by Western Pacific pursuant to a prior agreement to the extent that Bond proceeds are insufficient to fund the total cost of off-tract improvements. Proceeds from future home sales are expected to exceed the remaining costs by not less than \$16.6 million. All revenues received by Pulte are immediately remitted to Diversified. Diversified advances funds to Pulte from time to time to enable Pulte to carry on its business operations. Pulte expects that its parent companies

will advance monies to Pulte in an amount sufficient to complete development of The Colrich Collection. Notwithstanding this expectation, none of Pulte's parent companies have any legal obligation to advance monies to Pulte and no assurance can be given that sufficient monies will be advanced to complete The Colrich Collection as currently planned.

Western Pacific. As of January 1, 2004, Western Pacific expects the remaining in-tract, home construction, carrying, marketing and miscellaneous costs for The Ranch to be approximately \$15.4 million. In addition, Western Pacific's share of off-tract improvements is anticipated to be approximately \$3.5 million. The in-tract and home construction costs are expected to be financed through internal sources provided by its parent company, D.R. Horton. The off-tract improvements are expected to be funded through proceeds from the Bonds and internal sources provided by D.R. Horton to the extent that Bond proceeds are insufficient to fund the total cost of off-tract improvements. Proceeds from future home sales are expected to exceed the remaining costs by not less than \$33 million. All revenues received by Western Pacific are immediately remitted to D.R. Horton. D.R. Horton advances funds to Western Pacific from time to time to enable Western Pacific to carry on its business operations. Western Pacific expects that its parent company will advance monies to Western Pacific in an amount sufficient to complete development of The Ranch. Notwithstanding this expectation, D.R. Horton has no legal obligation to advance monies to Western Pacific and no assurance can be given that sufficient monies will be advanced to complete The Ranch as currently planned.

Pardee. As of January 1, 2004, Pardee Homes expects the remaining in-tract, home construction, carrying, marketing and miscellaneous costs for Mirasol to be approximately \$23.1 million. In addition, Pardee's share of off-tract improvements is anticipated to be approximately \$2.3 million. The in-tract and house construction costs are expected to be financed through internal sources provided by its parent company, WRECO. The off-tract improvements are expected to be funded through proceeds from the Bonds and internal sources provided by WRECO to the extent that Bond proceeds are insufficient to fund the total cost of off-tract improvements. Proceeds from future home sales are expected to exceed the remaining costs by not less than \$28.8 million. All revenues received by Pardee are immediately remitted to WRECO. WRECO advances funds to Pardee from time to time to enable Pardee to carry on its business operations. Pardee expects that its parent company will advance monies to Pardee in an amount sufficient to complete development of The Mirasol. Notwithstanding this expectation, WRECO has no legal obligation to advance monies to Pardee and no assurance can be given that sufficient monies will be advanced to complete The Mirasol as currently planned.

Status of Entitlement Approvals

The vesting tentative tract map for The Colrich Collection residential development was approved by the City in December 2001 and the final map was recorded on September 13, 2002. No additional discretionary approvals are necessary for development of the 66 residential units. As of January 5, 2004, building permits have been issued by the City for all 66 homes to be built in The Colrich Collection.

The vesting tentative tract maps for The Ranch residential development was approved by the City in December 2001 and the final maps were recorded on September 13, 2002. No additional discretionary approvals are necessary for development of the 72 market rate and 26 affordable residential units. As of January 5, 2004, building permits have been issued by the City for 60 single family detached homes and all 26 condominium homes to be built in The Ranch.

The vesting tentative tract maps for the Mirasol residential development were approved by the City in May 2001 and April 2002; the final maps were recorded on May 7, 2003 and September 12, 2003. No additional discretionary approvals are necessary for development of the 52 residential units or 10 apartment units. As of January 5, 2004, building permits have been issued by the City for 17 of the 52 single family detached homes and the 10 apartment units to be built in Mirasol.

Infrastructure Requirements and Construction Status

The infrastructure requirements related to The Colrich Collection, The Ranch and Mirasol developments are discussed below.

The infrastructure requirements related to The Colrich Collection, The Ranch and Mirasol developments consist of water and sewer improvements, improvements to a community park, roadway improvements to a section of El Camino Real, and in-tract infrastructure as discussed below. The water and sewer improvements have been constructed by an adjacent developer and are complete. Construction of the community park improvements is anticipated to commence in February 2004 by the same adjacent developer, with completion scheduled for Fall 2004. The Developers have the responsibility to reimburse the adjacent developer for their fair share of the water and sewer improvements, as defined by an engineering study, and for the community park improvements. Construction of El Camino Real is scheduled to commence in the first quarter of 2004 and is anticipated to be complete in mid-2005.

In-tract Infrastructure. As of January 5, 2004 in-tract infrastructure (other than landscaping and the final layer of asphalt on the streets) has been completed for all of the 138 single family lots within The Colrich Collection and The Ranch as well as the 26 unit condominium site in The Ranch.

As of January 5, 2004 in-tract infrastructure (other than landscaping and the final layer of asphalt on the streets) has been completed for 39 of the 52 lots within Mirasol.

In response to the wildfire disaster of October 2003, the City has made certain modifications to its building code. Such modification may result in increased construction costs with respect to those homes in Mirasol for which building permits have not yet been issued.

Appraisal

The Appraiser has appraised the property within Improvement Area No. 4 based upon a number of assumptions and limiting conditions contained in the Appraisal and set forth in APPENDIX B. Based on these assumptions and limiting conditions, in the opinion of the Appraiser, the market value of the fee simple interest of the property in the District, assuming that the improvements to be financed with the Bonds are complete, was \$106,925,930 as of September 1, 2003. The Appraisal states separate values for each of the three developments of property within Improvement Area No. 4. The Appraiser valued the 66 single family detached lots of the Colrich Collection at \$44,857,812, the 72 single family detached lots and 26 condominium units of The Ranch at \$44,871,910, and the 52 single family detached lots of Mirasol at \$17,196,208. The value of the land concluded by the Appraiser takes into account all existing special assessments and special tax liens as well as the proposed Special Taxes to be levied by the District.

The improved individually owned homes were valued by adding the aggregate sales prices of the homes that had closed escrow to individual home buyers as of September 1, 2003. The negotiated sales price of these homes was accepted as the market value. Homeowner paid upgrades or subsequent landscaping and site improvements were not included.

The Appraiser valued the remaining property within Improvement Area No. 4 owned by the Developers based upon sales comparison methodology. Under the sales comparison approach, value is derived by comparing each subject property with recent sales of comparable properties and then isolating pertinent units of comparison in order to value the subject property. In utilizing the sales comparison approach, residential properties are typically analyzed on the basis of price per lot or unit basis.

Certain of the other assumptions in the Appraisal are that (i) there are no hazardous waste or toxic chemicals on the property that render it more or less valuable; (ii) the property is free of adverse soil conditions that would prohibit development to its highest and best use; (iii) the expenses presented by the Developers as

the costs to develop the property are accurate; (iv) all required licenses, certificates of occupancy or other legislative or administrative authorizations from governmental agencies or private entities or organizations have been or can be obtained; and (v) the improvements to be funded with the proceeds of the Bonds and the Improvement Area No. 4 Bonds are completed.

No assurance can be given that the assumptions made by the Appraiser will, in fact, be realized, which is one reason that no assurance can be given that the property within Improvement Area No. 4 could be sold at the values stated in the Appraisal. See “SPECIAL RISK FACTORS — Land Values.”

The Appraiser delivered a self-contained appraisal to the District. Appendix B omits certain of the appendices included in the self-contained appraisal. Copies of the omitted appendices are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at the Office of the City Clerk at 202 C Street, San Diego, California 92101, Attention: City Clerk.

SPECIAL RISK FACTORS

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 4 to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area No. 4. See “SPECIAL RISK FACTORS — Land Values” and “— Limited Secondary Market” below.

Concentration of Ownership

Based on the ownership status of the land within Improvement Area No. 4 as of September 1, 2003, approximately 23.55% of the Special Taxes for fiscal year 2004-05 would be payable by the owners of individual homes, 31.98% by Western Pacific, 17.47% by Pulte and 27% by Pardee. Until the sale of additional residential units by each, the receipt of the Special Taxes is dependent on the willingness and the ability of each to pay the Special Taxes when due. Any failure of Western Pacific or Pulte or Pardee, or any successor thereof, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Bonds, when due. See “SPECIAL RISK FACTORS — Failure to Develop Properties” below.

No assurance can be made that Western Pacific or Pulte or Pardee, or their successors, will complete the intended construction and development in Improvement Area No. 4. See “SPECIAL RISK FACTORS — Failure to Develop Properties” below. No assurance can be given that Western Pacific or Pulte or Pardee or their successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below, for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Bond Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the

City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon any of the City's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Bond Indenture.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in Improvement Area No. 4 will generally be based on whether such parcel is categorized as Undeveloped Property or as Developed Property and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “SOURCES OF PAYMENT FOR THE BONDS – Special Taxes – *Rate and Method of Apportionment of Special Taxes.*”

The maximum Special Taxes that may be levied within Improvement Area No. 4 are at least 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

The Rate and Method governing the levy of the Special Tax expressly exempts up to 0.2 acres of property owned by public agencies and 50.0 acres owned by a property owners' association. If for any reason additional property within Improvement Area No. 4 becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency or other organization determined to be exempt, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within Improvement Area No. 4. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

Moreover, if a substantial portion of land within Improvement Area No. 4 became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within Improvement Area No. 4 might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Failure to Develop Properties

Significant development has occurred in Improvement Area No. 4. As of January 5, 2004, building permits had been issued for 179 of the 226 planned residential units, 84 units had closed escrow to individual owners and an additional 95 units were either complete or under construction. However, portions of Improvement Area No. 4 remain undeveloped.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Beneficial Owners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for development in Improvement Area No. 4 as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within Improvement Area No. 4 and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within Improvement Area No. 4 to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as

numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

There can be no assurance that land development operations within Improvement Area No. 4 will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Beneficial Owners of the Bonds should assume that any event that significantly impacts the ability to develop land in Improvement Area No. 4 would cause the property values within Improvement Area No. 4 to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area No. 4 to pay the Special Taxes when due.

The payment of the principal of and interest on the Bonds currently depends, in part, upon the receipt of Special Taxes levied on undeveloped property. See “SPECIAL RISK FACTORS — Concentration of Ownership” above. Undeveloped property is less valuable per unit of area than developed land, especially if there are no plans to develop such land or if there are severe restrictions on the development of such land. The undeveloped property also provides less security to the Beneficial Owners of the Bonds should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within Improvement Area No. 4 as currently proposed will make the Beneficial Owners of the Bonds dependent upon timely payment of the Special Taxes levied on undeveloped property for a longer period of time than projected. A slowdown or stoppage in the continued development of Improvement Area No. 4 could reduce the willingness and ability of the owners of the undeveloped property to make Special Tax payments on undeveloped property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See “SPECIAL RISK FACTORS — Land Values” below.

Future Land Use Regulations and Growth Control Initiatives

It is possible that future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the portions of Improvement Area No. 4 not yet developed with the effect of negatively impacting the ability of the owner of such land to complete the development of such land if they should desire to develop it. See “SPECIAL RISK FACTORS — Endangered Species” below. This possibility presents a risk to prospective purchasers of the Bonds in that an inability to complete desired development increases the risk that the Bonds will not be repaid when due. The owners of the Bonds should assume that any reduction in the permitted density, significant increase in the cost of development of the vacant land or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within Improvement Area No. 4 to decrease. A reduction in land values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the Bonds when due.

Completion of construction of any proposed structures on the vacant land within Improvement Area No. 4 is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. As of January 5, 2004, 179 of the 226 residential units planned for Improvement Area No. 4 were either complete or under construction. It is possible that the construction of the remaining 68 units could be impacted by future land use regulations which could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the vacant property and the ability or willingness of owners of such land to pay Special Taxes when due, and also could cause land values of such land within Improvement Area No. 4 to decrease substantially from those in the Appraisal.

Endangered Species

The Developers are not aware of any endangered species located within the areas planned for development in Improvement Area No. 4. The absence of known endangered or threatened species within the Improvement Area No. 4 development areas does not entirely eliminate the possibility that development in Improvement Area No. 4 will be delayed or altered due to environmental issues related to endangered or threatened species. In recent years there has been an increase in activity at the State and federal levels related to the possible listing of certain plant and animal species found in San Diego County as endangered species. The identification of an endangered or threatened species on property adjacent to Improvement Area No. 4 could curtail development in Improvement Area No. 4. Any action by the State or federal governments to protect species located on or adjacent to the property within Improvement Area No. 4 could negatively impact the ability of Western Pacific, Pulte and Pardee and any subsequent owners to develop the land within Improvement Area No. 4 that remains undeveloped. This, in turn, could reduce the likelihood of timely payment of the Special Taxes levied against such land and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent Special Taxes. See “SPECIAL RISK FACTORS — Failure to Develop Properties” above.

Natural Disasters

Improvement Area No. 4, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity, wildfires and other natural disasters represents a potential risk for damage to buildings, roads, bridges and property within Improvement Area No. 4. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. Improvement Area No. 4 is located in San Diego County which was the locus of a major wildfire disaster in October 2003. The wildfires burned over 250,000 acres and destroyed more than 3,000 homes. The wildfire damage occurred approximately 5 miles from Improvement Area No. 4.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Improvement Area No. 4. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area No. 4 could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

In the event of a major earthquake, the property within and surrounding Improvement Area No. 4 could be subject to moderate to severe ground shaking. According to recent geotechnical reports, the nearest known major active faults to Improvement Area No. 4 are the Rose Canyon Fault zone approximately 8 miles west of Improvement Area No. 4, with four other known fault zones ranging from 19 to 29 miles from Improvement Area No. 4. The geotechnical reports state that no evidence of active faulting was observed within the Improvement Area No. 4 boundaries and none was indicated in the literature reviewed in conjunction with the preparation of the geotechnical reports.

Hazardous Substances

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

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

Methane Gas

Beginning in the last 1990's, the presence of methane gas became a concern for developers. In response to the detection of methane gas in portions of Santa Fe Valley north of Improvement Area No. 4 methane testing has become a standard part of the land acquisition process.

A methane report prepared by Gradient Engineers, Inc. as of May 5, 2003 was submitted for review covering 44 lots pursuant to a grading analysis in The Ranch. Eight lots at The Ranch measured methane concentrations above 12,500 ppmv (parts per million by volume) which require mitigation measures including passive venting systems.

A methane report prepared by Gradient Engineers, Inc., dated as of April 23, 2001, was submitted for review on lots in Mirasol. The report indicates that collected samples from 16 boring locations found concentrations at 14 of the 16 locations above background levels (ranging from 370 to 3,100 ppmv). Materials suspected and/or associated with potential methane generation have been excavated from the site. During excavation and removal monitoring, no elevated concentrations of methane were detected in the immediate vicinity of the excavation or down wind of the excavation.

A methane report prepared by AMEC Earth and Environmental, Inc., dated as of October 9, 2002, was submitted for review on the Colrich Collection lots. The report was prepared to summarize the results of the methane monitoring activities after completion of mass grading. Methane levels were reported to be less than 1,000 ppmv and as a result no mitigation was required.

Parity Taxes, Special Assessments and Land Development Costs

Property within Improvement Area No. 4 is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See "IMPROVEMENT AREA NO. 4 — Estimated Direct and Overlapping Indebtedness."

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and

special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below.

Development of land within Improvement Area No. 4 is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, schools, parks and street lighting, as well as local in-tract improvements and on-site grading and related improvements. Certain of these improvements have been acquired and/or completed; however, there can be no assurance that the remaining improvements will be constructed or will be constructed in time for development to proceed as currently expected. The cost of these additional improvements plus the public and private in-tract, on-site and off-site improvements could increase the public and private debt for which the land within Improvement Area No. 4 is security. This increased debt could reduce the ability or desire of the property owners to pay the annual Special Taxes levied against the property. In that event there could be a default in the payment of principal of, and interest on, the Bonds when due.

Neither the City nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, ad valorem taxes or assessments payable from all or a portion of the property within Improvement Area No. 4. In addition, the landowners within Improvement Area No. 4 may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, and ad valorem taxes or assessments. Any such special taxes, and ad valorem taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within Improvement Area No. 4 described herein.

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within Improvement Area No. 4 or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within Improvement Area No. 4 on the ad valorem property tax bills sent to owners of such properties. The Act

currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Bond Indenture, in the event of delinquencies in the payment of Special Taxes. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessment and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond or Parity Bond in full or partial payment of any installment of the Special Taxes. A Bond or Parity Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds or Parity Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds or Parity Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds or Parity Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds or Parity Bonds in payment of Special Taxes, the Bond Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds or Parity Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Special Tax revenues to pay the principal of and interest on all Outstanding Bonds and any Parity Bonds when due.

Payment of the Special Tax is not a Personal Obligation of the Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

Land Values

The value of the property within Improvement Area No. 4 is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District’s only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events may adversely impact the security underlying the Special Taxes. See “IMPROVEMENT AREA NO. 4 — Estimated Appraised Value-to-Lien Ratios” herein.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the San Diego County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that as of September 1, 2003, the value of the land within Improvement Area No. 4

was \$106,925,930. The Appraisal is based on a number of assumptions and limiting conditions as stated in APPENDIX B — “APPRAISAL REPORT.” The Appraisal does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, an economic downturn, any potential limitations on development occurring due to time delays, an inability of any landowner to obtain any needed development approval or permit, the presence of hazardous substances or other adverse soil conditions within Improvement Area No. 4, the listing of endangered species or the determination that habitat for endangered or threatened species exists within Improvement Area No. 4, or other similar situations. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP — Appraisal.”

Prospective purchasers of the Bonds should not assume that the land within Improvement Area No. 4 could be sold for the amount stated in the Appraisal at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See APPENDIX C for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser’s assumptions to be untrue could result in a reduction of the value of the land within Improvement Area No. 4 from that estimated by the Appraiser.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SOURCES OF PAYMENT FOR THE BONDS — Special Tax — *Proceeds of Foreclosure Sales.*”

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”) has an interest. In the event that any financial institution making any loan which is secured by real property within Improvement Area No. 4 is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

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

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a

special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within Improvement Area No. 4 in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE BONDS – Special Taxes — *Proceeds of Foreclosure Sales.*" In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

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

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

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

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

According to the court's ruling, as administrative expenses, post petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current ad valorem taxes.

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

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

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

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS — Tax Exemption," the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Bond Indenture.

Limitations on Remedies

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Bond Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District, Western Pacific and Pardee have committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners of the Bonds on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects

connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Proposition 218

An initiative measure commonly referred to as the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIII states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

“Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.”

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

It may be possible, however, for voters or the City Council acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within Improvement Area No. 4 to less than an amount equal to 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

the outcome of such determination or the timeliness of any remedy afforded by the courts. See “SPECIAL RISK FACTORS — Limitations on Remedies.”

Ballot Initiatives

Articles XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. On March 6, 1995, in the case of Rossi v. Brown, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations or on the ability of the landowners within Improvement Area No. 4 to complete the remaining proposed development. See “SPECIAL RISK FACTORS — Failure to Develop Properties” herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate (the “Disclosure Certificate”), the District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a “Repository”) certain annual financial information and operating data concerning the District. The Annual Report to be filed by the District is to be filed not later than April 1 of each year, beginning April 1, 2004, and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the City. See “SOURCES OF PAYMENT FOR THE BONDS” and “SPECIAL RISK FACTORS — Limited Obligations.” The City has never failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. The full text of the Disclosure Certificate is set forth in APPENDIX F.

To assist the Underwriter in complying with Rule 15c2-12(b)(5), Western Pacific and Pardee will each enter into a Continuing Disclosure Agreement of the Developer (collectively, the “Developer Disclosure Agreements”) covenanting to provide, or cause to be provided, to each Repository an Annual Report not later than May 1 of each year beginning May 1, 2005, a Semiannual Report no later than November 1 of each year, commencing November 1, 2004, and notice of certain material events as they occur. The Annual Report provided by each of Western Pacific and Pardee is to contain the audited financial statements of such entity (individually or consolidated with its parent company), if prepared, and the additional financial and operating data outlined in Section 4 of the respective Developer Disclosure Agreements attached in APPENDIX F. Pardee does not currently prepare audited financial statements and has no plans to have them prepared in the future. The Semiannual Report will contain certain operating data as set forth in Section 4 of the Developer Disclosure Agreements.

The obligations of Western Pacific and Pardee under their respective Developer Disclosure Agreement will terminate upon the earliest to occur of: (i) the legal defeasance, prior redemption or payment in full of all the Bonds; (ii) the date on which such Developer (and all of its affiliates) is no longer responsible for the payment of more than 20 percent of the annual Special Tax levy; or (iii) the date on which any such Developer delivers to the District an opinion of nationally-recognized bond counsel to the effect that the continuing disclosure is no longer required under the Rule. Each of Western Pacific and Pardee has also agreed that if it sells or transfers an ownership interest in any property in Improvement Area No. 4 which will result in the transferee becoming responsible for the payment of 20 percent or more of the annual Special Tax levy in the fiscal year following such transfer, then it will cause any such transferee to enter into a disclosure agreement as described in Section 12 of the Developer Disclosure Agreement attached hereto in APPENDIX F.

The Developer Disclosure Agreements will inure solely to the benefit of the District, any Dissemination Agent, the Underwriter and Beneficial Owners from time to time of the Bonds.

LEGAL MATTERS

Tax Exemption

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

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

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

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

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

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

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

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

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

Litigation

No litigation is pending or threatened concerning the validity of the Bonds, the pledge of Special Taxes to repay the Bonds, the powers or authority of the District with respect to the Bonds, or seeking to restrain or enjoin development of the land within Improvement Area No. 4 and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds.

No Rating

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

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX G hereto and will accompany the Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Bond Counsel expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials as relating to the Bonds and expressly disclaims any duty to advise the Beneficial Owners of the Bonds as to matters related to the Official Statement.

Underwriting

The Bonds are being purchased by UBS Financial Services Inc. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$9,688,415.85 (being \$9,965,000.00 aggregate principal amount thereof, less Underwriter’s discount of \$112,106.25 and original issue discount of \$164,477.90). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

Financial Interests

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

Pending Legislation

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

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

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

COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)

By: /s/ Mary E. Vattimo
City Treasurer of the City of San Diego

APPENDIX A

RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ) (IMPROVEMENT AREA NO. 4)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2 (Santaluz) - (Improvement Area No. 4) ("CFD No. 2 (IA No. 4)") and collected each Fiscal Year commencing in Fiscal Year 2003-04, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2 (IA No. 4), unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the acreage of the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. An Acre equals 43,560 square feet of land area.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2 (IA No. 4): the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2 (IA No. 4) or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2 (IA No. 4) or any designee thereof of complying with disclosure requirements of the City, CFD No. 2 (IA No. 4) or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, of CFD No. 2 (IA No. 4) or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2 (IA No. 4) for any other administrative purposes of CFD No. 2 (IA No. 4), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Affordable Unit(s)" means, for each Fiscal year, up to a total of 36 dwelling unit(s) located on an Assessor's Parcel(s) of Residential Property, that are subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City providing for affordable housing prior to March 1 of the prior Fiscal Year. In order to insure that a dwelling unit is correctly classified as an Affordable Unit, the owner of such property shall provide the CFD Administrator with a copy of any applicable deed restrictions, resale restrictions, and/or regulatory agreements. Dwelling units shall be classified as Affordable Units by the CFD Administrator in the chronological order in which such notification is received. If the total number of Affordable Units exceeds the amount stated above, then the units exceeding such total shall not be considered Affordable Units and shall be assigned to Land Use Classes 1 through 7 based on the Residential Floor Area for such units.

“Assessor’s Parcel” means a lot or parcel shown in an Assessor’s Parcel Map with an assigned Assessor’s parcel number.

“Assessor’s Parcel Map” means an official map of the Assessor of the County designating parcels by Assessor’s Parcel number.

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

“Backup Special Tax” means the Special Tax applicable to each Assessor’s Parcel of Developed Property, as determined in accordance with Section C below.

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

“CFD No. 2” means Community Facilities District No. 2 (Santaluz).

“CFD No. 2 (IA No. 4)” means CFD No. 2 (Improvement Area No. 4), as identified on the boundary map for CFD No. 2 (IA No. 4).

“CFD No. 2 (IA No. 4) Bonds” means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2 for CFD No. 2 (IA No. 4) under the Act.

“City” means the City of San Diego.

“Council” means the City Council of the City, acting as the legislative body of CFD No. 2 (IA No. 4).

“County” means the County of San Diego.

“Developed Property” means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Property Owner Association Property or Taxable Public Property, for which a building permit for new construction or renovations was issued after January 1, 2002, but prior to March 1 of the prior Fiscal Year.

“Final Map” means a final map, or portion thereof, approved by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) that creates individual lots for which building permits may be issued. The term “Final Map” shall not include any Assessor’s Parcel Map or subdivision map or portion thereof, that does not create individual lots for which a building permit may be issued, including Assessor’s Parcels that are designated as remainder parcels.

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

“Indenture” means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2 (IA No. 4) Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

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

“Maximum Special Tax” means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor’s Parcel.

“Non-Residential Property” means all Assessor’s Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

“Outstanding Bonds” means all CFD No. 2 (IA No. 4) Bonds which are deemed to be outstanding under the Indenture.

“Property Owner Association Property” means any property within the boundaries of CFD No. 2 (IA No. 4) owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association.

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

“Public Property” means any property within the boundaries of CFD No. 2 (IA No. 4) that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to any agency of the federal government, the State of California, the County, the City or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

“Purchase and Finance Agreement” means the Purchase and Finance Agreement by and between the City, Western Pacific Housing, and Pardee Homes that was approved by the Council on January 7, 2003, as it may be modified or supplemented from time to time.

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

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

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

“Special Tax Requirement” means, for any Fiscal Year, the amount required after taking into account amounts held in funds and accounts under the Indenture which are intended to be used to pay debt service on Outstanding Bonds in the calendar year beginning in such Fiscal Year, to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 2 (IA No. 4) Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 2 (IA No. 4) Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for any CFD No. 2 (IA No. 4) Bonds; (v) pay directly for authorized facilities in accordance with the Purchase and Finance Agreement; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

“State” means the State of California.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of CFD No. 2 (IA No. 4) which are not exempt from the Special Tax pursuant to law or Section E below.

“Taxable Property Owner Association Property” means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

“**Taxable Public Property**” means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section E below.

“**Trustee**” means the trustee or fiscal agent under the Indenture.

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

B. ASSIGNMENT TO LAND USE CATEGORIES

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

C. MAXIMUM SPECIAL TAX

1. Developed Property

Residential Property other than Affordable Units shall be assigned to Land Use Classes 1 through 6 as listed in the table below based upon the Residential Floor Area for each unit. Affordable Units shall be assigned to Land Use Class 7. Non-Residential Property shall be assigned to Land Use Class 8.

(a) Maximum Special Tax

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

(b) Assigned Special Tax

The Fiscal Year 2003-04 Assigned Special Tax for each Land Use Class is shown in Table 1.

TABLE 1

**Fiscal Year 2003-04 Assigned Special Taxes for Developed Property
CFD No. 2 (Improvement Area No. 4)**

<i>Land Use Class</i>	<i>Description</i>	<i>Residential Floor Area/Unit Type</i>	<i>Assigned Special Tax Per unit/Acre</i>
1	Residential Property	> 4,600 sq. ft	\$4,358.88 per unit
2	Residential Property	4,400 to 4,600 sq. ft.	\$4,003.05 per unit
3	Residential Property	4,100 to 4,399 sq. ft.	\$3,558.27 per unit
4	Residential Property	3,900 to 4,099 sq. ft.	\$3,380.36 per unit
5	Residential Property	3,600 to 3,899 sq. ft.	\$3,113.49 per unit
6	Residential Property	< 3,600 sq. ft.	\$2,713.18 per unit
7	Residential Property	Affordable Unit	\$102.00 per unit
8	Non-Residential Property	Not Applicable	\$15,322.88 per Acre

(c) Backup Special Tax

The Fiscal Year 2003-04 Backup Special Tax shall be \$15,323 per Acre.

(d) Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing July 1, 2004 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 4), the Assigned Special Tax and Backup Special Tax for Developed Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2 (IA No. 4), the Assigned Special Tax and Backup Special Tax for Developed Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Assigned Special Tax and Backup Special Tax that maybe levied after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 4).

(e) Multiple Land Use Classes

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

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

(a) Maximum Special Tax

The Fiscal Year 2003-04 Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property shall be \$15,323 per Acre.

(b) Increase in the Maximum Special Tax

On each July 1, commencing July 1, 2004 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 4), the Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2 (IA No. 4), the Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Maximum Special Tax for Undeveloped Property, Taxable Property

Owner Association Property and Taxable Public Property after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 4).

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2003-04 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the level of Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

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

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two through four above in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 2 (IA No. 4) Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2 (IA No. 4) Bonds (except refunding bonds) to be supported by Special Taxes levied under this Rate and Method of Apportionment; and (iii) and all facilities identified on Exhibit A to the Purchase and Finance Agreement have been acquired.

E. EXEMPTIONS

No Special Tax shall be levied on up to 50.0 Acres of Property Owner Association Property and 0.2 Acres of Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property, its tax-exempt status will be revoked and such Assessor's Parcel will be assigned to a Land Use Class if it is Developed Property or as Undeveloped Property, as appropriate.

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

F. APPEALS AND INTERPRETATIONS

Any landowner or resident may file a written appeal of the Special Tax on his/her property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the

pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall make a recommendation to the City Manager or designee to eliminate or reduce the Special Tax on the appellant's property and/or to provide a refund to the appellant. The approval of the City Manager or designee must be obtained prior to any such elimination or reduction. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the City Manager or designee by filing a written notice of appeal with the City Clerk, provided that the appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination.

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

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 2 (IA No. 4) may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

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

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

“Future Facilities Costs” means the CFD No. 2 (IA No. 4) Public Facilities minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance public facilities costs.

“CFD No. 2 (IA No. 4) Public Facilities” means either \$6,456,000 in 2002 dollars, which shall increase by the Construction Inflation Index on July 1, 2003, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2 (IA No. 4) under the authorized Mello-Roos financing program for CFD No. 2 (IA No. 4), or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2 (IA No. 4) Bonds to be supported by Special Taxes.

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

“Previously Issued Bonds” means all CFD No. 2 (IA No. 4) Bonds that have been issued by CFD No. 2 (IA No. 4) prior to the date of prepayment.

“Update Report” means a lot-by-lot listing that lists for each expected taxable lot within CFD No. 2 (IA No. 4) the expected or actual builder, date the building permit was issued (if any), Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

Only an Assessor’s Parcel of Developed Property or Undeveloped Property that is within a Final Map may be prepaid. The Special Tax obligation applicable to an Assessor’s Parcel may be prepaid and the obligation of the Assessor’s Parcel to pay any Special Tax may be fully or partially satisfied as described herein, provided that a prepayment may be made with respect to a particular Assessor’s Parcel only if there are no delinquent Special Taxes with respect to such Assessor’s Parcel at the time of prepayment. The CFD Administrator may charge a reasonable fee for calculation of the Prepayment Amount as defined below.

1. Prepayment Prior to Issuance of First Series of CFD No. 2 (IA No. 4) Bonds

An owner of an Assessor’s Parcel intending to prepay the Special Tax obligation prior to the issuance of CFD No. 2 (IA No. 4) Bonds shall provide the CFD Administrator with written notice of intent to prepay, along with an Update Report. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor’s Parcel.

With respect to Undeveloped Property for which a building permit has not been issued, prepayment shall only be permitted if a minimum of eight (8) lots within the same Final Map are prepaid concurrently.

Prior to the issuance of the first series of CFD No. 2 (IA No. 4) Bonds, the Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

Future Facilities	Amount
plus	Defeasance Amount
<u>plus</u>	<u>Administrative Fees and Expenses</u>
Total: equals	Prepayment Amount

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

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor’s Parcel.
2. For Assessor’s Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the current Fiscal Year for the Assessor’s Parcel to be prepaid. For Assessor’s Parcels of Undeveloped Property, compute the Assigned Special Tax and Backup Special Tax for the current Fiscal Year for that Assessor’s Parcel as though it was already designated as Developed Property, based upon the Update Report, the building permit issued for such Assessor’s Parcel (if any), and/or information provided along with the prepayment request.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Tax for the entire CFD No. 2 (IA No. 4) based on the Developed Property Special Tax which could be charged in the current Fiscal Year on all expected development through buildout of the CFD No. 2 (IA No. 4) based on the Update Report (and other information available to the CFD Administrator), excluding any Assessor’s Parcels which have been prepaid, and

(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated total Backup Special Tax at buildout of the CFD No. 2 (IA No. 4) based on the Update Report (and other information available to the CFD Administrator), using the Backup Special Tax rate for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.

4. Compute the current Future Facilities Costs.
5. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 4 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
6. Determine the Special Tax levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid (the "Defeasance Amount").
7. Verify the administrative fees and expenses of CFD No. 2 (IA No. 4) in connection with the prepayment, including the costs of computation of the prepayment and the costs of recording any notices to evidence the prepayment (the "Administrative Fees and Expenses").
8. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 5, 6, and 7 (the "Prepayment Amount").

From the Prepayment Amount, the amount computed pursuant to paragraph 5 shall be deposited into the Construction Fund, the amount computed pursuant to paragraph 6 shall be deposited into the appropriate fund as established under the Indenture and used to make debt service payments, and the amount computed pursuant to paragraph 7 shall be retained by CFD No. 2 (IA No. 4).

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 6 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls.

With respect to any Assessor's Parcel that is prepaid in full in accordance with this Section H.1., the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

2. Prepayment After Issuance of First Series of CFD No. 2 (IA No. 4) Bonds

An owner of an Assessor's Parcel intending to prepay the Special Tax obligation after the issuance of CFD No. 2 (IA No. 4) Bonds shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 2 (IA No. 4) Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

After the issuance of the first series of CFD No. 2 (IA No. 4) Bonds, the Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

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

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

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor’s Parcel.
2. For Assessor’s Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the current Fiscal Year for the Assessor’s Parcel to be prepaid. For Assessor’s Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for the current Fiscal Year for that Assessor’s Parcel as though it was already designed as Developed Property, based on the building permit that was issued for such Assessor’s Parcel. For Assessor’s Parcels of Undeveloped Property for which no building permit has been issued, compute the Assigned Special Tax (assuming that each dwelling unit for which the Special Tax is being prepaid will be assigned to Land Use Class 1) and the Backup Special Tax for the current Fiscal Year for that Assessor’s Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Tax for the entire CFD No. 2 (IA No. 4) based on the Developed Property Special Tax which could be charged in the current Fiscal Year on all expected development through buildout of the CFD No. 2 (IA No. 4) based on the latest information available to the CFD Administrator, excluding any Assessor’s Parcels which have been prepaid, and

(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated total Backup Special Tax at buildout of the CFD No. 2 (IA No. 4) based on the latest information available to the CFD Administrator, using the Backup Special Tax rate for the current Fiscal Year, excluding any Assessor’s Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the “Bond Redemption Amount”).
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the “Redemption Premium”).
6. Compute the current Future Facilities Costs.
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the “Future Facilities Amount”).

8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Tax levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Administrative Fees and Expenses (both as defined below) from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of CFD No. 2 (IA No. 4) in connection with the prepayment, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2 (IA No. 4) Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, the reserve fund credit shall equal the expected reduction in the reserve requirement, if any, associated with the redemption of Outstanding Bonds as a result of prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2 (IA No. 4).

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 2 (IA No. 4) Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of CFD No. 2 (IA No. 4) Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any

Assessor's Parcel that is prepaid in full in accordance with this Section H.2., the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Taxes that may be levied on Taxable Property within CFD No. 2 (IA No. 4) after the proposed prepayment is at least 1.1 times the annual debt service on all Outstanding Bonds in the current and each future Fiscal Year.

3. Prepayment in Part

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property within a Final Map may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1 or H.2, as applicable; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

PP = the partial prepayment

PE = the Prepayment Amount calculated according to Section H.1 or H.2, as applicable

F = the percentage by which the owner of the Assessor's Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator as required under Section H.1 and H.2, as applicable, and also indicate the percentage by which the Special Tax shall be prepaid and the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request.

With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section H.1 or H.2, as applicable, and (ii) indicate in the records of CFD No. 2 (IA No. 4) that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

J. TERM OF SPECIAL TAX

The Special Tax shall be levied for a period not to exceed fifty years commencing with Fiscal Year 2003-04, provided however that Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2 (IA No. 4) Bonds have been paid; and (ii) all facilities have been acquired and all reimbursements to the developer have been paid pursuant to the Purchase and Finance Agreement.

APPENDIX B
APPRAISAL REPORT

(This page intentionally left blank)

**APPRAISAL REPORT
(Self-Contained)**

MELLO-ROOS COMMUNITY FACILITIES DISTRICT NO. 2

(SANTA MONICA - FAIRBANKS SUMMIT - IMPROVEMENT AREA 4)

Generally, located on both sides of Camino De La Luna south
Of Encendido and north of Carmel Valley Road;
San Diego, California, 92127 and 92129

APPRAISED FOR

City of San Diego
Mail Station MS 7B
202 C Street
San Diego, CA 92101-3868
AP 6300007

DATE OF VALUATION

September 1, 2003

APPRAISED BY

**D.F. Davis Real Estate, Inc.
David F. Davis, MAI
16486 Bernardo Center Drive, Suite 378
San Diego, California 92128-2566
File No. 03-21**

**D.F. DAVIS
REAL ESTATE
INC.**

16486 Bernardo Center Drive, Suite 378 San Diego, CA 92128 • Tel. (858) 485-5000 • Fax (858) 485-5502

RECEIVED
CITY OF SAN DIEGO
03 NOV -4 AM 10: 23

REAL ESTATE ASSETS DEPT.

October 10, 2003

Ms. Prescilla M. Dugard
Deputy City Attorney
City Attorney's Office
c/o Ms. Carol A. Chiodo
Deputy Director
Real Estate Assets Department
1200 Third Avenue, Suite 1700
San Diego, CA 92101

Re: Mello-Roos Community Facilities District No. 2
(Santa Monica - Fairbanks Summit - Improvement Area 4)
APN 6300007

Dear Ms. Dugard:

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

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

The valuation separates the lots between "developed" and "undeveloped" property (see definitions in Addendum).

Based upon investigation and analysis, the market value of the fee simple interest of the subject property, assuming Mello-Roos financed improvements complete, as of September 1, 2003, subject to the attached assumptions and limiting conditions, was:

**GFD NO. 2
IMPROVEMENT AREA 4
VALUATION SUMMARY**

As of
9/1/03

Portion of Project	Legal Owner	Builder	No. of Lots	Estimated Value Per Lot	Estimated Value	Undeveloped	Developed
For Sale Production Builder Lots:							
Colrich Collection at Santa Monica	Pulte Home Corporation	Colrich/Pulte	66				
Undeveloped Lots			0	\$350,000	\$0	\$0	
Developed Lots	(other individual homeowners)		30	\$350,000	\$10,500,000		\$10,500,000
Improvements					\$4,188,834		\$4,188,834
Completed Homes			36	\$838,027	\$30,168,878		\$30,168,878
Total			66	\$679,664	\$44,857,812	\$0	\$44,857,812
The Ranch at Santa Monica	Western Pacific Housing, Inc.	D. R. Horton - Western Pacific	72				
Undeveloped Lots			25	\$335,766	\$8,394,150	\$8,394,150	
Developed Lots	(other individual homeowners)		26	\$370,000	\$9,620,000		\$9,620,000
Improvements					\$5,432,400		\$5,432,400
Completed Homes			21	\$880,684	\$18,494,360		\$18,494,360
Total			72	\$582,513	\$41,040,910	\$8,394,150	\$33,546,760
Mirasol (Fairbanks Summit I & II)	Pardee Homes, Inc.	Pardee	52				
Undeveloped Lots			43	\$304,385	\$13,088,549	\$13,088,549	
Developed Lots			9	\$390,000	\$3,510,000		\$3,510,000
Improvements					\$597,659		\$597,659
Completed Homes				\$0	\$0		\$0
Total			52	\$330,698	\$17,196,208	\$13,088,549	\$4,107,659
Total For Sale Production Builder Lots			190	\$547,342	\$103,994,930	\$21,482,699	\$82,512,231

Affordable Units:

The Ranch at Santa Monica	Western Pacific Housing, Inc.	D. R. Horton - Western Pacific	28				
Undeveloped Lots			0	\$0	\$0	\$0	
Developed Lots			0	\$0	\$0		\$0
Improvements					\$0		\$0
Completed Homes			28	\$112,731	\$2,931,000		\$2,931,000
Total			28	\$112,731	\$2,931,000	\$0	\$2,931,000
Mirasol (Fairbanks Summit I & II)	Pardee Homes, Inc.	Pardee	10				
Undeveloped Lots			10	\$0	\$0	\$0	
Developed Lots			0	\$0	\$0		\$0
Improvements					\$0		\$0
Completed Homes			0	\$0	\$0		\$0
Total			10	\$0	\$0	\$0	\$0
Total Affordable Units			38	\$81,417	\$2,931,000	\$0	\$2,931,000

Grand Total **228** **\$473,124** **\$106,925,930** **\$21,482,699** **\$85,443,231**

Rounded To The Nearest \$1,000 **\$106,926,000** **\$21,483,000** **\$85,443,000**

This is not the "As Is" value as the above value is based on the property in its present condition assuming CFD Improvements are complete

Ms. Prescilla M. Dugard
October 10, 2003

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

The estimated marketing time is 12 months or less.

Thank you for this opportunity to be of service.

Very truly yours,



David F. Davis, MAI
President
#AG002752
DFD/amp

TABLE OF CONTENTS

LETTER OF TRANSMITTAL ii

TABLE OF CONTENTS v

ADDENDUM vii

SUMMARY OF SALIENT FACTS AND CONCLUSIONS 3

ASSUMPTIONS AND LIMITING CONDITIONS 6

DISCLOSURE OF COMPETENCY 8

DESCRIPTIVE SECTION 9

INTRODUCTION 9

PURPOSE OF THE APPRAISAL 12

DEFINITION OF MARKET VALUE 12

PROPERTY RIGHTS APPRAISED 14

DATE OF VALUATION 14

FUNCTION OF THE APPRAISAL 14

SCOPE OF THE APPRAISAL 14

MARKETING TIME/EXPOSURE TIME 14

PROPERTY IDENTIFICATION 15

 Legal Description 15

 Location 15

 Owner of Record - History 16

AREA MAP 17

AREA DESCRIPTION 18

NEIGHBORHOOD/DISTRICT DESCRIPTION 24

 North City Future Urbanizing Area 24

 4S Ranch SPA 25

 Rancho Cielo SPA 25

 Rancho Santa Fe 27

 Rancho Bernardo 27

 Transportation 27

MARKET CONDITIONS	29
MarketPoint Realty Advisors	29
Peter F. Korpacz & Associates - Real Estate Investor Survey	44
National Development Land Market	46
AERIAL PHOTO - OVERHEAD	56
PROJECT MAP	58
SITE DESCRIPTION	59
Physical Characteristics	59
Legal Characteristics	64
Entitlement Documents	65
DESCRIPTION OF IMPROVEMENTS	67
HIGHEST AND BEST USE	70
VALUATION METHODOLOGY	71
SALES COMPARISON APPROACH	72
Summary of Comparable Land Sales	73
Residential Adjustment Grid	78
FINAL ESTIMATE OF VALUE	79
Valuation Summary	80

ADDENDUM (under separate cover)

- A. Definitions - Developed, District and Undeveloped Property
- B. Lot Database
- C. CFD Mello Roos Special Tax Amounts
- D. Assessor's Maps
- E. Subdivision Maps
- F. Production Builder Product Information
- G. Comparable Sales - Location Maps
- H. Comparable Sales - Data Sheets and Plat Maps
- I. Certification
- J. Qualifications of David F. Davis, MAI

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Owners: See next page
Developers: See next page
Property Appraised: Mello-Roos Community Facilities District No. 2, Santa Monica - Fairbanks Summit Improvement Area 4:

<u>Residential Lots/Units</u>	<u>Affordable Lots/Units</u>	<u>Total Acreage</u>
190	36	115.268*
Land to be secured with Mello-Roos Special Taxes		79.727

*Per engineer's calculations and lot database

Location: Generally, located on both sides of Camino De La Luna south of Encendido and north of Carmel Valley Road; San Diego, California, 92127 and 92129

Thomas Map Code: San Diego County 1168 - H/J - 7; 1188 - H/J - ½

Purpose of the Appraisal: To estimate the market value of the property, as of the date of value, assuming Mello-Roos financed improvements are complete.

Function of the Appraisal: To evaluate the security for Mello-Roos bond debt placed on the land.

Property Rights Appraised: Fee simple estate

Date of Valuation: September 1, 2003

Date of Report : October 10, 2003

Estimated Value: See next page

**GFD NO. 2
IMPROVEMENT AREA 4
VALUATION SUMMARY**

As of
9/1/03

Portion of Project	Legal Owner	Builder	No. of Lots	Estimated Value Per Lot	Estimated Value	Undeveloped	Developed
For Sale Production Builder Lots:							
Coinch Collection at Santa Monica	Pulte Home Corporation	Coinch/Pulte	68				
Undeveloped Lots			0	\$350,000	\$0	\$0	
Developed Lots	(other individual homeowners)		30	\$350,000	\$10,500,000		\$10,500,000
Improvements					\$4,188,834		\$4,188,834
Completed Homes			38	\$839,027	\$30,168,978		\$30,168,978
Total			68	\$679,064	\$44,857,812	\$0	\$44,857,812
The Ranch at Santa Monica	Western Pacific Housing, Inc.	D. R. Horton - Western Pacific	72				
Undeveloped Lots			25	\$335,766	\$8,394,150	\$8,394,150	
Developed Lots	(other individual homeowners)		26	\$370,000	\$9,620,000		\$9,620,000
Improvements					\$5,432,400		\$5,432,400
Completed Homes			21	\$880,684	\$18,494,360		\$18,494,360
Total			72	\$582,513	\$41,040,910	\$8,394,150	\$33,546,760
Mirasol (Fairbanks Summit I & II)	Pardee Homes, Inc.	Pardee	52				
Undeveloped Lots			43	\$304,385	\$13,088,549	\$13,088,549	
Developed Lots			9	\$390,000	\$3,510,000		\$3,510,000
Improvements					\$597,659		\$597,659
Completed Homes				\$0	\$0		\$0
Total			52	\$330,698	\$17,196,208	\$13,088,549	\$4,107,659
Total For Sale Production Builder Lots			190	\$547,542	\$103,994,930	\$21,482,699	\$82,512,231

Affordable Units:

The Ranch at Santa Monica	Western Pacific Housing, Inc.	D. R. Horton - Western Pacific	28				
Undeveloped Lots			0	\$0	\$0	\$0	
Developed Lots			0	\$0	\$0		\$0
Improvements					\$0		\$0
Completed Homes			28	\$112,731	\$2,931,000		\$2,931,000
Total			28	\$112,731	\$2,931,000	\$0	\$2,931,000
Mirasol (Fairbanks Summit I & II)	Pardee Homes, Inc.	Pardee	10				
Undeveloped Lots			10	\$0	\$0	\$0	
Developed Lots			0	\$0	\$0		\$0
Improvements					\$0		\$0
Completed Homes			0	\$0	\$0		\$0
Total			10	\$0	\$0	\$0	\$0
Total Affordable Units			38	\$81,417	\$2,931,000	\$0	\$2,931,000

Grand Total **228** **\$473,124** **\$106,925,930** **\$21,482,699** **\$85,443,231**
Rounded To The Nearest \$1,000 **\$106,926,000** **\$21,483,000** **\$85,443,000**

This is not the "As Is" value as the above value is based on the property in its present condition assuming CFD Improvements are complete

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

ASSUMPTIONS AND LIMITING CONDITIONS

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

1. The appraiser assumes no responsibility for matters legal in character; title is assumed to be good and marketable.
2. Unless otherwise specified in this report, the property is valued as a fee simple title, free and clear of all liens and encumbrances except easements and rights of way of record. A title insurance report was not submitted for review. A preliminary title insurance report for a portion of the property was submitted for review. On this basis, the property is assumed free and clear of all leases and financing and under responsible ownership and competent management.
3. Any sketches, maps, and photographs in this report are included to assist the reader in visualizing the property. There has been no survey of the property by or under the direction of the appraiser, and the appraiser assumes no responsibility in these matters.
4. Information furnished by others is believed to be reliable, but the appraiser assumes no responsibility for its accuracy.
5. The distribution of the total valuation between land and improvements (if any), applies only under the program of utilization stated in this report. The reported market value is for the total property as appraised and no attempt has been made to evaluate any fractional interest, should they exist.
6. The existence of potentially hazardous material used in the construction or maintenance of the building or on the property, such as urea formaldehyde foam insulation, and/or existence of toxic waste, which may or may not be present on the property, has not been considered in this appraisal assignment. The appraiser is not qualified to detect such substances. The client is urged to retain an expert in this field if desired.
7. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
8. 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.
9. This appraisal is made of surface rights only. No analysis has been made of subsurface rights, if any.

10. The submission of this report does not obligate the appraiser to give testimony or attend any court, governmental or other agency proceedings, without prior arrangements having been made for such additional employment.
11. The possession of this report, and/or a copy thereof, does not carry with it the right of publication (except by the principal(s) to whom it is addressed), nor may it be used for any purpose by any but the principal to whom it is addressed, without said principal's previous consent.
12. All estimates of value are presented as the appraiser's considered opinions, based upon the facts and data set forth in this report. The appraiser assumes no responsibility for changes in market conditions nor the inability of the owner to locate a purchaser within a reasonable time at the appraised value.

DISCLOSURE OF COMPETENCY

David F. Davis has appraised numerous residential tract properties (land, finished lots and proposed residences) and planned communities over the past 25 years in San Diego County and southern California. Recent planned community appraisals (most of which have included Mello-Roos or other bond financing) include: two appraisals of the adjacent Santaluz property (as of January 1, 2002, and September 1, 1998); Stonecrest; Rancho del Rey; Encinitas Ranch; Rancho Cielo; Salt Creek I/Salt Creek Ranch; Eastlake Greens; Tecate USA; Carmel Mountain Ranch; Rancho San Diego; Steele Canyon; Magellan Carlsbad Option Property; and Sunbow II.

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

Prior appraisal experience of properties (not planned communities) subject to Mello-Roos or assessment district financing (or contemplated bond financing) include:

- Piper Ranch Business Park
- Otay International Center, San Diego
- Otay Rio Business Park, Chula Vista
- Parkway Business Centre, Poway
- Rancho del Rey Business Center, Chula Vista
- 4S Ranch Lots (TCW), San Diego County
- Honey Springs Ranch, Jamul
- Tecate Water District, Tecate, USA
- Mareya at Paloma, San Marcos

Companion Appraisal Assignment

Also being appraised during preparation of this appraisal is CFD No. 2 (Santaluz - Improvement Area 1) which is located adjacent to the east.

DESCRIPTIVE SECTION

INTRODUCTION

A Community Facilities District "Mello-Roos" Assessment No. 2 (consisting of four Improvement Areas) will provide for public improvements for the subject property and two other groups of properties as follows:

CFD No. 2 - Improvement Area 1 (Santaluz) - The property was purchased on June 16, 1998 by Black Mountain Ranch Developers, LLC with the name subsequently being changed to Santaluz. The major developer is Santaluz, LLC of which Taylor Woodrow Homes is the managing member. The project was originally entitled for 942 market rate single family residences; 189 affordable housing units; an 18-hole golf course and non-residential "institutional" uses including two churches, a police station/security office, Post Office/mail center, recreation center, property owners association offices, day care center, senior center, meeting hall/community center and schools. Additional land uses consist of open space, public parks and school sites (one of which straddles the lot lines between Improvement Area 3 and this property. The project has undergone several reconfigurations and now consists of, or is proposed to be entitled for 1,121 residential units including 529 builder production lots; 307 custom lots; 189 affordable housing units; and 96 market rate attached or detached condominium units. The non-residential sites are unchanged from prior versions with the exception of a reconfiguration in the Town Center area to provide for additional market rate attached units and creating the church site (lot lines) at the main entrance.

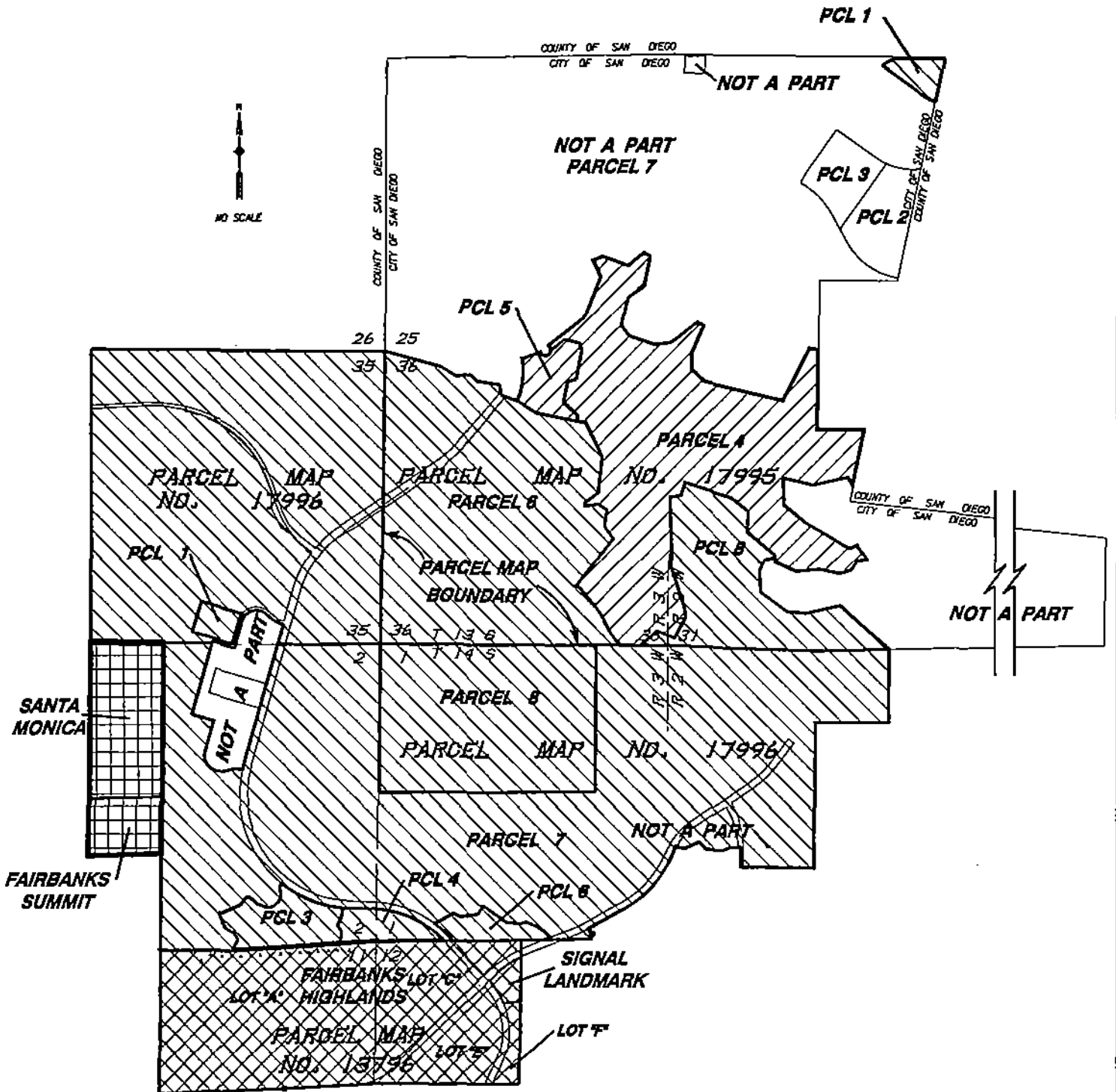
CFD No. 2 - Improvement Area 2 (Black Mountain Ranch Phase I) - Owned by Black Mountain Ranch Limited Partnership and developed by Potomac Sports Properties, this project proposes an 18-hole golf course; a 300-unit hotel site; and a commercial site for approximately 60,000 square feet of building area.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

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

CFD No. 2 - Improvement Area 4 (Santa Monica - Fairbanks Summit) - Being developed by Pulte Home Corporation (Colrich/Pulte), Western Pacific Housing, Inc. (D. R. Horton - Western Pacific) and Pardee Homes, Inc. (Pardee) under the marketing names, The Colrich Collection, The Ranch at Santa Monica and Mirasol (Fairbanks Summit I and II), respectively. Colrich Collection consists of 66 proposed single family detached homes; The Ranch consists of 72 existing and proposed single family detached homes and 26 existing affordable housing units; and Mirasol consists of 52 proposed single family detached homes and 10 proposed affordable housing units.

Improvement Area 4 (Santa Monica - Fairbanks Summit) is the subject property of this appraisal. As of the date of valuation, the Mello Roos financed improvements were not yet complete. The following is the Community Facilities District Map of the subject property:

COMMUNITY FACILITIES DISTRICT NO. 2



LEGEND

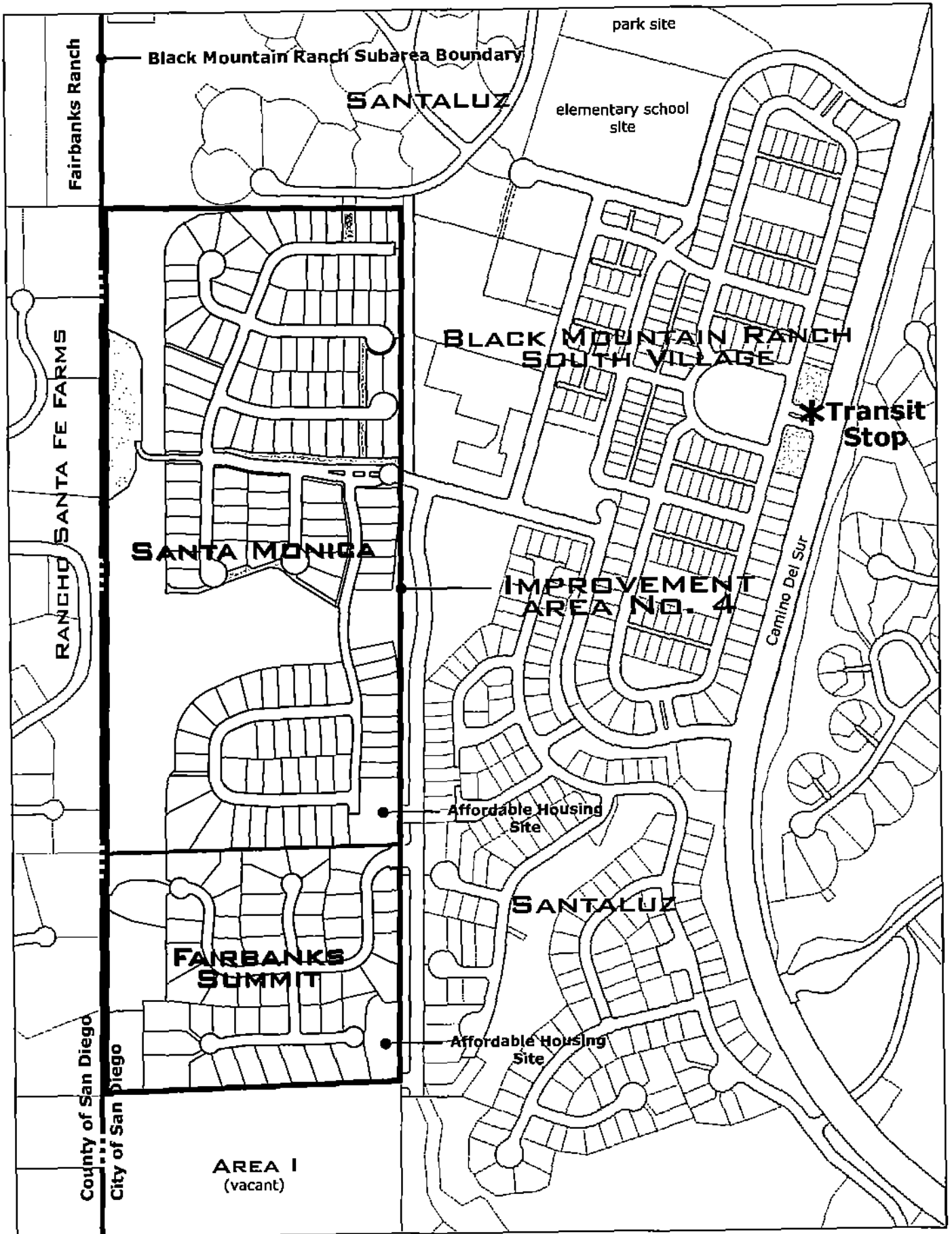
- INDICATES IMPROVEMENT AREA No. 1 
- INDICATES IMPROVEMENT AREA No. 2 
- INDICATES IMPROVEMENT AREA No. 3 
- INDICATES IMPROVEMENT AREA No. 4 



rick ENGINEERING COMPANY

1000 West Park
San Diego, CA 92108
619-594-8800

REV. 01/97



Composite Lotting Exhibit
 CFD No. 2
 IMPROVEMENT AREA No. 4

North City Future Urbanizing Area

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

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

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

PURPOSE OF THE APPRAISAL

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

DEFINITION OF MARKET VALUE

According to the Uniform Standards of Professional Practice (USPAP), 2003, "'Market Value' means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

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

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

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

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

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

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

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

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

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

A combination of the Retail Value and the Bulk Sale Value is appropriate for this appraisal. The Bulk Sale Value portion of the property was applicable to the "undeveloped" property. The Retail Valuation portion is applicable to the "improved" property. Definitions of these terms are included in the Addendum. Essentially, "developed" properties are those for which building permits have been pulled prior to the date of value. "Undeveloped" properties are those for which building permits have not yet been pulled.

PROPERTY RIGHTS APPRAISED

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

DATE OF VALUATION

The date of valuation of this appraisal is September 1, 2003. The subject property was physically inspected before and after that date.

FUNCTION OF THE APPRAISAL

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

SCOPE OF THE APPRAISAL

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

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

Specifically, the scope included a comprehensive survey of data necessary to complete the valuation. A reasonable effort was made to verify all data relied upon with a party to the transaction, i.e., buyer, seller or broker. Individual finished lot value estimates were completed using the Sales Comparison Approach. From that valuation, appropriate deductions were made for remaining costs to complete. In some cases, the estimated value of improvements in place was added to the lot value.

MARKETING TIME/EXPOSURE TIME

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

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

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

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

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

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

Since the mid-1990s, residential real estate transactions have been on the rise. This includes sales of land in the path of development. Demand for finished lots has been keen, and while most market participants (residential developers) are primarily interested in building houses, it has occasionally been necessary to do some land development in order to secure lots. A number of firms would be interested in buying the subject in its current condition as a majority of the on and offsites have been completed. Potential developer/homebuilder buyers are familiar with the property and performing due diligence (typical review of documents, surveys, tests, etc.) would not take very long.

Based upon this analysis, the time to close escrow after the property is exposed to the market would not be unusually lengthy. Therefore, 12 months is considered a sufficient marketing time.

PROPERTY IDENTIFICATION

Legal Description

The legal descriptions were not submitted as self contained summaries. The individual lot and map numbers and recording dates are shown on the final maps in the Addendum.

Location

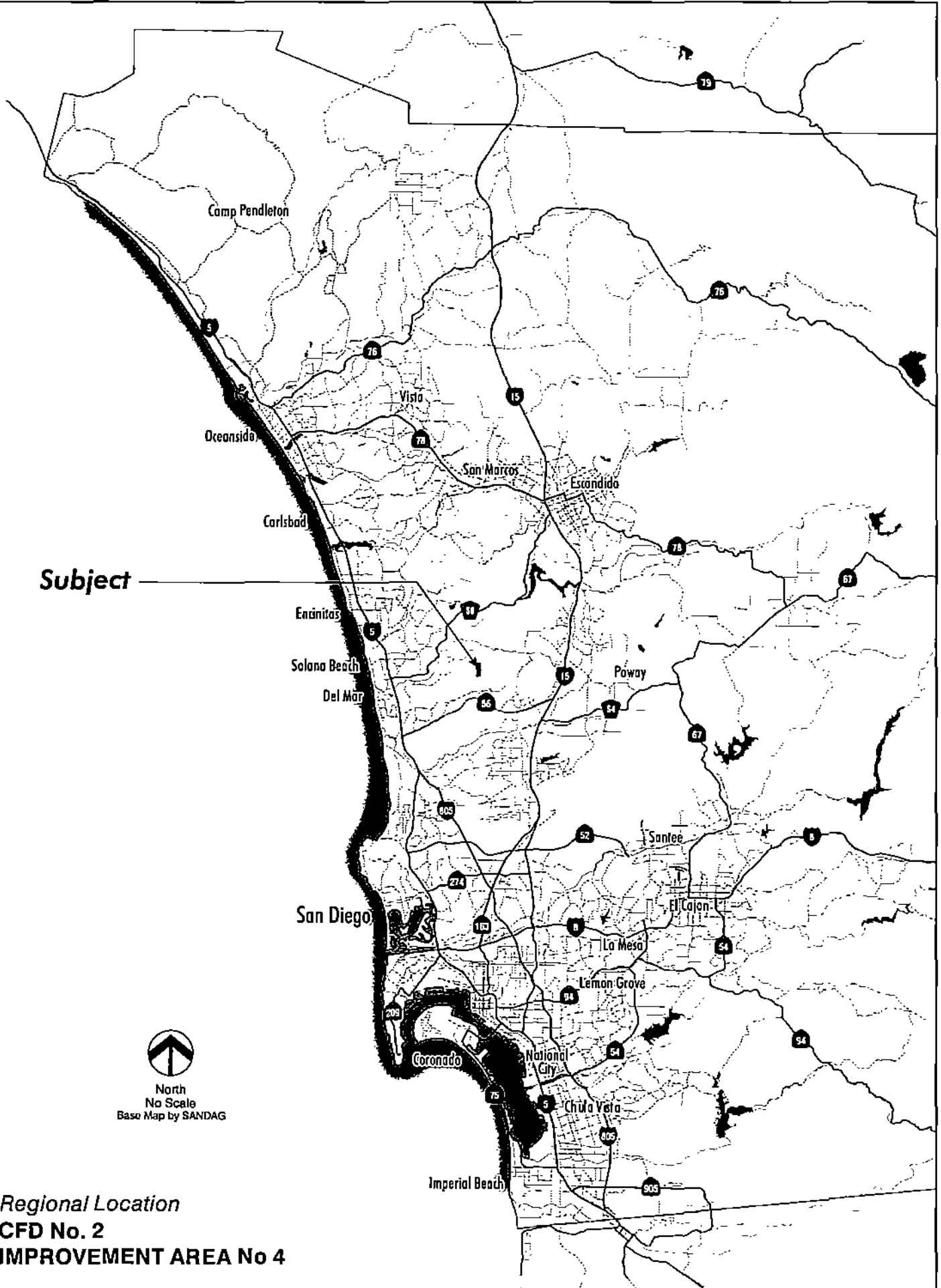
The subject property is located in the North City Future Urbanizing Area of the City of San Diego. More specifically, the project is generally located on both sides of Camino De La Luna south of Encendido and north of Carmel Valley Road; San Diego, California (please see the enlarged maps in the Addendum for onsite street names). The location is approximately 20 miles north of the San Diego Civic Center.

Owner of Record - History

According to the information provided by representatives of the individual builders, title to the subject property is presently vested in the names of: Pulte Home Corporation (Colrich Collection); Western Pacific Housing, Inc., (The Ranch at Santa Monica); and Pardee Homes, Inc. (Fairbanks Summit I and II).

The individual lots being appraised are summarized in the Addendum in the Lot Database. Information about the bulk acquisitions of these properties is shown in the Sales Comparison Approach.

The ownership for the portions of the subject property being valued was previously shown on the valuation summary with the exception of the individual homes that have closed escrow to third party buyers.



Subject

North
No Scale
Base Map by SANDAG

Regional Location
CFD No. 2
IMPROVEMENT AREA No 4

AREA DESCRIPTION

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

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

The county population was 2,961,579 as of January 1, 2003, currently the state's third largest county. The population estimate for 2010 is 3,235,675. In recent years San Diego's growth appeared to be slowing from high growth rates enjoyed during the 1970s when annual growth averaged 3.7%. During the 1980s, population growth averaged 2.98% per year, making San Diego's population growth rate the fastest among the 15 largest metropolitan areas in the nation. The county's population is forecasted to be 3,889,604 by 2030, a 38% increase from year 2000.

The city of San Diego contains the largest portion of the county's residents at approximately 1,275,112 as of January 1, 2003 and is the nation's seventh largest city. Because the city is the largest and oldest urban area, it has an overall growth rate less than the county. The city's 1980-1990 average growth of 2.4% per year, however, made it the fastest growing of the 20 largest cities in the United States. The most rapid population growth is occurring in the northern fringes of the city of San Diego and in both north and south communities, largely due to the availability of suitable residential land. The regions of Carlsbad, Chula Vista, and San Marcos will experience a greater than 50% increase in population by 2030.

Transportation facilities within the county include an efficient and still expanding freeway system, various railroad lines, and a public transit system featuring a light rail trolley. To date, the trolley connects from just past QUALCOMM Stadium (immediately north of Interstate 5) to downtown San Diego and then on to the San Ysidro border crossing into Mexico, providing service to the many communities along the route. Another line currently provides downtown access to the communities of Santee, El Cajon and Lemon Grove. By 2005 the trolley will serve San Diego State University and connect the two existing trolley lines at Grossmont Center. Eventually, the line will be extended northward from Old Town up to University City then east through Mira Mesa and finally, connecting with the Interstate 15 corridor. In addition to these routes, there are plans to add a similar rail line onto the existing freight tracks between Oceanside and Escondido. The well-developed freeway system consists of five major north/south routes and three major east/west routes serving the local area and points beyond. Expansion and new construction are ongoing, enhancing the existing excellent road network in the area.

The deep-water port of San Diego, Lindbergh Field International Airport, and eight smaller general aviation airports provides transportation via water and air.

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

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

trade, and health services. Some of San Diego's emerging industries include bioscience, software, telecommunications, electronics and recreational goods. San Diego is now a recognized world leader in bioscience with the third largest concentration of bioscience companies in the United States. There are more than 400 bioscience companies and 32,000 people employed in this sector. The software & internet industry in San Diego comprises of more than 1,253 firms, which employ 17,500 people, and includes internationally recognized companies such as: SAIC, Intuit and HNC Software.

Due to the large number of communication companies, San Diego is becoming to be known as the "Wireless Communications Capital of the World." As of 1998 there were 20,619 people employed in telecommunications and by 2006 total employed in this sector will grow by 75%. Some of the companies located here include: QUALCOMM, Hughes Network Systems, Nokia, Sony Wireless and Viasat. The electronics sector now employs a workforce of more than 51,000 people and provides continual innovation of new products and technologies. Some of the manufacturers include: Hewlett Packard, Unisys, Encad, Rockwell Semiconductor Systems, Sony, Sanyo, Samsung and Matsushita.

At the same time, local, state and federal government employment, including military personnel, has declined from 28% in 1970 to approximately 11% as of 1999, but still contributes heavily to the size and overall vitality of the economy. Annually, the Defense industry provides \$9.7 billion to the region's economy. Tourism is the third largest revenue generator to the local economy. The industry draws visitors from throughout the world that spent approximately \$5.2 billion in year 2000.

Overall, employment is projected to grow by 25,000 jobs to 1,267,700 total jobs in 2002. Employment has remained relatively stable, with increases every year except for 1995, which experienced a slight downward move. Manufacturing jobs, on the other hand, peaked at 138,000 jobs in September of 1990 dropped steadily through 1995 and have been slowly climbing back ever since and now total 126,000 jobs, an 8.7% decrease from the record high. According to the Employment Development Department of the State of California, total jobs, job growth projected growth into 2020 are as follows:

Total Jobs Available in San Diego

<u>Year</u>	<u>Number of Jobs in San Diego</u>	<u>Annual Change</u>	<u>Change</u>
1997	1,065,000	47,800	-
1998	1,110,700	45,700	4.3%
1999	1,164,100	53,400	4.8%
2000	1,208,300	44,200	3.8%
2001	1,242,700	34,400	2.8%
2002	1,267,700	25,000	2.0%

*San Diego County Employment by Industry
source SANDAG*

	<i>Total 1995</i>	<i>Total 2020</i>	<i>Percent Change</i>
<i>All Industries</i>	<i>989,300</i>	<i>1,485,353</i>	<i>50%</i>
Agriculture, Mining & Construction	54,700	88,886	62%
Manufacturing	114,900	126,931	10%
Transportation, Comm., & Utilities	37,400	52,703	41%
Wholesale Trade	42,900	90,311	111%
Retail Trade	186,600	265,782	42%
Finance, Insurance, & Real Estate	55,800	96,750	73%
Services	310,900	499,364	61%
Government	186,100	264,626	42%

At the beginning of 1996, the Economic Research Bureau of the Chamber of Commerce projected job growth for the remainder of the 1990s of 20,000 to 25,000 jobs per year. Instead job growth almost doubled expectations for the remainder of the decade.

Previously, employment had been growing at 5% annually. The decline in Federal employment was accompanied by a substantial expansion of the local industrial base with emphasis on high technology and research and development activity. The growth of this diverse labor force is attributed to expanding employment opportunities and the relatively high quality of life, which attracts people to the area.

January 1996 was the first period since 1990 that the unemployment rate for San Diego County was below that for the state and the nation. Because of the region's reliance on defense related manufacturing which has been curtailed significantly, this sector of the civilian job force was hard hit in the recession. In addition, construction was down in the region in the first half of the 1990s due to the recession causing a substantial loss in jobs (construction). The San Diego County civilian unemployment rate is 3.3%, 5.2% for the State, 4.7% for the nation.

The following table shows the trend in the Gross Regional Product (GRP) of San Diego County according to the Economic Research Bureau of the San Diego Chamber of Commerce for the years 1990 through 2000 and projections to 2003. GRP is an estimate of the value of all goods and services produced in the county. The San Diego region now ranks as the 38th largest economy in the world and is estimated to grow to 126.7 billion in 2002.

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Year</u>	<u>Gross Regional Product (Billions)</u>	<u>Percent Change</u>
1990	\$64.7	5.5%
1991	\$66.7	3.1%
1992	\$67.9	1.7%
1993	\$69.2	2.0%
1994	\$71.8	3.8%
1995	\$75.1	4.6%
1996	\$79.6	5.9%
1997	\$86.1	8.2%
1998	\$94.4	9.7%
1999	\$103.9	10.1%
2000	\$113.0	8.7%
2001	\$120.1	6.3%
2002	\$126.2 <i>estimate</i>	5.1%
2003	\$133.6 <i>forecast</i>	5.9%

According to the Economic Research Bureau of the San Diego Chamber of Commerce, the real change in gross regional product after adjustment for inflation is much lower. The Bureau projects a "real" GRP growth for 2003 of 3.3%. The rate of change adjusted for inflation for 1991 through 2003 (Projection) is as follows:

<u>Year</u>	<u>Percentage Change Gross Regional Product Adjusted for Inflation</u>
1991	<0.5%>
1992	<1.1%>
1993	<0.8%>
1994	1.5%
1995	2.6%
1996	4.1%
1997	6.5%
1998	8.5%
1999	9.0%
2000	6.2%
2001	2.6%
2002	2.4% <i>estimate</i>
2003	3.3% <i>forecast</i>

In other areas of the economy, the commercial/industrial construction industry had flourished in the 1980s, along with significant growth in the tourist/visitor and retail trade sectors. The residential construction industry slowed down in the early 1990s as shown by the employment/job loss figures above. The slowdown was a result of several factors, but primarily due to an overall economic slowdown which decreased housing demand. Some slowing in construction has been occurring due to a dwindling supply of developable land, local legislative actions enacted in cities throughout the county

to limit either new construction or adding fees and taxes that inhibited construction. These additional fees and taxes made housing less affordable to the consumer, which further slowed sales. Commercial/industrial construction began to rebound from the recession in mid-1995.

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

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

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

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

(This page intentionally left blank)

NEIGHBORHOOD/DISTRICT DESCRIPTION

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

North City Future Urbanizing Area

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

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

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

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

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

The ballot measure in 1994 would have permitted land in the Future Urbanizing Area to be developed at significantly higher densities, and more rapidly, than would have been the case under the four options shown above. The vote in 1994, however, was rejected by the voters, which means that all of the land within the Future Urbanizing Area must be developed in accordance with a Framework Plan which was adopted October 26, 1993 with subsequent updates in February 22, 1994 and March 7, 1994. The Framework Plan provides the vision or blueprint/framework for development of the Future Urbanizing

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

Area and identifies Subareas within the Future Urbanizing Area. The Subarea Plans describe in greater detail land use patterns and policies as well as locations of major circulation elements that guide the long-term use and development of the area.

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

Subarea I

Subarea I consists of CFD No. 2 improvement areas 1, 2 and 4 of which the subject is a part (see introduction section).

Subarea IV (Torrey Highlands)

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

4S Ranch SPA

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

Rancho Cielo SPA

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

The Rancho Cielo planning area includes a variety of physical features that are distinctive in character. The Escondido Creek traverses the property on the north and west and feeds into the San Elijo Lagoon. Rising above the creek are flat and rolling ridges and hilltops offering expansive use of the coastline as well as inland communities. Adjacent to these ridges are the steep, rocky cliffs above Del Dios Highway.

The Rancho Cielo Specific Plan proposes a mixture of residential land use densities but primarily estate type homes. Construction is underway with sales of four lots groups to developers and custom lots sales having begun in 2000.

Santa Fe Valley Specific Planning Areas

The Santa Fe Valley Specific Plan Area (SPA) is a 3,164 acre project approved in December, 1995 for a maximum of 1,200 dwelling units, 1,400 acres of permanent open space, a golf course, resort conference facility, and neighborhood commercial uses. The Santa Fe Valley SPA includes 85 owners who individually own between .29 and 217 acres each. The location is north of the subject property and south of Rancho Cielo.

The Santa Fe Valley SPA area is generally characterized by rugged terrain and diverse topography associated with the San Dieguito River Valley located in the north central portion of the planning area. The San Dieguito River flows approximately 55 miles west from its source in the Vulcan Mountain near Julian in the Cuyamaca Mountains in eastern San Diego County to the Pacific Ocean through the San Dieguito Lagoon in northern Del Mar south of Solana Beach.

The Santa Fe Valley SPA is divided into five smaller planning areas. Planning Area IV consists of 337.5 acres which are largely undeveloped except for some single-family residential homes and agricultural uses. A majority of future development will be clustered in the southern and southeastern portion of the planning area. Residential uses are allowed in densities ranging between .4 units acre to 1.43 units per acre.

Within the five planning areas there are four principal ownerships who received tentative map approval when the Specific Plan was approved in December of 1995. The Balcors Subdivision which is generally located within the northern and northwestern portion of the Specific Plan consists of approximately 646 acres planned for 246 residential units on 226 developable acres. In addition, the Balcors Subdivision will include the golf course and resort/conference area. The McCrink Ranch portion of the Santa Fe Valley Specific Plan is located in the west central portion of the project and consists of approximately 744 acres planned for 390 residential units on 369 developable acres. The Seaton Subdivision is a small 40-acre property planned for four lots on 27 developable acres. The Seaton Subdivision is surrounded on three sides by the Balcors Subdivision. It is located in close proximity to the golf course development.

The Bernardo Lakes property consists of approximately 226 acres planned for 139 residential units on approximately 129 developable acres all located within Planning Area IV of the Santa Fe Valley Specific Plan.

The portion of Santa Fe Valley fronting the south side of Del Dios Highway was recently renamed The Crosby Estate. The 722 acre property will offer upper end residential homes and custom lots and an 18-hole championship golf course (The Crosby National Golf Club) designed by Fred Couples.

Rancho Santa Fe

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

The subject property is located east of Rancho Santa Fe. Currently there is no improved roadway providing access through the region directly surrounding the subject property and Rancho Santa Fe community. Therefore, the subject property is currently more oriented toward and more closely identified with properties to the east and west where roadway improvements and access is provided. However, that changed when San Dieguito Road was extended through Fairbanks Ranch. Thus, there is now a significantly stronger link between the westerly portions of the subject property and the Rancho Santa Fe Community.

Rancho Bernardo

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

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

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

Transportation

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

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

Another major circulation element planned for the Future Urbanizing Area is the extension of Camino Ruiz. This roadway is generally planned as a six-lane roadway bisecting the Santaluz property and a major portion of the Black Mountain Ranch property, from north to south. Camino Ruiz is planned to extend northerly from State Route 56 in the south to the extension of Rancho Bernardo Road and Camino del Norte. This is a major future planned transportation node within the Future Urbanizing Area and represents a critical link for the circulation system within the northeasterly portion of the Future Urbanizing Area.

MARKET CONDITIONS

Data from two experts on residential housing market conditions is included herein. The first is Reeb Development Consulting which prepared a site specific absorption analysis for the subject residential lots. The second is MarketPoint Realty Advisors which was used as a check on the Reeb analysis and to present a frame of reference as to market conditions for San Diego County.

MarketPoint Realty Advisors

The following data is from Residential Trends (July, 2003), a publication of MarketPoint Realty Advisors, formerly Market Profiles:

General Market Trends

The San Diego County new housing market continues to perform quite remarkably with 3,438 net sales this quarter representing the highest level since the late 1980's. Despite an overall average price of \$565,359 in the detached market and an average price of \$322,450 in the attached market, historically low interest rates continue to make home ownership quite attractive and affordable. Although the average detached price fell by \$10,000 representing a slight 1.75% decrease, the current average of just over \$565,000 is the second highest average detached price on record. Furthermore, the current average is 11.3% higher than just one year ago and 36.9% higher than just two years ago. With 2,166 sales this quarter, detached sales volume rose by 15% over last quarter demonstrating that the detached market is alive and well in San Diego County.

While the detached market performed well this quarter, the attached market was particularly impressive this quarter posting the highest sales volume since the later 1980's with 1,272 net sales. This total represents approximately 37% of total sales (attached and detached sales combined this quarter representing the fourth highest ratio in roughly a decade. Also the 73 actively selling attached projects this quarter is the highest level in more than a decade with 22 new projects opening. The overall weighted average price in the attached market climbed 8.2% over last quarter to \$322,450 this quarter but is still significantly off the record height of \$423,651 seen one year ago. In fact, the current average is only the fifth highest average on record as condominium conversions have helped contain average prices and provide a viable alternative to rapidly escalating new home prices.

With just 1,019 unsold units, the immediate supply of new housing is critically low as the 520 available attached units represents less than two months of supply and the 499 available detached units represents just a few weeks of supply based upon current sales rates. If we include units remaining for development in current projects that have not yet been released, the attached market would gain another seven months of supply, and the detached market would gain less than five months of supply. These levels of supply are extremely low considering the current robust nature of the new housing market, and new projects are desperately needed to enter the marketplace if a more severe supply shortage is to be avoided.

SAN DIEGO COUNTY SUMMARY OVERVIEW

	<u>Second Quarter 2003</u>			<u>First Quarter 2003</u>		
	Attached	Detached	Total	Attached	Detached	Total
<u>Developments</u>	73	163	236	65	167	232
Total Sold	1,307	2,182	3,489	1,185	1,893	3,078
Net Canceled	35	16	51	6	12	18
Net Sold	1,272	2,166	3,438	1,179	1,881	3,060
Average Price	\$322,450	\$565,359	\$474,364	\$298,109	\$575,408	\$468,651
Average Sq.Ft.	1,201	2,765	2,179	1,091	2,870	2,185
Average Price Per Sq.Ft.	\$268.43	\$204.47	\$217.68	\$273.34	\$200.50	\$214.50
Offered & Unsold Inventory	520	499	1,019	537	715	1,252
Remaining for Development	2,089	3,207	5,296	1,700	3,731	5,431
Total Inventory	2,609	3,706	6,315	2,237	4,446	6,683

Northern San Diego County Market Trends

In the North County, the overall weighted average price rose 1.4% over last quarter with an average of \$519,428 this quarter. In the detached sector, the average price dropped roughly \$10,000 from last quarter to \$611,937, and the average value ratio remained fairly steady at \$209.35 per square foot rising just \$0.62 per square foot over last quarter. Net sales climbed slightly with 1,328 detached sales this quarter marking an increase of 26 net sales over last quarter.

In the attached sector, the average price rose 17% to \$291,218, however, the average value ratio dropped by more than \$9.00 to \$224.32 per square foot as the average unit size climbed from 1,067 square feet last quarter to 1,298 square feet this quarter. Sales volume fell by 27 units to a total of 517 sales this quarter but is still quite impressive considering the typical sales volume in the North County has been between 200 and 300 sales per quarter over the past several years.

NORTHERN SAN DIEGO COUNTY SUMMARY OVERVIEW

	<u>Second Quarter 2003</u>			<u>First Quarter 2003</u>		
	Attached	Detached	Total	Attached	Detached	Total
<u>Developments</u>	22	116	138	18	123	141
Total Sold	544	1,342	1,886	545	1,312	1,857
Net Canceled	27	14	41	1	6	7
Net Sold	517	1,328	1,845	544	1,306	1,850
Average Price	\$291,218	\$611,937	\$519,428	\$248,930	\$621,305	\$512,019
Average Sq.Ft.	1,298	2,923	2,454	1,067	2,977	2,416
Average Price Per Sq.Ft.	\$224.32	\$209.35	\$211.64	\$233.35	\$208.73	\$211.92
Offered & Unsold Inventory	150	387	537	108	537	645
Remaining for Development	1,093	1,825	2,918	729	2,106	2,835
Total Inventory	1,243	2,212	3,455	837	2,643	3,480

Southern San Diego County Market Trends

In Southern San Diego County, the 729 attached sales accounted for nearly 47% of total sales as areas such as Downtown San Diego and Mission Valley continue to dominate the attached market. However, close to on half of attached sales were conversion units thereby keeping the overall average attached price at a somewhat obtainable level of \$343,693. The detached market also performed well this quarter with 838 net sales marking only the sixth time since 1996 that net sales topped the 800 level. Detached sales in Southern San Diego County were focused primarily in the various Masterplanned communities in Chula Vista such as Rolling Hills Ranch, Otay Ranch, Eastlake, and San Miguel Ranch. Despite the relatively high sales volume, the average detached price rose to a new high in Southern San Diego County with an average of \$490,944 reflecting a 4% rise over last quarter.

SOUTHERN SAN DIEGO COUNTY SUMMARY OVERVIEW

	<u>Second Quarter 2003</u>			<u>First Quarter 2003</u>		
	Attached	Detached	Total	Attached	Detached	Total
<u>Developments</u>	50	47	97	47	44	91
Total Sold	737	840	1,577	640	581	1,221
Net Canceled	8	2	10	5	6	11
Net Sold	729	838	1,567	635	575	1,210
Average Price	\$343,693	\$490,944	\$422,127	\$339,988	\$471,766	\$402,693
Average Sq.Ft.	1,115	2,512	1,860	1,111	2,629	1,833
Average \$/Sq.Ft.	\$308.11	\$195.40	\$227.00	\$306.05	\$179.45	\$219.66
Offered & Unsold Inventory	370	112	482	429	178	607
Remaining for Development	972	1,382	2,354	971	1,625	2,596
Total Inventory	1,342	1,494	2,836	1,400	1,803	3,203

Sales Trends

Total sales rose for the second straight quarter with 3,438 sales marking the highest volume since the late 1980's. Sales were fueled by continued strong performance in the attached market with 1,272 attached sales (490 of which were conversion units) marking the highest total since the late 1980's. Conversion projects throughout the county as well as new projects in areas such as Downtown and North County are entering the market with strong consumer acceptance, and robust sales are expected to continue with upcoming projects.

Meanwhile, detached sales volume rose for the second straight quarter with 2,166 sales this quarter. While this is a respectable and healthy level, it is much lower than levels seen through the first three quarters of 2002.

Focusing in on absorption trends, we see that the 73 actively selling attached projects produced an overall average of 1.81 sales per week. Over the past four quarters, the number of active attached projects has been rapidly climbing and is now at the highest level in roughly a decade when in the 4th quarter of 1993 there were 78 actively selling attached projects.

In the detached market, however, the number of active projects fell for the third straight quarter with 163 projects representing the lowest total since the third quarter of 1998. The average sales rate remained strong with an average of 1.40 sales per week this quarter with some of the strongest absorption rate occurring at new projects.

Pricing Trends

While the weighted average price of a new detached home fell a slight 1.75% this quarter, this quarter's average of \$565,359 is the second highest average price on record and is 11.3% higher than one year ago and 36.9% higher than two years ago. This quarter marks the first time in two years that there was not an increase in average price, however, whether or not prices are beginning to stabilize in the detached market remains to be seen. Despite the drop in average price, the average value ratio set a new record at \$204.47 per square foot this quarter as the average sized detached home fell from 2,870 square feet last quarter to 2,765 square feet this quarter.

In the attached market, the average price rose 8.2% over last quarter to \$322,450 this quarter. The average price in the attached market has been quite erratic of late. This recent volatility in the attached market has been due to a large number of new projects entering the marketplace. At times, luxury projects have played a greater role in the market, while more recently affordably priced conversion projects have brought the average price to a more reasonable level.

The detached market remained fairly stable falling a combined 1.75% from last quarter with the largest increase in the Interstate 15 Corridor and the largest decrease in the price discretionary North County Coastal submarket. In the attached market, the average price climbed 47.64% in the Highway 78 Corridor, 14.38% in the North County Coastal submarket, 12.35% in the South County, and 11% in the Highway 56 Corridor. The San Diego Central submarket remained fairly steady rising just 1.51% in average price, while the East County fell more than 20% thanks to the introduction of several affordable priced conversion projects.

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Average Price for Detached</u>	<u>2nd Qtr 2003</u>	<u>1st Qtr 2003</u>	<u>\$ Change</u>	<u>% Change</u>
Eastern San Diego County	\$440,354	\$433,537	\$6,817	1.57%
Highway 56 Corridor	\$644,617	\$622,265	\$22,352	3.59%
Highway 78 Corridor	\$464,933	\$468,990	<\$4,057>	<0.87%>
Interstate 15 Corridor	\$735,756	\$621,767	\$113,989	18.33%
North County Coastal	\$802,002	\$845,135	<\$43,133>	<5.10%>
San Diego Central	\$712,847	\$719,788	<\$6,941>	<0.96%>
South County	\$492,485	\$469,518	\$22,967	4.89%
Single-Family Detached Total	\$565,359	\$575,408	<\$10,049>	<1.75%>
<u>Average Price for Attached</u>	<u>2nd Qtr 2003</u>	<u>1st Qtr 2003</u>	<u>\$ Change</u>	<u>% Change</u>
Eastern San Diego County	\$205,296	\$258,563	<\$53,265>	<20.60%>
Highway 56 Corridor	\$374,917	\$340,345	\$34,572	10.16%
Highway 78 Corridor	\$280,384	\$189,908	\$90,476	47.64%
Interstate 15 Corridor	\$279,067		\$279,067	0.00%
North County Coastal	\$329,347	\$287,950	\$41,397	14.38%
San Diego Central	\$391,458	\$385,621	\$5,837	1.51%
South County	\$293,722	\$261,429	\$32,293	12.35%
Single-Family Attached Total	\$322,450	\$298,109	\$24,341	8.17%

Sales By Price Range

Thanks to the increased role of condominium conversions throughout San Diego County, the under \$300,000 to \$250,000 range were conversion units, and nearly 55% of sales in the \$250,000 to \$300,000 range were conversion units. Overall, the \$250,000 to \$300,000 range had the highest share of attached sales with 389 units, followed by the \$300,000 to \$350,000 range with 284 attached sales. However, the above \$450,000 range was also quite active with 153 attached sales this quarter due largely to the continued success of the Downtown San Diego luxury condominium market.

The detached market, on the other hand, was dominated by homes priced above \$450,000 with only 87 sales priced under \$350,000 and 671 sales priced between \$350,000 and \$450,000. In fact, of the 1,408 sales priced above \$450,000, nearly one half were priced above \$600,000 and roughly one fourth were priced above \$700,000. With detached prices so exorbitant, there is little wonder why conversion projects have performed so well this year.

From an historical basis, attached sales have already performed as well as last year through the first half of this year in most price brackets with only the truly affordable under \$150,000 category unlikely to surpass last year's total. Meanwhile, the under \$300,000 priced home has become extinct in the detached market, and the number of detached homes priced under \$400,000 has fallen off dramatically this year with just 794 sales year to date compared to 2,862 sales in 2002. On the other hand, the price discretionary over \$600,000 price band looks to perform as well or better than last year with the \$500,000 to \$600,000 range likely to perform at or near last year's total and the \$400,000 to \$500,000 category likely to surpass last year's level.

Tabulated Market Analysis

With 60 active projects and 919 total sales this quarter, the Highway 78 Corridor outperformed all other submarkets with a 27% market share. The South County was close behind with 46 active projects and 865 total sales producing a 25% market share. The San Diego Central submarket produced a respectable 495 sales among its 37 active projects. Meanwhile, there were 402 total sales among 39 active projects in the North County Coastal submarket representing an 11.7% market share, and as usual, the East County and Interstate 15 Corridor rounded out the bottom with 6% of the market and 2% of the market respectively.

The San Diego Central submarket continues to outperform the other submarkets in the attached sector with 38% of attached sales this quarter thanks to the continued strength in the Downtown condominium market as well as the continued popularity of conversion projects. The Highway 78 Corridor was also quite popular this quarter with 373 attached sales representing a 29% market share aided largely by several projects in the masterplanned community San Elijo Hills and a new project in Oceanside by Western Pacific Housing called Brisbane. The East County, meanwhile, accounted for an unusually high 10% of attached sales thanks to 6 conversion projects, and the South County fell from a 19% market share last quarter to a 10% market share this quarter.

In the detached market, the Highway 78 Corridor, the South County, and the Highway 56 Corridor combined for nearly 70% of detached sales, while the North County Coastal submarket represented 14% of detached sales followed by the East County with a 4%, the Interstate 15 Corridor with 2%, and the San Diego Central submarket with 1%.

**Tabulated Area Analysis, San Diego County, Second Quarter 2003
Single Family Attached**

<u>Submarket</u>	<u># of Projects</u>	<u>Current Sales Per Week</u>	<u>Avg/Dev Current Sales Per Week</u>	<u>Cumulative Sales Per Week</u>	<u>Avg/Dev Cumulative Sales Per Week</u>
East County	6	16.04	2.29	16.04	2.29
Highway 56 Corridor	3	3.58	0.90	14.68	3.67
Highway 78 Corridor	13	43.58	3.11	56.19	4.01
Interstate 15 Corridor	1	4.33	2.17	4.33	2.17
North County Coastal	5	5.52	0.92	12.69	2.12
North County Coastal	1	2.88	2.88	2.88	2.88
San Diego Central	35	46.31	1.29	65.97	1.83
South County	<u>9</u>	<u>10.05</u>	<u>1.01</u>	<u>15.89</u>	<u>1.59</u>
SFA Total	73	132.29	1.65	188.67	2.36

**Tabulated Area Analysis, San Diego County, Second Quarter 2003
Single Family Attached**

<u>Submarket</u>	<u>Price</u>	<u>Sq.Ft</u>	<u>\$/Sq.Ft</u>	<u>Total Units</u>	<u>Total Sold</u>	<u>CurQtr Sales</u>	<u>Unsold</u>	<u>For Dev</u>
East County	\$205,298	938	\$218.96	234	124	124	34	76
Highway 56 Corridor	\$374,917	1,582	\$236.92	354	191	43	0	163
Highway 78 Corridor	\$280,384	1,356	\$206.83	1,548	724	373	76	748
Interstate 15 Corridor	\$279,067	1,137	\$245.47	200	39	39	22	139
North County Coastal	\$310,706	832	\$373.24	443	348	62	52	43
North County Coastal	\$373,798	1,603	\$233.12	50	26	26	0	24
San Diego Central	\$391,458	1,101	\$355.40	3,706	2,908	481	295	503
South County	<u>\$293,722</u>	<u>1,349</u>	<u>\$217.79</u>	<u>913</u>	<u>479</u>	<u>124</u>	<u>41</u>	<u>393</u>
SFA Total	\$322,450	1,201	\$268.43	7,448	4,839	1,272	520	2,089

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

**Tabulated Area Analysis, San Diego County, Second Quarter 2003
Single Family Detached**

<u>Submarket</u>	<u># of Projects</u>	<u>Current Sales Per Week</u>	<u>Avg/Dev Current Sales Per Week</u>	<u>Cumulative Sales Per Week</u>	<u>Avg/Dev Cumulative Sales Per Week</u>
East County	8	6.45	0.72	7.00	0.78
Highway 56 Corridor	29	37.98	1.27	46.84	1.56
Highway 78 Corridor	47	69.41	1.45	76.00	1.58
Interstate 15 Corridor	6	3.29	0.47	4.91	0.70
North County Coastal	34	44.35	1.27	36.70	1.05
San Diego Central	2	0.99	0.33	1.90	0.63
South County	<u>37</u>	<u>66.04</u>	<u>1.74</u>	<u>75.27</u>	<u>1.98</u>
SFD Total	163	228.51	1.34	248.62	1.46
Attached & Detached GRAND TOTAL	236	360.80	1.44	437.29	1.75

**Tabulated Area Analysis, San Diego County, Second Quarter 2003
Single Family Detached**

<u>Submarket</u>	<u>Price</u>	<u>Sq.Ft.</u>	<u>\$/Sq.Ft</u>	<u>Total Units</u>	<u>Total Sold</u>	<u>CurQtr Sales</u>	<u>Unsol d</u>	<u>For Dev</u>
East County	\$440,354	2,192	\$200.88	746	593	83	14	139
Highway 56 Corridor	\$644,617	3,012	\$214.00	2,453	2,048	432	53	352
Highway 78 Corridor	\$464,933	2,720	\$170.93	3,587	2,667	546	175	745
Interstate 15 Corridor	\$735,756	3,100	\$237.31	328	297	36	28	3
North County Coastal	\$802,002	3,126	\$256.59	2,726	1,870	314	131	725
San Diego Central	\$712,847	2,307	\$308.96	209	61	14	6	142
South County	<u>\$492,485</u>	<u>2,553</u>	<u>\$192.93</u>	<u>4,284</u>	<u>3,091</u>	<u>741</u>	<u>92</u>	<u>1,101</u>
SFD Total	\$565,359	2,765	\$204.47	14,333	10,627	2,166	499	3,207
Attached & Detached GRAND TOTAL	\$474,364	2,179	\$217.68	21,781	15,466	3,438	1,019	5,296

Inventory Trends

Attached inventory levels rose for the fourth consecutive quarter and to the highest level since early 1996 with 2,609 units of supply. The bulk of the current inventory, 80%, remains to be developed in future phases, and just 520 units are immediately available for sale. While the immediate supply of available unsold units remains relatively low with just 520 units, the level of inventory of units to be released in future phases grew to the highest level in nearly eight years indicating that there will continue to be a large supply of attached units throughout the year.

The story in the detached market is quite different. Since the start of 2002, detached inventory levels have been declining steadily and have now reached the lowest point in over a decade. Of the 3,706 detached units of supply, only 13.5% are unsold units immediately available for sale. Unsold units fell to just 499 units of supply representing one of the lowest levels on record, and units to be released in future phases of current developments fell to 3,207 units representing the lowest level in more than a decade. This supply shortage would become even more critical if builders were unable to release future phases of existing projects to the marketplace.

Although attached inventory levels rose sharply this quarter, due to the recent increases sales activity the current supply would be exhausted in less than nine months at current sales rates, and the immediate supply of attached units would last less than two months. Thus, while attached inventory levels have risen dramatically, there is by no means an over-supply of attached housing.

The detached market is in a much more critical state from a months of supply perspective. At the current sales pace, the total current detached supply would last just five and a half months, while the supply of unsold units available for sale would last a few short weeks.

From an historical perspective, we see that months of supply of detached units remains fairly consistent with the last quarter but significantly lower than the fourth quarter 2001 when inventory levels had reached 12 months of supply, and significantly lower than just one year ago when inventory levels were at nine months of supply. Attached inventory levels, however, have been on the rise climbing from the low of five months of supply in late 2001 to the current level of nine months of supply. However, inventory levels are still shy of the ten-month supply level seen in early 2001.

Most of the immediate supply of detached units (48.3%) can be found in the over \$600,000 price range with an additional 20.4% found in the \$500,000 to \$600,000 category. Only 12.4% of detached units are priced less than \$400,000 with no units available priced under \$300,000.

In the attached market, the largest share of immediate supply also falls in the over \$600,000 price range with 125 units, however there are an almost equal number of available units in the sub \$200,000 market with 133 available units. Due to the opening of many conversion projects throughout the county, the level of inventory in the more affordable price ranges has increased somewhat as 43% of unsold attached supply is priced less than \$300,000.

The San Diego Central submarket and the Highway 78 Corridor each have 31% of the attached inventory followed by the South County with 17%. In the detached sector, the South County leads with 32% of inventory followed by the Highway 78 Corridor with 25% and the North County Coastal submarket with 23%.

Future Proposed Supply

The most recent survey reveals a future proposed supply of nearly 104,000 residential units spread amongst 1,005 single family detached developments, single family attached developments and apartment projects throughout San Diego County. These units range in status from those with no approvals to those that have recorded a final map and have begun grading. Detached product represents the largest percentage, with 50.7% of future supply on 665 projects. Since apartment units generally have underlying tentative maps, they are developed as condominiums so their totals are incorporated.

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

The South County remains the region with the most planned attached activity with the Central City submarket close behind. In the detached sector, the South County is also the region with the most planned activity, which is primarily located in the various Villages of Otay Ranch.

In upcoming quarters, one can expect to see continued high sales volumes in the attached sector as new condominium conversion projects are expected to be released throughout the county.

<u>Style</u>	<u>Data</u>	<u>Under Constr.</u>	<u>Final Map</u>	<u>Final App.</u>	<u>Tent. App.</u>	<u>Planning</u>	<u>Specific Plan</u>	<u>Grand Total</u>
Apartments	# Units	4,422	536		6,659	8,792	1,968	22,377
	# Projects	22	5		41	38	13	119
Attached	# Units	1,094	903	72	11,717	5,488	9,560	28,834
	# Projects	15	11	1	85	75	34	221
Detached	# Units	1,810	5,374	279	20,475	12,745	11,913	52,596
	# Projects	26	126	7	250	197	59	665
Total # Units		7,326	6,813	351	38,851	27,025	23,441	103,807
Total # Projects		63	142	81	376	310	106	1,005

Leading Market Product

In the second quarter of 2003, there were 236 developments offering ten or more new "for sale" housing units to the San Diego County residential market.

What's New

There were 22 new attached projects and 20 new detached projects introduced to the San Diego County new home market during the second quarter of 2003. Both the new detached and attached developments will add a total of 3,045 units to the market, of which 1,076 units have already been sold.

San Diego County Attached Average Pricing, Square Footage and Absorption by Community Second Quarter, 2003						
Community	Studio	1-Bdrm	2-Bdrm	3-Bdrm	4-Bdrm	Total
Carlsbad						
Avg. Price			\$470,000			\$470,000
Avg. Sq.Ft.			1,704			1,704
Avg. Price/Sq.Ft.			\$275.82			\$275.82
Offered			1			1
Sold			1			1
Unsold			0			0
Sold Per Week			0			0

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

San Diego County						
<u>Attached Average Pricing, Square Footage and Absorption by Community</u>						
<u>Second Quarter, 2003</u>						
<u>Community</u>	<u>Studio</u>	<u>1-Bdrm</u>	<u>2-Bdrm</u>	<u>3-Bdrm</u>	<u>4-Bdrm</u>	<u>Total</u>
Del Mar						
Avg. Price				\$373,798		\$373,798
Avg. Sq.Ft.				1,603		1,603
Avg. Price/Sq.Ft.				\$233.12		\$233.12
Offered				26		26
Sold				26		26
Unsold				0		0
Sold Per Week				3		3
Encinitas						
Avg. Price		\$209,900	\$282,105			\$263,700
Avg. Sq.Ft.		650	880			822
Avg. Price/Sq.Ft.		\$322.92	\$320.48			\$320.97
Offered		13	38			51
Sold		13	38			51
Unsold		0	0			0
Sold Per Week		1	3			4
Escondido						
Avg. Price		\$140,000	\$182,883	\$234,257		\$191,440
Avg. Sq.Ft.		650	938	1,117		958
Avg. Price/Sq.Ft.		\$215.38	\$194.88	\$209.64		\$199.93
Offered		5	52	15		72
Sold		5	45	15		65
Unsold		0	7	0		7
Sold Per Week		0	4	1		5
Kearny Mesa						
Avg. Price			\$379,708	\$426,500		\$395,306
Avg. Sq.Ft.			1,361	1,639		1,454
Avg. Price/Sq.Ft.			\$278.92	\$260.22		\$271.90
Offered			20	8		28
Sold			12	6		18
Unsold			8	2		10
Sold Per Week			1	0		1
Mission Valley						
Avg. Price		\$233,900	\$285,571		\$476,609	\$315,854
Avg. Sq.Ft.		725	1,004		1,972	1,156
Avg. Price/Sq.Ft.		\$322.62	\$284.45		\$241.63	\$273.31
Offered		12	93		24	129
Sold		12	79		21	112
Unsold		0	14		3	17
Sold Per Week		1	6		2	9

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

San Diego County						
<u>Attached Average Pricing, Square Footage and Absorption by Community</u>						
<u>Second Quarter, 2003</u>						
<u>Community</u>	<u>Studio</u>	<u>1-Bdrm</u>	<u>2-Bdrm</u>	<u>3-Bdrm</u>	<u>4-Bdrm</u>	<u>Total</u>
Oceanside						
Avg. Price		\$146,900	\$245,874	\$279,505		\$263,703
Avg. Sq.Ft.		600	1,139	1,651		1,435
Avg. Price/Sq.Ft.		\$244.83	\$215.79	\$169.29		\$183.74
Offered		27	61	98		186
Sold		<23>	58	95		130
Unsold		50	3	3		56
Sold Per Week		<2>	5	9		12
Rancho Bernardo						
Avg. Price		\$248,990	\$278,790	\$314,990		\$279,067
Avg. Sq.Ft.		893	1,177	1,370		1,137
Avg. Price/Sq.Ft.		\$278.82	\$236.82	\$229.92		\$245.47
Offered		16	31	14		61
Sold		13	15	11		39
Unsold		3	16	3		22
Sold Per Week		1	2	1		4
San Marcos						
Avg. Price			\$319,523	\$337,442		\$327,577
Avg. Sq.Ft.			1,337	1,545		1,431
Avg. Price/Sq.Ft.			\$238.92	\$218.39		\$228.95
Offered			106	85		191
Sold			98	80		178
Unsold			8	5		13
Sold Per Week			12	14		26
Torrey Highlands						
Avg. Price			\$327,060	\$372,688	\$415,902	\$374,917
Avg. Sq.Ft.			1,141	1,590	1,941	1,582
Avg. Price/Sq.Ft.			\$286.64	\$234.36	\$214.32	\$236.92
Offered			14	12	17	43
Sold			14	12	17	43
Unsold			0	0	0	0
Sold Per Week			1	1	1	4

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>San Diego County</u>						
<u>Detached Average Pricing, Square Footage and Absorption by Community</u>						
<u>Second Quarter, 2003</u>						
<u>Community</u>	<u>2-Bdrm</u>	<u>3-Bdrm</u>	<u>4-Bdrm</u>	<u>5-Bdrm</u>	<u>6+-Bdrm</u>	<u>Total</u>
4S Ranch						
Avg. Price		\$470,462	\$594,593	\$683,814		\$599,257
Avg. Sq.Ft.		1,988	2,970	3,689		3,012
Avg. Price/Sq.Ft.		\$236.71	\$200.22	\$185.37		\$198.95
Offered		72	94	118		284
Sold		71	88	113		272
Unsold		1	6	5		12
Sold Per Week		6	8	10		23
Black Mtn Ranch						
Avg. Price	\$778,800	\$764,980	\$1,056,275	\$1,236,973		\$1,016,173
Avg. Sq.Ft.	2,542	3,167	3,867	4,691		3,857
Avg. Price/Sq.Ft.	\$306.10	\$241.58	273.15	\$263.68		\$263.44
Offered	6	28	20	37		91
Sold	6	19	17	25		67
Unsold	0	9	3	12		24
Sold Per Week	1	2	2	2		8
Bonsall						
Avg. Price		\$1,004,036	\$1,317,900			\$1,160,968
Avg. Sq.Ft.		4,441	5,062			4,751
Avg. Price/Sq.Ft.		\$226.10	\$260.36			\$244.35
Offered		5	5	1		11
Sold		4	5	0		9
Unsold		1	0	1		2
Sold Per Week		0	0	0		1
Carlsbad						
Avg. Price	\$597,900	\$649,195	\$653,875	\$710,531		\$658,650
Avg. Sq.Ft.	2,746	2,604	2,735	3,399		2,770
Avg. Price/Sq.Ft.	\$217.73	\$249.26	\$239.09	\$209.06		\$237.75
Offered	3	59	94	24		180
Sold	1	45	72	16		134
Unsold	2	14	22	8		46
Sold Per Week	0	4	7	2		14
Carmel Valley						
Avg. Price		\$662,595	\$784,510	\$926,130	\$2,128,333	\$827,347
Avg. Sq.Ft.		2,302	2,960	3,497	5,609	2,999
Avg. Price/Sq.Ft.		\$287.85	\$265.04	\$264.85	\$379.45	\$275.90
Offered		32	49	22	4	107
Sold		25	44	20	3	92
Unsold		7	5	2	1	15
Sold Per Week		2	10	10	0	23

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

San Diego County						
<u>Detached Average Pricing, Square Footage and Absorption by Community</u>						
<u>Second Quarter, 2003</u>						
<u>Community</u>	<u>2-Bdrm</u>	<u>3-Bdrm</u>	<u>4-Bdrm</u>	<u>5-Bdrm</u>	<u>6+-Bdrm</u>	<u>Total</u>
Encinitas						
Avg. Price		\$726,546	\$855,630	\$967,328		\$868,075
Avg. Sq.Ft.		2,785	3,612	4,242		3,673
Avg. Price/Sq.Ft.		\$260.85	\$236.86	\$228.03		\$236.35
Offered	1	8	75	22		106
Sold	0	7	46	15		68
Unsold	1	1	29	7		38
Sold Per Week	0	1	4	1		5
Escondido						
Avg. Price	\$378,900	\$459,564	\$499,941	\$638,390		\$480,990
Avg. Sq.Ft.	1,780	2,643	3,080	3,726		2,839
Avg. Price/Sq.Ft.	\$212.87	\$173.90	\$162.34	\$171.32		\$169.43
Offered	2	92	69	12		175
Sold	2	67	45	5		119
Unsold	0	25	24	7		56
Sold Per Week	0	10	7	2		19
Fallbrook						
Avg. Price		\$349,632	\$582,900			\$367,576
Avg. Sq.Ft.		2,235	2,600			2,263
Avg. Price/Sq.Ft.		\$156.45	\$224.19			\$162.43
Offered		16	6			22
Sold		12	1			13
Unsold		4	5			9
Sold Per Week		1	0			1
Rancho Bernardo						
Avg. Price			\$1,137,000	\$1,169,813		\$1,163,250
Avg. Sq.Ft.			3,830	4,628		4,468
Avg. Price/Sq.Ft.			\$296.91	\$252.76		\$260.33
Offered			9	21		30
Sold			2	8		10
Unsold			7	13		20
Sold Per Week			0	1		1
Rancho Santa Fe						
Avg. Price	\$1,575,000	\$1,447,833	\$1,455,500	\$1,596,117		\$1,509,453
Avg. Sq.Ft.	2,898	4,127	4,436	5,232		4,517
Avg. Price/Sq.Ft.	\$543.48	\$350.82	\$328.11	\$305.08		\$334.15
Offered	2	21	7	17	1	48
Sold	1	6	4	6	0	17
Unsold	1	15	3	11	1	31
Sold Per Week	0	0	0	0	0	1

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

San Diego County						
Detached Average Pricing, Square Footage and Absorption by Community						
Second Quarter, 2003						
Community	2-Bdrm	3-Bdrm	4-Bdrm	5-Bdrm	6+-Bdrm	Total
San Marcos						
Avg. Price		\$433,897	\$489,405	\$551,000		\$481,369
Avg. Sq.Ft.		2,303	2,958	3,299		2,780
Avg. Price/Sq.Ft.		\$188.38	\$165.45	\$167.04		\$173.26
Offered		76	84	44		204
Sold		61	61	35		157
Unsold		15	23	9		47
Sold Per Week		7	9	3		18
Santa Fe Valley						
Avg. Price			\$975,990			\$975,990
Avg. Sq.Ft.			5,379			5,379
Avg. Price/Sq.Ft.			\$181.44			\$181.44
Offered			1			1
Sold			1			1
Unsold			0			0
Sold Per Week			0			0
Scripps Ranch						
Avg. Price		\$519,638	\$626,900	\$638,122		\$581,946
Avg. Sq.Ft.		2,050	2,862	3,099		2,579
Avg. Price/Sq.Ft.		\$253.47	\$219.04	\$205.90		\$225.67
Offered		18	4	9		31
Sold		11	4	9		24
Unsold		7	0	0		7
Sold Per Week		1	0	1		2
Torrey Highlands						
Avg. Price		\$506,432	\$485,215	\$696,660	\$774,387	\$507,512
Avg. Sq.Ft.		2,376	2,275	3,279	3,787	2,385
Avg. Price/Sq.Ft.		\$213.18	\$213.30	\$212.44	\$204.47	\$212.78
Offered		29	61	8	11	109
Offered		28	60	2	2	92
Sold		1	1	6	9	17
Unsold		2	4	0	0	7
Sold Per Week						
Valley Center						
Avg. Price			\$639,275	\$649,900		\$640,456
Avg. Sq.Ft.			3,352	3,104		3,324
Avg. Price/Sq.Ft.			\$190.74	\$209.38		\$192.68
Offered			27	2		29
Sold			8	1		9
Unsold			19	1		20
Sold Per Week			1	0		1

San Diego County						
<u>Detached Average Pricing, Square Footage and Absorption by Community</u>						
<u>Second Quarter, 2003</u>						
<u>Community</u>	<u>2-Bdrm</u>	<u>3-Bdrm</u>	<u>4-Bdrm</u>	<u>5-Bdrm</u>	<u>6+-Bdrm</u>	<u>Total</u>
Vista						
Avg. Price		\$379,172	\$408,315	\$402,091		\$400,666
Avg. Sq.Ft.		2,164	2,156	2,520		2,301
Avg. Price/Sq.Ft.		\$175.23	\$189.40	\$159.53		\$174.16
Offered		7	14	11		32
Sold		5	12	11		28
Unsold		2	2	0		4
Sold Per Week		0	1	1		2

Peter F. Korpacz & Associates - Real Estate Investor Survey

The Real Estate Investor Survey, prepared by Peter F. Korpacz and Associates, Inc., was reviewed and this survey is reviewed as published on a quarterly basis. The data reported in the Real Estate Investor Survey is collected through numerous interviews with major institutional equity real estate market participants regarding the various cash flow assumptions they use in analyzing various types of investment-grade real estate opportunities throughout the United States. Institutional-grade real estate investments that are sought out by institutional buyers and have the capacity to meet generally prevalent institutional investment criteria. Institutional-grade real estate properties are properties that require minimum equity investments from \$5 million to \$50 million. The subject property is not considered institutional-grade real estate in the context of the Korpacz Survey.

Following are excerpts from the Korpacz Survey published in the second quarter of 2003:

NATIONAL HIGHLIGHTS

Waiting for the Rebound

Low interest rates, an abundance of capital and a lack of alternative investment options continue to generate an overwhelming demand for well-leased properties that have very little near-term leasing risk. For the most part, investors remain drawn to both warehouse and apartment properties, which are expected to lead the industry's recovery.

This fervent desire to place capital into "reliable" real estate materialized early in 2002 as a result of stock market losses and the need for less volatile investments. Since that time, it has intensified greatly as an increasing number of investors have become more comfortable with and more acceptable of upper single-digit returns.

Unfortunately for eager buyers, stellar properties that produce such alluring yields have been declining in number lately. Interestingly, such statements are being made at a time when the number of properties offered up for sale has reportedly increased in all property segments since the start of 2003. According to several investors, however, one problem with many of these new offerings is that they possess some sort of undesirable risk, such as empty space, poor tenant quality, and/or near-term rollover, and are also overvalued.

While such properties will likely increase in popularity among investors once the economy greatly improves and leasing risks subside, rising vacancy rates and falling rental rates throughout the industry will deter most investors from acquiring these riskier properties for now. Nevertheless, favorable pricing and strong investment demand will continue to entice sellers of unstable assets to "test the waters".

With the number of quality assets up for sale waning and investment demand thriving, properties that do not offer "credit and term" continue to receive the most attention and the highest prices. In some instances, as many as 30 buyers vie for one property and not much spread, if any, exists between the bid and the deal price. In fact, some prices still surprise investors, especially since fundamentals throughout the industry continue to weaken. For the most part, such high-price bidding is due to private buyers, who have been the most active investment group so far this year and will likely remain so until interest rates rise.

The inability to successfully compete against private-leveraged buyers has greatly reduced both the number and frequency of investments for certain other buyers. In addition, it has pushed some investors to the sidelines temporarily or to other investment venues, such as buying into operating businesses and/or other real estate companies. It has also prompted some investors to switch to lending or to other niche investments, such as build-to-suit projects. And, it has caused others to turn off the capital spigot altogether and/or to take advantage of strong sellers' markets by disposing of select non-core assets.

In addition to fierce competition, the disconnect between the investment market and the industry's underlying fundamentals represents another reason that a rising number of investors have removed themselves from the acquisition side of the real estate industry. For many markets, the main problem stems from a lack of leasing demand that has pushed both effective rent levels and net operating income down. Even though dips in overall cap rates, discount rates and residual cap rates have maintained property values in certain circumstances, most investors continue to experience write-downs on assets.

Although several investors are more confident using lower cap rates and discount rates now than they were a year ago, few equate their enthusiasm to the belief that the industry will turnaround soon. Many do, however, believe that the industry, for the most part, has hit bottom and that fundamentals are not likely to deteriorate much further over the near term. Unfortunately, the consensus is also that the recovery will be a long and slow challenge with the apartment sector leading the pack and the office sector crossing the finish line last.

Property and Geographic

Preferences

Even though the underlying fundamentals of the national apartment market and the national warehouse market continue to deteriorate, both of these property types remain prime targets for investment capital. Their continued appeal stems from the notion that both will rebound faster than other property types once the anemic economy enters a sustained recovery. In addition to these long-standing favorites, grocery-anchored shopping centers in both high-density trade areas and infill locations also continue to pique investor interest. Other retail formats, mainly regional malls and power centers, also remain top picks but on a very selective basis.

In the office sector, too much uncertainty and vulnerability are keeping investors focused on only the best-performing properties in both CBD and suburban areas. By contrast, most investors are least interested in acquiring community centers and R&D properties, even though some pockets of opportunity exist in each.

Due to their perceived resilience against a weaker economy, both the East and West Coasts continue to rank as top locations for investments.

National Development Land Market

With the U.S. economy in a slow-growing recovery mode and demand for all segments of the real estate industry yet to return, activity in the national development land market remains slow. One exception, however, may be in the apartment sector where a number of new projects continue to break ground regardless of supply problems. Aside from this trend, most of the current activity involving land development revolved around single-family residential and build-to-suit office and industrial projects.

Even though overall activity in the development land market has declined during the downturn and few developers are aggressively adding to their land inventories, land prices in many desirable markets remain high. One reason is that many markets have failed to realize extreme declines in overall improved property values as a result of declines in cap rates and aggressive competition among buyers. As a result, few landowners have felt bullied into lowering prices, especially in markets where fundamentals are likely to bounce back relatively quickly and select opportunities for development still exist. In addition, landowners who have foregone fire sales due to low-interest-rate financing are able to hold firm on pricing until the demand for land returns.

Discount Rates

Since opportunities for land development have remained scarce over the past six months, it is not surprising that average discount rates remain relatively unchanged from the fourth quarter 2002. The rates shown assume that entitlements are in place. Discount rates for projects that lack entitlements are typically increased between 175 and 1,000 basis points; the average increase is 553 basis points.

Discount Rates (IRRs) Including Developer's Profit

	<u>Second Quarter, 2003</u>	<u>Fourth Quarter, 2002</u>
<u>Free & Clear</u>		
Range (%)	11.00-35.00	11.00-35.00
Average (%)	20.25	20.21
Change	-	+4
<u>Subject to Financing</u>		
Range (%)	15.00-30.00	15.00-30.00
Average (%)	20.50	22.08
Change	-	-158

Property Types

Retail

Amid job losses and increases in the number of both personal bankruptcies and debt, consumers continue to spend money. According to the Bank of Tokyo-Mitsubishi, retail sales increased a modest 1.0% on a year-over year comparable store basis in May, 2003. Unfortunately, much of the growth was reported in discount chain stores, such as WalMart and Costco, which typically acquire their own land and construct their own buildings.

Office

Due to rising vacancy rates and declining rental rates, developers remain on the sidelines in most CBD and suburban office markets. Although some of them have started to prepare for the next expansion by scouting out locations and preparing due diligence, few have ventured beyond the preliminary planning stage.

Until demand returns with some vengeance, new speculative office development will likely be relegated to select markets where sufficient demand exists, barriers to entry are high and overall vacancy rates are reasonably low.

Warehouse

Despite increases in vacancy rates, the belief that warehouse markets will lead the upcoming real estate recovery has kept many developers looking for opportunities in this property sector.

Apartment

Even though many apartment markets are experiencing weaker underlying fundamentals as a result of continuous supply, some developers continue to forge ahead with projects. During the first four months of 2003, 1,009 new apartment projects totaling just over 99,000 units were started throughout the country. Fortunately, numerous projects have been either postponed or shelved until favorable market conditions return.

Until this rebound occurs, however, lower interest rates will continue to reduce demand by luring would-be renters away from apartments, especially Class A ones. As a result, favorable development opportunities should remain few and far between over the near term.

Single-Family

A low interest rate environment continues to keep single family development land investors quite active. In fact, single-family building permits totaled close to 1.33 million in April of 2003, according to the U.S. Census Bureau. This total represents a 1.2% increase above the prior months and a 3.75% surge from April of 2002.

With interest rates expected to remain relatively low over the next 12 to 18 months, homeownership rates are likely to remain high, and could even continue to rise, throughout much of the country. As of the first quarter of 2003, the national homeownership rate, which is calculated by dividing the number of owner-

occupied housing units by the number of occupied housing units or households, stood at 68.0%, according to the U.S. Census Bureau. By comparison, this rate was 65.5% in 1980 and 66.0% in 1998.

Absorption Period

The absorption period required to sell an entire project varies significantly depending on such factors as location, size and property type. This quarter, participants report absorption period ranging from 12 to 240 months. The mean absorption period is 62.4 months, or 5.2 years, unchanged from fourth quarter 2002.

Forecast Assumptions

Growth Rates for Lot Prices and Expenses

Growth rates used for lot pricing in DCF analyses vary due to local market conditions. Participants report an overall range from 0.00% to 10.00% with a mean of 2.90%. This figure is unchanged from the fourth quarter of 2002 and reflects developers' continued expectations of further declines in land values as a result of a slow growing economy, overall weak market conditions and a lack of demand.

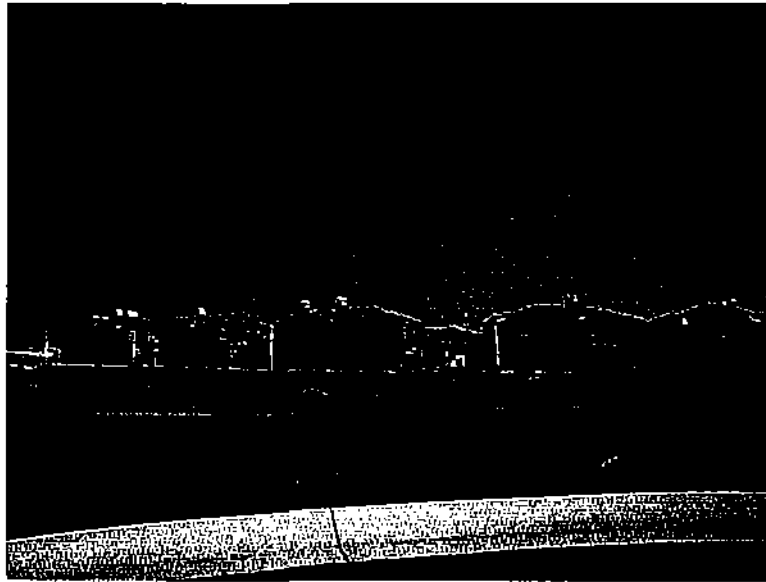
Over the near term, most participants, 53.9%, forecast lot prices to increase at the rate of inflation. By comparison, 38.5% of participants project increases greater than inflation. Inflation growth rate assumptions range from 0.0% to 4.0% and average 2.33% which is slightly above the average from fourth quarter 2002.

**Growth Rates
For Development Expenses
Second Quarter, 2003**

Infrastructure	
Range (%)	2.00-5.00
Average (%)	3.39
Amenities	
Range (%)	2.00-5.00
Average (%)	3.39
Advertising	
Range (%)	2.00-4.00
Average (%)	3.19
Real Estate Taxes	
Range (%)	0.00-4.00
Average (%)	2.81
Administrative	
Range (%)	0.00-10.00
Average (%)	3.69
Contingency	
Range (%)	0.00-5.00
Average (%)	2.81
Other	
Range (%)	2.00-3.50
Average (%)	2.90

Outlook

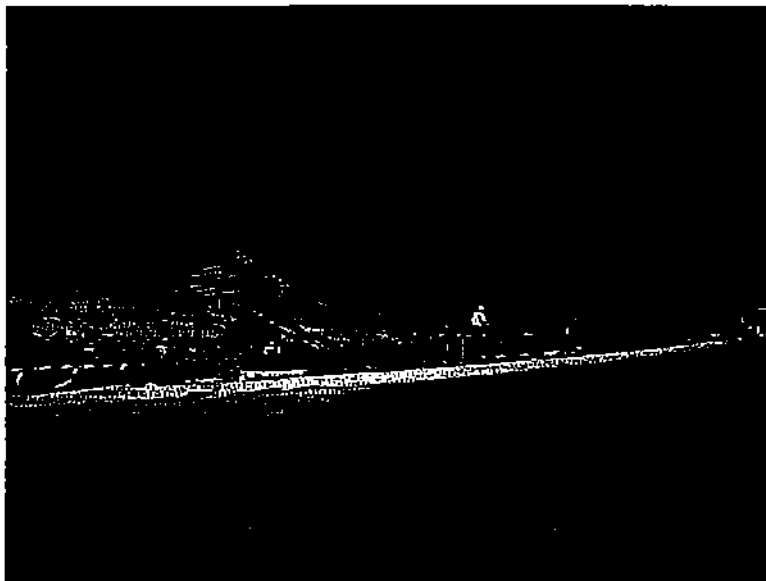
With many investors expecting the economy to display definite signs of a sustained recovery at the end of next year, investment opportunities within the national development land market should again open up closely thereafter. Due to the positive effects of pent-up demand, the apartment and warehouse sectors are expected to lead the real estate industry into recovery. On the other end of the spectrum, too much empty space and the need for significant job growth will keep the majority of the office sector from feeling much immediate relief.



Easterly view of the Colrich Collection lots from the Santa Monica tennis courts



Santa Monica tennis courts



Santa Monica common area recreational amenity



Colrich Collection Model Home Plan 2



Colrich Collection Model Home Plan 4



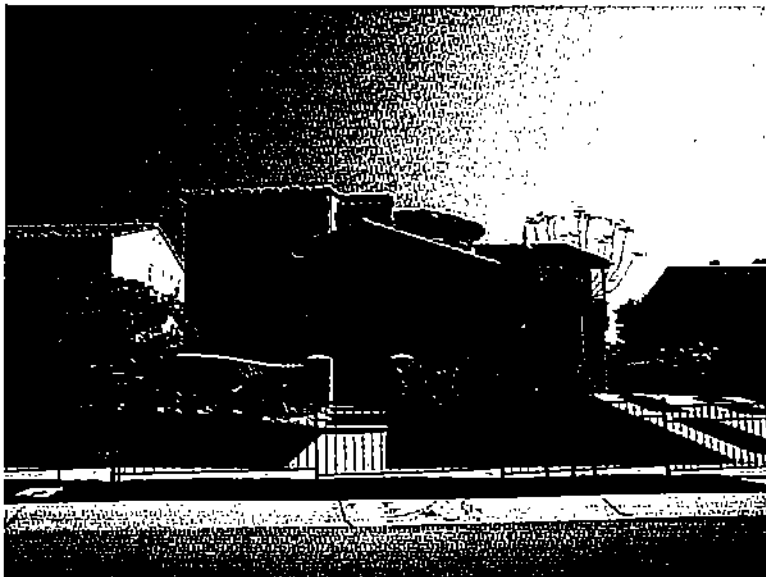
Colrich Collection Model Home Plan 1



Santa Monica Entrance



The Ranch at Santa Monica Model Home Plan 4



The Ranch at Santa Monica Model Home Plan 3



The Ranch at Santa Monica Model Home Plan 2



The Ranch at Santa Monica Model Home Plan 1



Mirasol Entrance



Mirasol Model Home Plan 2



Mirasol Model Home Plan 1



Mirasol Model Home Plan 3

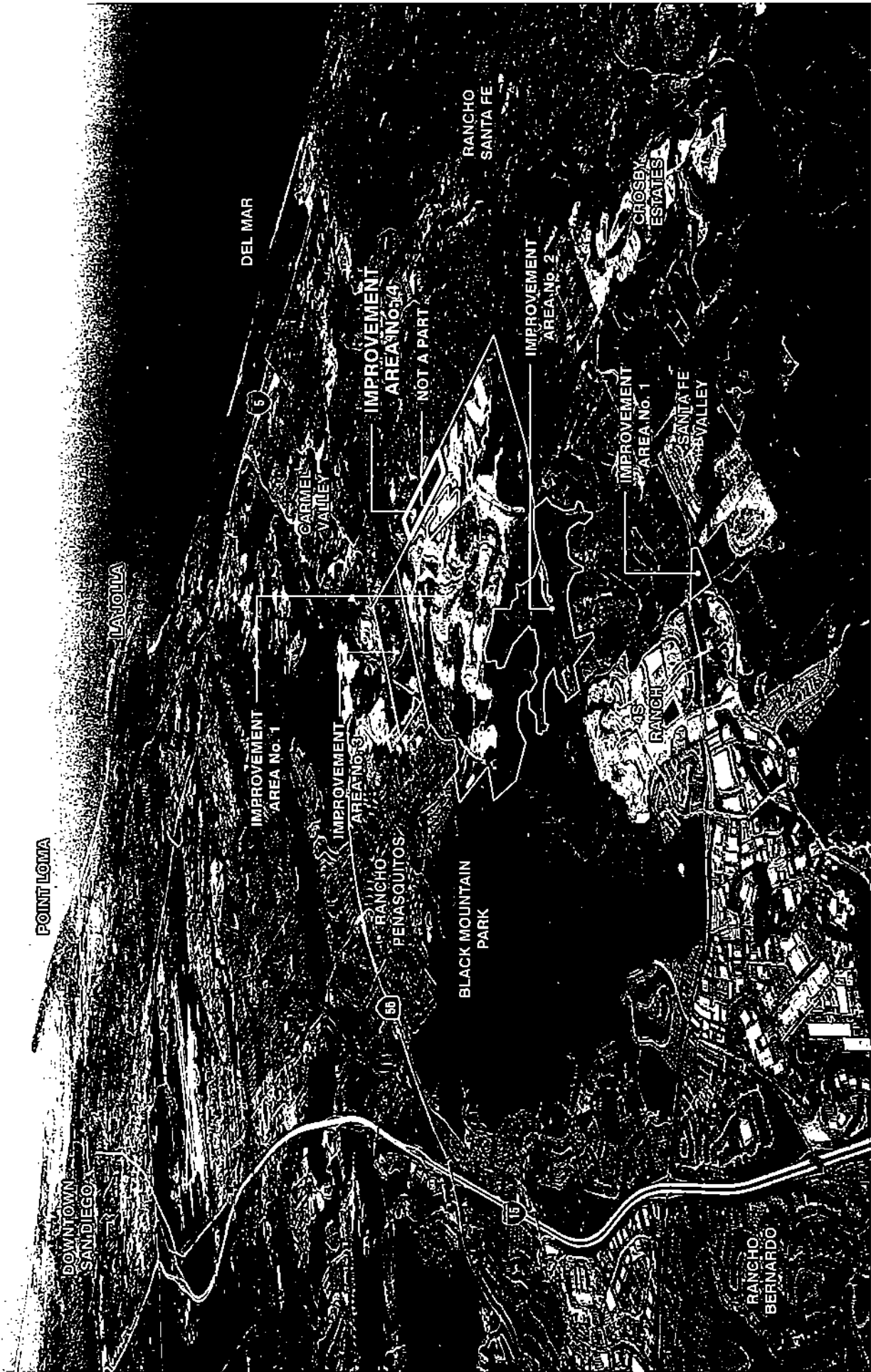
**D.F. DAVIS
REAL ESTATE
INC.**



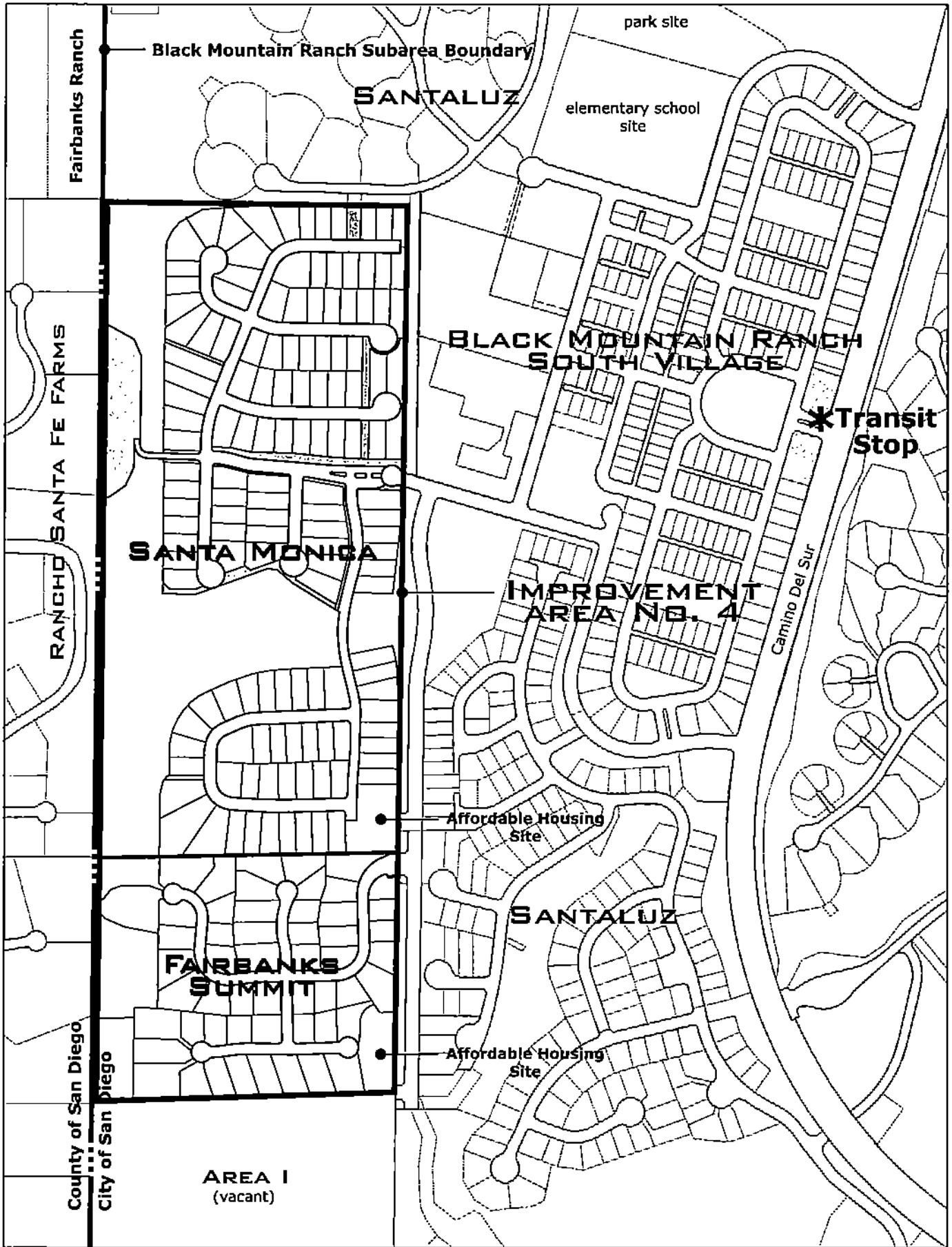
Mirasol Lots



Aerial View
CFD No. 2
IMPROVEMENT AREA No. 4



Aerial Oblique View (Looking Southwest)
CFD No. 2
IMPROVEMENT AREA No. 4



Composite Lotting Exhibit
 CFD No. 2
 IMPROVEMENT AREA No. 4

SITE DESCRIPTION

Typically, the Assessor's Maps would be presented prior to this section. However, due to the number of properties, the Assessor's maps, final subdivision maps and the lot database (which includes a list of parcel numbers) are included in the Addendum.

The project site is 115.268 acres. The land secured with Mello-Roos special taxes is 79.727 acres. The engineer's calculations shown on the lot database were assumed as, ostensibly, they are from a more recent survey.

Physical Characteristics**Overview:**

The subject property consists of three lot groups as follows:

Santa Monica - Colrich/Pulte (The Colrich Collection at Santa Monica)

The project consists of 66 single family residential lots averaging .306 acre (13,321 square feet) with gated entry. This mix is as follows:

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>
1	12	3,353	3-4/2.5-3.5
2	16	3,610	3-4/2.5-3.5
3	19	4,046	5-6/4.5-5.5
4	19	4,270	5-6/4.5-5.5

Projected sale prices range from \$725,721 to \$947,990 as reported for the first 31 units. Projected homeowners' association fees are \$227.20 per month. Santa Monica project recreational amenities include a pool, spa, basketball court, tennis courts and a tot lot.

Santa Monica - D. R. Horton - Western Pacific (The Ranch at Santa Monica)

The project consists of 72 single family home lots averaging .312 acre (13,612 square feet) and 26 affordable condominium units on a 1.32 acre site (density 19.7 units per acre) with gated entry.

The single family residential portion consists of four floor plans as follows:

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>
1	14	4,039 - 4,605	4-6/3.5-4
2	17	4,363 - 5,083	5/4.5

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>
3	19	4,473 - 4,999	5/4.5
4	22	5,481	5-6/4.5-5.5

Projected sale prices range from \$822,000 to \$1,059,990 with lot premiums ranging from <\$2,500> to \$77,500. Projected homeowners' association fees are \$227.20 per month. Santa Monica project recreational amenities include a pool, spa, basketball court, tennis courts and a tot lot.

The affordable units are for sale condominiums constructed in four buildings, two seven-plexes, and two six-plexes, under the project marketing name Christmar. There are three floor plans ranging from one bedroom, one bathroom of 674 square feet up to three bedrooms, two bathrooms of 1,451 square feet. As of the date of valuation, this project was completed and awaiting escrow closings.

Fairbanks Summit - Pardee (Mirasol)

The project consists of 52 single family residences on average lots of .376 acres (16,396 square feet) and 10 affordable housing units on a 1.223 acre site (8.18 units per acre) with gated entry.

The single family residential portion consists of three floor plans as follows:

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>
1	11	3,321	3-4/3.5
2	21	3,972	5/3.5
3	20	4,572	4-5/4.5

The average base price is projected at \$906,704 but the range in Phase I was significantly higher (\$883,550 to \$1,069,025). Projected homeowners' association fees are \$228.00 per month.

Pardee's affordable housing product will consist of a townhome style apartment project.

Circulation Element Roads:

Camino Ruiz, the major access street in the area, trending north/south, will ultimately provide access between Camino del Norte and SR-56. It presently intersects with San Dieguito Road (west) and Carmel Valley Road (south).

Both Camino Ruiz and Carmel Valley Road are presently classified as six-lane prime arterials in the City General Plan. Both would have 122-foot rights-of-way, with center medians and 78-foot roadway widths; reservations would be made for alternative transportation modes as required by the Framework Plan. San Dieguito Road, classified as a two-lane collector, requires a 60-foot right-of-way and 40-foot roadway width.

The proposed development of the subject and nearby Santaluz project does not currently generate

sufficient traffic volumes to justify full-width buildout of these roads. This need would be evaluated as other developments in the project area are proposed. The major on and off-site traffic improvements will be phased as development occurs. Onsite streets shown on exhibits generally range between 48 and 54 feet in width, being asphalt paved with concrete curves, gutters and sidewalks.

Utilities:

Electricity, telephone, cable, water and sewer are available to serve the project. There are high tension transmission lines along the westerly portion of the project site. Much, if not all, of the major infrastructure for utilities was created during construction of the adjacent Santaluz project.

Topography:

The site is characterized by gentle to moderately sloping terrain and by ridges located at the northern portion of the property. A westward draining canyon with minor tributary drainage is located at the southern portion of the Colrich/Pulte site and doubles as a boundary line between the portion that will be developed by Western Pacific to the south and Colrich Communities to the north. The southwesterly portion of the Fairbanks Summit project site is at a significantly higher elevation and has excellent view amenities.

Soils Conditions:

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

Flood Hazard Zone:

The subject property is not located in a flood hazard area based on a review of the Assessor's maps and the flood insurance maps prepared by the National Flood Insurance Program (via the SanGIS internet web site). The Community Panel No. is 060295-1332F, dated June 19, 1997.

Earthquake Zone:

The property is not located in an earthquake study zone, as indicated under the Alquist-Priolo Special Study Zones, as determined by the State Geologist. No seismic or soil reports were submitted for review.

Toxic Hazards:

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

Encroachments:

There were no signs of visible encroachments on the subject property during the field inspection. However, the appraiser is not a qualified surveyor or engineer and it is assumed that no encroachments exist and the property boundaries coincide with those shown on plans and documents provided for review.

Easements:

A title insurance report was not submitted for review. Therefore, the appraisal assumes that there are no covenants, conditions, restrictions, liens or easements that will have any impact on the development cost, use, marketability, or value of the property.

Methane Gas:

Beginning in the late 1990's, the presence of methane gas became a concern for developers. In response to the detection of methane gas in portions of Santa Fe Valley (north of Subarea I in which the subject is located) has resulted in methane testing becoming a standard part of the land acquisition process.

A methane report prepared by Gradient Engineers, Inc. as of May 5, 2003 was submitted for review. The report covered 44 lots pursuant to a grading analysis in the Santa Monica project. Lots 105, 128, 129, 130, 131, 132, 133 and 134 had measured methane concentrations above 12,500 ppmv (parts per million by volume) which require mitigation measures including passive venting systems. Such measures generally add a cost of approximately \$2.00 per square foot of slab area which is the industry guideline.

A methane report prepared by Gradient Engineers, Inc., dated as of April 23, 2001, was submitted for review on the Fairbanks Summit property. The report indicates that collected samples from 16 boring locations found concentrations at 14 of the 16 locations above background levels (ranging from 370 to 3,100 ppmv). Mitigation recommendations were not submitted for review.

A methane report prepared by AMEC Earth and Environmental, Inc., dated as of October 9, 2002, was submitted for review on the Colrich Collection lots, Phases II - VI. The report was prepared to summarize the results of the methane monitoring activities after completion of mass grading. Methane levels were reported to be less than 1,000 ppmv.

Services:

The nearest branch library to the project site is the Rancho Penasquitos Library located at 13355 Salmon River Road. Another branch library is located within Rancho Bernardo at 16840 Bernardo Center Drive, approximately three miles east of the Black Mountain Road/Camino del Norte intersection.

Police protection for the project area is provided by the San Diego Police Department, Beat 213 of the Northeastern Division, located at 13396 Salmon River Road.

The project is within the service area of the City of San Diego Fire Department. There is one fire station planned on the nearby Black Mountain Ranch and one (nearing completion) on the adjacent Santaluz property.

The project is on the boundaries of three telephone service areas: Penasquitos, Rancho Santa Fe and Rancho Bernardo. Pacific Bell has new switching relay station in Rancho Penasquitos. The closest cable television transmitter (Southwestern) is on Black Mountain.

San Diego Gas & Electric currently maintains two electric transmission easement corridors across the project site. A 200-foot wide corridor runs approximately north-south across the middle of the property

and contains one 230-kV circuit mounted on steel poles and/or towers and one 138-kV circuit with an underbuilt of 12-kV line constructed on double wood poles. Additional service lines are found along San Dieguito Road, St. Andrews Road and Artesian Road. Ultimate buildout of a 200-foot corridor could accommodate three parallel major tower lines each with 230 kV and two wood pole lines each with 69 kV. The second easement corridor is 100 feet wide and also runs north/south along the western boundary of the site. This easement currently contains one 230-kV circuit and one 138-kV line could be reconstructed to provide additional capacity. Distribution voltage conductors exist only in the 200-foot easement. Adjacent development around San Dieguito Road and St Andrews Road along the west side of the site, and along Artesian Road near the northwest corner, also have distribution facilities.

The San Diego County Water Authority takes delivery of water from the Metropolitan Water District of Southern California through the San Diego Aqueduct. The bulk of the project would receive domestic water service through a combination of the 36-inch Rancho Bernardo pipeline and the City's connection to the San Diego County Water Authority's Second Aqueduct. These facilities provide a hydraulic head of 795-810 feet. The southern portion of the project would be served by the City of San Diego's 30-inch Del Mar Heights pipeline, which runs near the southern project boundary and provides a hydraulic grade of 610 feet. These pipelines can service areas with elevations of 525-650 feet. Those portions of the project site above an elevation of 650 feet would require servicing from a pump station supplying a hydraulic grade of about 950 feet. Those portions of the development below 525 feet could be served off the 810-foot system through the use of pressure reducing stations.

Elementary, Junior High and High Schools:

Prior to construction of new schools, such as nearby West View High School which only accepted freshman and sophomore classes in 2002-2003, students are scheduled to attend Adobe Bluffs Elementary School, Black Mountain Middle School and Mt. Carmel High School.

The adjacent Santaluz project will provide one elementary school site and a portion of one middle school site. The remaining portion of the middle school site is located on the Fairbanks Highlands property (CFD No. 2 Improvement Area 3) adjacent to the south. These facilities are considered necessary given future development of the project, plus cumulative impact to schools from surrounding projects. A high school would be built in neighboring 4S Ranch to the west, with a potential additional high school needed if the region builds out to the densities anticipated in the Framework Plan. Additional elementary schools and middle schools would be located, as necessary, within the area immediately to the west of Rancho Penasquitos, 4S Ranch and Santa Fe Valley to satisfy the cumulative generation of students from these planned projects.

Parks and Recreation:

The adjacent Santaluz project has two (one neighborhood and one community) park sites. The Santa Monica project has private recreational facilities.

Legal Characteristics

Tax data:

The subject property is located in tax rate area 8187, having a tax rate of \$1.01456 per \$100 of assessed value. In addition, there are special assessments typical of all properties in San Diego County (Mosquito/Rat Control; MWD Water Standby; CWA Water Availability).

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

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

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

In addition to the basic property taxes and special assessments above, homes in Improvement Area No. 4 have an annual Poway Unified School District CFD No. 8 tax assessment of \$1,989.00 and the annual Community Facilities District No. 2 special tax from \$2,713.18 to \$4,358.88 per year, depending on home size. Total effective tax rates vary by product based on square footage as is shown in the Addendum.

As part of the CFD special taxes, the subject lots are also assessed their prorata share of sewer and water improvements in Improvement Area No. 1.

Also included in the Addendum is a summary of the facilities being financed in City of San Diego CFD No. 2 and Poway No. 8.

Zoning:

Prior to entitlement, the subject property was formerly zoned A-1-10 in the City of San Diego, and the property is within the North City Future Urbanizing Area (NCFUA) of San Diego. Within the Future Urbanizing Area there are four development alternatives: development pursuant to the A-1 zone regulations (one dwelling unit per 10 acres); rural clustering at the same density; conditional uses which are non-urban in character; or clustered residential development at a density of one dwelling unit per four acres.

The City of San Diego changed the zoning designations (names) effective January 1, 2000. According

to the entitlement documents, the Santa Monica project will be developed pursuant to the RS-1-12 zone and the Fairbanks Summit project will be developed pursuant to the RS-1-11 zone.

The purpose of the residential zones is to provide for areas of residential development at various specified densities throughout the city. The residential zones are intended to accommodate a variety of housing types and to encourage the provision of housing for all citizens of San Diego. It is also intended that the residential zones reflect desired development patterns in existing neighborhoods while accommodating the need for future growth.

The purpose of the RS zones is to provide appropriate regulations for the development of single dwelling units that accommodate a variety of lot sizes and residential dwelling types and which promote neighborhood quality, character, and livability. It is intended that these zones provide for flexibility in development regulations that allow reasonable use of property while minimizing adverse impacts to adjacent properties.

The RS zones are differentiated based on the minimum lot size and whether the premises is located in an urbanized community or a planned or future urbanizing community. The RS-11 zone requires a minimum lot size of 10,000 square feet. The RS-1-12 zone requires a minimum lot size of 8,000 square feet.

The subject is not within the California Coastal Zone.

Gated Communities

The entitlement for the subject property contains language that Black Mountain Ranch may make use of any future City policies authorizing gated communities in the NCFUA and designates appropriate potential access control points within the development area. The access control points would only affect internal circulation and would not affect through-traffic and would be subject to approval by Development Services in accordance with adopted policies and regulations. The project is planned for gated access via two manned gates.

Open Space / Commons / Association Fees

The Santa Monica project will include a private recreational facility located east of the Colrich/Pulte lots, adjacent to lots 74 through 77. Western Pacific will be responsible for the development of this lot which will include tennis courts, a swimming pool, basketball court, tot lot and picnic area. Homeowners' fees are projected at \$227.20 per home per month.

Entitlement Documents

There are several entitlement documents relating to the subject property which are summarized as follows:

Planned Development Permit/Site Development Permit No. 40-0969 Santa Monica at Black Mountain Ranch (MMRP) - Recorded June 14, 2002, this document grants a planned development permit/site development permit to Western Pacific Housing for the Santa Monica project.

Planned Residential Development/Resource Protection Ordinance Permit 99-1364 (MMRP) Fairbanks Summit I - Recorded on October 24, 2001, this permit grants approval for the Fairbanks Summit I project. Notable is that the approval calls for seven affordable multi-family units on one lot as opposed to the 10 that are planned in Phase II.

Planned Development Permit/Site Development Permit No. 41-0480 (MMRP) Fairbanks Summit II - This document approves the second phase of the Fairbanks Summit project and specifies two buildings for affordable housing, one of six units and one of four units, respectively.

The final maps are included in the Addendum.

DESCRIPTION OF IMPROVEMENTS

Portions of the subject property are classified as “developed” property as defined in the Addendum. These portions are classified as such based upon when a building permit is pulled for construction. The following is a summary of the building permits “pulled” (issued) for the subject property:

<u>Project</u>	<u>Total Single Family Lots</u>	<u>Single Family Building Permits Issued</u>	<u>Affordable Units</u>	<u>Affordable Building Permits Issued</u>
Santa Monica - Colrich Collection	66	66	0	0
Santa Monica - The Ranch	72	47	26	26
Fairbanks Summit - Mirasol	<u>52</u>	<u>9</u>	<u>10</u>	<u>0</u>
Total	190	122	36	26

Santa Monica - Colrich Collection (Pulte Homes - Colrich Communities)

Colrich/Pulte is constructing 66 contemporary style, single family residences using four floor plans with three (Tuscan, Spanish and French) elevations each. The following is a summary of the mix and base prices.

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>	<u>Base Prices</u>
1	12	3,353	3-4/2.5-3.5	\$728,990 - \$754,990
2	16	3,610	3-4/2.5-3.5	\$738,990 - \$766,990
3	19	4,046	5-6/4.5-5.5	\$758,990 - \$792,990
4	19	4,270	5-6/4.5-5.5	\$766,990 - \$824,990

The model units (only Plans 1, 2 and 4 modeled) are situated on lots 56, 57 and 58. Prices have not been set by the builder yet so a 20% premium was added for model upgrades over the average price. This resulted in values of:

<u>Plan</u>	<u>Estimated Value</u>
1	\$990,000
2	\$996,000
4	\$1,035,000

Phases I, II and III consist of lots 30 through 34, 47 through 53 and 60 through 80. The average purchase/sale price of these 33 homes is \$822,666.

Phase IV consists of lots 35 through 46, 81 and 94 through 95. As of the date of valuation, these 15 homes were in various stages of framing. The average estimated completion on the homes in this phase is estimated to be 50%. The developer's average cost submitted for review is \$328,536 per home. Thus, the improved value is estimated at \$2,464,020.

Phases V and VI consist of lots 54, 55, 59 and 82 through 93. As of the date of valuation, construction was 35% complete on these 15 homes. Thus, the improved value is estimated at \$1,724,814.

The Ranch at Santa Monica - D. R. Horton Homes - Western Pacific Housing

D. R. Horton Homes - Western Pacific Housing is constructing 72 contemporary style, single family residences using four floor plans using an eclectic blend of Spanish, Monterey and Italianate architectural styling with three elevations for each plan. The following is a summary of the mix and base prices.

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>	<u>Base Prices</u>
1	14	4,039 - 4,605	4-6/3.5-4	\$799,000 - \$939,990
2	17	4,363 - 5,083	5/4.5	\$822,000 - \$962,990
3	19	4,473 - 4,999	5/4.5	\$835,000 - \$975,990
4	22	5,481	5-6/4.5-5.5	\$919,000 - \$1,059,990

Phase I consists of lots 1 through 4, 111, 112, and 123 through 127. The average purchase/sale price of these 11 homes is \$881,087.

Phase II consists of lots 113 through 122 and the homes were finished awaiting closing in September, 2003. The average price of these 10 homes is \$880,340.

Phase III consists of lots 109, 110, and 128 through 133. As of the date of valuation, these eight homes were in various stages ranging from wood framing with the first coat of lath to completed stucco finish. The average estimated completion on the homes in this phase is estimated to be 70%. The developer's average cost submitted for review is \$503,000 per home. Thus, the improved value is estimated at \$2,816,800.

Phase IV consists of lots 104 through 108 and 134 through 138. As of the date of valuation, construction was 40% complete on these 10 homes. Thus, the improved value is estimated at \$2,012,000.

Phase V consists of lots 96 through 103. As of the date of valuation, the slabs were poured and completion was estimated at 15% on these eight homes. Thus, the improved value is estimated at \$603,600.

The 25 lots in Phases VI and VII are finished lots with the exception of lots five and six which serve as the model complex parking lot. No value was attributed to the parking lot improvements as they will be removed during construction of the last two units. For valuation purposes, the building permits have not yet been issued, so the fees attributable to the finished lots payable with the building permit must be deducted. The remaining fees, attributable to the "finished" lots but payable when building permits are issued, are \$34,234 per lot.

Fairbanks Summit - Mirasol (Pardee Homes)

This project is being constructed in phases but it is commonly referred to as Fairbanks Summit I and II (17 lots and 35 lots, respectively). Pardee Homes is constructing 52 single family residences with three floor plans using an eclectic blend of Spanish, Mediterranean and Tuscan architectural styles. The following is a summary of the mix and base prices.

<u>Plan</u>	<u>Mix</u>	<u>Sq. Ft.</u>	<u>BR/BA</u>	<u>Base Prices</u>
1	11	3,321	3-4/3.5	\$873,950 - \$883,550
2	21	3,972	5/3.5	\$1,007,450 - 1,046,900
3	20	4,572	4-5/4.5	\$1,029,025 - \$1,060,700

Of the nine homes under construction, only six have been released for sale, three are sold (in escrow) and there are three model homes. Pardee plans onsite recreation amenities in the form of a par course and running trails.

As of the date of valuation, the three model units (lots 3, 4 and 5) were 80% complete. The developer's cost is reported at \$747,074 for the three units. Thus, the improved value is estimated at \$597,659 (divided equally).

The remaining six homes comprising Phase I (lots 9, 10, 21, 22, 29 and 30) did not start construction until September 6, 2003. Therefore, there is no improvement value to be added.

The 35 Phase I lots are finished with a deduction required for those lots that do not have building permits issued for remaining fees to be paid (at the time building permits are issued) of \$34,234 (similar amount use for D. R. Horton-Western Pacific). Therefore, that amount will be deducted from the finished lot value.

The majority (13 of 17) of the Phase II lots are unfinished and the remaining cost to complete is \$204,187 which will be deducted from the finished lot value. Thirteen lots in Phase II are unfinished.

HIGHEST AND BEST USE

Highest and best use is defined in the Appraisal of Real Estate, (12th Edition, 2001) 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."

As Vacant

The subject property is large enough to accommodate a variety of uses allowed under the existing zoning regulations. As is typical with planned communities, the highest and best use, in a general sense, is primarily based upon the ultimate entitlement when mapping and development agreements are completed. Such is the case for the subject pursuant to its entitlements and mapping.

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

For-sale residential projects in the immediate area have sold well and market demand remains strong. Residential development is physically possible and financially feasible as is demonstrated by the rapid sales response at the subject property and in surrounding communities. The financially feasible exception is affordable housing components which are mandated by local jurisdictions and are heavily subsidized by the market rate "for sale" portions of the project.

Therefore, the maximum profitable use is single family residential development in the +/- \$800,000 to \$1,000,000+ price range commensurate with similar properties nearby.

As Improved

The highest and best use as improved is consistent with the highest and best use as proposed.

VALUATION METHODOLOGY

The subject property will first be valued on a finished lot basis through the use of the Sales Comparison Approach. From those estimates, adjustments are made for condition or to add the estimated value of improvements in place.

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

SALES COMPARISON APPROACH

The Sales Comparison Approach to value involves the comparison of the subject property with recent sales of comparable properties and then isolating pertinent units of comparison which can be applied to the subject. The sale price per acre, lot or per square foot are typically the indicators utilized. For residential properties, when the number of lots is known, the sale price per lot is the best indicator. Over the past three years, there has been significant production builder land sale activity in the adjacent Santaluz project (CFD No. 2 - Improvement Area 1) in addition to the acquisitions of the subject properties.

The following is a summary of the data:

SUMMARY OF COMPARABLE RESIDENTIAL LAND SALES

No.	Buyer/Seller/Project Location	Date(s)	Financing Contract Data	Sale Price/ Cash Equivalents	Acres/Average Gross	No. of Lots	Density Units Per Acre	On & Offsite Costs	Finished Facilities	Mello-Ross Assessment	Developer's Price Range (Average)
8	Washington Homes/Santaluz, LLC Santaluz - Country Homes	5/03 7/03 8/04	35 lots 30 lots	\$10,419,800 \$5,630,770 \$19,350,000	9,760 sq. ft. avg. lots	65		\$22,754 \$17,600	\$338,046	PUSD Schools	\$875,000 - \$940,000 0,850 - 4,750
8A	Centex Homes/Santaluz, LLC Santaluz - Country Homes	9/01 7/01 1/02 7/02	Letter of Intent 25 lots 21 lots 21 lots	\$7,024,200 \$6,848,169 \$5,811,802 \$21,304,051		67		\$22,754 \$17,600	\$359,518	PUSD Schools	\$925,000 3,067 2,727 - 3,968
9	Sea County Homes/CRV Stallions Crossing Stallions Crossing South side of El Camino Road east of Old El Camino Real San Diego (west of Fairbanks Ranch)	1/01		\$8,700,000	29.11	47	1.01	\$121,145	\$327,528	None	\$774,000 - \$914,000 3,173 - 3,997
10	Western Pacific/Security Trust Co. Santa Monica	Under Contract 11/01 1/02 Closed		\$38,280,000	82.11	138	1.66	\$37,000	\$299,971	PUSD Schools	N/A N/A N/A
10A	Colish Communities/Western Pacific Santa Monica - Porton	Under Contract 12/01 1/02 Closed		\$19,800,000	39.27 (gross)	66	1.68	\$0	\$300,000	PUSD Schools	\$712,000 - \$900,000 N/A
11	Pardoo Homes/Fairbanks Ranch Old Black Mountain Road west of Camino De La Luna North of Carmel Valley Road San Diego (Subarea 7 west of Santeitez)	Under Contract 11/01 5/02 Closed		\$11,000,000	31.10	52	2.39	\$113,442	\$325,000	PUSD Schools	3,353 - 4,270 \$750,000 - \$850,000 3,100 - 4,400
12	Standard Pacific/Sreydona Homes Cordona North of SR 66 west of Black Mountain Parkway San Diego (Torrey Highlands)	7/01		\$18,294,500	N/A	76	N/A	\$41,096	\$250,000	PUSD Schools	\$500,000's N/A
13	Blaven Walker Homes/Starwood Crosby Estate Lamour Lane and Going My Way San Diego (Crosby Estate)	2/01		\$14,280,000	N/A	35	N/A	\$4,000	\$412,000	Schools	\$970,000 - \$1,055,000 4,140
14	Davidson Homes/Starwood Crosby Estate Not Disclosed San Diego (Crosby Estate)	8/03 Under Contract		\$12,600,000	N/A	30	N/A	\$22,817	\$442,917	Schools	\$1,200,000 - \$1,300,000 N/A
15	Hearthside Homes/Starwood Crosby Estate Not Disclosed San Diego (Crosby Estate)	8/03 Under Contract		\$9,600,000	N/A	32	N/A	\$0	\$300,000	Schools	\$1,200,000 - \$1,300,000 N/A
16	Barrat American/Enchilias Ranch, LLC Enchilias Ranch West of Duall Gardens Drive south of Paseo De Las Flores Enchilias	7/02 Under Contract 10/02 Closed		\$2,844,160	N/A	8	N/A	\$169,480	\$500,000	Schools and Street Impr.	\$1,300,000 - \$1,500,000 N/A 4,280 - 5,300

Comparables 1 through 8 are the phased-takedown purchase-option agreements and an outright purchase agreement with the production builders at the Santaluz project to the east. Notable is that Comparable 4 was originally a purchase of the Garden Homes lots in "blue top" condition. Subsequently, Reilly Homes merged with Western Pacific Housing and sold the property as finished lots to D. R. Horton for a significant premium.

Comparables 7 and 8 were executed letters of intent for the Court Homes and Country Homes at the Santaluz project that did not evolve into purchase contracts due to the recessionary market conditions and the events of September 11. Notable is the significant premiums in finished lot cost over the two La Zanja area lot groups that already sold at that time, the Spanish Bungalows and Garden Homes (Comparables 3 and 4). However, the developer chose to reduce prices on the subsequent sales to Davidson Communities and Warmington to get these lots sold and close out the production builder portion of the project.

Comparable 9 is an older sale of a relatively small project featuring small lots with view amenities west of the subject in the area east of Del Mar and southwest of Rancho Santa Fe.

Comparable 10 is the Santa Monica project located adjacent to Santaluz to the west. It is a purchase by D. R. Horton Homes - Western Pacific Housing of lots with a companion resale to Colrich Communities of a portion of the project.

Comparable 11 is located immediately south of Comparable 10, also adjacent to Comparable 10 to the south. It is the purchase of two properties with separate mapping and finished lot costs being combined into one project (Fairbanks Summit).

Comparable 12 is located south of the subject property in the Torrey Highlands portion of North City. It is a small lot project sold in a transaction that was also negotiated and closed before the events of September 11.

Comparables 13 through 15 are located in the Crosby Estate project northwest of the subject in the Santa Fe Valley area. They feature larger lots and the development plan includes a golf course.

Comparable 16 is located to the northwest in the Encinitas Ranch planned community. It is a small subdivision selling for a very high price per lot.

Adjustments

Various adjustments were made in a qualitative manner as follows:

Conditions of Sale:

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

Time:

Residential properties were increasing in value through the summer (August) of 2001. The events of September 11 caused developers to place acquisition plans on hold which, at the time, was felt by many to be for at least a year. However, builders reentered the market in November of 2001 but land prices decreased slightly. Therefore, upward adjustments were made to sales that were placed under contract through the first eight months of 2001. Thereafter, a slight downward adjustment was indicated with no adjustment being made to properties that went under contract beginning in November, 2001. Beginning in 2000, the market began increasing again significantly. Therefore upward adjustments are indicated to sales negotiated in 2000. The downward trend between the prior option agreements for comparables 7A and 8A to the more recent transactions is not indicative of a downward trend but reflects overpricing when the prior options were negotiated.

General Location:

The subject property has a good location adjacent to Santaluz which will likely emerge as one of the premier planned communities in San Diego County. Comparables 1 through 8 are located in adjacent Santaluz and require no general location adjustment. Comparable 9 is located in a superior area west of Fairbanks Ranch, south of Rancho Santa Fe and east of Del Mar. Comparable 12 is located in the Torrey Highlands area south of the subject which is considered slightly inferior. Comparables 10 and 11 are the subject property. Comparables 13 through 15 are located in the Santa Fe Valley area north of Rancho Santa Fe which is considered slightly superior. Comparable 16 is located in Encinitas Ranch and is considered comparable to the subject.

School District:

The subject property is located in the Poway Unified School District as are all but Comparables 9 and 13 through 15 which are located in the San Dieguito School District in which Torrey Pines High School is one of the best public high schools in San Diego County if not the State of California. Comparable 16 was considered equal.

Project Size:

Project size adjustments are made based on the time estimated for entitling, building and selling the comparable project as compared to the subject. This adjustment takes into consideration the timing of development, indicating a shorter time period for a purchase of finished lots than raw land to be graded. The period between sale of the land and the first house closing escrow is estimated at 10 months for finished lots and 12 months for sheet-graded sites. The adjustment also reflects the increased or decreased carrying costs on a larger or smaller project.

Average lot size:

Typically, lot size differentials are adjusted based upon price per square foot of differential between minimum lot size; average lot size; or average pad size. In many cases, all three of these figures are not provided and ranges are often given for one category only. Thus, subjective adjustments were made based upon appraiser's experience. Typically, adjustments for lot size range between \$7.00 per square foot at the low end to \$30.00 per square foot at the high end depending upon the amount of differential. The larger the differential, the lower the indicator which is also highly influenced by the value range of the lots being adjusted.

Site/View/Amenities:

The subject property has a good location with average to good views and positioning to amenities. The comparables were rated and adjustments were made accordingly.

Mello-Roos District:

Differentials between the Mello-Roos liens projected at the subject property and comparables were taken into consideration. In addition, there is a Poway Unified School District CFD at the subject.

Development Impact Fees (DIF's):

It is often the case that municipalities have Development Impact Fees (DIF's). There are reimbursement provisions that are being considered in this appraisal from fees that are due up front when building permits are pulled. However, the subject is exempt from these fees as a tradeoff for facilities being installed.

Differentials in DIF fees were considered in the adjustment process with upward adjustments being made to those properties that have DIF fees versus the subject property (which does not) which is, essentially, the case for all comparables to different degrees. The fees shown in the adjustment grid are the remaining fees payable for the subject lots, not including the development impact fees.

Adjustment Grids

The subject lots are fairly uniform in size with a high ratio of usable pad area to total lot area. Between the lot groups, the D. R. Horton - Western Pacific (The Ranch) lots were considered slightly superior to the Colrich/Pulte (Colrich Collection) lots in terms of average view amenity. The Pardee (Mirasol) lots have better average view premiums but are slightly smaller in average pad size.

The adjustment grid was prepared using the Colrich/Pulte lots as a baseline for comparison. From that conclusion, upward adjustments were made to the D. R. Horton - Western Pacific and Pardee lots. The following is a summary of the data:

**LAND SALE ADJUSTMENTS
COLRICH COLLECTION**

Value Conclusion: \$350,000 Per "Finished" Lot

**D.F. DAVIS
REAL ESTATE
INC.**

Comparable No.: Date: Cash Equivalent Price: No. of Units: Price Per Unit: Costs & Fees:	2 9/00 \$13,750,000 50 \$275,000 \$17,600	4A 8/01 \$17,325,000 63 \$275,000 \$15,219	6 3/00 \$31,267,696 66 \$473,766 \$17,600	7 6/02 \$17,492,754 71 \$246,377 \$40,600	8 6/03 \$19,350,000 65 \$297,692 \$40,354	10A 12/01 \$19,800,000 66 \$300,000 \$0
Finished Lot Costs & Fees:	\$292,600	\$290,210	\$491,350	\$296,877	\$338,040	\$300,000
Adjustments:	Desc. Adj.	Desc. Adj.	Desc. Adj.	Desc. Adj.	Desc. Adj.	Desc. Adj.
Cond. of Sale:	Equal	Equal	Equal	Equal	Equal	Equal
Time:	9/00	8/01	3/00	6/02	5/03	12/01
General Location:	Good	Equal	Equal	Equal	Equal	Equal
School District:	Equal	Equal	Equal	Equal	Equal	Equal
Project Size:	50	63	66	71	65	66
Lot Size:	13,300	7,500	65,000	8,600	9,750	13,300
Site/View/Amenities:	SI. Superior	SI. Inferior	SI. Superior	SI. Inferior	SI. Inferior	Equal
Molio Rocs Distr.:	Yes	Yes	Yes	Yes	Yes	Yes
Development Fees:	\$17,600	Equal	Equal	Equal	Equal	Equal

Comparable No.: Date: Cash Equivalent Price: No. of Units: Price Per Unit: Costs & Fees:	11 11/01 \$11,001,000 52 \$211,558 \$113,442	13 2/01 \$14,280,000 35 \$408,000 \$4,000	14 8/03 \$12,600,000 30 \$420,000 \$22,917	15 8/03 \$9,800,000 32 \$300,000 \$0	16 7/02 \$2,644,160 8 \$330,520 \$169,480	10 7/02 \$2,644,160 8 \$330,520 \$169,480
Finished Lot Costs & Fees:	\$325,000	\$412,000	\$442,917	\$300,000	\$500,000	\$500,000
Adjustments:	Desc. Adj.	Desc. Adj.	Desc. Adj.	Desc. Adj.	Desc. Adj.	Desc. Adj.
Cond. of Sale:	Equal	Equal	Equal	Equal	Equal	Equal
Time:	11/01	2/01	8/03	6/03	7/02	7/02
General Location:	Good	SI. Superior	SI. Superior	SI. Superior	SI. Superior	SI. Superior
School District:	Equal	SI. Superior	SI. Superior	SI. Superior	SI. Superior	SI. Superior
Project Size:	52	35	30	32	8	8
Lot Size:	16,400	11,000	24,600	22,000	20,000	20,000
Site/View/Amenities:	Area	Equal	Equal	Equal	Equal	Equal
Molio Rocs Distr.:	Yes	Yes	Yes	Yes	Yes	Yes
Development Fees:	\$17,600	Superior	Equal	Inferior	Inferior	Inferior

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

As previously noted, upward adjustments are required from the Colrich/Pulte lots to the D. R. Horton - Western Pacific and Pardee lots. The following is a summary of the finished lot conclusions:

<u>Project</u>	<u>Per Lot</u>
Santa Monica - Colrich/Pulte - Colrich Collection	\$350,000
Santa Monica - D. R. Horton - Western Pacific - The Ranch	\$370,000
Fairbanks Summit - Pardee Homes - Mirasol	\$390,000

For the Santa Monica lots (both builders) there are completed homes that have closed escrow, homes completed and awaiting escrow closings, homes under construction and finished lots. For Fairbanks Summit, the models are nearing completion, there are homes under construction and finished lots. For completed homes, the negotiated purchase/sale price was accepted as the market value. Although somewhat conservative as this amount does not take into consideration buyer upgrades paid outside of the purchase contract or landscaping completed or in progress, it is an effective "mass appraisal" technique. For homes under construction, the estimated percentage completion was applied to the developers' construction costs and added to the finished lot value. Again, this technique is conservative as it does not include any developer's profit allocated to the land or construction progress.

Affordable units are constructed with subsidies from market rate "for sale" units and the financing structure of the transaction commensurate with available agency subsidies. As vacant sites, they do not have a land value without appraising such properties subject to the specific structure of the transaction, including tax credits. However, significant work in progress or completed units would have a value based upon set sale prices or construct costs. In that regard, the 26 affordable units completed by D. R. Horton - Western Pacific were valued on the basis of purchase/sale price accordingly. The 10 affordable units at Pardee's Mirasol project (land only, as permits have not been issued) were given no value.

FINAL ESTIMATE OF VALUE

The individual value of each lot is shown on the lot database in the Addendum.

The market value of the fee simple interest of the subject property, as of September 1, 2003, subject to the aforementioned assumptions and limiting conditions, is summarized as follows:

**CFD NO. 2
IMPROVEMENT AREA 4
VALUATION SUMMARY**

As of
9/1/03

Portion of Project	Legal Owner	Builder	No. of Lots	Estimated Value Per Lot	Estimated Value	Undeveloped	Developed
For Sale Production Builder Lots:							
Colrich Collection at Santa Monica	Santa Monica	Colrich/Pulte	66				
Undeveloped Lots	Home Building		0	\$350,000	\$0	\$0	
Developed Lots	Company, LLC		30	\$350,000	\$10,500,000		\$10,500,000
Improvements	(other individual				\$4,188,834		\$4,188,834
Completed Homes	homeowners)		36	\$838,027	\$30,168,878		\$30,168,978
Total			66	\$679,864	\$44,857,812	\$0	\$44,857,812
The Ranch at Santa Monica	Western Pacific	D. R. Horton -	72				
Undeveloped Lots	Housing, Inc.	Western Pacific	25	\$335,788	\$8,394,150	\$8,394,150	
Developed Lots	(other individual		26	\$370,000	\$9,620,000		\$9,620,000
Improvements	homeowners)				\$5,432,400		\$5,432,400
Completed Homes			21	\$880,684	\$18,494,360		\$18,494,360
Total			72	\$582,513	\$41,940,910	\$8,394,150	\$33,546,760
Mirasol (Fairbanks Summit I & II)	Pardee	Pardee	52				
Undeveloped Lots	Homes, Inc.		43	\$304,385	\$13,088,549	\$13,088,549	
Developed Lots			9	\$390,000	\$3,510,000		\$3,510,000
Improvements					\$597,659		\$597,659
Completed Homes				\$0	\$0		\$0
Total			52	\$330,696	\$17,186,208	\$13,088,549	\$4,107,659
Total For Sale Production Builder Lots			190	\$547,342	\$103,984,930	\$21,482,699	\$82,512,231

Affordable Units:

The Ranch at Santa Monica	Western Pacific	D. R. Horton -	28				
Undeveloped Lots	Housing, Inc.	Western Pacific	0	\$0	\$0	\$0	
Developed Lots			0	\$0	\$0		\$0
Improvements					\$0		\$0
Completed Homes			26	\$112,731	\$2,931,000		\$2,931,000
Total			26	\$112,731	\$2,931,000	\$0	\$2,931,000
Mirasol (Fairbanks Summit I & II)	Pardee	Pardee	10				
Undeveloped Lots	Homes, Inc.		10	\$0	\$0	\$0	
Developed Lots			0	\$0	\$0		\$0
Improvements					\$0		\$0
Completed Homes			0	\$0	\$0		\$0
Total			10	\$0	\$0	\$0	\$0
Total Affordable Units			38	\$81,417	\$2,931,000	\$0	\$2,931,000

Grand Total **228** **\$473,124** **\$108,925,930** **\$21,482,699** **\$85,443,231**

Rounded To The Nearest \$1,000 **\$108,926,000** **\$21,483,000** **\$85,443,000**

This is not the 'As Is' value as the above value is based on the property in its present condition assuming CFD improvements are complete

APPRAISAL REPORT

ADDENDUM



**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

ADDENDUM (under separate cover)

- A. Definitions - Developed, District and Undeveloped Property
- B. Lot Database
- C. CFD Mello Roos Special Tax Amounts
- D. Assessor's Maps
- E. Subdivision Maps
- F. Production Builder Product Information
- G. Comparable Sales - Location Maps
- H. Comparable Sales - Data Sheets and Plat Maps
- I. Certification
- J. Qualifications of David F. Davis, MAI

(This page intentionally left blank)

EXHIBIT A

“Value of Developed Property” means for all parcels of Developed Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing (i) the fair market value, as of the date of the appraisal provided for below, of such parcels of Developed Property, including with respect to such parcels the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City’s policy for appraisals, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) the full cash value of any or all of such parcels of Developed Property, including with respect to such parcels the value of the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of San Diego.

“Value of District Property” means for all parcels of property in the District which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, (i) the fair market value, as of the date of the appraisal provided for below of such parcels, including with respect to such parcels the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City’s policy for appraisals, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) the full cash value of any or all of such parcels, including with respect to such parcels the value of the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of San Diego.

“Value of Undeveloped Property” means for all parcels of Undeveloped Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, (i) the fair market value, as of the date of the appraisal provided for below of such parcels of Undeveloped Property, including with respect to such non-delinquent parcels the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City’s policy for appraisals, or (ii) the full cash value of any or all of such parcels of Undeveloped Property, including with respect to such parcels the value of the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of San Diego.

EXHIBIT B

SANTA MONICA/FAIRBANKS SUMMIT
SUMMARY OF LOT ACREAGE
October 8, 2003

APN	Tract	Lot	Builder	Address	Floor Plan	Lot Total Acres	Lot Square Feet	Building Square Feet	Tax Class	Building Permit Date	Assigned Special Tax 2003/04	Residential	Appraised Value	Developed	Undeveloped
30320001	14436	1	WP (Homeowner)	14645 Arroyo Hondo	4	0.324	14103.6	5612	1	5/27/2002	4359	0.324	\$889,990	\$989,990	
30320002	14436	2	WP (Homeowner)	14637 Arroyo Hondo	3	0.304	13241.7	4438	2	5/27/2002	4003	0.304	\$893,490	\$893,490	
30320003	14436	3	WP (Homeowner)	14629 Arroyo Hondo	2	0.275	11865.5	4234	3	5/27/2002	3558	0.275	\$872,990	\$872,990	
30320004	14436	4	WP (Homeowner)	14621 Arroyo Hondo	1	0.261	11370.4	3854	5	5/27/2002	3113	0.261	\$847,490	\$847,490	
30320005	14436	5	Western Pacific	14613 Arroyo Hondo	3	0.267	11650.0	4436	2			0.267	\$335,766		\$335,766
30320006	14436	6	Western Pacific	14605 Arroyo Hondo	4	0.284	12352.3	5346	1			0.284	\$335,766		\$335,766
30320007	14436	7	Western Pacific	14607 La Plata	3	0.342	14886.4	4438	2	8/22/2003	4003	0.342	\$335,766		\$335,766
30320008	14436	8	Western Pacific	14615 La Plata	4	0.358	15497.1	5346	1	9/22/2003	4359	0.358	\$335,766		\$335,766
30320009	14436	9	Western Pacific	14623 La Plata	4	0.324	14131.5	5346	1	9/22/2003	4359	0.324	\$335,766		\$335,766
30320010	14436	10	Western Pacific	14631 La Plata	1	0.324	14132.6	3854	5	9/22/2003	3113	0.324	\$335,766		\$335,766
30320011	14436	11	Western Pacific	14639 La Plata	3	0.302	13136.7	4436	2	9/22/2003	4003	0.302	\$335,766		\$335,766
30320012	14436	12	Western Pacific	14645 La Plata	4	0.342	14894.5	5346	1	9/22/2003	4359	0.342	\$335,766		\$335,766
30320013	14436	13	Western Pacific	14616 La Plata	1	0.357	15556.0	3854	5	9/22/2003	3113	0.357	\$335,766		\$335,766
30320014	14436	14	Western Pacific	14624 La Plata	2	0.287	12935.0	4234	3	9/22/2003	3558	0.287	\$335,766		\$335,766
30320015	14436	15	Western Pacific	14632 La Plata	4	0.297	12934.8	5346	1	9/22/2003	4359	0.297	\$335,766		\$335,766
30320016	14436	16	Western Pacific	14640 La Plata	3	0.297	12934.6	4436	2	9/22/2003	4003	0.297	\$335,766		\$335,766
30320017	14436	17	Western Pacific	14648 La Plata	4	0.309	13460.1	5346	1	9/22/2003	4359	0.309	\$335,766		\$335,766
30320018	14436	18	Western Pacific	14641 La Plata	4	0.307	13362.0	5346	1			0.307	\$335,766		\$335,766
30320019	14436	19	Western Pacific	14633 La Plata	2	0.27	11780.0	4234	3			0.270	\$335,766		\$335,766
30320020	14436	20	Western Pacific	14627 La Plata	3	0.27	11780.0	4436	2			0.270	\$335,766		\$335,766
30320021	14436	21	Western Pacific	14621 La Plata	1	0.27	11780.0	3854	5			0.270	\$335,766		\$335,766
30320022	14436	22	Western Pacific	14615 La Plata	4	0.374	16298.3	5346	1			0.374	\$335,766		\$335,766
30320023	14436	23	Western Pacific	14806 La Plata	4	0.289	12580.0	5346	1			0.289	\$335,766		\$335,766
30320024	14436	24	Western Pacific	14612 La Plata	2	0.258	11258.1	4234	3			0.258	\$335,766		\$335,766
30320025	14436	25	Western Pacific	14616 La Plata	3	0.261	11364.8	4436	2			0.261	\$335,766		\$335,766
30320026	14436	26	Western Pacific	14624 La Plata	1	0.263	11470.5	3854	5			0.263	\$335,766		\$335,766
30320027	14436	27	Western Pacific	14830 La Plata	2	0.266	115766.2	4234	3			0.266	\$335,766		\$335,766
30320028	14436	28	Western Pacific	14636 La Plata	3	0.268	11681.8	4436	2			0.268	\$335,766		\$335,766
30320029	14436	29	Western Pacific	14842 La Plata	1	0.272	11882.9	3854	5			0.272	\$335,766		\$335,766
30320030	14436	A		Streets and Public Areas		0.023	865.4								
30320031	14436	B		Streets and Public Areas		0.205	8943.4								
30320032	14436	C		Streets and Public Areas		0.335	14806.2								
30320033	14436	D		Streets and Public Areas		0.214	9309.1								
30320034	14436	E		Streets and Public Areas		0.077	3338.8								
30320035	14436	F		Streets and Public Areas		0.033	1444.1								
30320036	14436	G		Streets and Public Areas		0.053	2282.2								
30320037	14436	H		Streets and Public Areas		0.535	23305.7								
30320038	14436	I		Streets and Public Areas		1.358	59160.6								
30320039	14436	J		Streets and Public Areas		0.588	25594.7								
30320040	14436	K		Streets and Public Areas		0.842	27850.3								
30320041	14436	L		Streets and Public Areas		0.778	33809.4								
30321001	14438	096	Western Pacific	14575 Arroyo Hondo	1	0.302	13162.9	3854	5	8/20/2003	3113	0.302	\$445,450	\$445,450	
30321002	14438	097	Western Pacific	14567 Arroyo Hondo	2	0.28	12166.1	4234	3	8/20/2003	3558	0.280	\$445,450	\$445,450	
30321003	14438	098	Western Pacific	14559 Arroyo Hondo	3	0.323	14051.4	4436	2	8/20/2003	4003	0.323	\$445,450	\$445,450	
30321004	14438	099	Western Pacific	14551 Arroyo Hondo	2	0.369	16060.2	4234	3	8/20/2003	3558	0.369	\$445,450	\$445,450	

SANTA MONICA/FAIRBANKS SUMMIT
SUMMARY OF LOT ACREAGE
October 8, 2003

APN	Tract	Lot	Builder	Address	Floor Plan	Lot Total Acres	Lot Square Feet	Building Square Feet	Tax Class	Building Permit Date	Assigned Special Tax 2003/04	Residential	Appraised Value	Developed	Undeveloped
30321103	14438	X		Streets and Public Areas		2.631	114813.7								
30322001	14437	30	CP (Homeowner)	14656 Rio Rancho	1	0.318	13911.7	3353	8	10/17/2002	2713	0.318	\$745,224	\$745,224	
30322002	14437	31	CP (Homeowner)	14664 Rio Rancho	3	0.356	15494.4	4046	4	10/17/2002	3380	0.356	\$838,007	\$838,007	
30322003	14437	32	CP (Homeowner)	14672 Rio Rancho	2	0.392	17063.0	3810	5	10/17/2002	3113	0.392	\$822,214	\$822,214	
30322004	14437	33	CP (Homeowner)	14680 Rio Rancho	4	0.404	17564.9	4270	3	10/17/2002	3558	0.404	\$828,810	\$828,810	
30322005	14437	34	CP (Homeowner)	14688 Rio Rancho	2	0.455	18827.4	3810	5	10/17/2002	3113	0.455	\$811,990	\$811,990	
30322008	14437	47	CP (Homeowner)	7403 Las Lunnas	4	0.327	14243.8	4270	3	10/17/2002	3558	0.327	\$864,414	\$864,414	
30322007	14437	48	CP (Homeowner)	7411 Las Lunnas	2	0.303	13198.9	3610	5	10/17/2002	3113	0.303	\$922,538	\$922,538	
30322008	14437	49	CP (Homeowner)	7418 Las Lunnas	4	0.3	13081.5	4270	3	12/4/2002	3558	0.300	\$849,813	\$849,813	
30322009	14437	50	CP (Homeowner)	7423 Las Lunnas	1	0.268	11692.4	3353	8	5/28/2003	2713	0.268	\$801,814	\$801,814	
30322010	14437	51	CP (Homeowner)	7427 Las Lunnas	4	0.283	11437.4	4270	3	5/29/2003	3558	0.283	\$822,198	\$822,198	
30322011	14437	52	CP (Homeowner)	7435 Las Lunnas	3	0.275	11982.5	4046	4	2/29/03	3380	0.275	\$824,532	\$824,532	
30322012	14437	53	CP (Homeowner)	7443 Las Lunnas	2	0.288	12562.5	3810	5	5/29/2003	3113	0.288	\$849,168	\$849,168	
30322013	14437	54	Colrich/Pulte	7451 Las Lunnas	1	0.297	12929.1	3353	6	8/31/2003	2713	0.297	\$464,888	\$464,888	
30322014	14437	55	Colrich/Pulte	7461 Las Lunnas	4	0.301	13125.0	4270	3	8/31/2003	3558	0.301	\$464,888	\$464,888	
30322015	14437	56	Colrich/Pulte	7469 Las Lunnas	2	0.355	15443.7	3810	5	7/15/2002	3113	0.355	\$998,000	\$998,000	
30322016	14437	57	Colrich/Pulte	7468 Las Lunnas	4	0.4	17440.5	4270	3	7/15/2002	3558	0.400	\$1,035,000	\$1,035,000	
30322017	14437	58	Colrich/Pulte	7460 Las Lunnas	1	0.33	14378.1	3353	8	7/15/2002	2713	0.330	\$990,000	\$990,000	
30322018	14437	59	Colrich/Pulte	7452 Las Lunnas	2	0.278	12090.0	3610	5	8/31/2003	3113	0.278	\$464,888	\$464,888	
30322019	14437	60	CP (Homeowner)	7444 Las Lunnas	3	0.278	12090.0	4046	4	7/18/2002	3380	0.278	\$788,939	\$788,939	
30322020	14437	61	CP (Homeowner)	7436 Las Lunnas	1	0.278	12090.0	3353	6	7/18/2002	2713	0.278	\$858,399	\$858,399	
30322021	14437	62	CP (Homeowner)	7428 Las Lunnas	4	0.278	12090.0	4270	3	7/18/2002	3558	0.278	\$888,843	\$888,843	
30322022	14437	63	CP (Homeowner)	7420 Las Lunnas	2	0.31	13525.1	3810	5	7/18/2002	3113	0.310	\$748,450	\$748,450	
30322023	14437	64	CP (Homeowner)	7412 Las Lunnas	1	0.28	12207.1	3353	6	10/17/2002	2713	0.280	\$784,990	\$784,990	
30322024	14437	65	CP (Homeowner)	7404 Las Lunnas	3	0.289	13040.9	4046	4	10/17/2002	3380	0.288	\$937,170	\$937,170	
30322025	14437	66	CP (Homeowner)	7405 Los Brazos	4	0.272	11859.8	4270	3	12/8/2002	3558	0.272	\$865,990	\$865,990	
30322026	14437	67	CP (Homeowner)	7409 Los Brazos	3	0.284	12372.9	4046	4	12/8/2002	3380	0.284	\$827,990	\$827,990	
30322027	14437	68	CP (Homeowner)	7413 Los Brazos	2	0.234	10200.0	3610	5	12/8/2002	3113	0.234	\$850,278	\$850,278	
30322028	14437	69	CP (Homeowner)	7412 Los Brazos	1	0.244	10850.0	3353	8	12/8/2002	2713	0.244	\$789,990	\$789,990	
30322029	14437	70	CP (Homeowner)	7429 Los Brazos	2	0.231	10050.0	3610	5	12/8/2002	3113	0.231	\$787,990	\$787,990	
30322030	14437	71	CP (Homeowner)	7437 Los Brazos	3	0.244	10650.0	4046	4	12/8/2002	3380	0.244	\$788,990	\$788,990	
30322031	14437	72	CP (Homeowner)	7445 Los Brazos	2	0.234	10200.0	3610	5	12/8/2002	3113	0.234	\$780,990	\$780,990	
30322032	14437	73	CP (Homeowner)	7462 Los Brazos	2	0.323	14060.8	3610	5	12/8/2002	3113	0.323	\$792,990	\$792,990	
30322033	14437	74	CP (Homeowner)	7454 Los Brazos	4	0.258	11134.8	4270	3	12/8/2002	3558	0.258	\$816,990	\$816,990	
30322034	14437	75	CP (Homeowner)	7448 Los Brazos	1	0.255	11100.0	3353	8	12/8/2002	2713	0.255	\$797,375	\$797,375	
30322035	14437	76	CP (Homeowner)	7438 Los Brazos	2	0.255	11100.0	3810	5	12/8/2002	3113	0.255	\$789,990	\$789,990	
30322036	14437	77	CP (Homeowner)	7430 Los Brazos	4	0.265	11100.0	4270	3	12/8/2002	3558	0.265	\$820,990	\$820,990	
30322037	14437	78	CP (Homeowner)	7422 Los Brazos	1	0.265	11100.0	3353	6	7/31/2003	2713	0.265	\$763,990	\$763,990	
30322038	14437	79	CP (Homeowner)	7414 Los Brazos	3	0.281	11357.8	4046	4	7/31/2003	3380	0.281	\$828,990	\$828,990	
30322039	14437	80	CP (Homeowner)	7408 Los Brazos	1	0.353	15371.5	3353	6	7/31/2003	2713	0.353	\$854,945	\$854,945	
30322040	14437	M		Streets and Public Areas		0.132	5754.9								
30322041	14437	N		Streets and Public Areas		0.287	11635.1								
30322042	14437	O		Streets and Public Areas		0.088	4188.5								
30322043	14437	Q		Streets and Public Areas		0.484	21533.4								
30322044	14437	R		Streets and Public Areas		1.072	46885.4								
30322045	14437	U		Streets and Public Areas		0.893	38452.3								
30322101	14437	35	Colrich/Pulte	7395 Los Brazos	2	0.317	13825.8	3610	2	7/31/2003	4003	0.317	\$514,288	\$514,288	

SANTA MONICA/FAIRBANKS SUMMIT
SUMMARY OF LOT ACREAGE
October 8, 2003

APN	Tract	Lot	Builder	Address	Floor Plan	Lot Total Acres	Lot Square Feet	Building Square Feet	Tax Class	Building Permit Date	Assigned Special Tax 2003/04	Residential	Appraised Value		
													Value	Developed	Undeveloped
30322102	14437	36	Colrich/Pulte	7391 Los Brazos	4	0.378	18452.3	4270	3	7/31/2003	3558	0.378	\$514,288	\$514,288	
30322103	14437	37	Colrich/Pulte	7387 Los Brazos	3	0.504	21872.2	4048	4	7/31/2003	3380	0.504	\$514,288	\$514,288	
30322104	14437	38	Colrich/Pulte	7383 Los Brazos	3	0.34	14819.2	4048	4	7/31/2003	3380	0.340	\$514,288	\$514,288	
30322105	14437	39	Colrich/Pulte	7278 Los Brazos	2	0.241	10481.8	3810	5	7/31/2003	3113	0.241	\$514,288	\$514,288	
30322106	14437	40	Colrich/Pulte	7375 Los Brazos	4	0.307	13357.2	4270	3	7/31/2003	3558	0.307	\$514,288	\$514,288	
30322107	14437	41	Colrich/Pulte	7371 Los Brazos	3	0.485	21110.0	4048	4	7/31/2003	3380	0.485	\$514,288	\$514,288	
30322108	14437	42	Colrich/Pulte	7387 Los Brazos	2	0.402	17524.9	3810	5	7/31/2003	3113	0.402	\$514,288	\$514,288	
30322109	14437	43	Colrich/Pulte	7370 Los Brazos	4	0.375	18345.9	4270	3	7/31/2003	3558	0.375	\$514,288	\$514,288	
30322110	14437	44	Colrich/Pulte	7374 Los Brazos	3	0.414	18015.9	4048	4	7/31/2003	3380	0.414	\$514,288	\$514,288	
30322111	14437	45	Colrich/Pulte	7378 Los Brazos	2	0.271	11809.9	3810	5	7/31/2003	3113	0.271	\$514,288	\$514,288	
30322112	14437	46	Colrich/Pulte	14708 Los Brazos	4	0.31	13513.2	4270	3	7/31/2003	3558	0.310	\$514,288	\$514,288	
30322113	14437	81	Colrich/Pulte	14753 Rio Rancho	1	0.421	18358.8	3353	8	8/31/2003	2713	0.421	\$514,288	\$514,288	
30322114	14437	82	Colrich/Pulte	14787 Rio Rancho	2	0.253	11005.0	3810	5	7/31/2003	3113	0.253	\$484,988	\$484,988	
30322115	14437	83	Colrich/Pulte	14773 Rio Rancho	3	0.253	11005.0	4048	4	7/31/2003	3380	0.253	\$484,988	\$484,988	
30322118	14437	84	Colrich/Pulte	14779 Rio Rancho	1	0.253	11005.0	3353	6	7/31/2003	2713	0.253	\$484,988	\$484,988	
30322117	14437	85	Colrich/Pulte	14785 Rio Rancho	4	0.253	11005.0	4270	3	7/31/2003	3558	0.253	\$484,988	\$484,988	
30322118	14437	88	Colrich/Pulte	14789 Rio Rancho	2	0.253	11005.0	3810	5	7/31/2003	3113	0.253	\$484,988	\$484,988	
30322119	14437	87	Colrich/Pulte	14795 Rio Rancho	3	0.274	11918.8	4048	4	7/31/2003	3380	0.274	\$484,988	\$484,988	
30322120	14437	88	Colrich/Pulte	14798 Rio Rancho	2	0.258	11143.2	3810	5	7/31/2003	3113	0.258	\$484,988	\$484,988	
30322121	14437	89	Colrich/Pulte	14790 Rio Rancho	1	0.253	11005.0	3353	8	7/31/2003	2713	0.253	\$484,988	\$484,988	
30322122	14437	80	Colrich/Pulte	14786 Rio Rancho	3	0.253	11005.0	4048	4	7/31/2003	3380	0.253	\$484,988	\$484,988	
30322123	14437	91	Colrich/Pulte	14774 Rio Rancho	3	0.253	11005.0	4048	4	7/31/2003	3380	0.253	\$484,988	\$484,988	
30322124	14437	92	Colrich/Pulte	14768 Rio Rancho	2	0.253	11005.0	3810	5	7/31/2003	3113	0.253	\$484,988	\$484,988	
30322125	14437	93	Colrich/Pulte	14782 Rio Rancho	4	0.274	11841.7	4270	3	7/31/2003	3558	0.274	\$484,988	\$484,988	
30322126	14437	94	Colrich/Pulte	14756 Rio Rancho	2	0.307	13376.3	3810	5	7/31/2003	3113	0.307	\$514,288	\$514,288	
30322127	14437	95	Colrich/Pulte	14750 Rio Rancho	4	0.44	18151.0	4270	3	7/31/2003	3558	0.440	\$514,288	\$514,288	
30322128	14437	P		Streets and Public Areas		0.181	8300.2								
30322129	14437	S		Streets and Public Areas		0.81	26568.9								
30322130	14437	T		Streets and Public Areas		0.428	18549.1								
30322131	14437	V		Streets and Public Areas		0.82	35728.7								
30321044	14438	15	Western Pacific	14500 Camino De La Luna # 1	3	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	16	Western Pacific	14500 Camino De La Luna # 2	3	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200	
30321044	14438	17	Western Pacific	14500 Camino De La Luna # 4	3	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	18	Western Pacific	14500 Camino De La Luna # 6	3	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700	
30321044	14438	19	Western Pacific	14500 Camino De La Luna # 5	3	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200	
30321044	14438	20	Western Pacific	14500 Camino De La Luna # 3	3	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	21	Western Pacific	14530 Camino De La Luna # 1	4	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	22	Western Pacific	14530 Camino De La Luna # 2	4	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200	
30321044	14438	23	Western Pacific	14530 Camino De La Luna # 3	4	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	24	Western Pacific	14530 Camino De La Luna # 5	4	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200	
30321044	14438	25	Western Pacific	14530 Camino De La Luna # 6	4	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700	
30321044	14438	26	Western Pacific	14530 Camino De La Luna # 4	4	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	1	Western Pacific	14510 Camino De La Luna # 1	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700	
30321044	14438	2	Western Pacific	14510 Camino De La Luna # 2	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200	
30321044	14438	3	Western Pacific	14510 Camino De La Luna # 5	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300	
30321044	14438	4	Western Pacific	14510 Camino De La Luna # 7	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200	
30321044	14438	5	Western Pacific	14510 Camino De La Luna # 8	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700	

**SANTA MONICA/FAIRBANKS SUMMIT
SUMMARY OF LOT ACREAGE
October 8, 2003**

APN	Tract	Lot	Builder	Address	Floor Plan	Lot Total Acres	Lot Square Feet	Building Square Feet	Tax Class	Building Permit Date	Assigned Special Tax		Appraised Value		Developed	Undeveloped
											2003/04	Residential	Value	Value		
30321044	14438	8	Western Pacific	14510 Camino De La Luna # 3	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700		
30321044	14438	7	Western Pacific	14510 Camino De La Luna # 4	1	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700		
30321044	14438	8	Western Pacific	14520 Camino De La Luna # 1	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700		
30321044	14438	9	Western Pacific	14520 Camino De La Luna # 2	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200		
30321044	14438	10	Western Pacific	14520 Camino De La Luna # 5	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$97,300	\$97,300		
30321044	14438	11	Western Pacific	14520 Camino De La Luna # 7	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$128,200	\$128,200		
30321044	14438	12	Western Pacific	14520 Camino De La Luna # 8	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700		
30321044	14438	13	Western Pacific	14520 Camino De La Luna # 3	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700		
30321044	14438	14	Western Pacific	14520 Camino De La Luna # 4	2	0.051	2214.8	Affordable Unit	7	2/18/2003	102	0.051	\$112,700	\$112,700		
30307009	14583	1	Pardee	7439 Rancho Cabrillo Trail	1	0.262	11395.0	3140	8			0.282	\$355,768		\$355,768	
30307009	14583	2	Pardee	7431 Rancho Cabrillo Trail	3	0.280	11342.0	4542	2			0.280	\$355,768		\$355,768	
30307009	14583	3	Pardee	7425 Rancho Cabrillo Trail	2	0.252	10993.0	3972	4	5/21/2003	3380	0.252	\$589,220	\$589,220		
30307009	14583	4	Pardee	7419 Rancho Cabrillo Trail	1S	0.337	14676.0	3321	8	5/21/2003	2713	0.337	\$589,220	\$589,220		
30307009	14583	5	Pardee	7413 Rancho Cabrillo Trail	3S	0.571	24868.0	5118	1	5/21/2003	4359	0.571	\$589,220	\$589,220		
30307009	14583	6	Pardee	7407 Rancho Cabrillo Trail	2	0.315	13714.0	3972	4			0.315	\$355,768		\$355,768	
30307009	14583	7	Pardee	7399 Rancho Cabrillo Trail	3	0.291	12221.0	4542	2			0.291	\$355,768		\$355,768	
30307009	14583	8	Pardee	7393 Rancho Cabrillo Trail	1	0.295	12860.0	3140	6			0.295	\$355,768		\$355,768	
30307009	14583	9	Pardee	7387 Rancho Ventana Trail	3S	0.378	16481.0	5118	1	8/18/2003	4359	0.378	\$390,000	\$390,000		
30307009	14583	10	Pardee	7383 Rancho Ventana Trail	1S	0.306	13350.0	3321	6	6/18/2003	2713	0.306	\$390,000	\$390,000		
30307009	14583	11	Pardee	7379 Rancho Ventana Trail	2	0.381	16579.0	3972	4			0.381	\$355,768		\$355,768	
30307009	14583	12	Pardee	7375 Rancho Ventana Trail	3	0.601	26159.0	4542	2			0.601	\$355,768		\$355,768	
30307009	14583	13	Pardee	7371 Rancho Ventana Trail	2	0.491	21389.0	3972	4			0.491	\$355,768		\$355,768	
30307009	14583	14	Pardee	7367 Rancho Ventana Trail	1	0.383	15785.0	3140	6			0.383	\$355,768		\$355,768	
30307009	14583	15	Pardee	7355 Rancho Ventana Trail	3	0.373	18252.0	4542	2			0.373	\$355,768		\$355,768	
30307009	14583	16	Pardee	7354 Rancho Ventana Trail	2	0.660	28732.0	3972	4			0.660	\$355,768		\$355,768	
30307009	14583	17	Pardee	7359 Rancho Ventana Trail	3	0.537	23405.0	4542	2			0.537	\$355,768		\$355,768	
30307009	14583	18	Pardee	7362 Rancho Ventana Trail	2	0.295	12871.0	3972	4			0.295	\$355,768		\$355,768	
30307009	14583	19	Pardee	7366 Rancho Ventana Trail	1	0.251	10955.0	3140	6			0.251	\$355,768		\$355,768	
30307009	14583	20	Pardee	7376 Rancho Ventana Trail	2	0.337	14688.0	3972	4			0.337	\$355,768		\$355,768	
30307009	14583	21	Pardee	14414 Rancho Del Prado Trail	3S	0.503	21909.0	5118	1	8/18/2003	4359	0.503	\$390,000	\$390,000		
30307009	14583	22	Pardee	14420 Rancho Del Prado Trail	2	0.393	17108.0	3972	4	8/18/2003	3380	0.393	\$390,000	\$390,000		
30307009	14583	23	Pardee	14428 Rancho Del Prado Trail	3	0.398	17322.0	4542	2			0.398	\$355,768		\$355,768	
30307009	14583	24	Pardee	14438 Rancho Del Prado Trail	1	0.426	18538.0	3140	6			0.426	\$355,768		\$355,768	
30307009	14583	25	Pardee	14442 Rancho Del Prado Trail	3	0.453	19738.0	4542	2			0.453	\$355,768		\$355,768	
30307009	14583	26	Pardee	14443 Rancho Del Prado Trail	2	0.423	18407.0	3972	4			0.423	\$355,768		\$355,768	
30307009	14583	27	Pardee	14435 Rancho Del Prado Trail	2	0.284	12367.0	3972	4			0.284	\$355,768		\$355,768	
30307009	14583	28	Pardee	14427 Rancho Del Prado Trail	1	0.273	11907.0	3140	6			0.273	\$355,768		\$355,768	
30307009	14583	29	Pardee	14419 Rancho Del Prado Trail	3S	0.274	11940.0	5118	1	8/18/2003	4359	0.274	\$390,000	\$390,000		
30307009	14583	30	Pardee	14415 Rancho Del Prado Trail	2	0.312	13597.0	3972	4	8/18/2003	3380	0.312	\$390,000	\$390,000		
30307009	14583	31	Pardee	7410 Rancho Cabrillo Trail	1	0.322	14023.0	3140	6			0.322	\$355,768		\$355,768	
30307009	14583	32	Pardee	7424 Rancho Cabrillo Trail	2	0.333	14481.0	3972	4			0.333	\$355,768		\$355,768	
30307009	14583	33	Pardee	7430 Rancho Cabrillo Trail	3	0.389	16956.0	4542	2			0.389	\$355,768		\$355,768	
30307009	14583	34	Pardee	7438 Rancho Cabrillo Trail	2	0.329	14317.0	3972	4			0.329	\$355,768		\$355,768	
30307009	14583	35	Pardee	7442 Rancho Cabrillo Trail	3	0.518	22472.0	4542	2			0.518	\$355,768		\$355,768	
30307009	14583	A		Private Streets		2.578	112308.0		0			2.578				
30307009	14583	38		Open Space/HOA		3.802	156902.0		0			3.802				
30307009	14583	37		Open Space/HOA		0.876	42526.0		0			0.876				

SANTA MONICA/FAIRBANKS SUMMIT
SUMMARY OF LOT ACREAGE
October 8, 2003

APN	Tract	Lot	Builder	Address	Floor Plan	Lot Total Acres	Lot Square Feet	Building Square Feet	Tax Class	Building Permit Date	Assigned Special Tax 2003/04	Residential	Appraised Value	Developed	Undeveloped
30307011	14672	1	Pardee	Rancho Catalina Trail	2	0.621	27032.0	3972	4			0.621	\$185,813		\$185,813
30307011	14672	2	Pardee	Rancho Catalina Trail	3	0.300	13064.0	4542	2			0.300	\$185,813		\$185,813
30307011	14672	3	Pardee	Rancho Catalina Trail	2	0.292	12708.0	3972	4			0.292	\$185,813		\$185,813
30307011	14672	4	Pardee	Rancho Catalina Trail	1	0.293	12744.0	3140	6			0.293	\$355,766		\$355,766
30307011	14672	5	Pardee	Rancho Catalina Trail	3	0.356	15521.0	4542	2			0.356	\$355,766		\$355,766
30307011	14672	6	Pardee	Rancho Catalina Trail	1	0.258	11229.0	3140	6			0.258	\$355,766		\$355,766
30307011	14672	7	Pardee	Rancho Catalina Trail	3	0.293	12761.0	4542	2			0.293	\$355,766		\$355,766
30307011	14672	8	Pardee	Rancho Catalina Trail	2	0.363	15803.0	3972	4			0.363	\$185,813		\$185,813
30307011	14672	9	Pardee	Rancho Catalina Trail	2	0.502	21655.0	3972	4			0.502	\$185,813		\$185,813
30307011	14672	10	Pardee	Rancho Catalina Trail	3	0.449	19548.0	4542	2			0.449	\$185,813		\$185,813
30307011	14672	11	Pardee	Rancho Catalina Trail	2	0.430	18739.0	3972	4			0.430	\$185,813		\$185,813
30307011	14672	12	Pardee	Rancho Catalina Trail	3	0.413	18004.0	4542	2			0.413	\$185,813		\$185,813
30307011	14672	13	Pardee	Rancho Catalina Trail	2	0.398	17348.0	3972	4			0.398	\$185,813		\$185,813
30307011	14672	14	Pardee	Rancho Catalina Trail	3	0.371	16154.0	4542	2			0.371	\$185,813		\$185,813
30307011	14672	15	Pardee	Rancho Catalina Trail	2	0.376	16370.0	3972	4			0.376	\$185,813		\$185,813
30307011	14672	16	Pardee	Rancho Catalina Trail	1	0.548	23869.0	3140	6			0.548	\$185,813		\$185,813
30307011	14672	17	Pardee	Rancho Catalina Trail	3	0.719	31300.0	4542	2			0.719	\$185,813		\$185,813
30307011	14672	A	Pardee	Open Space/HOA		1.540	67064.0					1.540			
30307011	14672	B	Pardee	Private Streets		1.002	43666.0								
30307011	14672	18	Pardee	Camino de la Luna		1.223	53281.0	Affordable Unit	7				\$0		\$0
TOTAL ACRES						115.614									
Grand Total													\$106,925,937	\$85,443,238	\$21,482,699

Totals		
	Total Units	Permits Pulled 9/1/03
Pardee Affordable Units	10	0
Pardee Market Rate	52	9
Coltrich/Pulte	66	66
Western Pacific Affordable Units	26	26
Western Pacific Market Rate	72	47
Total	226	148

EXHIBIT H

Comparable Single Family Land Data 1

Project: Sentinels at Santaluz

Location: West side of Santaluz Village Greens South; west side of Entrada Angelica; both sides of Entrada de Luz East; south side of Sentinel; and west side of Run of the Knolls, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 269-222-15 through 38
303-171-10 through 17
303-172-01 through 08

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 12.60 acres (80 lots of approximately 6,000 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown

Document No.: Various

Sale Price: \$14,100,000

Price/Lot: \$176,250

Terms: All cash

**Cash
Equivalent Price:** \$14,100,000

Buyer: Baywood Development

Seller: Santaluz, LLC

Source: Appraisal documents

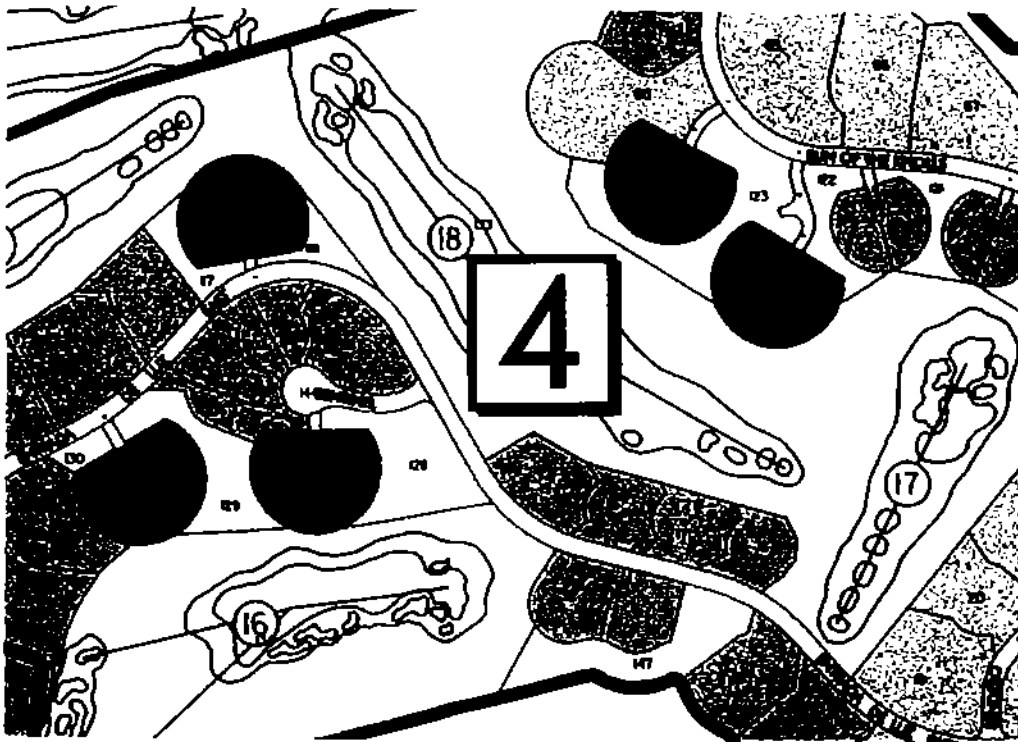
Comments: The following is a summary of the phased takedown purchase price:

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

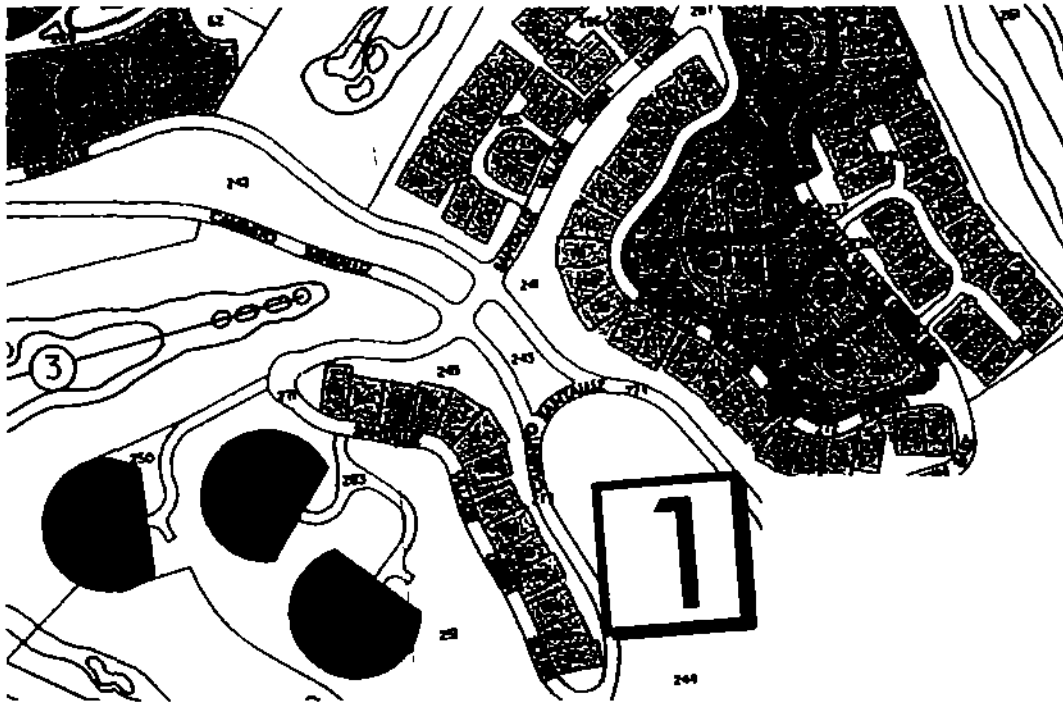
<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
4/00	Contract	
4/00	Deposit	\$410,000
9/00	Deposit	\$200,000
10/00	Deposit	\$800,000
12/00	8 Lots	\$1,140,000
1/01	16 Lots	\$2,820,000
10/01	16 Lots	\$2,820,000
12/01	24 Lots	\$2,820,000
2/02	16 Lots	<u>\$2,820,000</u>
Total Sale Price		\$14,100,000

This property consists of 10 groups of eight lots each with a common area access lot interspersed among other product types in the community being delivered in finished lot condition subject to an additional \$17,600 in fees (total finished lot cost \$193,850). The initial pricing ranges from \$620,000 to \$830,000 for unit sizes ranging from 2,179 to 2,888 square feet, averaging 2,503 square feet. The property is subject to Mello Roos Special Taxes of \$2,819 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

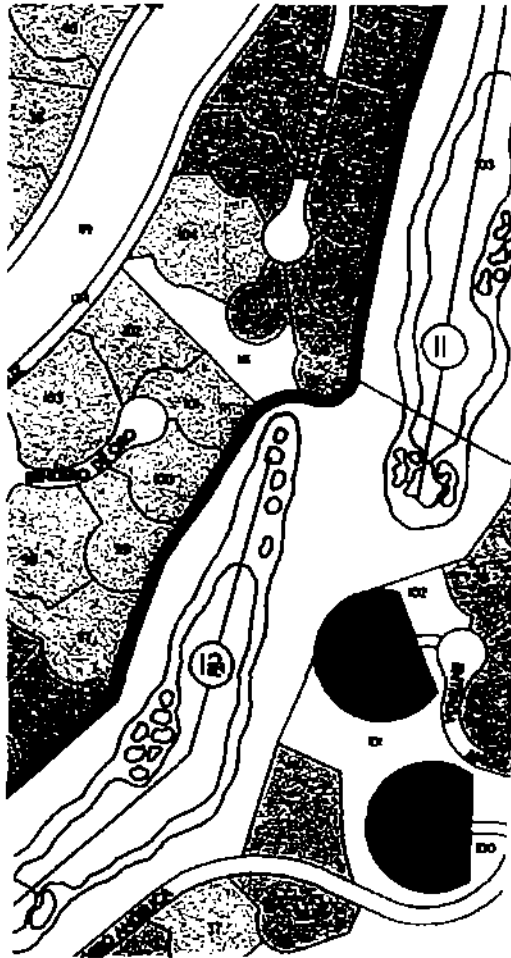
Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.



Assessor's Map
Simmels et al. et al.



Assessor's Map Sentinels at Santa Cruz



Comparable Single Family Land Data 2

Project: Haciendas Sur at Santaluz

Location: South side of Doug Hill Court; both sides of Las Haciendas; both sides of Doug Hill; north side of Entrada de Luz West; south side of Run of the Knolls, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-110-01 through 10
303-111-01 through 10
303-113-01 through 11
303-114-18 through 26
269-211-15 through 20

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 27.20 acres (50 lots of approximately 25,000 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown **Document No.:** Various

Sale Price: \$13,750,000

Price/Lot: \$275,000

Terms: All cash

**Cash
Equivalent Price:** \$13,750,000

Buyer: Centex Homes

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
6/00	Contract	
9/00	Deposit	\$687,500
12/00	14 Lots	\$9,900,000
6/01	36 Lots	<u>\$3,162,500</u>

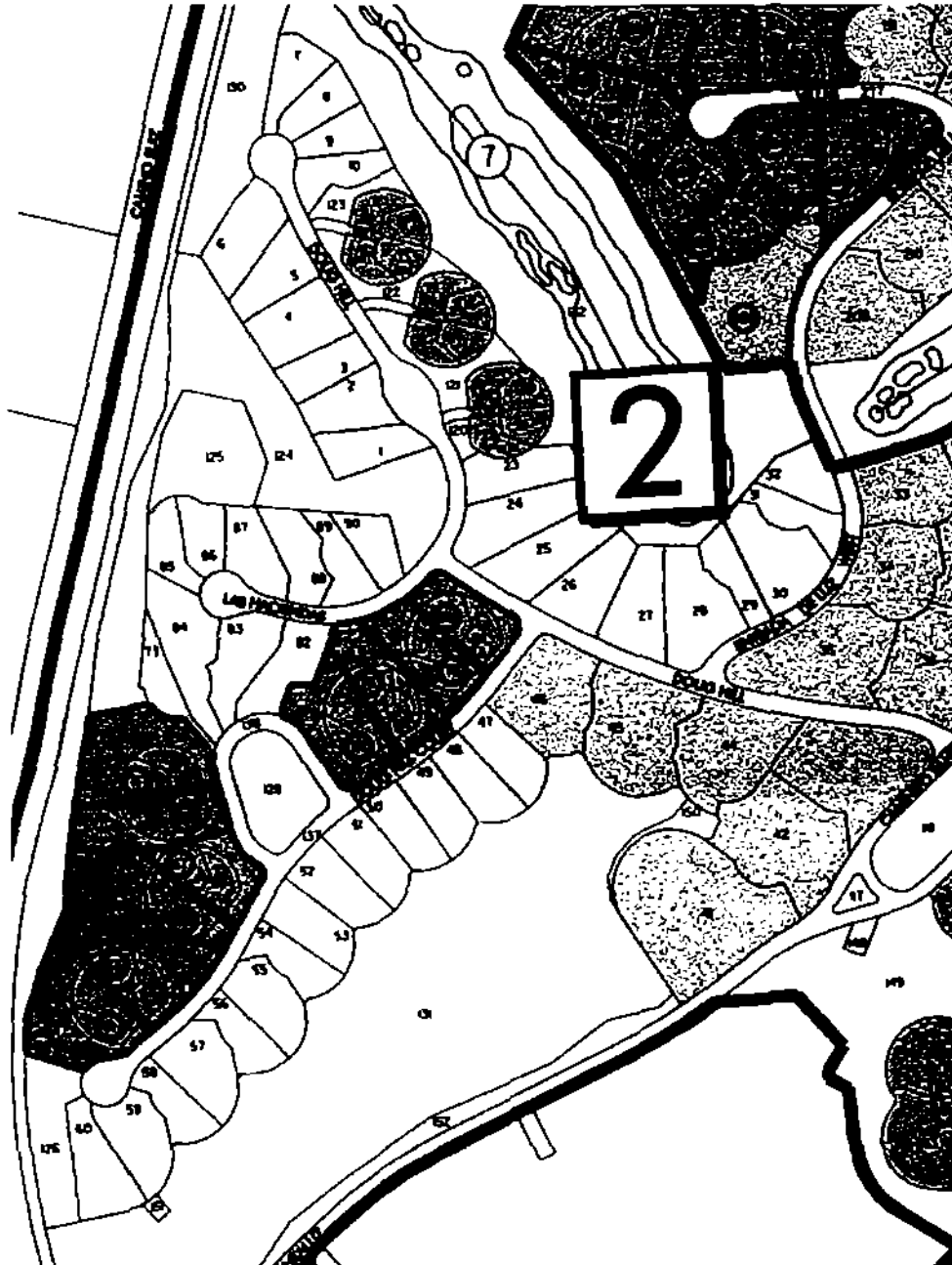
**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
Total Sale Price		\$13,750,000

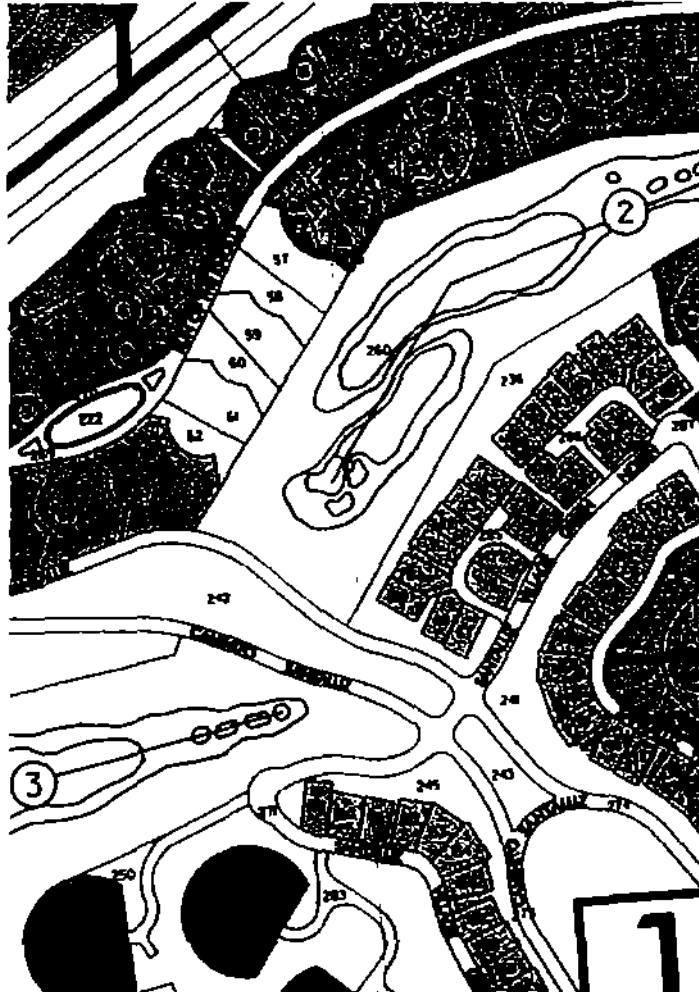
This property consists of single family lots interspersed among other product types in the community being delivered in finished lot condition subject to an additional \$17,600 in fees (total finished lot cost \$292,600). The initial pricing ranges from \$842,055 to \$912,200 for unit sizes ranging from 3,217 to 3,703 square feet, averaging 3,431 square feet. The property is subject to Mello Roos Special Taxes of \$4,184 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Assessor's Map Haciendas Sur at Santaluz



Assessor's Map Haciendas Sur at Santaluz



Comparable Single Family Land Data 3

Project: Spanish Bungalows at Santaluz

Location: South and west sides of La Zanja Drive, south of Camino de la Rosa; both sides of Luna Media; both sides of Caminito La Zanja; both sides of Delphia, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-130-01 through 41
303-131-01 through 23

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 11.60 acres (64 lots of approximately 6,250 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown

Document No.: Various

Sale Price: \$11,005,058

Price/Lot: \$171,954

Terms: All cash

**Cash
Equivalent Price:** \$11,005,058

Buyer: Christopher Homes

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
4/00	Contract	
4/00	Deposit	\$550,253
8/00	Deposit	\$550,253
12/00	29 Lots	\$4,952,277
7/01	3 Lots	\$515,862
8/01	32 Lots	<u>\$4,436,413</u>
Total Sale Price		\$11,005,058

The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The lots were delivered in "blue top" condition subject to remaining construction costs of \$22,900 per lot and fees of \$17,600 in fees (total finished lot cost \$212,454). The initial pricing ranges from \$676,000 to \$821,765 for unit sizes ranging from 2,727 to 3,508 square feet, averaging 3,067 square feet. The property is subject to Mello Roos Special Taxes of \$3,531 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Comparable Single Family Land Data 4

Project: Garden Homes at Santaluz

Location: Both sides of Caminto La Zanja; north and west sides of Garden Trail; both sides of Garden Court; both sides of Garden Terrace; both sides of Rock Rose, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-140-01 through 37
303-141-01 through 15
303-142-01 through 11

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 16.10 acres (63 lots of approximately 7,500 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown

Document No.: Various

Sale Price: \$12,175,521

Price/Lot: \$193,262

Terms: All cash

**Cash
Equivalent Price:** \$12,175,521

Buyer: Reilly Homes

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
4/00	Contract	
4/00	Deposit	\$607,500
7/00	Deposit	\$607,500
1/01	30 Lots	\$5,811,235
6/01	30 Lots	<u>\$5,149,286</u>
Total Sale Price		\$12,175,521

The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The lots were delivered in "blue top" condition subject to remaining construction costs of \$22,900 per lot and fees of \$17,600 in fees (total finished lot cost \$233,762). The average price is \$750,000 for unit sizes ranging from 3,347 to 4,002 square feet, averaging 3,659 square feet. The property is subject to Mello Roos Special Taxes of \$4,184 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Comparable Single Family Land Data 4A

Project: Garden Homes at Santaluz

Location: Both sides of Caminto La Zanja; north and west sides of Garden Trail; both sides of Garden Court; both sides of Garden Terrace; both sides of Rock Rose, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-140-01 through 37
303-141-01 through 15
303-142-01 through 11

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 16.10 acres (63 lots of approximately 7,500 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: October, 2001
Contract, August, 2001

Document No.: N/A

Sale Price: \$17,325,000

Price/Lot: \$275,000

Terms: All cash

**Cash
Equivalent Price:** \$17,325,000

Buyer: D.R. Horton

Seller: Reilly Western Pacific Housing

Source: Appraisal documents; Stefan LaCasse, D.R. Horton, buyer

Comments: The property was purchased in "blue top" condition by the seller as follows:

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
4/00	Contract	
4/00	Deposit	\$607,500
7/00	Deposit	\$607,500
1/01	30 Lots	\$5,811,235
6/01	30 Lots	<u>\$5,149,286</u>
Total Sale Price		\$12,175,521

The property was resold as finished lots subject to payment of \$17,600 per lot in fees, to D.R. Horton who also purchased the plans valued at \$150,000 (\$2,381 per lot)

The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The average price is \$750,000 for unit sizes ranging from 3,347 to 4,002 square feet, averaging 3,659 square feet. The property is subject to Mello Roos Special Taxes of \$4,184 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Comparable Single Family Land Data 5

Project: Casitas at Santaluz

Location: East side of Santaluz Village Greens South; north and west sides of Santaluz Village Greens North; and east side of Santaluz Village Greens East, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 269-222-01 through 14
269-220-01 through 24, 33 through 40
269-221-01 through 20, 29 through 42

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 12.70 acres (80 lots of approximately 6,000 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown **Document No.:** Various

Sale Price: \$14,275,200

Price/Lot: \$178,440

Terms: All cash

**Cash
Equivalent Price:** \$14,275,200

Buyer: Taylor Woodrow Homes

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
3/00	Contract	
3/00	Deposit	\$713,760
5/00	Deposit	\$713,760
11/00	40 Lots	\$7,137,600
6/01	40 Lots	<u>\$5,710,080</u>
Total Sale Price		\$14,275,200

This property consists of single family lots interspersed among other product types in the community being delivered in finished lot condition subject to an additional \$17,600 in fees (total finished lot cost \$196,040). The initial pricing ranges from \$571,000 to \$792,748 for unit sizes ranging from 2,180 to 2,340 square feet, averaging 2,250 square feet. The property is subject to Mello Roos Special Taxes of \$2,189 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Assessor's Map Casitas at Santaluz



Comparable Single Family Land Data 6

Project: Posadas at Santaluz

Location: Both sides of Entrada de Luz West; north side of Caminito Santaluz; both sides of Doug Hill; both sides of Sendero de Oro; west side of Santaluz Inlet cul-de-sac; south side of Sendero Angelica; both sides of Entrada de Luz East; both sides of Sendero de la Pradera; north side of Entrada de Luz East; both sides of Run of the Knolls; west side of Sendero del Alba cul-de-sac, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 269-230-01 through 04, 09 through 12
269-231-01, 18
269-232-01, 02, 03
303-111-11, 12, 13
303-112-01 through 05
303-114-01 through 04
303-120-06
303-121-02 through 07
303-122-01 through 06
303-170-18 through 21
303-172-11
303-173-01, 02
303-174-02, 03

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 86.10 acres (66 lots of approximately 55,000 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown **Document No.:** Various

Sale Price: \$31,267,896

Price/Lot: \$473,756

Terms: All cash

**Cash
Equivalent Price:** \$31,267,896

Buyer: Taylor Woodrow Homes

Seller: Santaluz, LLC

Source: Appraisal documents

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

Comments: The following is a summary of the phased takedown purchase price:

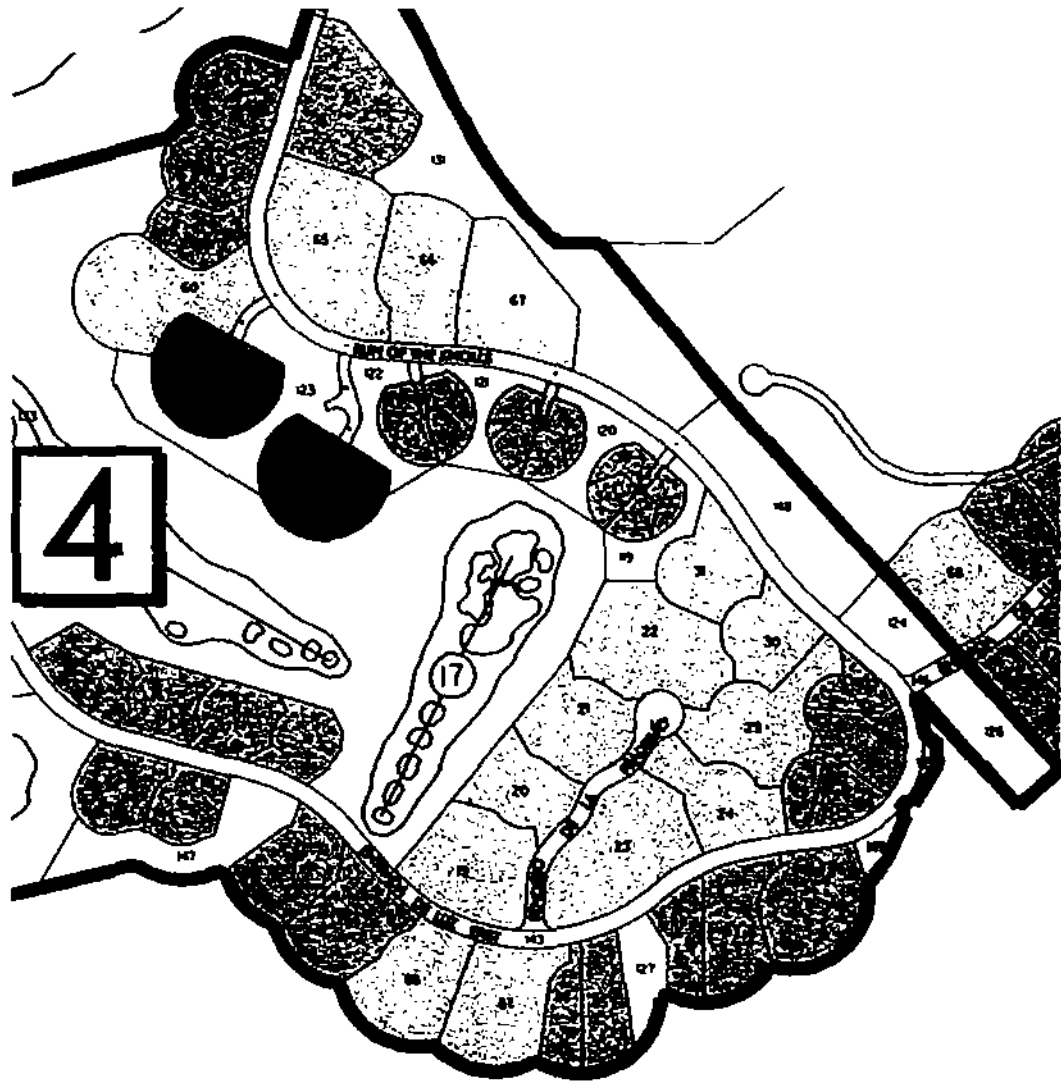
<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
3/00	Contract	
3/00	Deposit	\$1,563,395
7/00	Deposit	\$1,563,395
12/00	13 Lots	\$6,158,828
1/01	8 Lots	\$3,790,048
7/01	15 Lots	\$7,106,340
10/01	15 Lots	\$7,106,340
4/02	15 Lots	<u>\$3,979,550</u>
Total Sale Price		\$31,267,896

This property consists of single family lots somewhat interspersed among other product types in the community being delivered in finished lot condition subject to an additional \$17,600 in fees (total finished lot cost \$491,356). The initial pricing ranges from \$1,323,000 to \$1,468,000 for unit sizes ranging from 4,776 to 5,565 square feet, averaging 5,188 square feet. The property is subject to Mello Roos Special Taxes of \$7,335 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

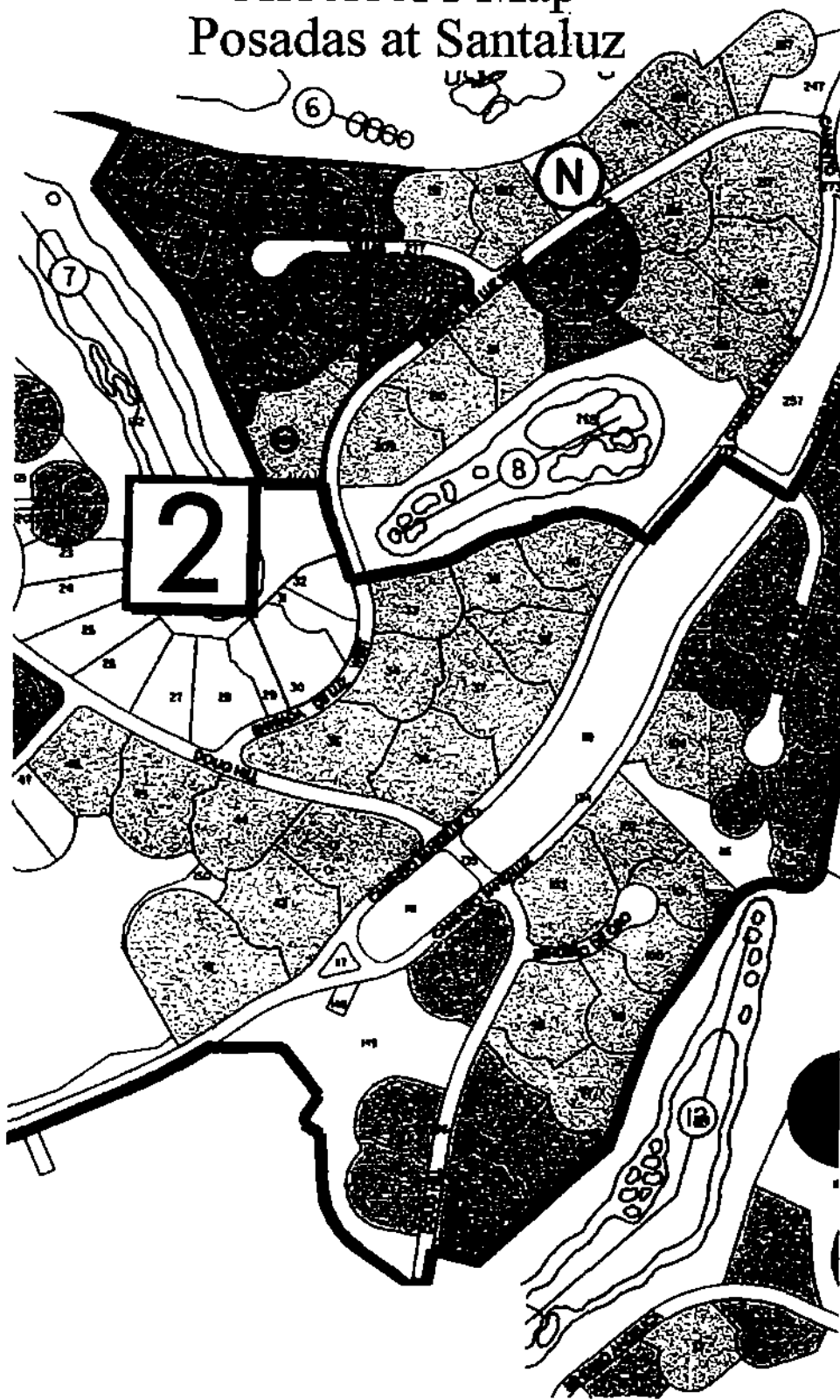
Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Subsequent to the close of escrow, ten lots were repurchased Santaluz, LLC for resale as custom lots.

Assessor's Map Posadas at Santaluz



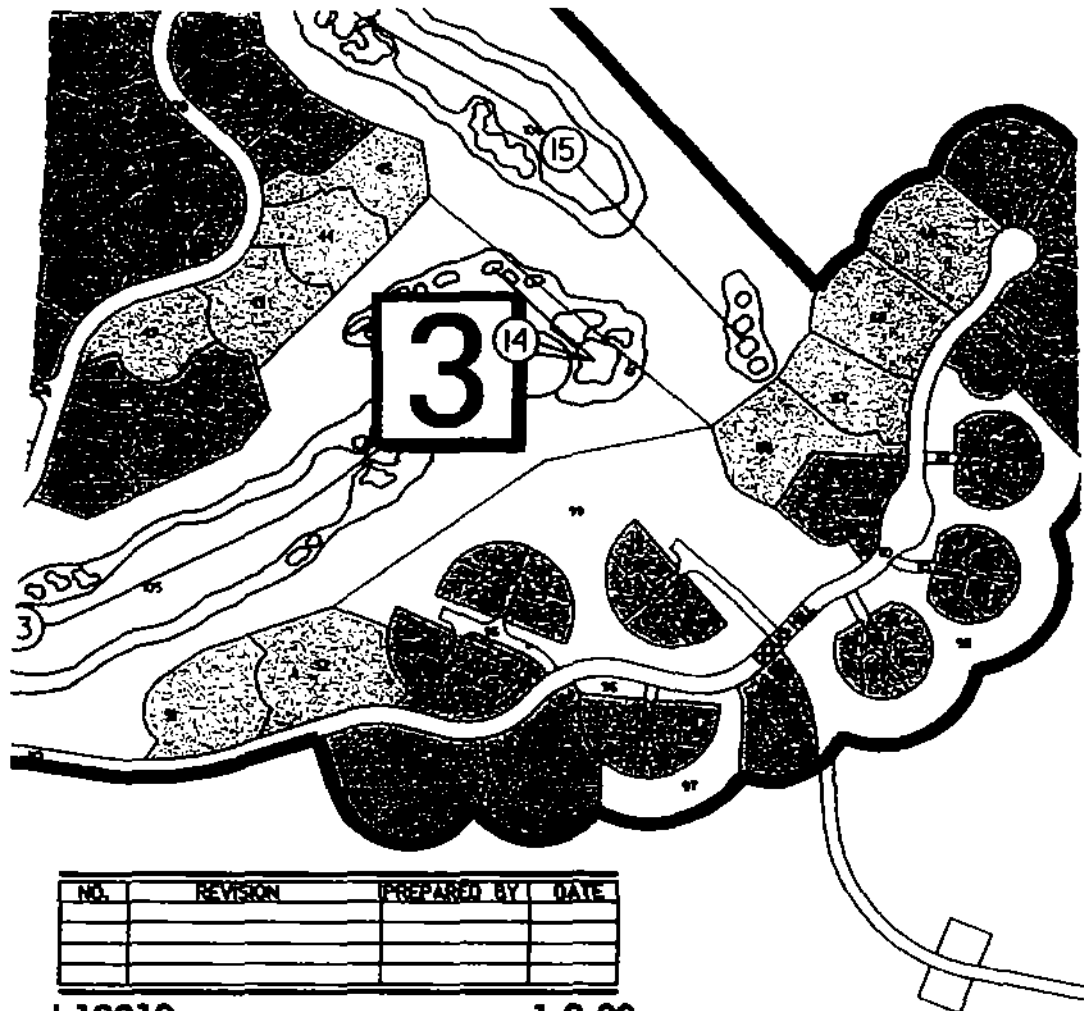
Assessor's Map Posadas at Santaluz



Assessor's Map Posadas at Santaluz



Assessor's Map Posadas at Santaluz



NO.	REVISION	PREPARED BY	DATE

J-13912

1-2-02



RICK ENGINEERING COMPANY

PREPARED BY
 CHECKED BY
 DATE

Comparable Single Family Land Data 7

Project: Court Homes at Santaluz

Location: Both sides of Entrada La Zanja; both sides of Purple Sage; both sides of Vista La Zanja; both sides of Caminito Camella, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-150-01 through 24
303-151-01 through 47

**Thomas Bros.
Map Code:** 1189-A/B-1/2

Size: 19.60 acres (71 lots of approximately 8,600 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Under contract June, 2002
Closed August 16, 2002

Document No.: 694958

Sale Price: \$17,492,754

Price/Lot: \$246,377

Terms: All cash

**Cash
Equivalent Price:** \$17,492,754

Buyer: DW Black Mountain Ranch (Davidson Communities, LLC)

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The lots were delivered in "blue top" condition subject to remaining construction costs of \$22,900 per lot and fees of \$17,600 in fees (total finished lot cost \$312,706). The average price range proposed was \$850,000 for unit sizes ranging from 3,500 to 3,900 square feet, averaging 3,750 square feet. The property is subject to Mello Roos Special Taxes of \$4,950 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Comparable Single Family Land Data 7A

Project: Court Homes at Santaluz

Location: Both sides of Entrada La Zanja; both sides of Purple Sage; both sides of Vista La Zanja; both sides of Caminito Camella, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-150-01 through 24
303-151-01 through 47

**Thomas Bros.
Map Code:** 1189-A/B-1/2

Size: 19.60 acres (71 lots of approximately 8,600 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Letter of Intent (various) **Document No.:** N/A

Sale Price: \$18,782,214

Price/Lot: \$272,206

Terms: All cash

**Cash
Equivalent Price:** \$18,782,214

Buyer: Shea Homes

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

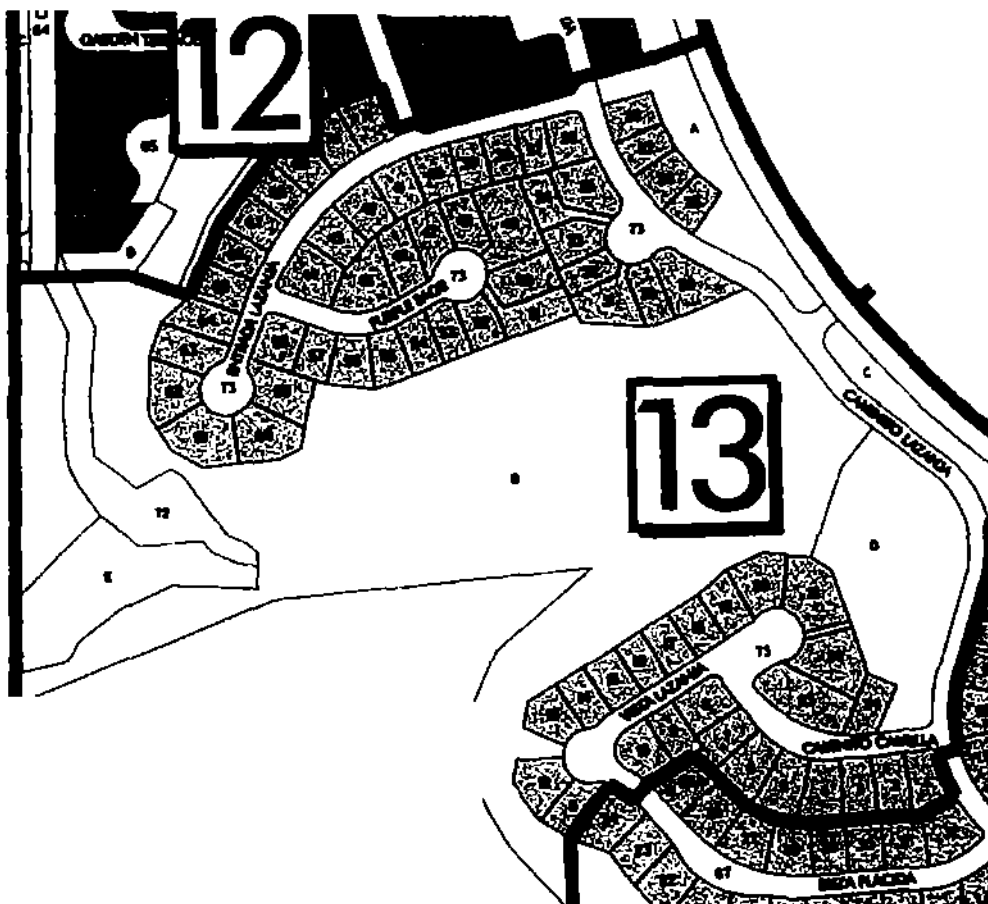
<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
9/01	Letter of Intent	
12/01	16 Lots	\$4,355,296
4/02	16 Lots	\$5,716,326
7/02	21 Lots	\$4,355,296
10/02	16 Lots	<u>\$4,355,296</u>
Total Sale Price		\$18,782,214

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

This is a summary of a letter of intent for a phased takedown purchase that did not evolve into a purchase contract. The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The lots were delivered in "blue top" condition subject to remaining construction costs of \$22,900 per lot and fees of \$17,600 in fees (total finished lot cost \$312,706). The average price range proposed was \$850,000 for unit sizes ranging from 3,500 to 3,900 square feet, averaging 3,750 square feet. The property is subject to Mello Roos Special Taxes of \$4,950 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Assessor's Map Court Homes at Santaluz.



Comparable Single Family Land Data 8

Project: Country Homes at Santaluz

Location: Both sides of Camino La Zanja; both sides of Briza Placiba; both sides of Tierra Tesoro; both sides of Salida del Sol, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-160-01 through 46
303-161-01 through 19

Thomas Bros.
Map Code: 1189-A/B-1/2

Size: 18.80 acres (65 lots of approximately 9,750 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Phased Takedown Document No.: N/A

Sale Price: \$19,350,000

Price/Lot: \$297,692

Terms: All cash

Cash
Equivalent Price: \$19,350,000

Buyer: Warmington Homes California

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
5/03	Letter of Intent	
7/03	35 Lots	\$10,419,230
8/04	30 Lots	<u>\$ 8,930,770</u>
Total Sale Price		\$19,350,000

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The lots were delivered in "blue top" condition subject to remaining construction costs of \$22,754 per lot and fees of \$17,600 in fees (total finished lot cost \$359,518). The projected price range is \$875,000 to \$940,000 for unit sizes ranging from 3,850 to 4,750 square feet. The property is subject to Mello Roos Special Taxes of \$3,531 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Comparable Single Family Land Data 8A

Project: Country Homes at Santaluz

Location: Both sides of Camino La Zanja; both sides of Briza Placiba; both sides of Tierra Tesoro; both sides of Salida del Sol, Santaluz Planned Community (both sides of Camino Ruiz north of Carmel Valley Road), San Diego

Assessor's Parcel No.: 303-160-01 through 46
303-161-01 through 19

**Thomas Bros.
Map Code: 1189-A/B-1/2**

Size: 18.80 acres (65 lots of approximately 9,750 square feet)

Zoning: A1-10 modified pursuant to requirements of a Development Agreement

Utilities: Available

Date of Sale: Letter of Intent (various) **Document No.:** N/A

Sale Price: \$21,384,051

Price/Lot: \$319,165

Terms: All cash

**Cash
Equivalent Price:** \$21,384,051

Buyer: Centex Homes

Seller: Santaluz, LLC

Source: Appraisal documents

Comments: The following is a summary of the phased takedown purchase price:

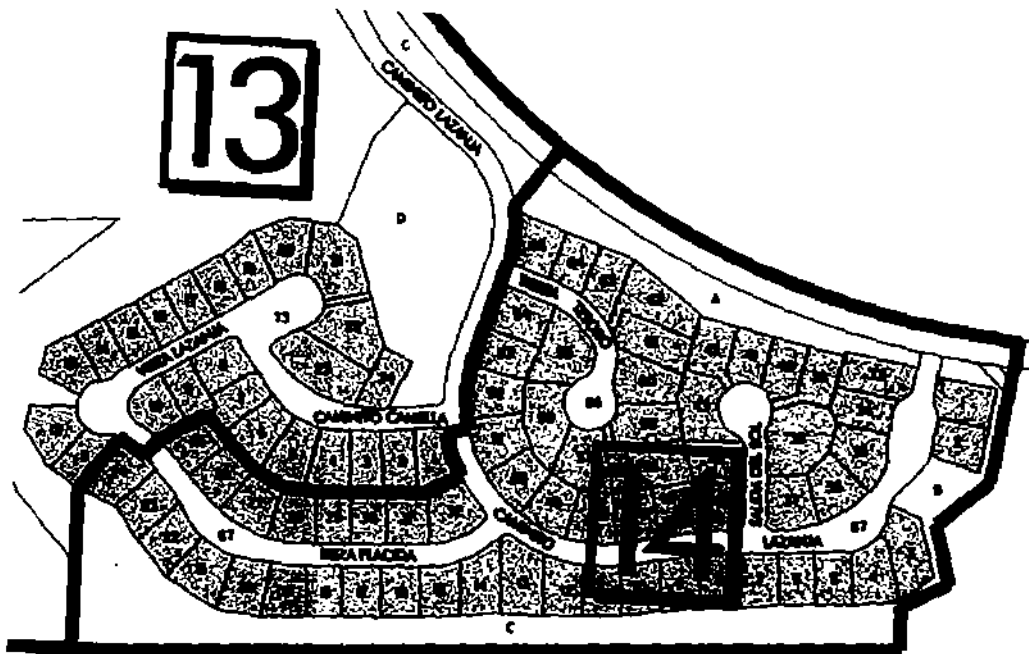
<u>Date(s)</u>	<u>Phasing</u>	<u>Sale Price</u>
6/01	Letter of Intent	
7/01	25 Lots	\$7,924,290
1/02	21 Lots	\$6,648,159
7/02	21 Lots	<u>\$6,811,602</u>
Total Sale Price		\$21,384,051

**CFD NO. 2 (SANTA MONICA - FAIRBANKS SUMMIT-
IMPROVEMENT AREA 4)**

This is a summary of a letter of intent for a phased takedown purchase that did not evolve into a purchase contract. The lots are located in the La Zanja Canyon portion of the project which contains four production builder lot groups on the west side of Camino Ruiz south of the Town Center portion of the community. These lots do not have golf course frontage and are designed in a more traditional subdivision fashion rather than interspersed among other products as is the case to the east. The lots were delivered in "blue top" condition subject to remaining construction costs of \$22,754 per lot and fees of \$17,600 in fees (total finished lot cost \$359,518). The average price range is \$925,000 for unit sizes ranging from 2,727 to 3,508 square feet, averaging 3,067 square feet. The property is subject to Mello Roos Special Taxes of \$3,531 per year (average) and a Poway Unified School District Mello Roos Special Tax of \$737 per year. Association fees are \$382.75 per month.

Santaluz is a golf course oriented planned community with gated entry to all home sites off the major access road, Camino Ruiz.

Assessor's Map Country Homes at Santaluz



Comparable Single Family Land Data 9

Project: Stallions Crossing

Location: South side of El Camino Real east of old El Camino Real, San Diego

Assessor's Parcel No.: 304-021-17 Thomas Bros.
Map Code: 1188-A-3

Size: 29.11 gross acres; 12.00 net acres; 47 lots (6,000 square foot minimum)

Zoning: R1

Utilities: Available (need extension)

Date of Sale: January 4, 2001 Document No.: 7563

Sale Price: \$9,700,000

Price/Lot: \$206,383

Terms: All cash

Cash
Equivalent Price: \$9,700,000

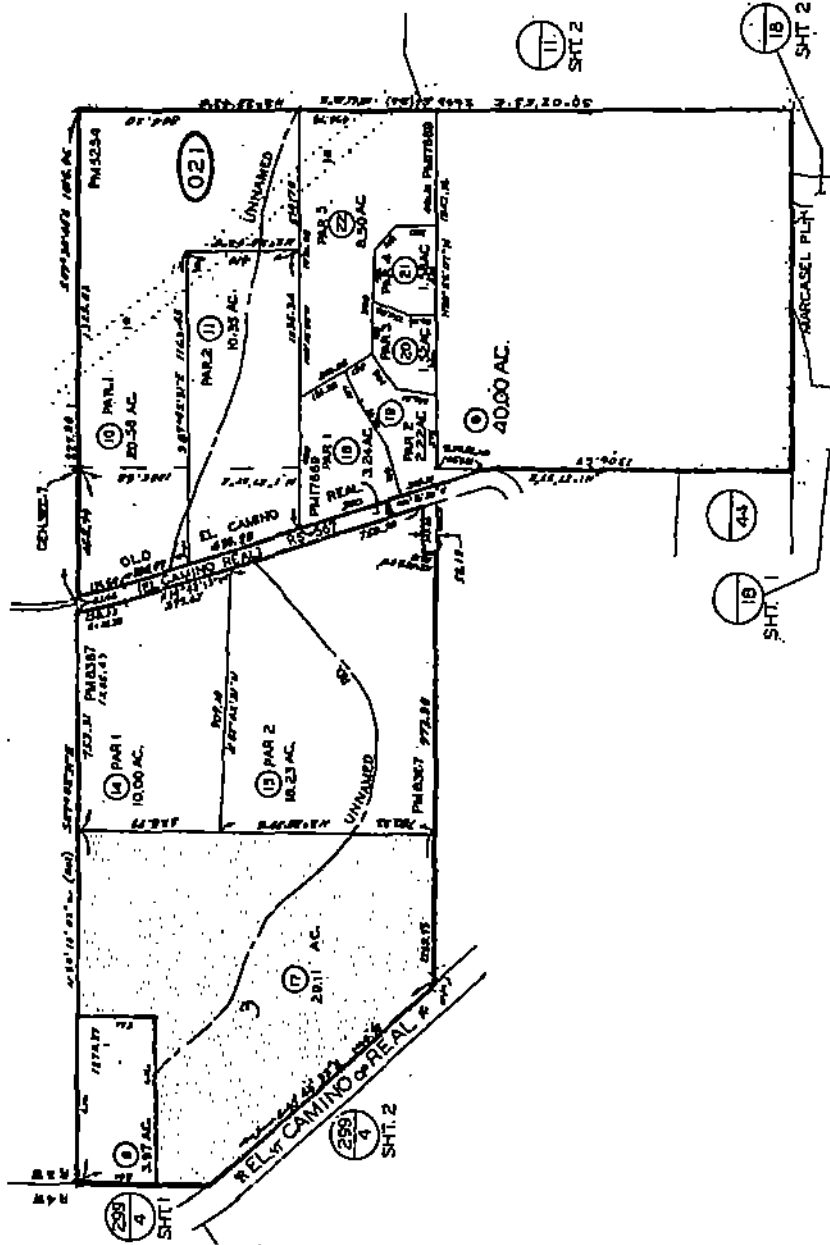
Buyer: Sea Country Homes

Seller: CRV Stallions Crossings

Source: Gunder Creager, Colliers International, broker; Roy Collins, Managing Partner, CRV Stallions Crossings, seller

Comments: The property consists of 47 single family lots that were sold with a tentative map. The property went under contract in approximately September, 2000 and was subject only to approval of a Coastal Development Permit. The finishing costs and fees were \$121,145 per lot for a total finished lot cost of \$327,528. Pricing was proposed at between \$774,990 and \$914,990 for average sizes of 3,173 to 3,897 square feet in a gate-guarded community. There are some ocean and valley views of the surrounding terrain. There are no Mello Roos taxes.

Assessor's Map



1* SINGLE ELECTRIC TRANSMISSION P.W.
SEC. 7 -- TMS-RJM - 00R
ROS 6670, 6872, 8945, 10103, 10700,
13230, 13362

Comparable Single Family Land Data 10

Project: Santa Monica

Location: North of Carmel Valley Road, east of Camino Ruiz, San Diego (Subarea I)

Assessor's Parcel No.: 303-070-07 Thomas Bros.
Map Code: 1189-AS-2

Size: 82.11 gross acres; 138 lots (approximately 10,000 square foot average).

Zoning: A1-10

Utilities: Available (need extension)

Date of Sale: Under contract, November, 2001; Document No.: N/A
To close, January, 2002

Sale Price: \$36,294,000

Price/Lot: \$263,000

Terms: All cash

Cash
Equivalent Price: \$36,294,000

Buyer: Western Pacific Housing

Seller: Security Trust Company

Source: Gunder Creager, Colliers International, broker

Comments: The property is being purchased for construction of 138 single family residences. Finishing costs are estimated at \$37,000 per lot for a total finished lot cost of \$300,000. There is a Poway Unified School District Mello Roos Special Tax. The property will close escrow with a final map and the project requirements include 26 affordable units.

Western Pacific is simultaneously selling 66 of these lots to Colrich Communities at, reportedly, the same price.

Comparable Single Family Land Data 10A

Project: Santa Monica

Location: North of Carmel Valley Road, east of Camino Ruiz, San Diego (Subarea I)

Assessor's Parcel No.: A portion of 303-070-07 **Thomas Bros.
Map Code: 1189-AS-2**

Size: 39.27 gross acres (prorata share of 82.11 gross acre site), 66 approximately 10,000 square foot average size lots.

Zoning: A1-10

Utilities: Available (need extension)

Date of Sale: Under contract, December, 2001; **Document No.: 041021**
Closed, January 16, 2002

Sale Price: \$19,800,000 (see comments)

Price/Lot: \$300,000

Terms: All cash

**Cash
Equivalent Price:** \$19,800,000 (see comments)

Buyer: Colrich Communities

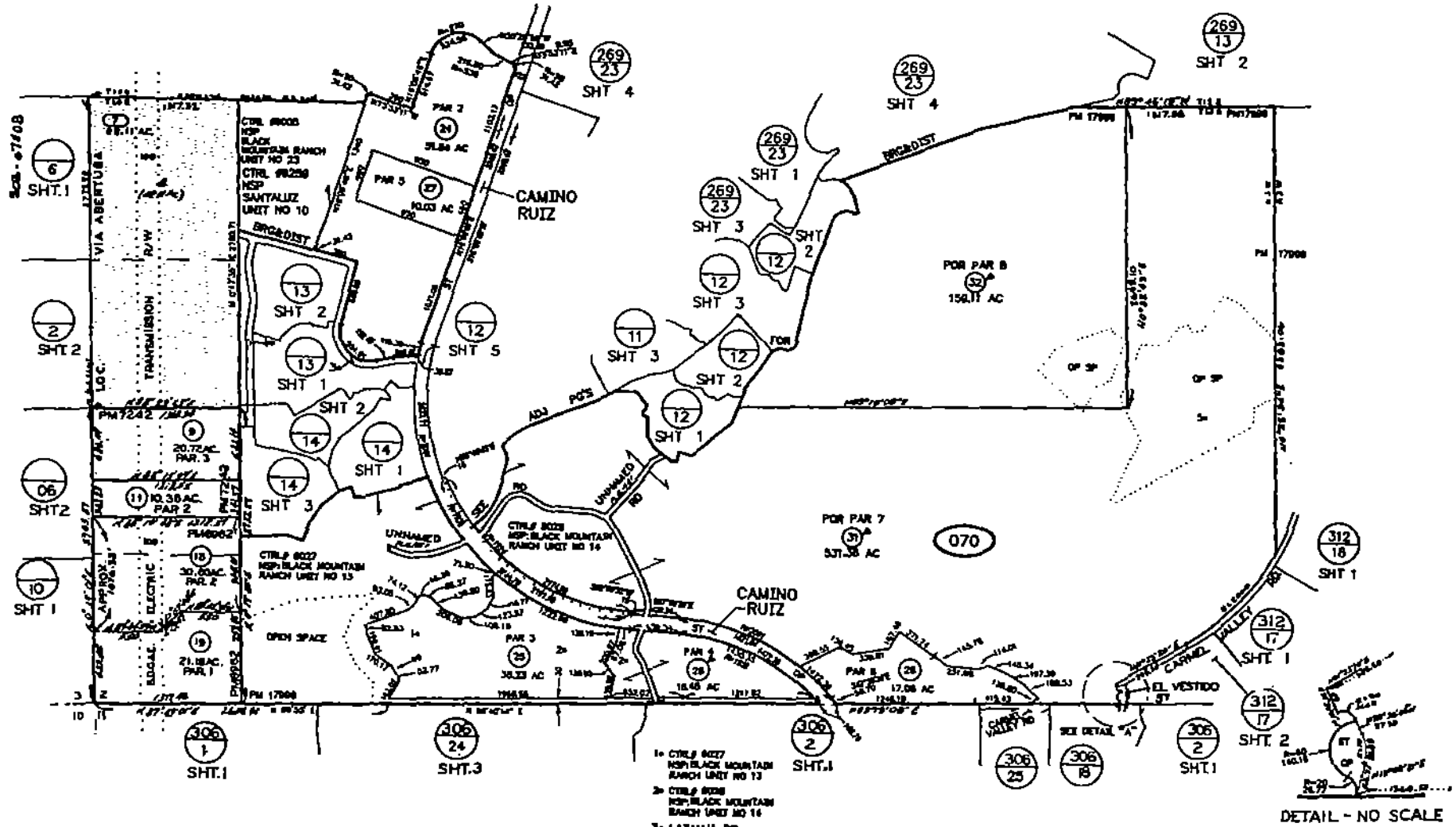
Seller: Western Pacific Housing

Source: Steve Heinshon, Colrich Communities, buyer; Gunder Creager, Colliers International, broker

Comments: This is part of a property purchased for construction of 138 single family residences. Finishing costs are estimated at \$37,000 per lot for a total finished lot cost of \$300,000. These lots are being purchased on a finished basis. The price was \$19,140,000 but there is an additional \$10,000 per lot to be paid upon the closing of each home sale. There is a Poway Unified School District Mello Roos Special Tax. The property will close escrow with a final map and the project requirements include 26 affordable units.

Colrich Communities is purchasing a portion of this 138 lot property presently under contract to Western Pacific Housing. The proposed product will range in price from \$710,000 to \$790,000 and range from 3,200 to 4,300 square feet.

Assessor's Map



SEC 1 - T14S-R3W
SEC 2 - T14S-R3W
ROS 9419,11509,16387

Comparable Single Family Land Data 11

Project: Fairbanks Summit

Location: Old Black Mountain Road, west of Camino de La Luna, north of Carmel Valley Road, San Diego (Subarea 1)

Assessor's Parcel No.: 303-070-09, 11 **Thomas Bros.
Map Code: 1189-A-2**

Size: 31.1 gross acres; 21.77 net acres; 52 lots (averaging 18,000 square feet)

Zoning: A1-10

Utilities: Available (need extension)

Date of Sale: Under contract, November, 2001; **Document No.:** 462711, 462712,
Closed, May 31, 2002 **462716, 462717**

Sale Price: \$11,001,000

Price/Lot: \$211,558

Terms: All cash

**Cash
Equivalent Price:** \$11,001,000

Buyer: Pardee Homes

Seller: Fairbanks Exchange, LLC & Fairbanks Summit

Source: Confidential

Comments: The property consists of two sites being purchased as follows:

The property was purchased approximately two years prior as raw land with no entitlements. Subsequently, the property was entitled and the final map is ready to record. The property has excellent views of the surrounding terrain and has approximately 30% open space. There is an affordable housing requirement of 10 units on two acres which will be subsidized at approximately \$7,000 per unit (included in finished lot cost). Reportedly, there are two backup offers.

Proposed product will range from \$715,000 to \$935,000 and range in size from 3,100 to 4,700 square feet.

Comparable Single Family Land Data 12

Project: Cordera

Location: North of SR 56, west of Black Mountain Parkway, San Diego

Assessor's Parcel No.: 306-340-57 through 63;
306-341-01 through 30 and 34 through 71

**Thomas Bros.
Map Code: 1189-B-4**

Size: 78 lots (5,280 square foot minimum, 5,500 square foot average)

Zoning: A1-10

Utilities: Available (need extension)

Date of Sale: July 11, 2001
Under contract, April, 2001

Document No.: 477941

Sale Price: \$16,294,509

Price/Lot: \$208,904

Terms: All cash

**Cash
Equivalent Price:** \$16,294,509

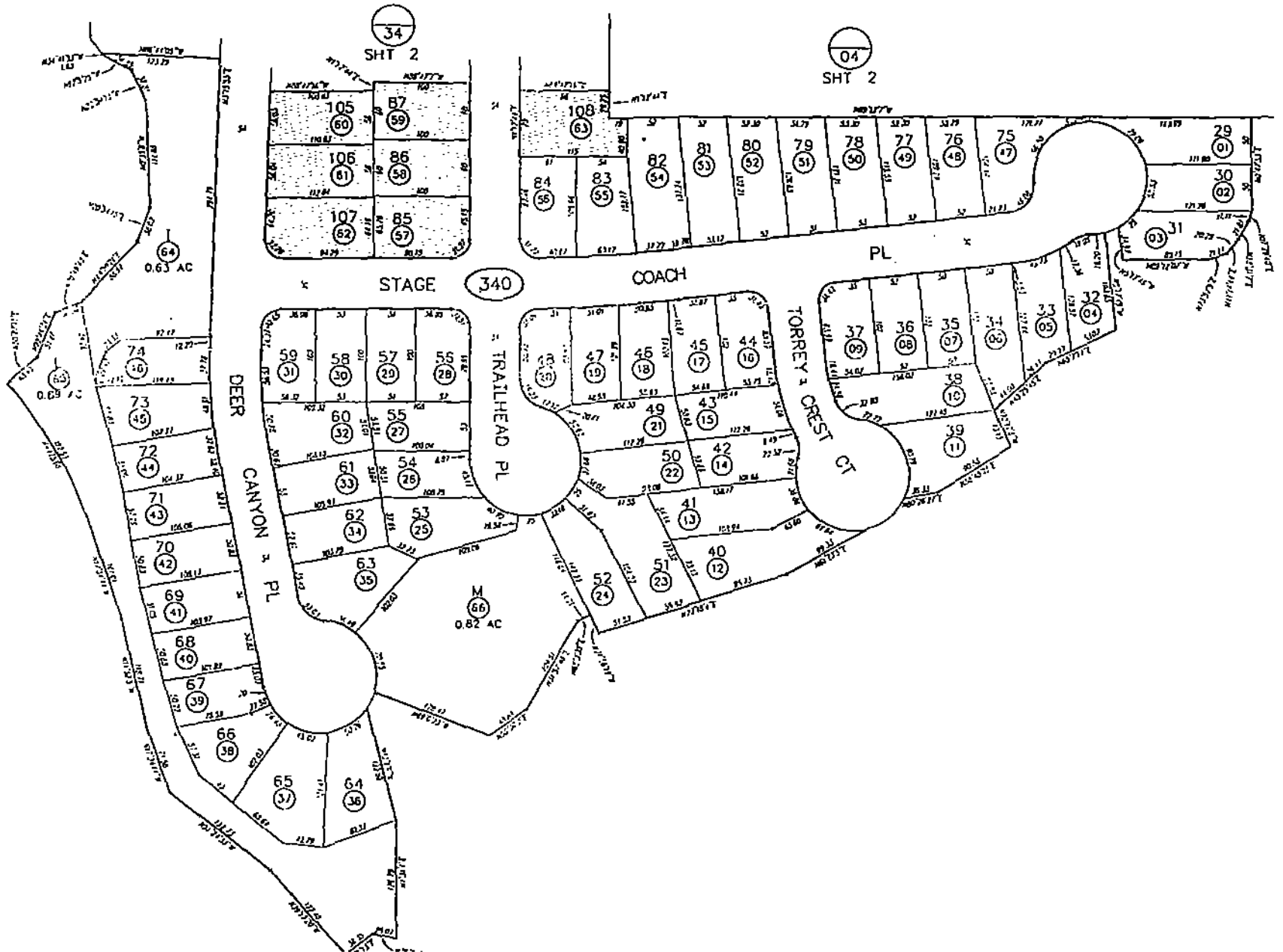
Buyer: Standard Pacific Properties

Seller: Greystone Homes, Inc.

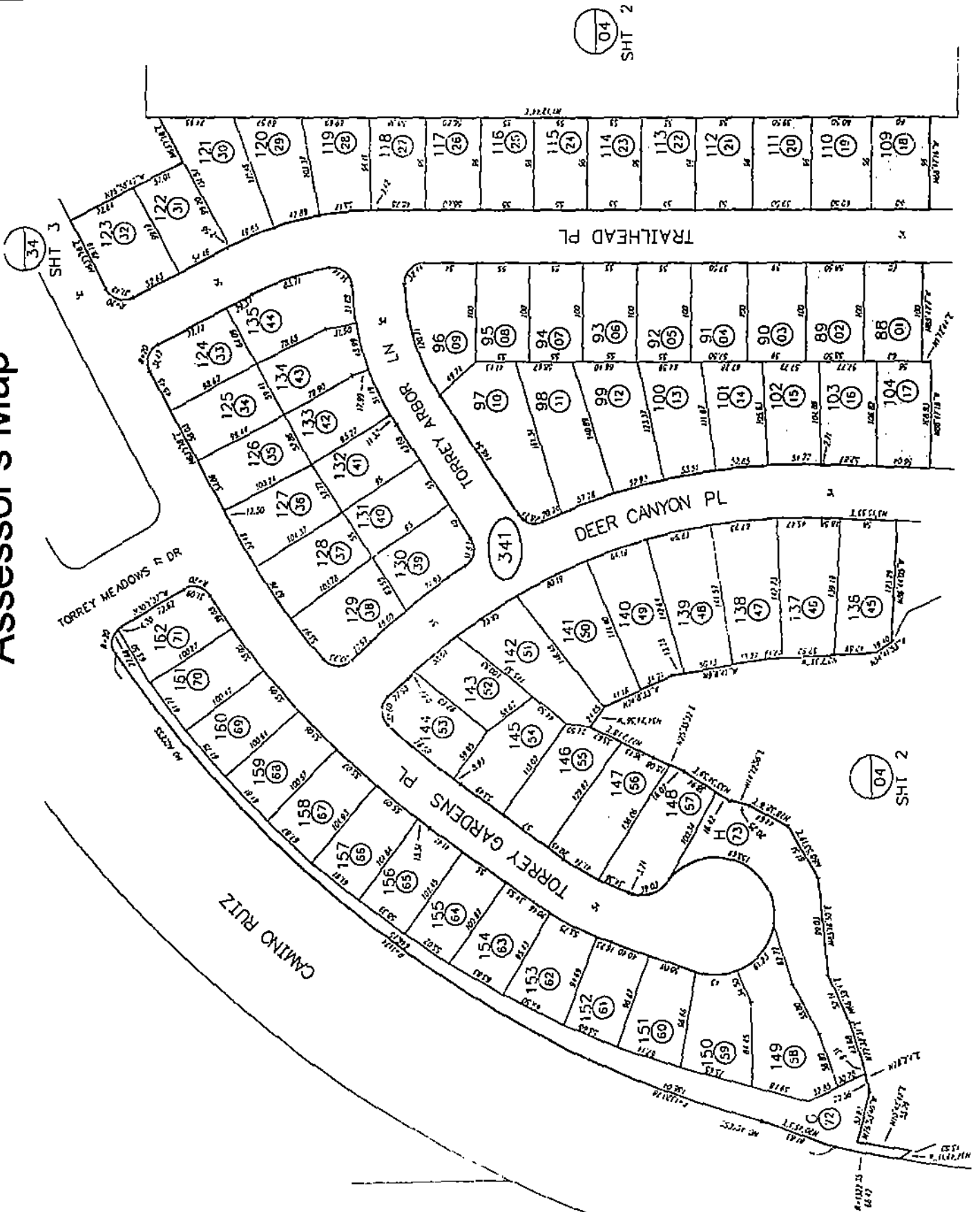
Source: Joann Watanabi, Standard Pacific, buyer

Comments: This property was purchased at "blue top" condition with a recorded final map. The finishing costs and fees are \$4,096 per lot indicating a finished lot cost of \$250,000. There is a Poway Unified School District Mello Roos special tax. There are master project home owner's association fees of \$56.00 per month and the proposed product will be priced in the \$500,000 range and range in size from 2,836 square feet to 3,655 square feet.

Assessor's Map



Assessor's Map



Comparable Single Family Land Data 13

Project: Steven Walker Homes @ Crosby

Location: Lamour Lane and Going My Way, San Diego County (Crosby Estates)

Assessor's Parcel No.: 267-180-11 through 45 **Thomas Bros.
Map Code: 1169-A-1**

Size: 35 lots (9,000 square foot minimum, 11,000 square foot average)

Zoning: Residential (Planned Community)

Utilities: Available

Date of Sale: February 12,2001 **Document No.: 88110**
Under contract, May, 2000

Sale Price: \$14,280,000

Price/Lot: \$408,000

Terms: All cash

**Cash
Equivalent Price:** \$14,280,000

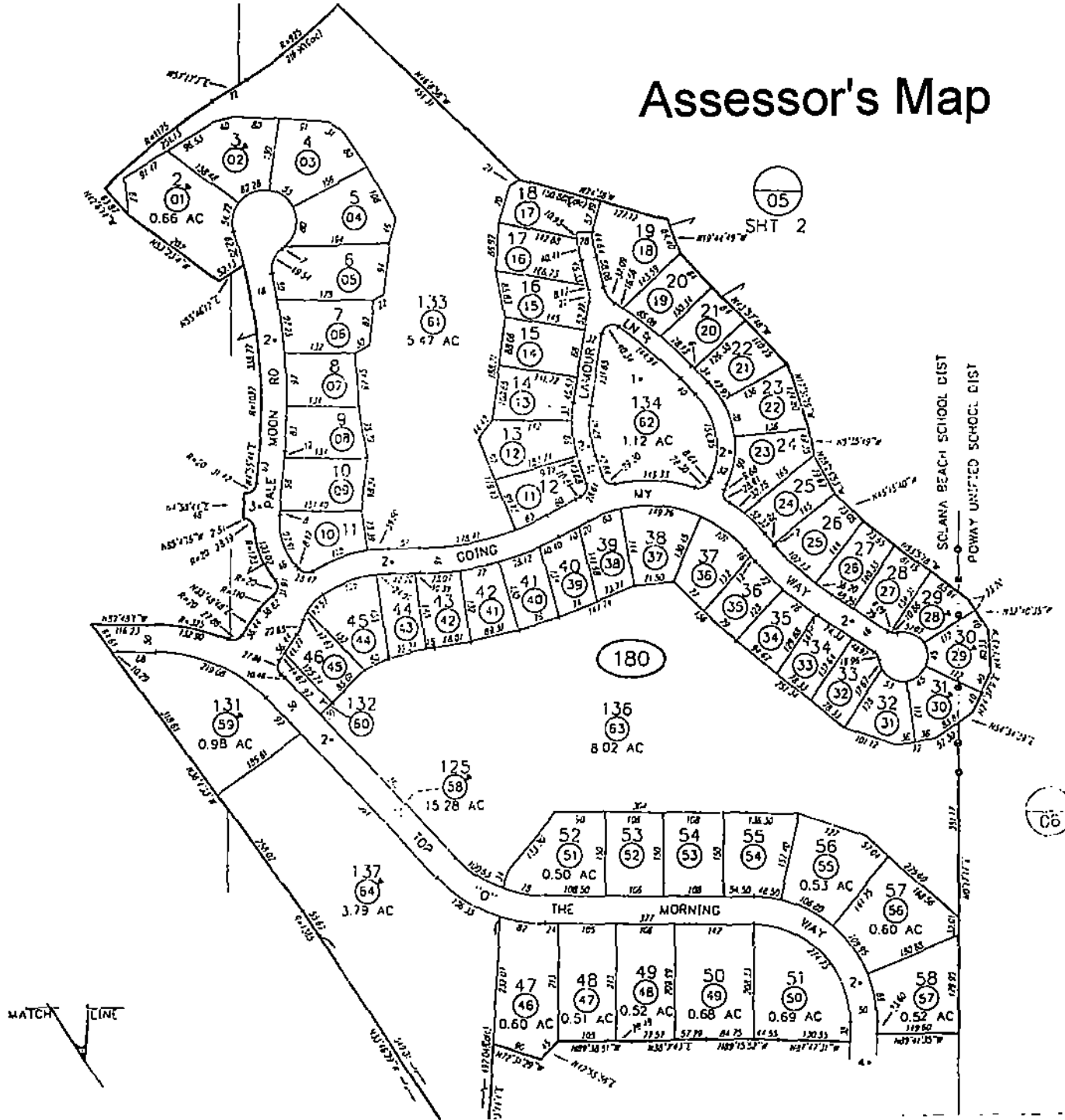
Buyer: SWC Rancho Thirty-Five, LLC

Seller: Starwood Santa Fe Valley Partners

Source: Steve Berzansky, Steven Walker Homes

Comments: This is one of the initial production builder lot groups in the Crosby Estates Golf Course oriented planned community. There are fees of \$4,000 indicating a finished lot cost of \$412,000 per lot. Product is proposed between \$970,000 and \$1,055,000 in size ranges from 3,889 to 4,282.

Assessor's Map



Comparable Single Family Land Data 14

Project: Davidson Communities @ Crosby

Location: Not Disclosed, San Diego County (Crosby Estates)

Assessor's Parcel No.: N/A Thomas Bros.
Map Code: 1169-A-1

Size: 30 lots (15,900 square foot minimum, 24,500 square foot average)

Zoning: Residential (Planned Community)

Utilities: Available

Date of Sale: Under contract, August, 2003 Document No.: N/A

Sale Price: \$12,600,000

Price/Lot: \$420,000

Terms: All cash

Cash
Equivalent Price: \$12,600,000

Buyer: Davidson Communities (or nominee)

Seller: Starwood Santa Fe Valley Partners

Source: Jerry Leaming, Davidson Communities, buyer

Comments: This is a production builder lot group planned for development by D. R. Horton as an extension of their existing project in the Crosby Estates Golf Course oriented planned community. D. R. Horton did not purchase this property which is now being purchased by Davidson Communities. There are fees and costs of \$22,917 indicating a finished lot cost of \$442,917 per lot. Product is proposed between \$1,200,000 and \$1,300,000 in size ranges from 4,200 to 4,700.

Comparable Single Family Land Data 15

Project: Hearthside Homes @ Crosby

Location: Not Disclosed, San Diego County (Crosby Estates)

Assessor's Parcel No.: N/A Thomas Bros.
Map Code: 1169-A-1

Size: 32 lots (21,400 square foot minimum, 22,000 square foot average)

Zoning: Residential (Planned Community)

Utilities: Available

Date of Sale: Under contract, August, 2003 Document No.: N/A

Sale Price: \$9,600,000

Price/Lot: \$300,000

Terms: All cash

Cash
Equivalent Price: \$9,600,000

Buyer: Hearthside Homes (or nominee)

Seller: Starwood Santa Fe Valley Partners

Source: Starwood

Comments: These are finished lots. Product is proposed between \$970,000 and \$1,055,000 in size ranges from 3,889 to 4,282.

Comparable Single Family Land Data 16

Project: Barratt - Encinitas Ranch

Location: West of Quail Gardens Drive South of Paseo De Las Flores, Encinitas (Encinitas Ranch)

Assessor's Parcel No.: 254-613-06 **Thomas Bros.
Map Code: 1147-D-4/5**

Size: 8 lots (20,000 square foot minimum)

Zoning: Residential

Utilities: Available

Date of Sale: Closed October 2, 2002 **Document No.: 851825**
Under contract, July, 2002

Sale Price: \$2,644,160

Price/Lot: \$330,520

Terms: All cash

**Cash
Equivalent Price:** \$2,644,160

Buyer: Barratt American, Inc.

Seller: Encinitas Ranch, LLC

Source: Confidential

Comments: There are fees and costs of \$169,480 per lot indicating a finished lot cost of \$500,000 per lot. Product is proposed between \$1,300,000 and \$1,500,000 in size ranges from 4,280 to 5,300.

EXHIBIT I

CERTIFICATION

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

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, unbiased professional analyses, opinions, and conclusions.
- 3) I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professions Ethics and the Uniform Standards of Professional Appraisal Practice.
- 8) I have made a personal inspection of the property that is the subject of this report.
- 9) No one provided significant real property appraisal assistance to the person signing this certification.
- 10) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 11) As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.
- 12) I do not authorize any out-of-context quotations or partial reprintings, or the resale of this appraisal report to third parties. Neither all nor any part of this appraisal report shall be disseminated to the general public by the use of media or public communication without the prior written consent of the appraiser.
- 13) The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.



David F. Davis, MAI
State Certificate #AG002752

EXHIBIT J

QUALIFICATIONS

DAVID F. DAVIS, MAI

APPRAISAL EXPERIENCE

- 02/86 - Present Independent Real Estate Appraiser and Consultant. President, D.F. Davis Real Estate, Inc., specializing in appraisals of proposed construction and development projects.
- 06/84 - 01/86 Vice President, Diversified Equity Investments, Inc., a real estate development firm. Specialized in acquisitions, construction, leasing and property management.
- 06/83 - 05/84 Appraisal Officer, Wells Fargo Real Estate Industries Group. Specialized in major proposed commercial and residential projects.
- 10/77 - 05/83 Union Bank - Appraisal Officer. Similar experience to Wells Fargo.
- 05/76 - 10/77 F.M. Tarbell Company, residential real estate sales.

EDUCATION

San Diego State University, B.S. Degree in Business Administration with an emphasis in Real Estate, 1977.

Society of Real Estate Appraisers and Appraisal Institute - Courses and Seminars:

- Course 101 Principles of Residential Appraisal, 1978
Course 201 Principles of Income Property Appraisal, 1978
Seminar Cash Equivalency Analysis, 1981
Course 202 Applied Income Property Valuation, 1982

American Institute of Real Estate Appraisers - Courses and Seminars:

- Course 2-1 Case Studies in Real Estate Valuation, 1981
Course 2-2 Real Estate Analysis and Report Writing, 1981
Course 2-3 Standards of Professional Practice, 1982
Course 004 Litigation Valuation, 1982
Seminar Financial Calculator HP 38E/12C, 1983
Seminar Subdivision Analysis, 1985
Seminar FHLBB R41b Requirements, 1986
Course 004 Litigation Valuation, 1987
Course 007 Industrial Valuation, 1987
Seminar Standards of Professional Practice Update, 1988
Seminar Discounted Cash Flow Analysis, 1988
Course 8-2 Residential Valuation, 1990
Course 410/420 Standards of Professional Practice, 1990
Course 310 Basic Income Capitalization, 1993
Course 410/420 Standards of Professional Practice Parts A and B, 1993
Seminar Understanding Limited Appraisals and Appraisal Reporting Options - General, 1994
Seminar Fair Lending and the Appraiser, 1994
Seminar How to Verify Market Data, 1994

Qualifications of David F. Davis, MAI (Continued)

Seminar	Marketing Your Appraisal Services Effectively, 1995
Seminar	Federal and State Laws and Regulations Workshop, 1995
Seminar	Market Analysis from the Buyer's Viewpoint, 1996
Seminar	Attorneys, Appraisers and Real Estate, 1996
Seminar	Apartment Seminar Update, 1997
Seminar	An Overview of the FHA HUD 203(k) Program, 1997
Seminar	Property Profile of Operating Expense, 1997
Course 430	Standards of Professional Practice, Part C, 1998
Course 667	Valuation of Detrimental Conditions in Real Estate, 1998
Seminar	Operating Expense, 1999
Seminar	Applying Economic Forecast - Update, 2000 and 2001

Numerous other courses and seminars

PROFESSIONAL

MAI Designation: Appraisal Institute, formerly the American Institute of Real Estate Appraisers, Certificate No. 6892 (since 1984)

State Certification: California Certified General Real Estate Appraiser - State of California - Certificate No. AG002752, expires August 14, 2004

Admissions Committee: American Institute of Real Estate Appraisers 1985-87; Vice Chairman, 1988; Chairman, 1989 and 1990; Appraisal Institute since 1991, Admissions Coordinator, General Appraisal category, 1991

Appraisal Institute
San Diego Chapter:

1991	Director
1992	Treasurer and Member, Board of Directors
1993	Secretary and Member, Board of Directors
1994	Second Vice President and Member, Board of Directors
1995	First Vice President and Member, Board of Directors
1996	President and Member, Board of Directors
1997	Past President and Member, Board of Directors
2001	Member, Board of Directors

San Diego Board
of Realtors: Affiliate member 1984-1989, Realtor member since 1989

Real Estate Broker: Licensed in the State of California since 1978 (held salesman licence 1976-1977)

Expert Witness: San Diego Superior and Municipal Courts and U.S. Bankruptcy Court (San Diego and Orange County)

Advisory Committee: Member, University of San Diego Real Estate Institute Commercial Real Estate Advisory Committee since 2001

APPENDIX C

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SAN DIEGO

The information set forth herein is included to provide certain economic and demographic data regarding the City. The Bonds are not general or special obligations of the City and are not payable from any funds of the City. See "SOURCES OF PAYMENT FOR THE BONDS – Limited Obligations"

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

PENDING INVESTIGATIONS REGARDING PRIOR BOND ISSUES OF THE CITY

On February 13, 2004, the City was notified by the U.S. Securities and Exchange Commission of an investigation into certain previous bond issues by the City. At the same time, the United States Attorney's office began its own investigation regarding previous bond issues by the City. The City intends to fully cooperate with both investigations. To the best knowledge of the City and the District, these investigations do not involve matters directly related to the Bonds.

INTRODUCTION

With a total population of approximately 1.3 million in 2003, and a land area of approximately 330 square miles, the City of San Diego (the "City") is the seventh largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

Based on estimates published by the California Department of Finance in May 2003, the City's population grew by 11.4% between 1994 and 2003, with an average increase of approximately 14,544 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

Another factor in the City's growth is its diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, telecommunications, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. Historically, the City has also benefited from a stable economic foundation composed of basic manufacturing (ship building, industrial machinery, television & video equipment, and printing & publishing), public and private higher education, health services, military, and local government.

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

Population

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

Table 1
POPULATION GROWTH
Calendar Years 1994 through 2003

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

⁽¹⁾ As of January 1 of the calendar year.
Source: State of California, Department of Finance

Employment Summary

As seen in Table 2, the City's unemployment rate for calendar year 2002 averaged 4.4%, up from a rate of 3.3% during calendar year 2001. The City's 2002 unemployment rate was below both the national rate of 5.8% and the State's rate of 6.7%. During 2002, average employment in the City was up by approximately 10,710 from 2001 levels. Preliminary data for December 2003, the latest available data, indicates that the City's unemployment rate was 3.7%, which continues to be lower than both the national rate of 5.4% and the State's rate of 6.1% for the same period.

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

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

⁽¹⁾ Subject to future revision.

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

Table 3 provides the California Employment Development Department's estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry in the County from calendar years 1998 through 2002. Annual employment information is not regularly compiled by sector for the City alone. In prior years, industry data from Labor Market Information Division programs were classified using the Standard Industrial Classification (SIC). This method has now been replaced by the new North American Industry Classification System (NAICS). The table below reflects figures classified under the new system. As shown, total nonagricultural wage and salary employment in the County increased by 123,000 new jobs during this period. During calendar year 2002, employment in San Diego County increased by 10,100 new jobs over the prior year.

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

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

⁽¹⁾ Subject to future revision.

⁽²⁾ Includes finance, insurance, and real estate.

⁽³⁾ Includes professional and business, information, educational and health, leisure and hospitality, and other services.

⁽⁴⁾ Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department.

During calendar year 2002, while the manufacturing sector experienced a decline (-6,800), there was a significant employment growth in the Government sector (+7,200) and the services sector (+6,400). The increase in the Government sector, which accounted for 18% of the total nonagricultural wage and salary employment in the County in 2002, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments. Preliminary estimates of the total nonagricultural wage and salary employment for the County for December 2003 reflect a slight increase (0.06%) over December 2002.

Taxable Sales

Taxable transactions at retail and other outlets in the City for calendar year 2002, the most recent data available from the California State Board of Equalization, totaled \$16.6 billion, up 1.6% from the calendar year 2001 and up 24.9% from calendar year 1998. Table 4 provides annual sales information by type of outlet for calendar years 1998 through 2002.

Table 4
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 1998 through 2002
(in thousands)

	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002⁽¹⁾</i>
RETAIL STORES					
Apparel	\$ 530,734	\$ 542,041	\$ 588,012	\$ 616,146	\$ 681,338
General Merchandise	1,436,535	1,597,102	1,794,468	1,861,711	1,926,369
Food	582,183	622,909	662,346	673,384	690,819
Eating and Drinking	1,496,032	1,603,968	1,772,507	1,851,340	1,931,214
Home Furnishings and Appliances	469,158	546,746	619,383	684,858	664,607
Building Materials and Farm Implements	716,231	809,022	944,386	1,093,716	1,160,915
Auto Dealers & Supplies	1,331,411	1,519,137	1,745,186	1,868,692	2,033,999
Service Stations	614,156	742,143	977,675	966,913	959,059
Other	<u>1,790,441</u>	<u>1,948,871</u>	<u>2,173,098</u>	<u>2,114,389</u>	<u>2,085,876</u>
Total Retail Stores	\$ 8,966,881	\$ 9,931,939	\$ 11,277,061	\$ 11,731,149	\$ 12,134,196
All Other Outlets	<u>\$ 4,343,598</u>	<u>\$ 4,563,715</u>	<u>\$ 4,822,132</u>	<u>\$ 4,640,363</u>	<u>\$ 4,491,659</u>
TOTAL ALL OUTLETS	<u>\$ 13,310,479</u>	<u>\$ 14,495,654</u>	<u>\$ 16,099,193</u>	<u>\$ 16,371,512</u>	<u>\$ 16,625,855</u>

⁽¹⁾ Data for calendar year 2002 were calculated by adding quarterly reports published by the California State Board of Equalization, and may be subject to future revision.

Source: California State Board of Equalization.

Tourism

Based on year-end data for 2003 from Smith Travel Research (“Smith Travel”), San Diego outperformed most major markets, ranking third highest among the top 25 hotel markets in terms of average occupancy rate during 2003 and fifth highest in terms of average daily room rate.

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 5, visitor spending in the County totaled \$5.04 billion in 2002, up 7.2% from 1998 but down 1.6% from 2001. The San Diego Convention and Visitor’s Bureau also reported that there were 7.5 million passenger arrivals at Lindbergh Field in 2002, down by approximately 1.5% from 2001. However, for the eleven months ended November 30, 2003, visitor spending totaled \$4.9 billion, a 5.3% increase from the same period in calendar year 2002, and the number of passenger arrivals totaled approximately 7.0 million, a 1.9% increase from the same period in calendar year 2002. Both visitor numbers and spending include effects of the Super Bowl XXXVII in January 2003.

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

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

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

The City is the focal point for tourism in the County. The San Diego Convention Center (the “Convention Center”), approximately 70% of the County’s hotel and motel rooms, and most of the County’s major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park, and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, and Balboa Park – home to the San Diego Zoo and a host of other cultural and recreational activities.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City annually hosts the Buick Invitational, a Professional Golfers’ Association Tour Event played at the Torrey Pines Golf Course, a world-renowned golf course, owned and operated by the City of San Diego. In addition, since 1978, the City has annually hosted the Holiday Bowl, a post season contest of elite college football teams.

The City also hosted the America’s Cup in 1992 and 1995, the Super Bowl and World Series in 1998, and more recently the Super Bowl in 2003. In addition, the City was the site for the Republican National Convention held in August 1996. The Torrey Pines’ South Course is scheduled to play host to the United States Open Golf Tournament in 2008.

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

Military

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

According to the San Diego Chamber of Commerce, defense related expenditures (active duty payroll and retirement benefits, base expenditures, and defense contracts) in the County during the federal Fiscal Year

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

International Trade

The value of exports presented in the table below is from RAND California, Merchandise Exports from U.S. Customs District series. In prior years, exports were reported based on Metropolitan Areas as reported by the International Trade Administration. The Customs District classification has been adopted because of the availability of more current data. Export values reflect exports of merchandise grown, produced, or manufactured in the U.S. as well as re-exports of foreign merchandise. The total value of exports from San Diego Customs District grew approximately 32% in the five-year period from 1998 to 2002. While there was a slight decline in annual exports from 2000 to 2001, an increase was experienced in calendar year 2002, with the value of exports totaling approximately \$12.9 billion, up 4.9% from calendar year 2001. Year-to-date data as of September 2003 shows that the value of exports totaled approximately \$9.4 billion, a 2.7% drop from the same period in 2002.

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

<i>Calendar Year</i>	<i>Amount</i>
1998	\$ 9.8
1999	\$ 10.8
2000	\$ 12.7
2001	\$ 12.3
2002	\$ 12.9

Source: RAND California, Business and Economic Statistics.

Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. Table 7 lists the City’s major employers. The list is compiled from information gathered by the City of San Diego. All of the businesses listed in the table have their main offices in the City, with many having branch offices and/or production facilities in other areas of the County. Accordingly, not all employees of these businesses work within the City. The City makes no representation that the level of employment by these employers will continue or that such employer will be unaffected by economic downturns.

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

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

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

Effective Buying Income

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

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

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

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

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

Building Permits

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

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

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

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

Business Development Program

The City actively supports economic development and job creation activities. A key element of these activities is the Business Expansion and Retention Program (BEAR Program), a proactive effort on the part of the City to work directly with businesses to retain local firms and help them expand their investment and job

growth. This program was created in 1995 by integrating the City's existing business development activities to provide centralized coordination and data management, and to expand operational relationships with partnership agencies such as the San Diego Regional Economic Development Corporation, Sempra Energy, the San Diego Science and Technology Commission, and the San Diego Workforce Partnership. BEAR Program components include business incentives, targeted assistance, and sales and use tax rebates through the Business Cooperation Program, Business Outreach Program, and Business Finance Program.

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

The City also operates the Office of Small Business, which provides a broad range of assistance programs for the many small businesses in the City. In 1995, the City Council reduced the annual Business License Tax for all businesses with 12 or fewer employees to a flat fee of \$34 per business with no per employee charge. The City charges an annual fee of \$125 plus \$5 per employee for businesses with 13 or more employees.

Transportation

San Diego has a well-developed highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west. Another major east-west connector, Route 56, is under construction; it is expected to be completed and open to traffic by summer 2004.

Public transportation through the City and surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). A new State law (SB 1703) that became effective January 1, 2003, initiated the formation of a consolidated transportation agency under which certain functions of existing transportation agencies serving the region (the San Diego Association of Governments (SANDAG)), the San Diego MTDB, and the North San Diego County Transit Board) would be combined.

The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to the southern part of the County and East County. The East Line extension to Santee was completed in 1996. This 3.6-mile extension connects the cities of El Cajon and Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. An extension providing additional service from downtown to the historical Old Town section of the City was completed in 1996. In addition, the Mission Valley extension, which connects Old Town with Qualcomm Stadium and the Mission Valley shopping area, ending at the Mission San Diego, opened in 1997.

Construction is in progress on the 6-mile Mission Valley East Trolley Extension. The project, scheduled for completion in 2004, will extend east from Qualcomm Stadium connecting Mission Valley with San Diego State University, La Mesa, and East County. The extension will include four new trolley stops, including a subterranean station at San Diego State University. The project is estimated to cost approximately \$435 million, including \$330 million in appropriations from the federal government. In May 2003, the project received an additional \$63.9 million grant from the U.S. Department of Transportation.

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

Recently, MTDB granted the rights to operate an east-west rail line to the Carrizo Gorge Railway. It is anticipated that the line, which will connect San Diego and northern Baja California with the rest of Mexico and the United States, will open and begin shipping freight in calendar year 2003. This additional rail line will

complement already existing rail service coming into San Diego County from the north and reduce shipping rates and times for companies moving products between San Diego, Mexico, and the Southwest.

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

In June 1990, voters approved State Propositions 108, 111, and 116 which, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program. The City's budget for Fiscal Year 2004 included \$23.1 million in Proposition 111 funds. Revenues from this source supplement the City's street maintenance and resurfacing program and other street related services, including traffic light and signal maintenance, median maintenance and traffic engineering to ensure efficient traffic flow.

Property Taxes

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

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

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

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

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

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

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

Table 10
ASSESSED VALUATION⁽¹⁾⁽²⁾
Fiscal Years Ended June 30, 1995 through 2004
(in thousands except for percentages)

<i>Fiscal Year</i>						<i>Annual</i>
<i>Ending</i>	<i>Secured</i>	<i>Unsecured</i>		<i>Less</i>	<i>Net Assessed</i>	<i>Assessed</i>
<i>June 30</i>	<i>Property</i>	<i>Property</i>	<i>Gross Total</i>	<i>Exemptions⁽³⁾</i>	<i>Valuations⁽⁴⁾⁽⁵⁾</i>	<i>Valuation</i>
						<i>% Change</i>
1995	\$ 60,939,995	\$ 4,371,923	\$ 65,311,918	\$ 2,420,027	\$ 62,891,891	0.72%
1996	\$ 61,793,760	\$ 4,303,198	\$ 66,096,958	\$ 2,489,507	\$ 63,607,451	1.14%
1997	\$ 61,893,902	\$ 4,353,543	\$ 66,247,445	\$ 2,355,174	\$ 63,892,271	0.45%
1998	\$ 63,562,588	\$ 4,988,950	\$ 68,551,538	\$ 2,910,753	\$ 65,640,785	2.74%
1999	\$ 68,648,609	\$ 5,337,916	\$ 73,986,525	\$ 2,994,814	\$ 70,991,711	8.15%
2000	\$ 75,788,751	\$ 5,852,822	\$ 81,641,573	\$ 2,987,620	\$ 78,653,953	10.79%
2001	\$ 82,195,239	\$ 6,347,101	\$ 88,542,340	\$ 3,249,480	\$ 85,292,860	8.44%
2002	\$ 89,259,317	\$ 6,838,926	\$ 96,098,243	\$ 3,572,188	\$ 92,526,055	8.48%
2003	\$ 96,534,652	\$ 6,959,602	\$103,494,254	\$ 3,189,764	\$100,304,490	8.41%
2004	\$105,602,893	\$ 7,230,861	\$112,833,754	\$ 4,006,246	\$108,827,508	8.50%

⁽¹⁾ The official date of assessment is the first day of January preceding the Fiscal Year during which taxes are levied. For example, January 1, 2003 is the official assessment date for property taxes due during Fiscal Year 2004. The City receives preliminary estimates from the County Assessor in March and final assessment estimates in late June, or early July.

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

⁽³⁾ Excludes homeowners' and business inventory exemptions.

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

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

Source: City of San Diego Comprehensive Annual Financial Report, Fiscal Year 2003.

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

Table 11
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 1994 through 2003
(in thousands except for percentages)

<i>Fiscal Year Ending June 30</i>	<i>Tax Levy</i>	<i>Current Year Collections</i>	<i>Current Year Collections as Percentage of Current Tax Levy</i>	<i>Total Tax Collections</i>	<i>Total Collections as Percentage of Current Tax Levy⁽¹⁾</i>
1994	\$109,881	\$105,911	96.39%	\$110,738	100.78%
1995	\$109,754	\$104,295	95.03%	\$108,192	98.58%
1996	\$111,281	\$108,137	97.18%	\$110,513	99.31%
1997	\$111,719	\$108,676	97.28%	\$110,563	98.96%
1998	\$116,912	\$114,311	97.78%	\$117,429	100.44%
1999	\$127,846	\$124,267	97.20%	\$126,923	99.28%
2000	\$141,963	\$137,859	97.11%	\$140,225	98.78%
2001	\$155,060	\$150,900	97.32%	\$153,406	98.93%
2002	\$167,077	\$163,357	97.77%	\$165,446	99.02%
2003	\$181,687	\$175,943	96.84%	\$178,341	98.16%

⁽¹⁾ Total Collections include unpaid taxes from previous years' tax levies collected in the current Fiscal Year.
Source: City of San Diego Comprehensive Annual Financial Report, Fiscal Year 2003.

APPENDIX D

SUMMARY OF BOND INDENTURE

The following is a summary of certain definitions and provisions of the Indenture which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

DEFINITIONS

“Account” means any account created pursuant to the Indenture.

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

“Acquisition Agreement” means that certain Purchase and Financing Agreement dated as of January 7, 2003 by and among the City, Western Pacific Housing, Inc. and Pardee Homes, Inc., together with any amendments thereto.

“Acquisition and Construction Fund” means the fund by that name established pursuant to the Indenture.

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by the City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“Administrative Expenses Cap” means \$50,000 per Bond Year, increased on July 1 of each year, commencing July 1, 2004, through July 1, 2014 by two percent (2%) of the amount in effect for the prior Fiscal Year.

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

“Annual Debt Service” means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

“Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

A. Direct obligations of the U.S. Treasury Department of the United States of America (including debt obligations issued or held in book-entry form on the books of the Department of the Treasury).

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Farmers Home Administration (FmHA) — Certificates of Beneficial Ownership
- b. Federal Financing Bank
- c. Federal Housing Administration Debentures (FHA)
- d. Government National Mortgage Association (GNMA or “Ginnie Mae”)
 - GNMA - Guaranteed mortgage-backed bonds.
 - GNMA - guaranteed pass-through obligations

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Federal Home Loan Bank System (FHLB)-Senior debt obligations
- b. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) - Participation Certificates or senior debt obligations
- c. Federal National Mortgage Association (FNMA or “Fannie Mae”) - Mortgage-backed securities and senior debt obligations
- d. Student Loan Marketing Association (SLMA or “Sallie Mae”) - Senior debt obligations
- e. Resolution Funding Corp. (REFCORP) obligations
- f. Federal Farm Credit System (FFCB) - Consolidated systemwide bonds and notes
- g. Tennessee Valley Authority (TVA) - Senior debt obligations
- h. Farmer Mac (FMAC) - notes.

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

E. Negotiable certificates of deposit issued by nationally or state-chartered bank or a state or federal savings institution or a state-licensed branch of a foreign bank (Yankee) with a maximum maturity of three years and having long-term ratings, at the time of purchase, equivalent to an “A” rating category by at least two national recognized statistical-rating organizations (NRSRO).

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

G. Commercial paper (with maturities of not more than 270 days) rated, at the time of purchase, in the highest short-term rating category by at least two nationally recognized statistical-rating organizations.

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

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

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

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

- a. Repurchase Agreements must be between the Trustee or the Agency and a major bank or primary dealer securities firm as the counter-party.
- b. The counter-party, if a primary dealer, must be a reporting dealer to the Federal Reserve which is rated “A” or better by S&P and Moody’s, or a major bank rated “A” or above by S&P and Moody’s.
- c. The Repurchase Agreement must meet the following criteria:
 - i. Securities which are acceptable for transfer as collateral are defined in subsections A-C of this (Authorized Investments) section.
 - ii. The term of the Repurchase Agreement may be up to 365 days.
 - iii. The collateral must be delivered to the District or the Trustee (if the Trustee is not supplying the collateral) or a third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - iv. The Repurchase Agreement may include an evergreen provision to permit the reinvestment of funds for additional consecutive periods not to exceed 365 days.
- d. Valuation of Collateral:
 - i. The securities must be valued weekly, marked-to market at current market plus accrued interest.
 - ii. The value of collateral must be equal to 104% of the amount of cash transferred by the District or the Trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the District or the Trustee, then additional cash and/or acceptable securities must be transferred.

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

- a. If the investment agreement is uncollateralized the provider of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of “Aa” by Moody’s and “AA” by S&P.
- b. If the investment agreement is fully collateralized the provider of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of “A” by both Moody’s and S&P. Securities which are acceptable for collateralization are defined in subsections A-C of this (Authorized Investments) section.
- c. The investment agreement must be supported by appropriate opinions of counsel.
- d. The investment agreement must meet the requirements of the District, bond insurer (if an insured issue) or the rating agency (if required).

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

N. Amounts in the Acquisition and Construction Fund of any taxable series may be invested in the City’s Pooled Investment Fund.

“Authorized Representative of the City” means the City Manager of the City, the Deputy City Manager or the City Treasurer of the City, or any other person or persons designated by the City Manager, the Deputy City Manager or the City Treasurer of the City by a written certificate signed by the City Manager, the Deputy City Manager or the City Treasurer of the City and containing the specimen signature of each such person.

“Authorized Representative of the District” means the City Manager of the City, the Deputy City Manager, the City Treasurer of the City, or any other person or persons designated by the City Manager, Deputy City Manager or the City Treasurer of the City by a written certificate signed by the City Manager, Deputy City Manager or the City Treasurer of the City and containing the specimen signature of each such person.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

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

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

“Bonds” means the District’s Improvement Area No. 4 Special Tax Bonds, Series A of 2004 issued on February 25, 2004 in the aggregate principal amount of \$9,965,000.

“Bond Year” means (i) for purposes of Annual Debt Service and Maximum Annual Debt Service, the twelve-month period ending on September 1 of each year; provided, however, that the first Bond Year shall begin on the Closing Date and end on September 1, 2004; and (ii) for federal income tax purposes; the one year period beginning on March 1 in any year and ending on the last day of the next succeeding February, both dates inclusive, except that for such purposes the first Bond Year shall begin on the Closing Date and end on February 29, 2004.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

“Certificate of an Authorized Representative” means a written certificate or warrant request executed by an Authorized Representative of the City.

“City” means the City of San Diego, California.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

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

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

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

“District” means Community Facilities District No. 2 (Santaluz) established pursuant to the Act and the Resolution of Formation.

“Event of Default” shall mean any “event of default” described in the Indenture.

“Federal Securities” means any of the following: (1) non-callable direct obligations of the United States of America (“Treasuries”); (2) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated; and (3) pre-refunded municipal obligations rated “AAA” or equivalent by any two of the following: Standard & Poor’s, Moody’s and Fitch (or any combination thereof).

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Fitch” means Fitch Ratings, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds (exclusive of penalties and interest) collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

“Improvement Area No. 4” means Improvement Area No. 4 of the District as designated by the legislative body of the District in the Resolution of Annexation.

“Indenture” means the Bond Indenture, together with any Supplemental Indenture approved pursuant to the Indenture hereof.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

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

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

“Interest Payment Date” means each March 1 and September 1, commencing September 1, 2004; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection L of the definition of Authorized Investments.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and
- (2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

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

“Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses.

“Nominee” shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Ordinance” means Ordinance No. O-19152 adopted by the legislative body of the District on February 24, 2003, providing for the levying of the Special Tax.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;

(2) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and

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

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

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

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Prepayments” means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in Improvement Area No. 4 of the District made in accordance with the Rate and Method of Apportionment of Special Taxes.

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

“Principal Office of the Trustee” means the office of the Trustee located in Los Angeles, California, or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under Indenture pursuant to which municipal or governmental obligations are issued.

“Project” means those public facilities described in the Resolution of Intention to Annex which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the annexation of Improvement Area No. 4 of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Rating Agency” means Moody’s, Standard & Poor’s and Fitch, or all, as the context requires.

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

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

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

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

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Representation Letter” shall mean the Blanket Letter of Representations from the District and the Paying Agent to the Depository as described in the Indenture.

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

“Reserve Requirement” means that amount as of any date of calculation equal to the lesser of (1) 10% of the initial principal amount of the Bonds and Parity Bonds, if any; (2) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (3) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any.

“Resolution of Annexation” means Resolution No. R-297633 adopted by the City Council of the City on February 11, 2003, pursuant to which the City annexed Improvement Area No. 4 to the District.

“Resolution of Formation” means Resolution No. R-292868 adopted by the City Council of the City on March 14, 2000.

“Resolution of Intention to Annex” means Resolution No. R-297517 adopted by the City Council of the City on January 7, 2003, pursuant to which the District declared its intention to annex territory, establish Improvement Area No. 4, and authorize the levy of special taxes therein.

“Sinking Fund Payment” means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

“Six-Month Period” means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

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

“Special Taxes” means the special taxes authorized to be levied by the District on property within Improvement Area No. 4 in accordance with the Ordinance, the Resolution of Intention to Annex, the Resolution of Annexation, the Act and the voter approval obtained at the February 11, 2003, election in the District, including any scheduled payments and any Prepayments thereof and the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien. Special Taxes do not include penalties and interest relating to delinquent payments thereof.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a division of McGraw-Hill, its successors and assigns.

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

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

“Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Tax-Exempt” means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

“Term Bonds” means the Series A of 2004 Bonds maturing on September 1, 2024 and September 1, 2033, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Trustee” means Union Bank of California, N.A., a national banking association duly organized and existing under the laws of the United States, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

“Underwriter” means UBS Financial Services Inc. with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

BOND TERMS

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

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

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

Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and shall not be dependent upon the completion of the financing of the Project or upon the performance by any Person of his obligation with respect to the Project, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

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

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

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

Creation of Funds; Application of Proceeds.

- (a) The Trustee has established the following funds and accounts:
 - (1) The Improvement Area No. 4 Community Facilities District No. 2 Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account (in which there

shall be established the Capitalized Interest Subaccount), a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).

(2) The Improvement Area No. 4 Community Facilities District No. 2 Rebate Fund (the “Rebate Fund”) (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(3) The Improvement Area No. 4 Community Facilities District No. 2 Acquisition and Construction Fund (the “Acquisition and Construction Fund”) (in which there shall be established a Costs of Issuance Account and a Project Account).

(4) The Improvement Area No. 4 Community Facilities District No. 2 Surplus Fund (the “Surplus Fund”).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

In connection with the issuance of any Parity Bonds, the Trustee, at the direction of an Authorized Representative of the City, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

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

Deposits to and Disbursements from Special Tax Fund.

(a) Except for the portion of any Prepayment to be deposited to the Redemption Account as specified in a Certificate of an Authorized Representative, and except as set forth in the Indenture, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) the Administrative Expense Account of the Special Tax Fund;
- (2) the Interest Account of the Special Tax Fund;
- (3) the Principal Account of the Special Tax Fund;
- (4) the Redemption Account of the Special Tax Fund;
- (5) the Reserve Account of the Special Tax Fund;
- (6) the Rebate Fund; and
- (7) the Surplus Fund.

(b) At maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the

Trustee and the Bond Insurer have been paid in full, moneys in the Special Tax Fund and any accounts in the Indenture may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund. The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit in the Indenture, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Indenture, at least one Business Day prior to each March 1 and September 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2005, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(a) With respect to each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the Indenture, the Trustee shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Indenture. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in

accordance with the Sinking Fund Payment schedule set forth in the Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund and to the Redemption Account for Sinking Fund Payments then due pursuant to the preceding paragraph, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account in the Indenture) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments.

(d) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in this subsection. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. If funded, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw, after first applying funds in the Surplus Fund necessary for such purposes, from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expense Account, the Interest Account, the Principal Account and the

Redemption Account, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with an optional or extraordinary redemption of Bonds pursuant the Indenture or Parity Bonds in connection with any Supplemental Indenture, or a partial defeasance of Bonds in accordance with the Indenture, or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and shall be transferred to the Project Account of the Acquisition and Construction Fund until the receipt of a Certificate of an Authorized Representative of the District stating that all Project Costs required or expected to be funded pursuant to the Acquisition Agreement have been funded the Acquisition and Construction Fund are sufficient to fund all remaining Project Costs, and thereafter to the Interest Account of the Special Tax Fund.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account in the Indenture. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the Bonds and each issue of Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds or an issue of Parity Bonds shall be governed by the Indenture and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied.

Surplus Fund. After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the

principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses; (iv) to the Acquisition and Construction Fund to pay Project Costs; or (v) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Acquisition and Construction Fund.

(a) The moneys in the Costs of Issuance Account shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District. On the earlier of September 1, 2004, or a date of receipt by the Trustee of written direction by an Authorized Representative of the District, any balance remaining in the Cost of Issuance Account shall be transferred by the Trustee to the Project Account.

(b) The moneys in the Project Account of the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee from the Project Account of the Acquisition and Construction Fund as specified in a Request for Disbursement of Project Costs which must be submitted in connection with each requested disbursement.

(c) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Acquisition and Construction Fund to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds and Accounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be applied as set forth in the Indenture. Moneys in the Funds, Accounts and Subaccounts held under the

Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Acquisition and Construction Fund three years after the Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the date of issuance of such issue of Parity Bonds shall be invested by the District only in Authorized Investments the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code), or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) Monies in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause A of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government or in Authorized Investments of the type described in clause D of the definition thereof.

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

COVENANTS AND WARRANTY

Warranty. The District shall preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

Covenants. So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District has made the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust for the Owners and will instruct the Treasurer to deposit all Special Taxes with the Trustee within 30 days of their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes and other amounts pledged under the Indenture are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

Levy of Special Tax. Beginning in Fiscal Year 2004-05 and so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund deemed available for such purpose, to pay (i) the principal of and interest on the Bonds and any Parity Bonds when due; (ii) the Administrative Expenses; and (iii) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. The District has also covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

Commence Foreclosure Proceedings. The District has covenanted for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid.

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

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account as set forth in the Indenture), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing contained in

the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

Federal Tax Covenants. Notwithstanding any other provisions of the Indenture, and absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code;

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

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

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

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

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

(8) Subsequent Opinions. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation (“SYCR”), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds and Parity Bonds to which such change or amendment applies is excluded from gross income for federal income tax purposes.

Reduction of Maximum Special Taxes. The District has covenanted, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved; (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds; and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year.

Covenants to Defend. The District has covenanted that, in the event that any initiative is adopted by the qualified electors in Improvement Area No. 4 which purports to reduce the minimum or the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Limitation on Right to Tender Bonds. The District has covenanted that it will not adopt any policy pursuant to the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

AMENDMENTS TO INDENTURE

Supplemental Indenture or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued under the Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(e) subject to the limitations set forth in Section 5.2(g) of the Indenture to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes) within Improvement Area No. 4 to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; or

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

Supplemental Indenture or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting; (i) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (ii) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (iii) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (iv) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds

and Parity Bonds in instances where such consent is required pursuant to the provisions of this section, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

TRUSTEE

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

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

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

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an "event of default":

- (a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or
- (c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The Trustee has agreed to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within 30 days of the Trustee's knowledge of an event of default under (c) above.

Remedies of Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

(b) by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) by a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(1) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(2) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(3) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of 25% in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action, to control such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds and Parity Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged hereunder, pending such proceedings, with such powers as the court making appointments shall confer.

Non-Waiver. Nothing in the Indenture, or in the Bonds or the Parity Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other moneys pledged in the Indenture for such payment.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (i) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (ii) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (iii) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as provided in the Indenture or to institute suit for

the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

DEFEASANCE AND PARITY BONDS

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond or Parity Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or
- (c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or

securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with this Section, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account in the Indenture) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on a September 1; (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number; and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) the denominations and method of numbering of such Parity Bonds;

(6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount in the Indenture to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (i) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (ii) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

(6) such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

MISCELLANEOUS

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

Unclaimed Moneys. Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date

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

Provisions Constitute Contract. The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Indenture shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged under the Indenture.

Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in the Indenture.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

(This page intentionally left blank)

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of February 1, 2004 (the “Disclosure Certificate”) is executed and delivered by Community Facilities District No. 2 (Santaluz) (the “Issuer”) in connection with the issuance and delivery by the Issuer of its \$9,965,000 Improvement Area No. 4 Special Tax Bonds Series A of 2004 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of February 1, 2004 by and between the Issuer and Union Bank of California, N.A. as Trustee thereto (the “Indenture”). The Issuer covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter 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 Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owners” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income purposes.

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

“Dissemination Agent” shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent a written acceptance of such designation.

“District” shall mean Improvement Area No. 4 of Community Facilities District No. 2 (Santaluz) established by the City of San Diego.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

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

“Official Statement” means the Official Statement for the Bonds dated February 13, 2004.

“Participating Underwriter” shall mean UBS Financial Services Inc.

“Rate and Method of Apportionment” means the Rate and Method of Apportionment of Special Taxes for the Issuer as described in City of San Diego Ordinance No. 19152, dated February 24, 2003, as amended from time to time.

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

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

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

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than the April 1 after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2003, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually, notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify each Repository or the Municipal Securities Rulemaking Board, and in either case the Dissemination Agent and the Participating Underwriter of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories and the Participating Underwriter, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories and the Participating Underwriter by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Participating Underwriter, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports.

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended shall be provided in the Annual Report. If the Issuer prepares audited financial statements and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below.

(b) Financial and Operating Data. The first Annual Report shall consist of a copy of the Official Statement and the financial statements described in Section 3(a) above. Thereafter, in addition to the financial statements, the Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) a list of the public improvements in Table 1 of the Official Statement which have been paid for by the Issuer with proceeds of the Bonds;

(iv) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a summary of the facts related to the collection of any Backup Special Tax and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(v) an update of Table 6 of the Official Statement setting forth the estimated assessed value-to-lien ratios for Developed Property as a group and for each owner of Undeveloped Property based upon the most recent Special Tax levy preceding the date of the Annual Report, the most recent assessed values of the property and the principal amount of the Bonds and any other land secured debt allocable to parcels within the District; provided, however, that, if the Special Taxes are being levied only on Developed Property and the estimated assessed value-to-lien ratio for all parcels is greater than 7 to 1, then such table need not be reproduced, and a statement to that effect will be included in the Annual Report;

(vi) an update of Table 4 of the Official Statement including a list of all taxpayers within the District which own property in the District upon which 5% or more of the total Special Taxes for the current fiscal year have been levied, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;

(vii) any event known to the Issuer which reduces the number of residential units permitted to be constructed within the District or which results in a moratorium on future building within the District;

(viii) a table setting forth for the five most recent fiscal years in which Special Taxes were levied the total number of parcels taxed, the amount of Special Taxes levied in each fiscal year and the

percentage delinquent as of June 30 of such fiscal year and as of the date which is 30 days prior to the date of the Annual Report, and a description of the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;

(ix) the date of issuance and the principal amount of any Parity Bonds and a copy of any appraisal delivered in connection with such issuance; and

(x) any information not already included under (i) through (ix) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) an event of default under the Indenture other than as described in (i) above;
- (iii) unscheduled draws on the Reserve Account reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;
- (v) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy;
- (vi) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
- (vii) modifications to the rights of Bond Owners;
- (viii) unscheduled redemption of any Bond;
- (ix) defeasances;
- (x) any release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the

Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Issuer is acting as Dissemination Agent and determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository and, in either case, with the Participating Underwriter and each State Repository. If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, with the Participating Underwriter and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (e) prior to the occurrence of such Listed Event.

(f) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Trustee or the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer; and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby; (ii) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) the Issuer shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (ii) above; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, and (v) the Issuer shall have delivered copies of such opinion and amendment to each Repository and the Participating Underwriter.

(b) This Disclosure Certificate also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (v) have been satisfied.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Certificate. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

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

Participating Underwriter: UBS Financial Services Inc.
777 South Figueroa Street, 50th Floor
Los Angeles, California 90017
Attention: Los Angeles Municipal Securities Group

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

COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)

By: _____
Disclosure Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 2 (Santaluz)
Name of Bond Issue: \$9,965,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 Special Tax Bonds Series A of 2004
Date of Issuance: February 25, 2004

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2 (Santaluz) (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of February 1, 2004. [The Issuer anticipates that the Annual Report will be filed by _____.]

Dated: _____

[Insert name of Dissemination Agent]

cc: Community Facilities District No. 2 (Santaluz)
UBS Financial Services Inc.

APPENDIX F

CONTINUING DISCLOSURE AGREEMENT OF THE DEVELOPERS

This Continuing Disclosure Agreement (the “Disclosure Agreement”) dated as of February 1, 2004 is executed and delivered by _____, a _____ (the “Developer”), and Union Bank of California, N.A. as trustee (the Union Bank of California, N.A.) and as dissemination agent (the “Dissemination Agent”), in connection with the execution and delivery by Community Facilities District No. 2 (Santaluz) (the “Issuer”) of \$9,965,000 aggregate principal amount of its Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 Special Tax Bonds Series A of 2004 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of February 1, 2004 by and between the Issuer and Union Bank of California, N.A. as Trustee (the “Indenture”).

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Developer for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). Pursuant to this Disclosure Agreement, the Developer agrees to provide the information required to be provided by the Developer hereunder at the time and in the manner required hereunder and as otherwise required to comply with the Rule as specified in a written opinion of counsel to the Underwriters or a nationally recognized bond counsel. This Disclosure Agreement does not address additional undertakings, if any, by or with respect to persons other than the Developer who may be considered obligated persons for purposes of the Rule, which additional undertakings, if any, may be required for the Participating Underwriter to comply with the Rule.

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 an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person; (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person; or (c) each of such Person’s executive officers, directors, and general partners; provided, however, that in no case shall the Issuer or individual homebuyers be deemed to be Affiliates of the Developer for purposes of this Disclosure 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.

“Beneficial Owners” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Bondowner” shall mean the person or persons in whose name or names any Bond is registered.

“Disclosure Representative” shall mean the chief financial officer or his designee acting on behalf of the Developer, or such other officer or employee as the Developer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Union Bank of California, N.A. acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Developer and the Issuer a written acceptance of such designation.

“District” shall mean Improvement Area No. 4 of Community Facilities District No. 2 (Santaluz) established by the City of San Diego.

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

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

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

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

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

“Official Statement” shall mean the Official Statement, dated February 13, 2004, relating to the Bonds.

“Parity Bonds” shall mean bonds of the Issuer issued under the Indenture that are secured on a parity with the Bonds.

“Participating Underwriter” shall mean any of the original Underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

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

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

“Semiannual Report” shall mean any report to be provided by the Developer on or prior to November 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The Developer shall, or upon its receipt of the Annual Report the Dissemination Agent shall, not later than May 1 of each year, commencing May 1, 2005, provide to each Repository, the Participating Underwriter and the Issuer an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement provided that the audited financial statements, if any, of the Developer may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, the Developer shall, or upon its receipt of the Semiannual Report the Dissemination Agent shall, not later than November 1 of each year, commencing November 1, 2004, provide to each Repository, the Participating Underwriter and the Issuer a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to Repositories, the Developer shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Developer is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall contact the Developer to determine if the Developer is in compliance with the requirements of this subsection (b).

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to Repositories by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the Developer and the Issuer certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Developer's Annual Report and Semiannual Report shall contain or include by reference the information which is available as of the date of the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

(i) an update to the information relating to the Developer in the section in the Official Statement entitled "THE DEVELOPMENT AND PROPERTY OWNERSHIP" (other than under the subcaptions "— The Developer" "— Appraisal"), including a summary of any material changes to the sources of funds to finance development of property owned by

the Developer and its Affiliates within the District, and whether any material defaults exist under any loan arrangement related to such financing;

(ii) a summary of development activity within the District relating to the property owned by the Developer and its Affiliates, including the number of parcels for which building permits have been issued, the number of parcels for which sales have closed and in the case of a purchase of a parcel by an entity other than the purchaser of a residential unit, the name of the purchaser of the parcel, the amount of land in each transaction and the sales price;

(iii) an update on the status of any major governmentally-imposed preconditions for commencement or continuation of development of the parcels within the District owned by the Developer or its Affiliates;

(iv) status of any legislative, administrative and judicial challenges known to the Developer adversely affecting the construction of the development within the District being undertaken by the Developer as planned or the time for construction of any public or private improvements to be made by the Developer or any Affiliate within the District other than the public improvements described in (v) below (the “Developer Improvements”);

(v) status of completion of the public improvements to be constructed by the Developer and its Affiliates with proceeds of the Bonds (the “District Improvements”), including an update of Table 1 in the Official Statement, and a description of any legislative, administrative and judicial challenges known to the Developer and adversely affecting the construction of the District Improvements as planned;

(vi) any significant amendments to land use entitlements with respect to parcels within the District owned by the Developer or its Affiliates that are known to the Developer;

(vii) status of Special Tax payments on all parcels owned by the Developer and its Affiliates; and

(viii) in the Annual Report only, the audited financial statements of the Developer (individually or consolidated with its parent company), if any, for most recently completed fiscal year (which currently ends on each _____), prepared in accordance with generally accepted accounting principles as promulgated to apply to private entities from time to time by the Financial Accounting Standards Board. If the Developer has audited financial statements prepared and the audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements for the preceding year, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) In the event that as a result of subsequent amendment of the Rule, interpretive releases, no-action letters or other official guidance from the Securities and Exchange Commission or its staff, the information required to satisfy the Rule shall differ from the information described above, the Developer shall provide to the Dissemination Agent such other information as is requested by the Participating Underwriter and is available to the Developer and not otherwise readily available to the District.

(c) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a

final official statement, it must be available from the Municipal Securities Rulemaking Board. The Developer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Developer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material under paragraphs (b) and (c):

(i) failure to pay any real property taxes, special taxes or assessments levied within the District on a parcel owned by the Developer or any Affiliate;

(ii) damage to or destruction of any of the Developer Improvements or the District Improvements which has a material adverse effect on the value of the parcels owned by the Developer or any Affiliate;

(iii) material default by the Developer or any Affiliate on any loan with respect to the construction or permanent financing of the Developer Improvements;

(iv) material default by the Developer or any Affiliate on any loan secured by property within the District owned by the Developer or any Affiliate;

(v) payment default by the Developer or any Affiliate located in the United States on any loan of the Developer which is beyond any applicable cure period in such loan or any loan to any Affiliate which is beyond any applicable cure period and which would have a material impact on the Developer;

(vi) the filing of any proceedings with respect to the Developer or any Affiliate, in which the Developer or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts;

(vii) the filing of any lawsuit against the Developer or any of its Affiliates located in the United States which, in the reasonable judgment of the Developer, will adversely affect the completion of the District Improvements, the Developer Improvements or the development of parcels owned by the Developer or its Affiliates within the District, or litigation which if decided against the Developer, or any of its Affiliates, in the reasonable judgment of the Developer, would materially adversely affect the financial condition of the Developer or any of its Affiliates owning land within the District; and

(viii) the sale or transfer of all or substantially all of the Developer's assets.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Developer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Developer shall promptly file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Municipal Securities Rulemaking Board and each State Repository, with a copy to the Issuer.

SECTION 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement shall terminate upon the earliest of the following events:

- (a) the legal defeasance, prior redemption or payment in full of all of the Bonds;
- (b) if as of the date for filing the Annual Report or the Semiannual Report the Developer and its Affiliates own property within the District which is responsible for less than twenty percent (20%) of the Special Taxes levied in the Fiscal Year for which the Annual Report or the Semiannual Report is being prepared, or
- (c) upon the delivery by the Developer to the Issuer of an opinion of nationally recognized bond counsel to the effect that the information required by this Disclosure Agreement is no longer required. Such opinion shall be based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Developer or a private letter ruling obtained by a similar entity to the Developer. If such termination occurs prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for an Annual Report hereunder.

SECTION 7. Dissemination Agent. The Developer may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Developer, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Developer pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;
- (b) this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel addressed to the Issuer, the Trustee and the 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;
- (c) the amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the Issuer and the Trustee, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and
- (d) the Developer, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) and (c) above.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Developer shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Developer. In addition, if the amendment relates to the accounting principles to be

followed in preparing financial statements, (i) notice of such change shall be given to the Municipal Securities Rulemaking Board, the State Repository, if any, and the Repositories; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison of financial data described in clause (ii) of the preceding sentence shall be provided at the time financial statements, if any, are filed under Section 4(a)(viii) hereof.

SECTION 9. 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, Semiannual 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, Semiannual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Developer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Semiannual Report or notice of occurrence of a Listed Event.

The Developer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Developer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Developer under such laws.

SECTION 10. Default. In the event of a failure of the Developer to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any Bondowner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the Developer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents (each an "Indemnified Party"), 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 reasonable costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to any Indemnified Party's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Developer, the Participating Underwriter, Bondowners or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Developer or an opinion of nationally recognized bond counsel. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement.

The Dissemination Agent will not, without the Developer's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Developer and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Developer or if there is a final judgment (other than a stipulated final judgment without the approval of the Developer) for the plaintiff

in any such claim, action or proceeding, with or without the consent of the Developer, the Developer agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 12. Reporting Obligation of Developer's Transferees. The Developer shall, in connection with any sale or transfer of ownership of land within the District to a person or entity other than an Affiliate which will result in the transferee (which term shall include any successors and assigns of the Developer) becoming responsible for the payment of more than 20 percent of the Special Taxes levied on property within the District in the Fiscal Year following such transfer; cause such transferee to enter into a disclosure agreement with terms substantially similar to the terms of this Disclosure Agreement, whereby such transferee agrees to be bound by the obligations of the Developer under this Disclosure Agreement as an additional obligated party.

SECTION 13. Developer as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Developer is an independent contractor and not an agent of the City.

SECTION 14. Notices. Notices required by this Disclosure Agreement shall be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing:

Dissemination Agent: Union Bank of California, N.A.
120 S. San Pedro Street, Suite 400
Los Angeles, CA 90012
Attention: Vivian Savedra, Assistant Vice President
Phone: (213) 972-5673
Facsimile: (213) 972-5694

Developer: _____

Attention: _____
Phone: _____
Facsimile: _____

Issuer: City of San Diego
202 C Street, MS 7B
San Diego, California 92101
Attention: Chuck Wilcox
Phone: (619) 533-4519
Facsimile: (619) 235-5835

Participating Underwriter: UBS Financial Services Inc.
777 South Figueroa Street, 50th Floor
Los Angeles, California 90017
Attention: Los Angeles Municipal Securities Group
Phone: (213) 253-5403
Facsimile: (213) 253-5401

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Issuer, the Dissemination Agent, the Participating Underwriter and Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 16. 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.

By: _____

Its: _____

UNION BANK OF CALIFORNIA, N.A.
as Dissemination Agent

By: _____

Vice President

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of the Issuer: Community Facilities District No. 2 (Santaluz)
Name of Bond Issue: Community Facilities District No. 2 (Santaluz) Improvement Area No. 4
Special Tax Bonds Series A of 2004
Date of Issuance: February 25, 2004

NOTICE IS HEREBY GIVEN that _____ (the “Developer”) has not provided an [Annual Report or Semiannual Report] with respect to the above-named Bonds as required by the Continuing Disclosure Agreement of the Developer. [The Developer anticipates that such [Annual Report or Semiannual Report] will be filed not later than _____, _____.]

Dated: _____

Union Bank of California, N.A. as Dissemination Agent

cc: City of San Diego

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

February 25, 2004

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

**Re: \$9,965,000 Community Facilities District No. 2 (Santaluz) Improvement Area
 No. 4 Special Tax Bonds Series A of 2004**

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of San Diego taken in connection with the formation of Community Facilities District No. 2 (Santaluz) (the "District"), the annexation of Improvement Area No. 4 and the authorization and issuance of the District's Improvement Area No. 4 Special Tax Bonds Series A of 2004 in the aggregate principal amount of \$9,965,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of February 1, 2004 (the "Indenture") between the District and Union Bank of California, N.A. as Trustee (the Union Bank of California, N.A.). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing on September 1, 2004, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

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

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

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses.

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

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

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

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

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

The opinion expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

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

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

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

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

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

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

Respectfully submitted,

(This page intentionally left blank)

APPENDIX H

BOOK ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of Beneficial Ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the beneficial owners is based solely on information provided by DTC. Reference made to www.dtcc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not

receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

(This page intentionally left blank)