CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

This Continuing Disclosure Agreement dated as of October 1, 2000 (the "Disclosure Agreement") is executed and delivered by Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 (the "Issuer"), Union Bank of California, N.A. as Trustee (the Union Bank of California, N.A.) and as dissemination agent (the "Dissemination Agent"), in connection with the issuance and delivery by the Issuer of its $4,350,000 Improvement Area No. 3 Special Tax Bonds, Series B of 2000 (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of October 1, 2000 (the "Bond Indenture"), by and between the Issuer and the Trustee. The Issuer, the Trustee and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, the Trustee and the Dissemination Agent, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

"Disclosure Representative" shall mean the City Manager of the Issuer or the Deputy City Manager, or their designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, Union Bank of California, N.A. acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent a written acceptance of such designation.

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

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

"Official Statement" shall mean the Official Statement dated October 18, 2000 relating to the Bonds.

"Participating Underwriters" shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is PaineWebber Incorporated, Morgan Stanley Dean Witter and E. J. De La Rosa & Co., Inc.

"Repository" shall mean each National Repository and each State Repository.

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

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

"Tax-exempt" shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. 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 April 1 after the end of the Issuer's fiscal year (which currently ends on June 30), commencing with the report due on April 1, 2001, provide to each Repository, the Trustee (if the Trustee is not the Dissemination Agent) and the Participating Underwriters an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Trustee and the Dissemination Agent of a change in the fiscal year dates.

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

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

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories and other parties to which it was provided.

SECTION 4. Content of Annual Report. The Issuer's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the Issuer prepares audited financial statements and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Bond Indenture. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) a list of the public improvements in Table 1 of the Official Statement which have been acquired by the City with proceeds of the Bonds;

(iv) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a summary of the facts related to the collection of any Backup Special Tax and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(v) an update of Table 6 setting forth the estimated assessed value-to-lien ratios for Developed Property as a group and for each owner of Undeveloped Property based upon the most recent Special Tax levy preceding the date of the Annual Report, the most recent

assessed values of the property and the principal amount of the Bonds and any other land secured debt allocable to parcels within the District;

(vi) an update of Table 4 including a list of all taxpayers within the District which own property in the District upon which 5% or more of the total Special Taxes for the current fiscal year have been levied, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;

(vii) any event known to the Issuer which reduces the number of residential units permitted to be constructed within the District or which results in a moratorium on future building within the District;

(viii) a table setting forth for the five most recent fiscal years in which Special Taxes were levied, the amount of Special Taxes levied in each fiscal year and the percentage delinquent as of June 30 of such fiscal year and as of the date of the Annual Report, and a description of the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;

(ix) the date of issuance and the principal amount of any Parity Bonds and a copy of any appraisal delivered in connection with such issuance; and

(x) any information not already included under (i) through (ix) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) an event of default under the Bond Indenture other than as described in (i) above;

(iii) unscheduled draws on the Reserve Account reflecting financial difficulties;

(iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;

(v) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy;

(vi) adverse tax opinions or events adversely affecting the tax-exempt status of 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) The Trustee shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer pursuant to the Bond Indenture, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Bond Indenture.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

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

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Trustee or the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. 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 Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer and the Trustee (if the Trustee is other than the Dissemination Agent) and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment. (a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby; (ii) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) the Issuer shall have delivered to the Trustee an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (ii) above; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners; and (v) the Issuer shall have delivered copies of such opinion and amendment to each Repository.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners in the same manner as provided in the Bond Indenture for amendments to the Bond Indenture with the consent of the Owners of the Bonds, provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (iv) have been satisfied.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a

quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VII of the Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture and the Dissemination Agent and the Trustee shall be entitled to the same protections, limitations from liability and indemnification hereunder as are afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and the Trustee and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and Trustee and payment of the Bonds. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent and the Trustee shall not be

liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	Deputy City Manager City of San Diego Financial, Organization Development and Management Services 202 C Street, MS 9B San Diego, CA 92101
Dissemination Agent:	Union Bank of California, N.A. 120 S. San Pedro Street, Suite 400 Los Angeles, CA 90012
Trustee:	Union Bank of California, N.A. 120 S. San Pedro Street, Suite 400 Los Angeles, CA 90012
Participating Underwriters:	PaineWebber Incorporated 725 South Figueroa Street, 41st Floor Los Angeles, CA 90017
	Morgan Stanley Dean Witter 555 California Street, Suite 2200 San Francisco, CA 94104
	E. J. De la Rosa & Co., Inc. 706 Mission, Suite 502 San Francisco, CA 94103

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

COMMUNITY FACILITIES DISTRICT NO. 2
(SANTALUZ)

By: _____
Deputy City Manager of The City of San Diego, California

UNION BANK OF CALIFORNIA, N.A., as Trustee and Dissemination Agent

By: _____
Authorized Officer

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By: _____
Deputy City Manager of The City of San Diego, California

UNION BANK OF CALIFORNIA, N.A., as Trustee and Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 2 (Santaluz)

Name of Bond Issue: Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000

Date of Issuance: November 2, 2000

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2 (Santaluz), located in the City of San Diego, California, has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of October 1, 2000, by and between the City and Union Bank of California, N.A., as Trustee and dissemination agent. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

Union Bank of California, N.A., as Dissemination Agent

cc: City of San Diego