

## NEW ISSUE - BOOK-ENTRY ONLY

*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 2013 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 2013 Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS — Tax Exemption" herein.*

\$16,515,000\*

**COMMUNITY FACILITIES DISTRICT NO. 3  
(LIBERTY STATION)  
SPECIAL TAX REFUNDING BONDS SERIES 2013**

**Dated: Date of Delivery****Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 3 (Liberty Station) Special Tax Refunding Bonds Series 2013 (the "2013 Bonds") are being issued and delivered by Community Facilities District No. 3 (Liberty Station) (the "District") to refund the District's outstanding Special Tax Bonds Series 2006 and the District's outstanding Special Tax Bonds Series 2008. See "THE REFUNDING PLAN" herein. The District has been formed by and is located in the City of San Diego, California (the "City").

The 2013 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, 2013 by and between the District and Wells Fargo Bank, National Association, as trustee (the "Trustee") (together, the "Bond Indenture").

The 2013 Bonds are special 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 parcels within the District subject to the Special Tax 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 for Improvement Area No. 1 and for Improvement Area No. 2 of the District, each of which was approved by the City Council of the City and the qualified electors within the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Special Taxes." The City Council of the City is the legislative body of the District.

The 2013 Bonds are issuable in fully registered 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 in book-entry form only. Purchasers of 2013 Bonds will not receive certificates representing their beneficial ownership of the 2013 Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2013 Bonds will be payable on September 1, 2013 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the 2013 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the beneficial owners of the 2013 Bonds. See "THE 2013 BONDS — General Provisions" and APPENDIX F — "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 2013 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2013 Bonds. The 2013 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 2013 Bonds are subject to redemption prior to maturity as set forth herein. See "THE 2013 BONDS — Redemption" herein.

**Certain events could affect the ability of the District to pay the principal of and interest on the 2013 Bonds when due. The purchase of the 2013 Bonds involves significant investment risks, and the 2013 Bonds may not be 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 2013 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.

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**MATURITY SCHEDULE**

(See Inside Cover Page)

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The 2013 Bonds are offered when, as and if issued and accepted by the Underwriters, 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. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the 2013 Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriters by Nossaman LLP, Irvine, California, as counsel to the Underwriters. It is anticipated that the 2013 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about \_\_\_\_\_, 2013.



**DE LA ROSA & CO.**  
INVESTMENT BANKERS

**STONE & YOUNGBERG**  
A DIVISION OF STIFEL NICOLAUS

Dated: \_\_\_\_\_, 2013

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

## MATURITY SCHEDULE

(Base CUSIP<sup>†</sup>: \_\_\_\_\_)

| <i>Maturity Date<br/>(September 1)</i> | <i>Principal Amount</i> | <i>Interest Rate</i> | <i>Yield</i> | <i>CUSIP<sup>†</sup></i> |
|----------------------------------------|-------------------------|----------------------|--------------|--------------------------|
|----------------------------------------|-------------------------|----------------------|--------------|--------------------------|

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<sup>†</sup> Copyright 2013, American Bankers Association. CUSIP data herein is 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.

**COMMUNITY FACILITIES DISTRICT NO. 3  
(LIBERTY STATION)**

**CITY COUNCIL  
Serving as the Legislative Body of  
Community Facilities District No. 3 (Liberty Station)**

Sherri S. Lightner (*District 1*)

Kevin Faulconer (*District 2*)

Todd Gloria (*District 3*)

Vacant (*District 4*)

Mark Kersey (*District 5*)

Lorie Zapf (*District 6*)

Scott Sherman (*District 7*)

David Alvarez (*District 8*)

Marti Emerald (*District 9*)

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth,  
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Newport Beach, California

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Irvine, California

**SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.  
Newport Beach, California

**TRUSTEE**

Wells Fargo Bank, National Association  
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriters to give any information or to make any representations in connection with the offer or sale of the 2013 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 Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2013 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 Beneficial Owners of the 2013 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 the Municipal Securities Rulemaking Board, or a nationally recognized municipal securities depository.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

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

The information in APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the District or the City or the Underwriters as to 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.

A wide variety of other information, including financial information, concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

*Cautionary Information Regarding Forward-Looking Statements in the Official Statement*

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.

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. Except as set forth in the Continuing Disclosure Certificate, a form of which is attached as Exhibit D, the District has no 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 2013 Bonds, the Underwriters may overallocate 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 Underwriters may offer and sell the 2013 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof, and such public offering prices may be changed from time to time by the Underwriters.**

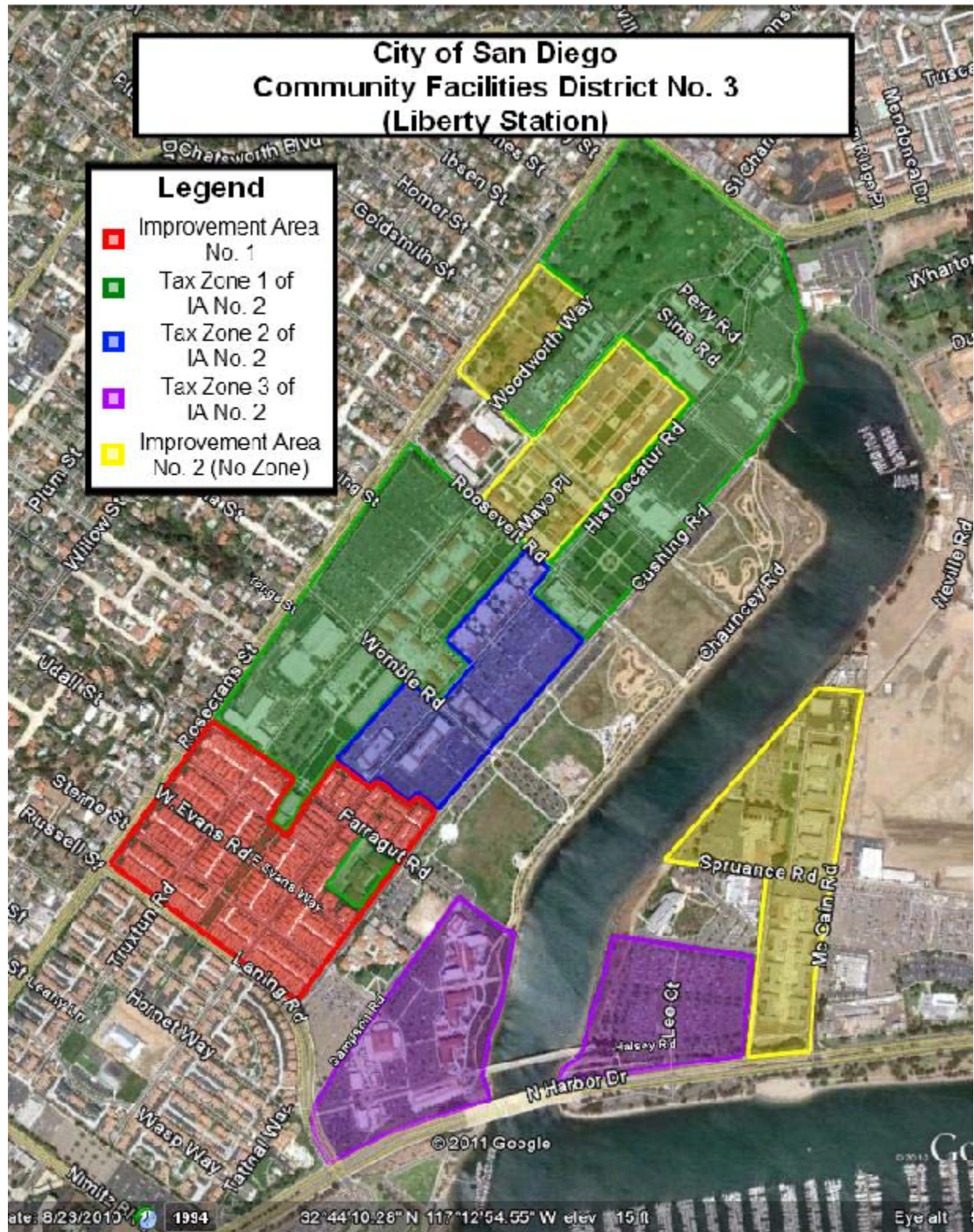
**The 2013 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The 2013 Bonds have not been registered or qualified under the securities laws of any state.**



**City of San Diego  
Community Facilities District No. 3  
(Liberty Station)**

**Legend**

- Improvement Area No. 1
- Tax Zone 1 of IA No. 2
- Tax Zone 2 of IA No. 2
- Tax Zone 3 of IA No. 2
- Improvement Area No. 2 (No Zone)



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**\$16,515,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION)**  
**SPECIAL TAX REFUNDING BONDS SERIES 2013**

**INTRODUCTION**

**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 2013 Bonds (defined below) 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 C — “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 by Community Facilities District No. 3 (Liberty Station) (the “District”) of the \$16,515,000\* Community Facilities District No. 3 (Liberty Station) Special Tax Refunding Bonds Series 2013 (the “2013 Bonds”). The proceeds of the 2013 Bonds, together with certain existing funds of the District, will be used to defease all of the District’s outstanding Special Tax Bonds Series A of 2006, originally issued in the aggregate principal amount of \$16,000,000 and now outstanding in the principal amount of \$14,540,000 (the “2006 Bonds”), and the District’s outstanding Special Tax Bonds Series A of 2008, originally issued in the aggregate principal amount of \$3,950,000 and now outstanding in the principal amount of \$3,595,000 (the “2008 Bonds” and, together with the 2006 Bonds, the “Refunded Bonds”). A portion of the 2013 Bonds will be used to fund a deposit to the Reserve Account and to pay costs of issuance of the 2013 Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The 2013 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, 2013 (the “Bond Indenture”) by and between the District and Wells Fargo Bank, National Association (the “Trustee”). Upon their issuance, the 2013 Bonds will be the only outstanding bonds of the District and will be secured under the Bond Indenture by a pledge of and lien upon Net 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 will covenant in the Bond Indenture not to issue any other bonds or indebtedness secured by the Special Taxes except for refunding bonds as described herein. See “THE 2013 BONDS—Issuance of Parity Bonds” herein.

**The District**

*Formation Proceedings.* The District was 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

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\* Preliminary, subject to change.

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 designate within it Improvement Area No. 1 and Improvement Area No. 2, 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, designating within it Improvement Area No. 1 and Improvement Area No. 2, authorizing the levy of Special Taxes on property within Improvement Area No. 1 and Improvement Area No. 2 and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of Improvement Area No. 1 and Improvement Area No. 2, respectively. On June 25, 2002, at elections held pursuant to the Act, the landowners who comprised the qualified voters of Improvement Area No. 1 and Improvement Area No. 2 authorized the District to incur bonded indebtedness on behalf of both Improvement Area No. 1 and Improvement Area No. 2 in an aggregate principal amount not to exceed \$30,000,000. At the elections held on June 25, 2002, and in order to provide a source of funds to pay the principal of and interest on the \$30,000,000 of authorized bonds, the qualified voters of Improvement Area No. 1 approved a rate and method of apportionment of Special Taxes for Improvement Area No. 1 (the “IA1 RMA”) and the qualified voters of Improvement Area No. 2 approved a rate and method of apportionment of Special Taxes for Improvement Area No. 2 (the “IA2 RMA,” and together with the IA1 RMA, the “Rate and Method”). The IA1 RMA and IA2 RMA are attached hereto as APPENDIX A-1 and APPENDIX A-2, respectively. See “THE 2013 BONDS—Authority for Issuance.”

***Description and Development.*** The District consists of approximately 242 gross acres of the former site of the U.S. Naval Training Center located approximately 2.5 miles northwest of downtown San Diego. Historically operated by the United States Navy as a training facility, all active military use of the training facility concluded in 1997, ending seventy years of use of the property as a naval training center. The District is bordered on the east by the United States Marine Corps Recruit Depot and San Diego International Airport, on the south by Harbor Drive, the San Diego Bay and a new military housing complex constructed for the Department of Defense and on the north and west by Rosecrans Street and existing residential neighborhoods.

The land within the District was conveyed to the City by the United States Government to allow for the redevelopment of the land and existing improvements consistent with approved Naval Training Center San Diego Reuse Plan, dated October 1998. The City conveyed the land to the Redevelopment Agency of the City of San Diego (“Agency”), and the Agency entered into a Disposition and Development Agreement (the “NTC DDA”) with McMillin-NTC LLC (the “Developer”) pursuant to which the Developer agreed to act as the master developer for the land within the District. The Agency was dissolved as of February 1, 2012 pursuant to legislation enacted by the State Legislature, and the City is now the successor agency to the former Agency. See “THE DISTRICT—City as Successor Agency to Redevelopment Agency.”

In September 2001, the City approved the Naval Training Center Precise Plan/Local Coastal Program (the “Precise Plan”). The land use entitlements for the District permit development pursuant to the Precise Plan. The Precise Plan, which includes certain land not within the District, provides for 350 residential units; 495,000 square feet of educational uses; 380,000 square feet of new construction for an office and research park development; a mixed-use area with 324,000 square feet of commercial development; a 22-acre golf course; 301,000 square feet of civic, arts and cultural uses, two hotels totaling 1,000 rooms; a 46-acre public park site and other open space and recreational uses; 130,000 square feet of ocean monitoring laboratories; a boat channel and 351,000 square feet for a Public Safety Training Institute. See “THE DISTRICT” herein.

Development within the District pursuant to the Precise Plan began in 2001. In Improvement Area No. 1, 349 building permits were issued and 349 residential units were built and sold to individual homeowners. Two of the residential units have prepaid the Special Taxes and 347 residential units remain subject to the levy for Special Taxes. In Improvement Area No. 2, the Precise Plan provides for improvements consisting of retail, commercial, office, hotel and educational development. A substantial amount of the

improvements in Improvement Area No. 2 have been completed. For a more detailed description of the status of development within the District, see “THE DISTRICT—Current Development Status in District.”

As of January 1, 2012, the net assessed value of the property within the District subject to the levy of the Special Tax in Fiscal Year 2012-13 was just over \$500 million, resulting in an estimated assessed value to lien ratio of 19.42 to 1<sup>\*</sup> for the property subject to the Special Tax levy in Fiscal Year 2012-13 based on the principal amount of the 2013 Bonds and other overlapping debt secured by *ad valorem* taxes, special taxes and assessments on such property. See “THE DISTRICT-Estimated Assessed Value-to-Lien Ratios” herein.

### **Security and Sources of Payment for the 2013 Bonds**

*General.* The 2013 Bonds are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the 2013 Bonds are payable solely from the Special Taxes to be levied annually against the taxable property in the District, or, to the extent necessary, from the moneys on deposit in the Reserve Account. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of San Diego County. Although the Special Taxes will constitute a lien on the property subject to taxation in the District, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

***Limited Obligations.* Except for the Special Taxes, no other taxes are pledged to the payment of the 2013 Bonds. The 2013 Bonds are not general or special obligations of the City nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Bond Indenture as more fully described herein.**

*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 interests in property within Improvement Area No. 1 and Improvement Area No. 2. The Special Taxes are authorized to be issued against certain parcels owned in fee and against certain leasehold interests created with respect to property within the District. Unless otherwise stated, references herein to a levy of Special Taxes includes both a levy on the applicable fee interests and leasehold interests and references herein to landowner includes both the owner in fee and the ground lessee, as applicable. A Special Tax will be levied either on the fee interest or the leasehold interest on a parcel in accordance with the Rate and Method but will not simultaneously be levied on both.

The Special Tax will be levied on property within Improvement Area No. 1 in accordance with the IA1 RMA, which is the approved rate and method of apportionment of Special Taxes for Improvement Area No. 1, and the Special Tax will be levied on property within Improvement Area No. 2 in accordance with the IA2 RMA, which is the approved rate and method of apportionment of Special Taxes for Improvement Area No. 2 (together, the “Rate and Method”). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Special Taxes,” APPENDIX A-1 — “IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and APPENDIX A-2 — “IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Bond Indenture, the District has pledged to repay the 2013 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 2013 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 2013 Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve

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<sup>\*</sup> Preliminary, subject to change.

Account therein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Reserve Account of the Special Tax Fund.”

In the current fiscal year, approximately 55% of the Special Taxes have been levied on the residential development in Improvement Area No. 1 and 45% on the nonresidential development within Improvement Area No. 2. See Table 8 under the caption “THE DISTRICT” herein.

*Foreclosure Proceeds.* The District will covenant for the benefit of the Beneficial Owners of the 2013 Bonds that it will commence, and diligently pursue until the delinquent Special Taxes are paid, 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 until the delinquent Special Taxes are paid, 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. As of February 1, 2013, there were no delinquent parcels within the District in the foreclosure process. Although certain parcels have been delinquent in the payment of Special Taxes in the past, the District has never been required to proceed to a foreclosure sale for delinquent Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” and Table 7 herein.

There is no assurance that the property interests within the District against which the Special Taxes are levied can be sold at foreclosure or otherwise for the 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 the District. See “SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios.” Approximately 69 net acres within Improvement Area No. 2 of the District was ground leased by the former Agency to the Developer. The Developer subsequently has assigned a number of the ground leases to the various entities that own or expect to construct improvements on the ground leased parcels. As to the ground leased parcels, the Special Tax is levied upon the leasehold interest only and not on the fee interest which is now owned by the City as the successor agency to the former Agency. In the event of a Special Tax delinquency with respect to any parcels leased by the City, as successor agency, the foreclosure action will proceed against the leasehold interest only and not the underlying fee interest. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS—Special Taxes—*Provisions Regarding Agency Leased Parcels*” herein.

**EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2013 BONDS. THE 2013 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 THE NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.**

*Parity Bonds and Liens.* The District may, without the consent of the Owners of the 2013 Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the 2013 Bonds (“Parity Bonds”), but only for the purpose of refunding all or a portion of the 2013 Bonds or Parity Bonds issued for refunding purposes. See “THE 2013 BONDS—Issuance of Parity Bonds.” 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 the District which could adversely affect the willingness of the owners of the taxable parcels in the District to pay the Special Taxes when due. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” herein.

## **Description of the 2013 Bonds**

The 2013 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 2013 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 2013 Bonds. In the event that the book-entry only system described herein is no longer used with respect to the 2013 Bonds, the 2013 Bonds will be registered and transferred in accordance with the Bond Indenture. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

Principal of, premium, if any, and interest on the 2013 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 2013 Bonds, the Beneficial Owners will become the registered owners of the 2013 Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

The 2013 Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption as described herein. For a more complete description of the 2013 Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE 2013 BONDS” and APPENDIX C — “SUMMARY OF BOND INDENTURE” herein.

## **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2013 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 2013 Bonds is exempt from State of California personal income tax. See “LEGAL MATTERS — Tax Exemption” herein.

## **Professionals Involved in the Offering**

Wells Fargo Bank, National Association will act as Trustee under the Bond Indenture. De La Rosa & Co. Inc. and Stifel Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus are the Underwriters of the 2013 Bonds. Certain proceedings in connection with the issuance and delivery of the 2013 Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. See APPENDIX E — FORM OF OPINION OF BOND COUNSEL.” Fieldman, Rolapp & Associates, Inc. is acting as Financial Advisor to the City in connection with the 2013 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the Underwriters by Nossaman LLP, Irvine, California, as Underwriters’ Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant.

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 2013 Bonds, see “LEGAL MATTERS — Financial Interests” herein.

## **Continuing Disclosure**

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system certain annual financial information and operating data. The District will further agree to provide notice of certain material events. These covenants will be made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE" herein and APPENDIX D hereto for a description of the specific nature of the annual reports to be filed by the District and notices of material events to be provided by the District. Within the last five years, the District failed to timely comply with certain of its prior continuing disclosure obligations under Rule 15c2-12(b)(5) as described herein; however, the District is now current on all required filings. See "CONTINUING DISCLOSURE."

## **Bond Owners' Risks**

Certain events could affect the timely repayment of the principal of and interest on the 2013 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 2013 Bonds. *The purchase of the 2013 Bonds involves significant investment risks, and the 2013 Bonds may not be 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 2013 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 2013 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 2013 Bonds, by reference to the Bond Indenture.

Copies of the Bond Indenture, the Continuing Disclosure Certificate 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 Trustee at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017.

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## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of 2013 Bond proceeds and prior funds:

### Sources of Funds

|                                |                 |
|--------------------------------|-----------------|
| Principal Amount of 2013 Bonds | \$ _____        |
| Original Issue Premium         |                 |
| Prior Funds <sup>(1)</sup>     | _____           |
| <b>TOTAL SOURCES</b>           | <b>\$ _____</b> |

### Uses of Funds

|                                         |                 |
|-----------------------------------------|-----------------|
| Redemption of Refunded Bonds            | \$ _____        |
| Reserve Account                         |                 |
| Cost of Issuance Account <sup>(2)</sup> |                 |
| Underwriters' Discount                  | _____           |
| <b>TOTAL USES</b>                       | <b>\$ _____</b> |

<sup>(1)</sup> Funds transferred from Special Tax Fund relating to the Refunded Bonds.

<sup>(2)</sup> Includes legal fees, financial advisor fees, special tax consultant fees, Trustee fees and expenses and other miscellaneous costs.

## THE REFUNDING PLAN

### General

A portion of the proceeds from the sale of the 2013 Bonds will be used along with other funds held by the District to defease the Refunded Bonds. The District will transfer to the trustee for the Refunded Bonds (the "Prior Trustee") moneys which, together with other amounts held by the Prior Trustee, will be sufficient to defease the Refunded Bonds and redeem the Refunded Bonds maturing on and after September 1, 2013 on March 1, 2013. Upon deposit of the proceeds of the 2013 Bonds with the Prior Trustee, the Refunded Bonds will be discharged under the Bond Indenture pursuant to which they were issued and the Refunded Bonds will no longer be secured by a pledge of and lien on the Special Taxes.

## THE 2013 BONDS

### General Provisions

The 2013 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 September 1, 2013 (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 2013 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the 2013 Bonds are held in book-entry form, principal and interest on the 2013 Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX F — "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 2013 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2013 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 2013 Bonds; provided, however, that if at the time of authentication of a 2013 Bond, interest is in default, interest on that 2013 Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

### **Authority for Issuance**

The 2013 Bonds will be 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 authorizing the issuance of the 2013 Bonds:

*Resolutions of Intention:* On May 7, 2002, the City Council of the City adopted a resolution stating its intention to establish the District and designate within it two improvement areas 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 \$30,000,000.

*Resolutions of Formation:* Immediately following a noticed public hearing opened on June 25, 2002, the City Council of the City adopted resolutions which established the District and designated within it Improvement Area No. 1 and Improvement Area No. 2, authorized the levy of a special tax within Improvement Area No. 1 and Improvement Area No. 2, and declared the necessity for the District to incur bonded indebtedness.

*Resolution Calling Election:* The resolutions adopted by the City Council of the City on June 25, 2002 also called for an election by the landowners within Improvement Area No. 1 and Improvement Area No. 2 for the same date to authorize the levy of the Special Tax and the incurring of bonded indebtedness.

*Landowner Election and Declaration of Results:* On June 25, 2002, an election was held for each improvement area at which the landowners within Improvement Area No. 1 and Improvement Area No. 2, respectively, approved a ballot proposition authorizing the issuance by the District of up to \$30,000,000 of bonds to finance the purchase and construction of various public facilities and approved the levy of the Special Tax in accordance with the Rate and Method for its improvement area.

*Special Tax Lien:* A Notice of Special Tax Lien for Improvement Area No. 1 was recorded in the real property records of the County on July 5, 2002, as a continuing lien against the property in Improvement Area No. 1. A Notice of Special Tax Lien for Improvement Area No. 2 was recorded in the real property records of the County on July 9, 2002, as a continuing lien against the property in Improvement Area No. 2.

*Ordinance Levying Special Taxes:* On July 8, 2002, the City Council adopted Ordinance No. O-19078 levying the Special Tax within Improvement Area No. 1 and Improvement Area No. 2.

*Resolution Authorizing Issuance of the 2006 Bonds:* On May 24, 2005, the City Council adopted a resolution approving issuance of the 2006 Bonds.

*Resolution Authorizing Issuance of the 2008 Bonds:* On March 11, 2008, the City Council adopted a resolution approving issuance of the 2008 Bonds.

*Resolution Authorizing Issuance of the 2013 Bonds:* On February 5, 2013, the City Council, acting as the legislative body of the District, adopted a resolution approving the issuance of the 2013 Bonds.

The following table presents the annual debt service on the 2013 Bonds, assuming there are no 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 permits redemption of 2013 Bonds on any Interest Payment Date from the proceeds of any prepayments of Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Special Taxes” and “THE 2013 BONDS — Redemption.”

## Redemption

*Redemption Date*

### *Redemption Price*

September 1, 20\_\_ through August 31, 20\_\_  
 September 1, 20\_\_ through August 31, 20\_\_  
 September 1, 20\_\_ through August 31, 20\_\_  
 September 1, 20\_\_ and thereafter

%

9

**Term Bonds Maturing September 1, 20\_\_**

***Sinking Fund Redemption Date***

***Sinking Payments***

\$

(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 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 the amount of \$5,000 or any integral multiple thereof.

*Extraordinary Redemption from Special Tax Prepayments.* The 2013 Bonds are subject to extraordinary redemption as a whole, or in part, on a pro rata basis among maturities, on any date, and will be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 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;

***Redemption Date***

***Redemption Price***

September 1, 20\_\_ through August 31, 20\_\_  
September 1, 20\_\_ through August 31, 20\_\_  
September 1, 20\_\_ through August 31, 20\_\_  
September 1, 20\_\_ and thereafter

%

Prepayments and amounts released from the Reserve Account in connection with Prepayments will be allocated to the redemption of the 2013 Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the 2013 Bonds.

The District has received notice that the Special Taxes may be prepaid on one parcel of Residential Property sometime in February 2013. If this prepayment is received after the pricing of the 2013 Bonds, it will result in the extraordinary redemption of approximately \$35,000 of 2013 Bonds shortly after their issuance.

*Notice of Redemption.* So long as the 2013 Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner. 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 2013 Bonds and the registered Owners of the 2013 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 2013 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the 2013 Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the 2013 Bonds are to be redeemed; (v) in the case of 2013 Bonds to be redeemed only in part, state the portion of such 2013 Bond which is to be redeemed; (vi) state the date of issue of the 2013 Bonds as originally issued; (vii) state the rate of interest borne by each 2013 Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 2013 Bonds being redeemed as shall be specified by the Trustee.

With respect to any notice of optional redemption of the 2013 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium if any, and interest on the 2013 Bonds to be redeemed and upon other conditions set forth therein and that, if such money shall not have been so received and such other conditions shall not have been satisfied, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2013 Bonds. If any condition in the notice of redemption is not satisfied, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any 2013 Bond of notice of such redemption is not a condition precedent to redemption. Neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of such 2013 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 2013 Bonds called for redemption is set aside for that purpose in the Redemption Account, the 2013 Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the 2013 Bonds at the place specified in the notice of redemption, and no interest will accrue on the 2013 Bonds called for redemption from and after the redemption date, and the Beneficial Owners of the redeemed 2013 Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such 2013 Bonds or portions of 2013 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 2013 Bonds. The ownership of the 2013 Bonds will be established by the bond registration books held by the Trustee.

*Transfer or Exchange.* Whenever any 2013 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new 2013 Bond or 2013 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) 2013 Bonds for a period of 15 days next preceding the date of any selection of the 2013 Bonds to be redeemed, or (ii) any 2013 Bonds chosen for redemption.

### **Issuance of Parity Bonds**

Subject to the limitations set forth in the Bond Indenture, the District may, at any time after the issuance and delivery of the 2013 Bonds, and without the consent of the Owners of the 2013 Bonds, 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 2013 Bonds and any Parity Bonds theretofore issued pursuant to the Bond Indenture or under any Supplemental Indenture; provided that Parity Bonds may be issued only to refund outstanding 2013 Bonds or Parity Bonds, and only if such refunding results in a reduction of Annual Debt Service in each Bond Year.

The District will covenant in the Bond Indenture not to issue any indebtedness having a lien, charge, pledge or encumbrance on the Net Taxes senior or superior to the 2013 Bonds. The District may issue indebtedness that has a lien, charge, pledge or encumbrance on the Net Taxes junior and subordinated to that for the 2013 Bonds.

## SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS

### Covenants and Warranties

The District will covenant in the Bond Indenture to comply with the covenants and warranties therein, which will be in full force and effect upon the issuance of the 2013 Bonds. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Covenants and Warranty.”

### Limited Obligations

The 2013 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 2013 Bonds. Under the Bond Indenture, the District will pledge to repay the 2013 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). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, but excluding therefrom penalties and interest imposed upon delinquent installments of Special Taxes.

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 2013 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 Beneficial Owners of the 2013 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 2013 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2013 Bonds. The 2013 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

*Levy and Pledge.* 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 an amount equal to the Reserve Requirement and to pay the estimated 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-1—“IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and APPENDIX A-2—“IMPROVEMENT AREA NO. 2 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 2013 Bonds when due. See “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” herein.

*Rate and Method of Apportionment of Special Taxes.* Special Taxes are levied each fiscal year pursuant to the IA1 RMA and the IA2 RMA in order to meet the Special Tax Requirement, as described below. All capitalized terms used in this section shall have the meaning set forth in APPENDIX A-1 and APPENDIX A-2.

### Improvement Area No. 1 Rate and Method

Under the IA1 RMA, all Taxable Property in Improvement Area No. 1 will be classified as Developed Property, Other Taxable Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Sections C and D of the IA1 RMA.

The Taxable Property within Improvement Area No. 1 consists of 349 residential units that have been classified under the IA1 RMA as Residential Property.

The Maximum Special Tax for an Assessor's Parcel of 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 for such parcel. The Assigned Special Tax rates are set forth in Table 1 of the IA1 RMA. The Assigned Special Tax rate for Residential Property is \$792.63 per dwelling unit, plus \$1.2385 per square foot of Floor Area. The Backup Special Tax for each Assessor's Parcel of Developed Property is set forth in the Backup Special Tax Appendix to the IA1 RMA, and these amounts range from approximately \$2,100 to \$4,700.

### Improvement Area No. 2 Rate and Method

Under the IA2 RMA, all Taxable Property in Improvement Area No. 2 will be classified as Developed Property, Other Taxable Property or Undeveloped Property, be assigned to one of three Zones and be subject to a Special Tax levy at the maximum rates described in Sections C and D of the IA2 RMA.

All of the Taxable Property within Improvement Area No. 2 is non-residential in nature and, although the IA2 RMA provides for taxation of residential property, only the provisions for the non-residential Special Taxes are summarized below.

An Assessor's Parcel will be classified as Developed Property if it is Taxable Property (other than Other Taxable Property) which was within a Final Map recorded prior to January 1 of the previous Fiscal Year and for which (i) a building permit for new construction was issued after March 1, 2001, but prior to March 1 of the previous Fiscal Year; or (ii) an Agency Certificate of Completion was executed prior to March 1 of the previous Fiscal Year. Developed Property within Improvement Area No. 2 will be further assigned to land use classes for Non-Residential Property and Hotel Property. The Maximum Special Tax for an Assessor's Parcel of 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 for such parcel. The Assigned Special Tax rates are set forth in Section C of the IA2 RMA. The Assigned Special Tax rate for Non-Residential Property is \$0.4550 per square foot of Floor Area for Assessor's Parcels in Zone 1 and Zone 3, and \$1.1026 per square foot of Floor Area for Assessor's Parcels in Zone 2. The Assigned Special Tax rate for Hotel Property in Zone 3 is \$253.51 per room. The Backup Special Tax rates for Developed Property are \$14,882 per acre, \$53,053 per acre, and \$9,592 per acre for parcels in Zones 1, 2 and 3, respectively. The Maximum Special Tax rates for Undeveloped Property and Other Taxable Property are \$14,882 per acre, \$53,053 per acre, and \$9,592 per acre for Assessor's Parcels in Zones 1, 2 and 3, respectively.

### Method and Calculation of Annual Levy

After classifying the parcels, the City Council will determine the Special Tax Requirement (as defined in the IA1 RMA and IA2 RMA) for the fiscal year. "Special Tax Requirement" is defined in the IA1 RMA and IA2 RMA as the amount required in any Fiscal Year to: (i) pay debt service due in the calendar year which commences in such Fiscal Year on all Outstanding Bonds; (ii) pay periodic costs on the Bonds and Parity Bonds, including, but not limited to, credit enhancement and rebate payments on the Bonds and Parity Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for authorized facilities; (vi) pay for reasonably

anticipated delinquent Special Taxes; less (vii) a credit for funds available to reduce the annual Special Tax levy.

The Rate and Method requires Special Taxes be levied in accordance with the following four steps: (1) Special Taxes are levied first on Developed Property in Improvement Area No. 1 in an amount equal to 100% of the applicable Assigned Tax rate, and on Developed Property in Improvement Area No. 2 in an amount equal to 100% of the applicable Assigned Tax rate; (2) if additional monies are needed to satisfy the Special Tax Requirement, then Special Taxes are to be levied proportionately on Undeveloped Property in Improvement Area No. 1 up to 100% of the Maximum Special Tax for Undeveloped Property and on Undeveloped Property in Improvement Area No. 2 up to 100% of the IA2 Maximum Special Tax for Undeveloped Property; (3) if additional monies are still needed to satisfy the Special Tax Requirement, for each parcel of Developed Property whose Maximum Special Tax rate is determined through the application of the Backup Special Tax in Improvement Area No. 1 and Improvement Area No. 2, the Special Tax shall be increased in equal percentages from the Assigned Special Tax rate applied in step 1 above to the Maximum Special Tax; and (4) if additional monies are still needed to satisfy the Special Tax Requirement, then Special Taxes are to be levied proportionately on Other Taxable Property in Improvement Area No. 1 and Improvement Area No. 2 at up to 100% the Maximum Special Tax for Other Taxable Property. See APPENDIX A-1—"IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES," and APPENDIX A-2—"IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Notwithstanding the above, the City Council may, in any Fiscal Year, levy proportionately less than 100% of the Assigned Special Tax under step (1) of the preceding paragraph when (i) the City Council is no longer required to levy a Special Tax pursuant to step (2) above, (ii) all authorized bonds of the District have been issued or the City Council has covenanted not to issue other Parity Bonds (other than refunding bonds), and (iii) all Facilities identified in the Purchase and Finance Agreement between the Developer and the City have been acquired.

Notwithstanding the provisions of the Rate and Method allowing Residential Property to be taxed at the Maximum Special Tax rate, the Act provides that under no circumstances will the Special Taxes levied against any parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of Special Taxes by any other parcel in the District.

*Prepayment of Special Taxes.* Under the Rate and Method, the owner of a parcel which is Developed Property or Undeveloped Property for which a building permit has been issued may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes will result in an extraordinary redemption of the 2013 Bonds and any Parity Bonds. See "THE 2013 BONDS—Redemption—*Extraordinary Redemption*."

*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 any Parity Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will only reduce the maximum Special Tax rates in accordance with the Bond Indenture 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 the sum of estimated Administrative Expenses and 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 or any Parity 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 Assessor’s Parcels taxed within the District, they do not constitute a personal indebtedness of the owners of property within the District. 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 taxpayers in the District. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” herein. There is no assurance that the owners of interests in property subject to the Special Tax 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, other than Prepayments, are to be deposited in the Special Tax Fund. Special Taxes do not include any penalties and interest relating to delinquent payments of Special Taxes. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund and will be applied on a pro rata basis to redeem Bonds and Parity Bonds. 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 pay Administrative Expenses up to an amount equal to the Administrative Expenses Cap for the current Bond Year; (ii) to pay the principal of and interest on the Bonds when due; (iii) to make required deposits in the Redemption Account; (iv) to replenish the Reserve Account to the Reserve Requirement; (v) to make any required transfers to the Rebate Fund; (vi) to pay any Administrative Expenses not paid under (i) above; and (vii) for any other lawful purpose of the District. See APPENDIX C—“SUMMARY OF BOND INDENTURE.”

*Special Taxes Are Not Within Teeter Plan.* Section 4701 et seq. of the California Revenue and Taxation Code allows a county to adopt a tax distribution procedure which distributes taxes to taxing agencies on the basis of the amount of the tax levy, rather than on the basis of actual tax collections. This mechanism is known as a “Teeter Plan.” The Special Taxes are not subject to the County of San Diego Teeter Plan. The amount of Special Taxes available to pay debt service on the 2013 Bonds will depend on actual tax collections.

*Proceeds of Foreclosure Sales.* The Special Tax revenues pledged to the payment of principal of and interest on the 2013 Bonds under the Bond Indenture include the net proceeds, exclusive of penalties and interest, received following a judicial foreclosure sale of an interest in a parcel within the District resulting from a taxpayer’s failure to pay the Special Taxes when due.

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 any delinquent Special Taxes be collected by a superior court action to foreclose the lien of the Special Tax within specified time limits. In such an action, the real property or leasehold interest therein 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 2013 Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) Assessor’s 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 Assessor’s Parcels 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 C—“SUMMARY OF BOND INDENTURE” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the 2013 Bonds could be delayed until the foreclosure proceedings result in 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 interests in the 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—Property Values; Value-to-Lien Ratios” 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 interest in the 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.

*Provisions Regarding Agency Leased Parcels.* Thirty-three parcels of land within Improvement Area No. 2 of the District totaling approximately 69 net acres were ground leased by the former Agency to the Developer for which the City, as Successor Agency, is now the ground lessor. Each ground lease has a 66-year term, with the first ground leases set to expire in 2068. The Developer has assigned its rights under a number of the ground leases to various entities which own or expect to construct improvements on the ground leased parcels assigned to them. In the case of the ground leased parcels, the Special Tax is levied upon the leasehold interest created by the former Agency and, in the event of a Special Tax delinquency, so long as the Successor Agency or the City is the ground lessor, the foreclosure action will proceed against the leasehold interest only and not the fee interest.

A failure to pay any Special Taxes levied on a leasehold interest will constitute a default under the ground lease with the Successor Agency. Following such a payment default or other default under a ground lease, the Successor Agency could exercise remedies that would result in a cancellation, surrender, rescission or termination (collectively, a “Termination”) of the ground lease. A Termination would result in no Special Taxes being levied or collected on the leased parcel unless and until a new lessee were put in place by the Successor Agency. Currently, approximately 13.37% of the Assigned Special Taxes are payable from the ground leased parcels. Even if the District were prevented from levying a Special Tax on all of the ground leased parcels based on the land use classifications in the District for the current fiscal year, the Net Taxes that could be levied on other parcels within the District in each bond year would be approximately 145%\* of the debt service due on the 2013 Bonds.

*Agency Right of Reverter.* Under the terms of the NTC DDA between the former Agency and the Developer, until the Successor Agency has issued a Certificate of Completion with respect to a parcel, the Successor Agency may exercise a right of reverter with respect to any parcel transferred in fee or by leasehold to the Developer should the Developer default in its obligations to the Successor Agency, which includes an obligation to pay all taxes and Special Taxes when due. The right of reverter is subordinate to the lien of the Special Tax, but a default in the payment of Special Taxes could result in the Successor Agency exercising its right of reverter, with the Successor Agency or a subsequent transferee of the Successor Agency being obligated to pay the Special Tax. As of February 1, 2013, eight parcels totaling approximately 17.39 acres that are subject to the Special Taxes also remain subject to the right of reverter. As these parcels are Undeveloped Property, to date, no Special Tax has been levied on these parcels. These parcels are proposed to be developed as a hotel and as a fitness center. See “THE DISTRICT—Current Development Status in District.”

### **Estimated Debt Service Coverage from Special Taxes**

Set forth in Table 1 below are the Fiscal Year 2012-13 Assigned Special Tax rates that may be levied on Developed Property and the Maximum Special Tax rates that may be levied on Undeveloped Property in

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\* Preliminary, subject to change.

Fiscal Year 2012-13 and the Fiscal Year 2012-13 actual Special Tax Rates for each land use category. The Maximum Special Tax rate for each parcel of Developed Property is the greater of the Assigned Special Tax or the amount calculated through the application of the Backup Special Tax. The Backup Special Tax will not be levied unless the Special Tax Requirement cannot be funded in full when Special Taxes are levied at the Assigned Special Tax rates for Developed Property and the Maximum Special Tax rates for Undeveloped Property. The Backup Special Tax has never been levied in the District and is not expected to be levied in the future. These Assigned Special Tax rates and the Maximum Special Tax rates do not escalate.

**TABLE 1**

**COMMUNITY FACILITIES DISTRICT NO. 3  
ASSIGNED/MAXIMUM AND FISCAL YEAR 2012-13 ACTUAL SPECIAL TAX RATES**

**Improvement Area No. 1  
(Residential)**

| <i>Land Use Class</i> |                                   | <i>Assigned/Maximum Special Tax<sup>(1)</sup></i> | <i>FY 2012-2013<br/>Actual Special Tax</i>    | <i>% of Assigned/<br/>Maximum Special<br/>Tax</i> |
|-----------------------|-----------------------------------|---------------------------------------------------|-----------------------------------------------|---------------------------------------------------|
| 1                     | Residential Property per unit     | \$792.63/unit + \$1.2385 per SF of Floor Area     | \$562.20/unit + \$0.8785 per SF of Floor Area | 70.9%                                             |
| 2                     | Non-Residential Property per acre | \$54,485.00/acre                                  | No property in this class                     | NA                                                |
| NA                    | Undeveloped Property per acre     | \$54,485.00/acre                                  | No property in this class                     | NA                                                |

**Zone 1 of Improvement Area No. 2  
(Existing Non-Residential)**

| <i>Land Use Class</i> |                                 | <i>Assigned/Maximum Special Tax<sup>(1)</sup></i> | <i>FY 2012-2013<br/>Actual Special Tax</i> | <i>% of Assigned/<br/>Maximum Special<br/>Tax</i> |
|-----------------------|---------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
| 1                     | Residential Property per unit   | \$792.63/unit + \$1.2385 per SF of Floor Area     | No property in this class                  | NA                                                |
| 2                     | Non-Residential Property per SF | \$0.4550 per SF of Floor Area                     | \$0.3227 per SF of Floor Area              | 70.9%                                             |
| NA                    | Undeveloped Property per acre   | \$14,882.00/acre                                  | \$0.00/acre                                | 0.0%                                              |

**Zone 2 of Improvement Area No. 2  
(Future Non-Residential)**

| <i>Land Use Class</i> |                                 | <i>Assigned/Maximum Special Tax<sup>(1)</sup></i> | <i>FY 2012-2013<br/>Actual Special Tax</i> | <i>% of Assigned/<br/>Maximum Special<br/>Tax</i> |
|-----------------------|---------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
| 1                     | Residential Property per unit   | \$792.63/unit + \$1.2385 per SF of Floor Area     | No property in this class                  | NA                                                |
| 2                     | Non-Residential Property per SF | \$1.1026 per SF of Floor Area                     | \$0.7821 per SF of Floor Area              | 70.9%                                             |
| NA                    | Undeveloped Property per acre   | \$53,053.00/acre                                  | \$0.00/acre                                | 0.0%                                              |

**Zone 3 of Improvement Area No. 2  
(Hotel)**

| <i>Land Use Class</i> |                                 | <i>Assigned/Maximum Special Tax<sup>(1)</sup></i> | <i>FY 2012-2013<br/>Actual Special Tax</i> | <i>% of Assigned/<br/>Maximum Special<br/>Tax</i> |
|-----------------------|---------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
| 1                     | Residential Property per unit   | \$792.63/unit + \$1.2385 per SF of Floor Area     | No property in this class                  | NA                                                |
| 2                     | Non-Residential Property per SF | \$0.4550 per SF of Floor Area                     | \$0.3227 per SF of Floor Area              | 70.9%                                             |
| 3                     | Hotel Property per room         | \$253.51 per room                                 | \$179.82 per room                          | 70.9%                                             |
| NA                    | Undeveloped Property per acre   | \$9,592.00/acre                                   | \$0.00/acre                                | 0.0%                                              |

<sup>(1)</sup> Includes Assigned Special Tax rates for Developed Property and Maximum Special Tax rates for Undeveloped Property.  
Source: David Taussig & Associates, Inc.

Special Taxes will be levied each year in an amount equal to the Annual Special Tax Levy determined in accordance with the Rate and Method. The Annual Special Tax Levy is calculated to include an amount equal to the debt service on the 2013 Bonds in the ensuing Bond Year plus the amount required to maintain the

Reserve Account at the Reserve Requirement plus the amount needed to pay Administrative Expenses, less the amount of earnings on deposit in the Reserve Account in excess of the Reserve Requirement and other available funds of the District. The Annual Special Tax Levy in Fiscal Year 2012-13 totaled \$1,439,257.34, with \$70,014 of this amount budgeted to pay Administrative Expenses.

The Annual Special Tax Levy in Fiscal Year 2012-13 was approximately 70.9% of the Assigned Special Tax Rates set forth in the IA1 RMA and 70.9% of the Assigned Special Tax Rates in the IA2 RMA and future levies, absent delinquencies, are projected not to exceed 60.8%\* of the Assigned Special Tax Rates in IA1 and 60.8%\* of the Assigned Special Tax Rates in IA2. The IA1 RMA and the IA2 RMA each includes a provision that, "... under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 3." Based on the land use classifications made under the Rate and Method as of March 1, 2012, if Special Taxes were levied on the residential parcels in Improvement Area No. 1 at ten percent above the current levy and were levied in Improvement Area No. 2 at the Assigned Special Tax Rates, the Special Taxes available to pay debt service on the 2013 Bonds after the payment of Administrative Expenses in an amount equal to the Administrative Expenses Cap (\$60,000 in each year) would be approximately 148%\* of the debt service due in each Bond Year commencing after September 1, 2013.

The debt service coverage based on current land use classifications is set forth in Table 2 below. The amounts stated thereon are actual for Fiscal Year 2012-13 and potential thereafter. Actual coverage levels could vary based on future changes in land use classifications. Other than in Fiscal year 2012-13, it is not the District's expectation that it will levy Special Taxes at the amounts shown in Table 2 unless there were substantial delinquencies in Special Tax payments. The actual amount levied will be only the Annual Special Tax Levy calculated in the manner described above.

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\* Preliminary, subject to change.

**TABLE 2**  
**COMMUNITY FACILITIES DISTRICT NO. 3**  
**POTENTIAL DEBT SERVICE COVERAGE**

| <i>Bond Year<br/>Ending<br/>September 1</i> | <i>Potential<br/>Developed<br/>Property<br/>Special Tax<br/>Revenues in<br/>IA No. 1<sup>(1)(2)</sup></i> | <i>Potential<br/>Developed<br/>Property<br/>Special Tax<br/>Revenues in<br/>IA No. 2<sup>(3)</sup></i> | <i>Potential<br/>Gross Special<br/>Tax Revenues</i> | <i>Annual<br/>Administrative<br/>Expenses<sup>(4)</sup></i> | <i>Debt<br/>Service<sup>(5)*</sup></i> | <i>Potential<br/>Coverage from<br/>Developed<br/>Property<sup>(6)*</sup></i> |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------|
| 2013 <sup>(7)</sup>                         | \$ 792,325                                                                                                | \$ 646,932                                                                                             | \$ 692,729                                          | \$ N/A                                                      | \$ 621,944                             | 111.38%                                                                      |
| 2014                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,169,294                              | 147.41                                                                       |
| 2015                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,164,694                              | 147.99                                                                       |
| 2016                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,169,994                              | 147.32                                                                       |
| 2017                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,169,994                              | 147.32                                                                       |
| 2018                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,169,794                              | 147.35                                                                       |
| 2019                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,167,444                              | 147.64                                                                       |
| 2020                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,167,869                              | 147.59                                                                       |
| 2021                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,171,519                              | 147.13                                                                       |
| 2022                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,163,156                              | 148.19                                                                       |
| 2023                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,168,750                              | 147.48                                                                       |
| 2024                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,167,000                              | 147.70                                                                       |
| 2025                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,166,000                              | 147.82                                                                       |
| 2026                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,173,500                              | 146.88                                                                       |
| 2027                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,164,000                              | 148.08                                                                       |
| 2028                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,168,250                              | 147.54                                                                       |
| 2029                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,170,500                              | 147.26                                                                       |
| 2030                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,165,750                              | 147.86                                                                       |
| 2031                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,169,250                              | 147.41                                                                       |
| 2032                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,155,500                              | 149.17                                                                       |
| 2033                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,160,250                              | 148.56                                                                       |
| 2034                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,157,500                              | 148.91                                                                       |
| 2035                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,157,500                              | 148.91                                                                       |
| 2036                                        | 871,558                                                                                                   | 912,080                                                                                                | 1,783,638                                           | 60,000                                                      | 1,155,000                              | 149.23                                                                       |

(1) Developed Property Special Tax revenues for IA No. 1 for Fiscal Year 2012-13 are equal to the actual Fiscal Year 2012-13 levy. For each year thereafter, the amount is based on 110% of the Fiscal Year 2012-13 levy. IA No. 1 is built out.

(2) Pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within CFD No. 3 by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the Special Tax levy to the Assigned Special Tax in all years.

(3) Developed Property Special Tax revenues for IA No. 2 are equal to the actual Fiscal Year 2012-13 levy. For each year thereafter, the amount is based on the Assigned Special Taxes. Assumes no future development.

(4) Based on the Administrative Expense Cap of \$60,000. Administrative Expenses for Fiscal Year 2012-13 are estimated at \$70,014 and have already been funded. Amounts up to the Administrative Expense Cap are paid prior to debt service on the 2013 Bonds and any Administrative Expenses which exceed the Administrative Expense Cap are paid following the payment of debt service in each Bond Year.

(5) Based on preliminary debt service provided by the Underwriters.

(6) Based on Special Taxes for Developed Property in IA No. 1 and IA No. 2, less annual administrative expenses divided by gross debt service.

(7) Gross Special Taxes for 2013 represents amount levied and remaining to be collected in fiscal year 2012-13 and Debt Service equals the principal and interest due on the 2013 Bonds on September 1, 2013.

\* Preliminary, subject to change.

Source: David Taussig & Associates, Inc.

### **Reserve Account of the Special Tax Fund**

In order to secure further the payment of principal of and interest on the 2013 Bonds, the District is required, upon delivery of the 2013 Bonds, to deposit in the Reserve Account an amount equal to the Reserve

Requirement 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 2013 Bonds; (ii) the maximum annual debt service on the then Outstanding 2013 Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding 2013 Bonds. As of the date of issuance of the 2013 Bonds the Reserve Requirement will be fully funded in the amount of \$1,173,500\*.

Subject to the limits on the maximum annual Special Tax which may be levied within the District as described in APPENDIX A, the District will covenant 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 2013 Bonds, to the extent other monies are not available therefor; (ii) redeem the 2013 Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of the 2013 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 2013 Bonds; provided, however, that no such transfer shall be made if it would result in the amount in the Reserve Account being less than the Reserve Requirement. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Reserve Account” herein.

## **THE DISTRICT**

### **General Description of the District**

The District consists of approximately 242 gross acres of the former site of the U.S. Naval Training Center located approximately 2.5 miles northwest of downtown San Diego. Historically operated by the United States Navy as a training facility, all active military use of the training facility concluded in 1997, ending over seventy years of use of the property as a naval training center. The District is bordered on the east by the United States Marine Corps Recruit Depot and San Diego International Airport, on the south by Harbor Drive, the San Diego Bay and a new military housing complex constructed for the Department of Defense, and on the north and west by Rosecrans Street and existing neighborhoods.

The District is divided into two improvement areas: Improvement Area No. 1 and Improvement Area No. 2. Improvement Area No. 1 is located in the southwestern corner of the District, bordered by Rosecrans Street and Laning Road. Improvement Area No. 1 consists of approximately 32.48 gross acres and includes 349 residential units. The owners of two residential parcels have prepaid the Special Taxes and 347 residential units remain subject to the levy of the Special Tax. Improvement Area No. 2 consists of approximately 209.32 gross acres and includes uses for education, office/research and development, open space, civic, arts and cultural facilities and two hotel sites.

The District is adjacent to the San Diego International Airport (“SDIA”). The Airport Authority serves as the airport operator for SDIA and the Airport Land Use Commission (“ALUC”) for San Diego County. The property within the District is subject to an aviation easement recorded by the County of San Diego and granted to the Airport Authority as the airport operator for SDIA. The District is within the Airport Influence Area for SDIA. A portion of the property within Improvement Area No. 2 is within the Runway Protection Zone (“RPZ”) for SDIA as promulgated by the Federal Aviation Administration. The Airport Authority has requested that all proposed development that increases non-residential floor area, residential dwelling units, or structure height or changes use within the Airport Influence Area for SDIA be submitted to the ALUC pursuant to California Public Utilities Code sections 21670 to 21679.5 for a determination of whether the proposed development is consistent with the adopted Airport Land Use Compatibility Plan (“ALUCP”) for SDIA. For a discussion of the role of the Airport Authority and potential impacts on the District, see “SPECIAL RISK FACTORS—Proximity to the San Diego International Airport.”

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\* Preliminary, subject to change.

## **City as Successor Agency to Redevelopment Agency**

The former Agency entered into a number of agreements relating to development within the District and was the fee owner and ground lessor of approximately 69 net acres within Improvement Area No. 2. As a result of the dissolution of the Agency as described below, the City in its capacity as the legal successor to the former Agency is now the fee owner and ground lessor of these parcels.

The former Agency dissolved as of February 1, 2012, in accordance with a deadline for elimination of all redevelopment agencies throughout California set forth in Assembly Bill x1 26 ("AB 26"), enacted on June 28, 2011, as modified by the California Supreme Court in a final opinion issued on December 29, 2011.

The San Diego City Council adopted Resolution No. R-307238, effective January 12, 2012, designating the City to serve as the Successor Agency to the former Agency pursuant to California Health and Safety Code section 34173(d)(1). All assets, properties, contracts, leases, books and records, buildings and equipment of the former Agency, along with all legal or contractual restrictions on the use of these assets, were transferred to the Successor Agency, and the Successor Agency is winding down the former Agency's affairs in accordance with AB 26 and Assembly Bill 1484 ("AB 1484"), enacted on June 27, 2012.

A seven-member Oversight Board has been formed to oversee and direct certain actions and decisions of the Successor Agency in accordance with AB 26 and AB 1484 (collectively, the "RDA Dissolution Laws"). In addition, the California Department of Finance ("DOF"), the California State Controller (the "State Controller"), and the San Diego County Auditor-Controller (the "County Auditor") have certain rights and responsibilities to administer and enforce the RDA Dissolution Laws with respect to the Successor Agency.

After completing certain audits and payments to the County Auditor as required under AB 26 and AB 1484, and within six months of receipt of a Finding of Completion issued by the DOF pursuant to Health and Safety Code Section 34179.7 confirming the completion of the required audits and payments, the Successor Agency must submit a long-range property management plan for the real property of the former Agency which addresses the future use or disposition of all of the properties for approval by the Oversight Board and the DOF. Permissible uses include retention of the property to fulfill an enforceable obligation. (Health and Safety Code Section 34191.5(b),(c)). The Successor Agency intends to propose transfer of the property owned by the Successor Agency within the District to the City for continued management and redevelopment in fulfillment of applicable enforceable obligations.

In the event that DOF approves the transfer of the approximately 69 acres of property in Improvement Area No. 2 to the City, the Special Taxes will continue to be levied on the leasehold interests created on these parcels by the former Agency. If the Successor Agency is required to sell or transfer its interest in these 69 acres to a third party, the Special Tax will then be levied on the fee interest and not on the leasehold interest.

## **Current Development Status in District**

A portion of the proceeds of the bonds originally issued by the District was used to acquire and construct various public facilities authorized to be acquired or constructed within the District. These proceeds have all been expended and the public improvements to be financed by the District are complete. The completed improvements include: various street improvements, including traffic signals and park improvements.

Development within Improvement Area No. 1 of the District is complete and consists of 349 residential units, of which 347 remain subject to the levy of the Special Tax.

Development within Improvement Area No. 2 of the District consists of approximately 1.27 million square feet of nonresidential development and 350 hotel rooms operated by Marriott and Hilton. The

nonresidential development includes professional offices and a number of retail stores, including: Trader Joes, Vons, Panera Bread, Starbucks (3 locations), Ace Hardware and Coldstone Creamery, among others.

Improvement Area No. 2 also contains approximately 21.64 acres of undeveloped property, of which 17.39 acres is proposed for future development as 650 hotel rooms and a fitness center and is to be subject to the Special Taxes. The undeveloped property within Improvement Area No. 2 is not currently being taxed and is not expected to be taxed under the IA2 RMA, as the Special Taxes levied on developed property in the District has been sufficient to pay the debt service on the Refunded Bonds and is expected to be sufficient to pay debt service on the 2013 Bonds. There are various permits and approvals that must be obtained in order for the future development within Improvement Area No. 2 to proceed, and new or additional requirements for permits and approvals may take effect before any development occurs. No assurance can be given that the remaining development for Improvement Area No. 2 will be completed and, in evaluating an investment in the Bonds, purchasers should not assume that this remaining development will be completed as proposed. See “SPECIAL RISK FACTORS—Risks of Real Estate Secured Investments Generally” and “—Proximity to the San Diego International Airport.”

The current development within the District and the undeveloped acreage are summarized in Table 3 below.

**TABLE 3**  
**DEVELOPMENT SUMMARY**  
**COMMUNITY FACILITIES DISTRICT NO. 3**

| <i>Land Use</i>                       | <i>Taxable Property</i> | <i>Number of<br/>Square Feet of<br/>Residential<br/>Floor Area</i> | <i>Fiscal Year<br/>2012-13 Actual<br/>Special Tax</i> | <i>Average Net Assessed<br/>Value</i> |
|---------------------------------------|-------------------------|--------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------|
| <b><u>Developed Property</u></b>      |                         |                                                                    |                                                       |                                       |
| Improvement Area No. 1 <sup>(1)</sup> |                         |                                                                    |                                                       |                                       |
| Residential Property                  | 347 Units               | 679,879 SF                                                         | \$ 792,325                                            | \$562,524 per Unit                    |
| Zone 1 of Improvement Area No. 2      |                         |                                                                    |                                                       |                                       |
| Non-Residential Property              | 832,252 Bldg SF         | N/A                                                                | 268,590                                               | \$184 per Bldg SF <sup>(2)</sup>      |
| Zone 2 of Improvement Area No. 2      |                         |                                                                    |                                                       |                                       |
| Non-Residential Property              | 379,923 Bldg SF         | N/A                                                                | 297,124                                               | \$207 per Bldg SF                     |
| Zone 3 of Improvement Area No. 2      |                         |                                                                    |                                                       |                                       |
| Non-Residential Property              | 56,646 Bldg SF          | N/A                                                                | 18,281                                                | \$134 per Bldg SF                     |
| Hotel Property                        | 350 Rooms               | N/A                                                                | 62,937                                                | \$197,412 per Room                    |
| <b><u>Undeveloped Property</u></b>    |                         |                                                                    |                                                       |                                       |
| Zone 1 of Improvement Area No. 2      | 2.28 Acres              | N/A                                                                | 0                                                     | \$624,358 per Acre                    |
| Zone 2 of Improvement Area No. 2      | 4.26 Acres              | N/A                                                                | 0                                                     | \$1,769,485 per Acre                  |
| Zone 3 of Improvement Area No. 2      | 15.10 Acres             | N/A                                                                | <u>0</u>                                              | \$931,195 per Acre                    |
| <b>Grand Total</b>                    | <b>N/A</b>              | <b>N/A</b>                                                         | <b>\$ 1,439,257</b>                                   | <b>N/A</b>                            |

<sup>(1)</sup> Does not include two units which prepaid their Special Tax obligation in June 2008 and February 2011.

<sup>(2)</sup> Includes gross assessed value (totaling \$69,354,317) for six parcels with \$0 net assessed value. Net assessed value is \$0 for these parcels because of religious/educational exemptions. No *ad valorem* charges are assessed; however, Special Taxes are levied as allowed under the IA2 RMA.

Source: David Taussig & Associates, Inc.



Table 3A below sets forth the net assessed value and the annual change in net assessed value for taxable property within the District for fiscal years 2008-09 through 2012-13. The changes are shown for Non-Residential Property, Hotel Property, Residential Property and Undeveloped Property as classified under the IA1 RMA and the IA2 RMA and for the District as a whole.

**TABLE 3A**

**ANNUAL CHANGE IN NET ASSESSED VALUE  
COMMUNITY FACILITIES DISTRICT NO. 3<sup>(1)</sup>**

| Year      | <i>Non-Residential Property</i>           |                  |                      | <i>Hotel Property</i>                     |                  |                      |
|-----------|-------------------------------------------|------------------|----------------------|-------------------------------------------|------------------|----------------------|
|           | Taxable<br>Property Net<br>Assessed Value | Amount<br>Change | Percentage<br>Change | Taxable<br>Property Net<br>Assessed Value | Amount<br>Change | Percentage<br>Change |
| 2008-2009 | \$189,899,258 <sup>(2)</sup>              | N/A              | N/A                  | \$46,521,080                              | N/A              | N/A                  |
| 2009-2010 | 224,914,337 <sup>(2)</sup>                | \$35,015,079     | 18.44%               | 68,725,793                                | \$22,204,713     | 47.73%               |
| 2010-2011 | 235,916,269 <sup>(2)</sup>                | 11,001,932       | 4.89                 | 68,085,307                                | (640,486)        | (0.93)               |
| 2011-2012 | 229,929,760 <sup>(2)</sup>                | (5,986,509)      | (2.54)               | 68,167,002                                | 81,695           | 0.12                 |
| 2012-2013 | 239,197,063 <sup>(2)</sup>                | 9,267,303        | 4.03                 | 69,094,199                                | 927,197          | 1.36                 |

| Year      | <i>Residential Property<sup>(3)</sup></i> |                  |                      | <i>Undeveloped Property</i>               |                  |                      |
|-----------|-------------------------------------------|------------------|----------------------|-------------------------------------------|------------------|----------------------|
|           | Taxable<br>Property Net<br>Assessed Value | Amount<br>Change | Percentage<br>Change | Taxable<br>Property Net<br>Assessed Value | Amount<br>Change | Percentage<br>Change |
| 2008-2009 | \$242,394,555                             | N/A              | N/A                  | \$19,954,373                              | N/A              | N/A                  |
| 2009-2010 | 217,530,793                               | \$(24,863,762)   | (10.26)%             | 29,630,954                                | \$9,676,581      | 48.49%               |
| 2010-2011 | 213,183,986                               | (4,346,807)      | (2.00)               | 26,919,216                                | (2,711,738)      | (9.15)               |
| 2011-2012 | 214,786,938                               | 1,602,952        | 0.75                 | 29,772,155                                | 2,852,939        | 10.60                |
| 2012-2013 | 195,195,952                               | (19,590,986)     | (9.12)               | 23,022,591                                | (6,749,564)      | (22.67)              |

| <i>Total</i> |                                        |               |                      |
|--------------|----------------------------------------|---------------|----------------------|
| Year         | Taxable Property<br>Net Assessed Value | Amount Change | Percentage<br>Change |
| 2008-2009    | \$498,769,266                          | N/A           | N/A                  |
| 2009-2010    | 540,801,877                            | \$42,032,611  | 8.43%                |
| 2010-2011    | 544,104,778                            | 3,302,901     | 0.61                 |
| 2011-2012    | 542,655,855                            | (1,448,923)   | (0.27)               |
| 2012-2013    | 526,509,805                            | (16,146,050)  | (2.98)               |

<sup>(1)</sup> Net assessed values as of January 1 of each year from the County Assessor's Roll.

<sup>(2)</sup> Includes gross assessed value for six parcels owned by Liberty Station Education Center LLC, San Diego Rock Church, and HTH Learning (including \$69,354,317 for FY 2012-2013). Net assessed value is \$0 for these parcels because of religious/educational exemptions. No *ad valorem* taxes are assessed; however, Special Taxes are levied as allowed under the IA2 RMA for CFD No. 3.

<sup>(3)</sup> Net assessed values are inclusive of homeowners' exemptions, which provide for a reduction of \$7,000 off the assessed value of a qualifying residence.

Source: San Diego County Assessor.

The 2.98% decline in assessed valuation in the District in fiscal year 2012-13 compares with a decline in assessed valuation Citywide of 0.52% for fiscal year 2012-13. The 9.12% decline in residential assessed values in the District in fiscal year 2012-13 reflects the continued weakness in the housing market that began several years ago. Based on information provided by the County of San Diego Assessor's Office, as of January 28, 2013, there were assessment appeals pending on 10 residential parcels in the District requesting total reductions in assessed values of approximately \$951,000 for fiscal year 2012-13 and assessment appeals pending on 7 non-residential parcels in the District requesting total reductions in assessed values of approximately \$15.8 million in fiscal year 2012-13. Whether assessed values decrease or increase in the future will depend on conditions in the real estate market and other factors. See "SPECIAL RISK FACTORS—Risks of Real Estate Secured Investments Generally," "—Risks Related to Current Market Conditions" and "—Property Values; Value-to-Lien Ratios."

#### **Estimated Direct and Overlapping Indebtedness**

Within the boundaries of the District are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on parcels within the District and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within the District for Fiscal Year 2012-13 is shown in Table 4 below.

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TABLE 4

**DIRECT AND OVERLAPPING DEBT SUMMARY  
COMMUNITY FACILITIES DISTRICT NO. 3 <sup>(1)</sup>  
IMPROVEMENT AREA NO. 1 AND IMPROVEMENT AREA NO. 2**

| <i>Overlapping District</i>                                                                                                                                                                    | <i>Fiscal Year<br/>2012-13<br/>Total Levy<sup>(1)</sup></i> | <i>Amount of<br/>Levy on<br/>Parcels in the<br/>District<sup>(2)</sup></i> | <i>Percent of<br/>Levy on<br/>Parcels in<br/>the District</i> | <i>Total Debt<br/>Outstanding<sup>(3)</sup></i> | <i>District Share of<br/>Total Debt<br/>Outstanding</i> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|
| Improvement Area No. 1                                                                                                                                                                         |                                                             |                                                                            |                                                               |                                                 |                                                         |
| Metropolitan Water District G.O. Bond                                                                                                                                                          | \$ 92,246,662                                               | \$ 6,832                                                                   | 0.0074%                                                       | \$ 196,545,000                                  | \$ 14,556                                               |
| San Diego Unified Bonds, Proposition<br>MM Series A-R1 and 2012<br>Refunding; Proposition S Series A-<br>R1 and 2012 Refunding                                                                 | 85,036,232                                                  | 130,137                                                                    | 0.1530                                                        | 1,819,028,696                                   | 2,783,792                                               |
| San Diego Community College Bond<br>Proposition N Series 2007 and 2011;<br>Proposition S Series 2003A, 2005,<br>2009, 2011 and 2011 Refunding;<br>Proposition N and S Series 2012<br>Refunding | 46,175,791                                                  | 70,973                                                                     | 0.1537                                                        | 933,048,036                                     | <u>1,434,116</u>                                        |
| Subtotal                                                                                                                                                                                       |                                                             |                                                                            |                                                               |                                                 | <u>\$ 4,232,465</u>                                     |
| Improvement Area No. 2                                                                                                                                                                         |                                                             |                                                                            |                                                               |                                                 |                                                         |
| Metropolitan Water District G.O. Bond                                                                                                                                                          | \$ 92,246,662                                               | \$ 8,363                                                                   | 0.0091%                                                       | \$ 196,545,000                                  | \$ 17,818                                               |
| San Diego Unified Bonds, Proposition<br>MM Series A-R1 and 2012<br>Refunding; Proposition S Series A-<br>R1 and 2012 Refunding                                                                 | 85,036,232                                                  | 159,299                                                                    | 0.1873                                                        | 1,819,028,696                                   | 3,407,605                                               |
| San Diego Community College Bond<br>Proposition N Series 2007 and 2011;<br>Proposition S Series 2003A, 2005,<br>2009, 2011 and 2011 Refunding;<br>Proposition N and S Series 2012<br>Refunding | 46,175,791                                                  | 86,877                                                                     | 0.1881                                                        | 933,048,036                                     | <u>1,755,484</u>                                        |
| Subtotal                                                                                                                                                                                       |                                                             |                                                                            |                                                               |                                                 | <u>\$ 5,180,908</u>                                     |
| Estimated Share of Overlapping Debt Allocable to the District                                                                                                                                  |                                                             |                                                                            |                                                               |                                                 | <u>\$ 9,413,372</u>                                     |
| Plus CFD No. 3 Refunding Bonds Series 2013                                                                                                                                                     |                                                             |                                                                            |                                                               |                                                 | <u>16,515,000<sup>(4)</sup></u>                         |
| Estimated Share of Direct and Overlapping Debt Allocable to the District                                                                                                                       |                                                             |                                                                            |                                                               |                                                 | \$ 25,928,372                                           |

(1) Numbers may not add due to rounding.

(2) Based on actual Fiscal Year 2012-13 tax bills as provided by the County of San Diego.

(3) As of November 1, 2012, at which date the San Diego Unified School District also had approximately \$4.38 billion and the San Diego Community College District also had approximately \$599 million of authorized and unissued general obligation bonds.

(4) Preliminary, subject to change.

Source: David Taussig & Associates, Inc.

In addition to the bonded indebtedness set forth in Table 4, the general obligation bonds currently authorized but not issued will likely be issued and new general obligation bonds may be authorized at future elections. New community facilities districts or special assessment districts may be formed which include all or a portion of the District, resulting in the issuance of more bonds and the levy of additional special taxes or other taxes and assessments on parcels within the District. The hotel property within Improvement Area No. 2 is included in a Convention Center Facilities District formed by the City which is authorized to levy special taxes based upon a percentage of the room revenue collected and to issue up to \$575 million of special tax

obligations. Currently, there are 350 hotel rooms in two hotels which are subject to this special tax, and any of the 650 hotel rooms proposed for future development in the District would be subject to this special tax following completion. The issuance of any of this additional indebtedness could cause the value-to-lien ratios set forth in Table 8 below to be reduced. In addition to the Special Taxes, the property owners in the District will be required to pay the general *ad valorem* property taxes for their parcels. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” and “—Property Values; Value-to-Lien Ratios.”

### **Expected Tax Burden**

Tables 5A, 5B and 5C below set forth an estimated property tax bill for typical single family detached units, rowhomes and condominium units in Improvement Area No. 1. The expected tax rates and amounts presented herein are based on information for Fiscal Year 2012-13. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2012-13, the projected total effective tax rates for the three types of residential units are all approximately 1.5% of assessed value. If the Special Taxes had been levied at 100% of the Assigned Special Tax rates and the Liberty Station Maintenance Assessment District had been levied at the maximum rate for Fiscal Year 2012-13, the total effective tax rate would have been approximately 1.7% of assessed value. It is not expected that the maximum percentage will be reached in future fiscal years.

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TABLE 5A

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2012-13  
FOR RESIDENTIAL UNITS IN IMPROVEMENT AREA NO. 1  
(SINGLE FAMILY DETACHED HOMES)**

| Assessed Valuation and Property Taxes                                 | Percent<br>of Total AV | Expected<br>Amount | Maximum<br>Amount  |
|-----------------------------------------------------------------------|------------------------|--------------------|--------------------|
| TOTAL ASSESSED VALUE <sup>(1)</sup> \$705,087                         |                        |                    |                    |
| Average Unit Size for Residential Property <sup>(2)</sup> : 2,589 SF  |                        |                    |                    |
| AD VALOREM PROPERTY TAXES <sup>(3)</sup>                              |                        |                    |                    |
| Basic Levy                                                            | 1.00000%               | \$7,050.87         |                    |
| San Diego Unified Bond Prop MM Series 2000B                           | 0.00427%               | \$30.11            |                    |
| San Diego Unified Bond Prop MM Series 2001C                           | 0.00503%               | \$35.47            |                    |
| San Diego Unified Bond Prop MM Series 2002D                           | 0.00306%               | \$21.58            |                    |
| San Diego Unified Bond Prop MM Series 2003E                           | 0.01119%               | \$78.90            |                    |
| San Diego Unified Bond Prop MM Series 1998F Refunding                 | 0.00086%               | \$6.06             |                    |
| San Diego Unified Bond Prop MM Series 1998G Refunding                 | 0.00112%               | \$7.90             |                    |
| San Diego Unified Bond Prop MM Series 2006 F-1 Refunding              | 0.00500%               | \$35.25            |                    |
| San Diego Unified Bond Prop MM Series 2006 G-1 Refunding              | 0.00419%               | \$29.54            |                    |
| San Diego Unified Bond Prop MM Series 2012 Refunding                  | 0.03084%               | \$217.45           |                    |
| San Diego Unified Bond Prop S Series 2009A                            | 0.00111%               | \$7.83             |                    |
| San Diego Community College Bond Prop S Series 2003A                  | 0.00054%               | \$3.81             |                    |
| San Diego Community College Bond Prop S Series 2005                   | 0.00206%               | \$14.52            |                    |
| San Diego Community College Bond Prop S Series 2009                   | 0.00695%               | \$49.00            |                    |
| San Diego Community College Bond Prop S Series 2011                   | 0.00391%               | \$27.57            |                    |
| San Diego Community College Bond Prop S Series 2011 Refunding         | 0.00173%               | \$12.20            |                    |
| San Diego Community College Bond Prop N Series 2007                   | 0.00877%               | \$61.84            |                    |
| San Diego Community College Bond Prop N Series 2011                   | 0.00166%               | \$11.70            |                    |
| San Diego Community College Bond Prop S/Prop N Series 2012 Refunding  | 0.01074%               | \$75.73            |                    |
| San Diego City Zoological Exhibits                                    | 0.00500%               | \$35.25            |                    |
| Metropolitan Water District                                           | 0.00350%               | \$24.68            |                    |
| Total General Property Taxes and Overrides                            | 1.11153%               | \$7,837.26         |                    |
| ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES                         |                        |                    |                    |
| MWD Water Standby Charge <sup>(4)</sup>                               |                        | \$11.50            |                    |
| Vector Disease Control <sup>(5)</sup>                                 |                        | \$5.86             |                    |
| CWA Water Availability <sup>(6)</sup>                                 |                        | \$10.00            |                    |
| Mosquito Surveillance <sup>(7)</sup>                                  |                        | \$3.00             |                    |
| Liberty Station Maintenance Assessment District <sup>(8)</sup>        |                        | \$0.00             | \$81.20            |
| City of San Diego CFD No. 3 (Liberty Station) IA No. 1 <sup>(9)</sup> |                        | \$2,836.64         | \$3,999.11         |
| Total Assessments and Parcel Charges                                  |                        | \$2,867.00         | \$4,110.67         |
| <b>PROJECTED TOTAL PROPERTY TAXES</b>                                 |                        | <b>\$10,704.25</b> | <b>\$11,947.92</b> |
| <b>Projected Total Effective Tax Rate (as % of Estimated AV)</b>      |                        | <b>1.51815%</b>    | <b>1.69453%</b>    |

<sup>(1)</sup> Based on average net assessed value plus \$7,000 homeowner's exemption for 80 residential units in Admiralty Row as of January 1, 2012 provided by the San Diego County Assessor. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on average unit size for 80 residential units in Admiralty Row.

<sup>(3)</sup> Based on actual FY 2012-13 ad valorem rates for Tax Rate Area 008-254. Tax rates subject to change.

<sup>(4)</sup> Based on FY 2012-13 rate of \$11.50 per dwelling unit for parcels less than one acre.

<sup>(5)</sup> Based on FY 2012-13 rate of \$5.86 per dwelling unit.

<sup>(6)</sup> Based on FY 2012-13 rate of \$10.00 per dwelling unit.

<sup>(7)</sup> Based on FY 2012-13 rate of \$3.00 per dwelling unit.

<sup>(8)</sup> No FY 2012-13 assessment for Zone A property. Maximum assessment is \$81.20 per dwelling unit for Zone A property.

<sup>(9)</sup> Based on the City of San Diego CFD No. 3 actual FY 2012-13 Special Tax rate of \$562.20 per dwelling unit and \$0.8785 per square foot of floor area for residential property. Maximum Amount column is based on the Assigned Special Tax rate of \$792.63 per dwelling unit and \$1.2385 per square foot of floor area for residential property.

Sources: David Taussig and Associates, Inc.; San Diego County Treasurer/Tax Collector; Metropolitan Water District; City of San Diego; County Water Authority; Mosquito & Vector Control

**TABLE 5B**  
**SAMPLE PROPERTY TAX BILL**  
**PROJECTED FOR FISCAL YEAR 2012-13**  
**FOR RESIDENTIAL UNITS IN IMPROVEMENT AREA NO. 1**  
**(ROWHOMES)**

| Assessed Valuation and Property Taxes                                 | Percent of Total AV | Expected Amount   | Maximum Amount     |
|-----------------------------------------------------------------------|---------------------|-------------------|--------------------|
| TOTAL ASSESSED VALUE <sup>(1)</sup> \$645,714                         |                     |                   |                    |
| Average Unit Size for Residential Property <sup>(2)</sup> : 2,316 SF  |                     |                   |                    |
| AD VALOREM PROPERTY TAXES <sup>(3)</sup>                              |                     |                   |                    |
| Basic Levy                                                            | 1.00000%            | \$6,457.14        |                    |
| San Diego Unified Bond Prop MM Series 2000B                           | 0.00427%            | \$27.57           |                    |
| San Diego Unified Bond Prop MM Series 2001C                           | 0.00503%            | \$32.48           |                    |
| San Diego Unified Bond Prop MM Series 2002D                           | 0.00306%            | \$19.76           |                    |
| San Diego Unified Bond Prop MM Series 2003E                           | 0.01119%            | \$72.26           |                    |
| San Diego Unified Bond Prop MM Series 1998F Refunding                 | 0.00086%            | \$5.55            |                    |
| San Diego Unified Bond Prop MM Series 1998G Refunding                 | 0.00112%            | \$7.23            |                    |
| San Diego Unified Bond Prop MM Series 2006 F-1 Refunding              | 0.00500%            | \$32.29           |                    |
| San Diego Unified Bond Prop MM Series 2006 G-1 Refunding              | 0.00419%            | \$27.06           |                    |
| San Diego Unified Bond Prop MM Series 2012 Refunding                  | 0.03084%            | \$199.14          |                    |
| San Diego Unified Bond Prop S Series 2009A                            | 0.00111%            | \$7.17            |                    |
| San Diego Community College Bond Prop S Series 2003A                  | 0.00054%            | \$3.49            |                    |
| San Diego Community College Bond Prop S Series 2005                   | 0.00206%            | \$13.30           |                    |
| San Diego Community College Bond Prop S Series 2009                   | 0.00695%            | \$44.88           |                    |
| San Diego Community College Bond Prop S Series 2011                   | 0.00391%            | \$25.25           |                    |
| San Diego Community College Bond Prop S Series 2011 Refunding         | 0.00173%            | \$11.17           |                    |
| San Diego Community College Bond Prop N Series 2007                   | 0.00877%            | \$56.63           |                    |
| San Diego Community College Bond Prop N Series 2011                   | 0.00166%            | \$10.72           |                    |
| San Diego Community College Bond Prop S/Prop N Series 2012 Refunding  | 0.01074%            | \$69.35           |                    |
| San Diego City Zoological Exhibits                                    | 0.00500%            | \$32.29           |                    |
| Metropolitan Water District                                           | 0.00350%            | \$22.60           |                    |
| Total General Property Taxes and Overrides                            | 1.11153%            | \$7,177.31        |                    |
| ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES                         |                     |                   |                    |
| MWD Water Standby Charge <sup>(4)</sup>                               |                     | \$11.50           |                    |
| Vector Disease Control <sup>(5)</sup>                                 |                     | \$5.86            |                    |
| CWA Water Availability <sup>(6)</sup>                                 |                     | \$10.00           |                    |
| Mosquito Surveillance <sup>(7)</sup>                                  |                     | \$3.00            |                    |
| Liberty Station Maintenance Assessment District <sup>(8)</sup>        |                     | \$0.00            | \$81.20            |
| City of San Diego CFD No. 3 (Liberty Station) IA No. 1 <sup>(9)</sup> |                     | \$2,596.81        | \$3,661.00         |
| Total Assessments and Parcel Charges                                  |                     | \$2,627.17        | \$3,769.56         |
| <b>PROJECTED TOTAL PROPERTY TAXES</b>                                 |                     | <b>\$9,804.47</b> | <b>\$10,946.86</b> |
| <b>Projected Total Effective Tax Rate (as % of Estimated AV)</b>      |                     | <b>1.51839%</b>   | <b>1.69531%</b>    |

<sup>(1)</sup> Based on average net assessed value plus \$7,000 homeowner's exemption for 127 residential units in Beacon Point as of January 1, 2012 provided by the San Diego County Assessor. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on average unit size for 127 residential units in Beacon Point.

<sup>(3)</sup> Based on actual FY 2012-13 ad valorem rates for Tax Rate Area 008-254. Tax rates subject to change.

<sup>(4)</sup> Based on FY 2012-13 rate of \$11.50 per dwelling unit for parcels less than one acre.

<sup>(5)</sup> Based on FY 2012-13 rate of \$5.86 per dwelling unit.

<sup>(6)</sup> Based on FY 2012-13 rate of \$10.00 per dwelling unit.

<sup>(7)</sup> Based on FY 2012-13 rate of \$3.00 per dwelling unit.

<sup>(8)</sup> No FY 2012-13 assessment for Zone A property. Maximum assessment is \$81.20 per dwelling unit for Zone A property.

<sup>(9)</sup> Based on the City of San Diego CFD No. 3 actual FY 2012-13 Special Tax rate of \$562.20 per dwelling unit and \$0.8785 per square foot of floor area for residential property. Maximum Amount column is based on the Assigned Special Tax rate of \$792.63 per dwelling unit and \$1.2385 per square foot of floor area for residential property.

Sources: David Taussig and Associates, Inc.; San Diego County Treasurer/Tax Collector; Metropolitan Water District; City of San Diego; County Water Authority; Mosquito & Vector Control

TABLE 5C

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2012-13  
FOR RESIDENTIAL UNITS IN IMPROVEMENT AREA NO. 1  
(CONDOMINIUMS)**

| <b>Assessed Valuation and Property Taxes</b>                                 | <b>Percent of<br/>Total AV</b> | <b>Expected<br/>Amount</b> | <b>Maximum<br/>Amount</b> |
|------------------------------------------------------------------------------|--------------------------------|----------------------------|---------------------------|
| TOTAL ASSESSED VALUE <sup>(1)</sup> \$422,945                                |                                |                            |                           |
| Average Unit Size for Residential Property <sup>(2)</sup> : 1,276 SF         |                                |                            |                           |
| <b>AD VALOREM PROPERTY TAXES <sup>(3)</sup></b>                              |                                |                            |                           |
| Basic Levy                                                                   | 1.00000%                       | \$4,229.45                 |                           |
| San Diego Unified Bond Prop MM Series 2000B                                  | 0.00427%                       | \$18.06                    |                           |
| San Diego Unified Bond Prop MM Series 2001C                                  | 0.00503%                       | \$21.27                    |                           |
| San Diego Unified Bond Prop MM Series 2002D                                  | 0.00306%                       | \$12.94                    |                           |
| San Diego Unified Bond Prop MM Series 2003E                                  | 0.01119%                       | \$47.33                    |                           |
| San Diego Unified Bond Prop MM Series 1998F Refunding                        | 0.00086%                       | \$3.64                     |                           |
| San Diego Unified Bond Prop MM Series 1998G Refunding                        | 0.00112%                       | \$4.74                     |                           |
| San Diego Unified Bond Prop MM Series 2006 F-1 Refunding                     | 0.00500%                       | \$21.15                    |                           |
| San Diego Unified Bond Prop MM Series 2006 G-1 Refunding                     | 0.00419%                       | \$17.72                    |                           |
| San Diego Unified Bond Prop MM Series 2012 Refunding                         | 0.03084%                       | \$130.44                   |                           |
| San Diego Unified Bond Prop S Series 2009A                                   | 0.00111%                       | \$4.69                     |                           |
| San Diego Community College Bond Prop S Series 2003A                         | 0.00054%                       | \$2.28                     |                           |
| San Diego Community College Bond Prop S Series 2005                          | 0.00206%                       | \$8.71                     |                           |
| San Diego Community College Bond Prop S Series 2009                          | 0.00695%                       | \$29.39                    |                           |
| San Diego Community College Bond Prop S Series 2011                          | 0.00391%                       | \$16.54                    |                           |
| San Diego Community College Bond Prop S Series 2011 Refunding                | 0.00173%                       | \$7.32                     |                           |
| San Diego Community College Bond Prop N Series 2007                          | 0.00877%                       | \$37.09                    |                           |
| San Diego Community College Bond Prop N Series 2011                          | 0.00166%                       | \$7.02                     |                           |
| San Diego Community College Bond Prop S/Prop N Series 2012 Refunding         | 0.01074%                       | \$45.42                    |                           |
| San Diego City Zoological Exhibits                                           | 0.00500%                       | \$21.15                    |                           |
| <u>Metropolitan Water District</u>                                           | <u>0.00350%</u>                | <u>\$14.80</u>             |                           |
| Total General Property Taxes and Overrides                                   | 1.11153%                       | \$4,701.16                 |                           |
| <b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>                         |                                |                            |                           |
| MWD Water Standby Charge <sup>(4)</sup>                                      |                                | \$11.50                    |                           |
| Vector Disease Control <sup>(5)</sup>                                        |                                | \$4.10                     |                           |
| CWA Water Availability <sup>(6)</sup>                                        |                                | \$10.00                    |                           |
| Mosquito Surveillance <sup>(7)</sup>                                         |                                | \$3.00                     |                           |
| Liberty Station Maintenance Assessment District <sup>(8)</sup>               |                                | \$0.00                     | \$18.22                   |
| <u>City of San Diego CFD No. 3 (Liberty Station) IA No. 1 <sup>(9)</sup></u> |                                | <u>\$1,683.17</u>          | <u>\$2,372.96</u>         |
| Total Assessments and Parcel Charges                                         |                                | \$1,711.77                 | \$2,419.78                |
| <b><u>PROJECTED TOTAL PROPERTY TAXES</u></b>                                 |                                | <b><u>\$6,412.93</u></b>   | <b><u>\$7,120.93</u></b>  |
| <b>Projected Total Effective Tax Rate (as % of Estimated AV)</b>             |                                | <b>1.51626%</b>            | <b>1.68366%</b>           |

<sup>(1)</sup> Based on average net assessed value plus \$7,000 homeowner's exemption for 140 condominium units in Anchor Cove as of January 1, 2012 provided by the San Diego County Assessor. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on average unit size for 140 condominium units in Anchor Cove.

<sup>(3)</sup> Based on actual FY 2012-13 ad valorem rates for Tax Rate Area 008-254. Tax rates subject to change.

<sup>(4)</sup> Based on FY 2012-13 rate of \$11.50 per dwelling unit for parcels less than one acre.

<sup>(5)</sup> Based on FY 2012-13 rate of \$5.86 per dwelling unit. Multi-Family residences are considered 0.7 dwelling units.

<sup>(6)</sup> Based on FY 2012-13 rate of \$10.00 per dwelling unit.

<sup>(7)</sup> Based on FY 2012-13 rate of \$3.00 per dwelling unit.

<sup>(8)</sup> No FY 2012-13 assessment for Zone B property. Maximum assessment is \$24.29 per dwelling unit for Zone B property. Multi Family residences are considered 0.75 dwelling units.

<sup>(9)</sup> Based on the City of San Diego CFD No. 3 actual FY 2012-13 Special Tax rate of \$562.20 per dwelling unit and \$0.8785 per square foot of floor area for residential property. Maximum Amount column is based on the Assigned Special Tax rate of \$792.63 per dwelling unit and \$1.2385 per square foot of floor area for residential property.

Sources: David Taussig and Associates, Inc.; San Diego County Treasurer/Tax Collector; Metropolitan Water District; City of San Diego; County Water Authority; Mosquito & Vector Control.

## Principal Taxpayers

In Fiscal Year 2012-13, approximately 55% of the Special Taxes were levied on parcels of residential property and 45% on parcels of nonresidential property. No property tax owner in the District is responsible for more than 6% of the Special Tax levy in Fiscal Year 2012-13; however, a number of parcels are owned by entities related to the Developer which in the aggregate are responsible for approximately 18.22% of the Special Tax levy in Fiscal Year 2012-13. A summary of the taxpayers by various categories is set forth in Table 6 below.

**TABLE 6**  
**COMMUNITY FACILITIES DISTRICT NO. 3**  
**TAXPAYER SUMMARY**  
**FISCAL YEAR 2012-13<sup>(1)</sup>**

| <i>Owner<sup>(1)</sup></i>                       | <i>Improvement Area</i> | <i>Land Use Class<sup>(1)</sup></i> | <i>Number of Parcels</i> | <i>Fiscal Year 2012-13 Special Tax Levy<sup>(2)</sup></i> | <i>Percentage of Fiscal Year 2012-13 Special Tax Levy</i> |
|--------------------------------------------------|-------------------------|-------------------------------------|--------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Individual Homeowners                            | 1                       | Residential                         | 347                      | \$ 792,325.36                                             | 55.05%                                                    |
| Kilroy Realty LP                                 | 2                       | Commercial Building                 | 1                        | 85,324.66                                                 | 5.93                                                      |
| San Diego Rock Church                            | 2                       | Institutional                       | 1                        | 66,508.86                                                 | 4.62                                                      |
| Liberty Station HHG Hotel LP                     | 2                       | Hotel                               | 2                        | 62,937.00                                                 | 4.37                                                      |
| McMillin NTC 903/904 LLC <sup>(3)</sup>          | 2                       | Commercial Building                 | 1                        | 49,452.98                                                 | 3.44                                                      |
| McMillin NTC 901 LLC <sup>(3)</sup>              | 2                       | Commercial Building                 | 1                        | 41,554.92                                                 | 2.89                                                      |
| McMillin-NTC Landing LLC <sup>(3)</sup>          | 2                       | Commercial Building                 | 5                        | 25,051.00                                                 | 1.74                                                      |
| Liberty Station Education Center LLC             | 2                       | Institutional                       | 1                        | 32,073.56                                                 | 2.23                                                      |
| H T H Learning                                   | 2                       | Institutional                       | 4                        | 31,391.64                                                 | 2.18                                                      |
| Building 907 LLC                                 | 2                       | Commercial Building                 | 1                        | 30,212.66                                                 | 2.10                                                      |
| McMillin/Decatur Road 906 LLC <sup>(3)</sup>     | 2                       | Commercial Building                 | 1                        | 30,212.66                                                 | 2.10                                                      |
| C D C Small Business Finance Corp.               | 2                       | Commercial Building                 | 1                        | 30,182.94                                                 | 2.10                                                      |
| McMillin NTC 905 LLC <sup>(3)</sup>              | 2                       | Commercial Building                 | 1                        | 30,182.94                                                 | 2.10                                                      |
| Liberty Station Marketplace LLC <sup>(3)</sup>   | 2                       | Commercial Building                 | 3                        | 20,094.58                                                 | 1.40                                                      |
| Liberty Station Marketplace LLC <sup>(3)</sup>   | 2                       | Commercial Building                 | 1                        | 17,511.48                                                 | 1.22                                                      |
| McMillin-NTC 193 LLC <sup>(3)</sup>              | 2                       | Commercial Building                 | 1                        | 17,309.78                                                 | 1.20                                                      |
| The Vons Companies Inc .                         | 2                       | Grocery store                       | 1                        | 16,133.44                                                 | 1.12                                                      |
| Liberty Station 210 Investors LLC <sup>(3)</sup> | 2                       | Recreational                        | 1                        | 13,390.90                                                 | 0.93                                                      |
| D R C Partners LLC                               | 2                       | Institutional                       | 1                        | 10,637.40                                                 | 0.74                                                      |
| Liberty Station-Harbor Retail LLC <sup>(3)</sup> | 2                       | Shopping Center                     | 5                        | 7,643.78                                                  | 0.53                                                      |
| McMillin-NTC Landing LLC <sup>(3)</sup>          | 2                       | Commercial Building                 | 2                        | 7,065.78                                                  | 0.49                                                      |
| Davles LLC                                       | 2                       | Commercial Building                 | 1                        | 5,583.18                                                  | 0.39                                                      |
| Ocean Village Associates LLC                     | 2                       | Light Manufacturing                 | 2                        | 4,299.36                                                  | 0.30                                                      |
| San Diego County Regional Airport Authority      | 2                       | Airport                             | 1                        | 4,065.38                                                  | 0.28                                                      |
| Bentsen Palms LLC                                | 2                       | Light Manufacturing                 | 1                        | 3,003.62                                                  | 0.21                                                      |
| Seapro LLC                                       | 2                       | Light Manufacturing                 | 1                        | 2,581.82                                                  | 0.18                                                      |
| Sail Ho Golf Course LLC <sup>(3)</sup>           | 2                       | Golf course                         | 1                        | 1,871.82                                                  | 0.13                                                      |
| McMillin-NTC LLC <sup>(3)</sup>                  | 2                       | Commercial Building                 | 2                        | 653.84                                                    | 0.05                                                      |
|                                                  |                         |                                     | 391                      | \$ 1,439,257.34                                           | 100.00%                                                   |

<sup>(1)</sup> Reflects ownership as of January 1, 2012 provided by the San Diego County Assessor.

<sup>(2)</sup> Based on development status as of March 1, 2012.

<sup>(3)</sup> Entity in which the Developer or an affiliate has an ownership interest.

Source: David Taussig & Associates, Inc.



## Delinquency History

Table 7 below summarizes the Special Tax delinquencies for property within the boundaries of the District for Fiscal Years 2007-08 through 2011-12. The highest fiscal year end delinquency rate in any of these years was 1.88%. Currently, there are no foreclosure actions in process in the District and the District has never been required to sell a parcel within the District at a foreclosure sale for delinquent Special Taxes. One of the nonresidential parcels is delinquent in the payment of Special Taxes.

**TABLE 7**  
**COMMUNITY FACILITIES DISTRICT NO. 3**  
**SPECIAL TAX DELINQUENCY HISTORY**

| <i>Fiscal Year</i>      | <i>Parcels Taxed</i> | <i>Total Levy</i> | <i>Delinquent Parcels at Fiscal Year End</i> | <i>Delinquent Installments at Fiscal Year End<sup>(1)</sup></i> | <i>Percent Delinquent in Fiscal Year of Levy</i> | <i>Parcels Remaining Delinquent<sup>(2)</sup></i> | <i>Amount Remaining Delinquent<sup>(2)</sup></i> | <i>Percent Remaining Delinquent</i> |
|-------------------------|----------------------|-------------------|----------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------|--------------------------------------------------|-------------------------------------|
| 2012-13 <sup>(3)</sup>  | 391                  | \$ 719,629        | NA                                           | NA                                                              | NA                                               | 4                                                 | \$ 5,456                                         | 0.76%                               |
| 2011-12                 | 390                  | 1,425,018         | 4                                            | \$ 7,524                                                        | 0.53%                                            | 1                                                 | 1,441                                            | 0.10                                |
| 2010-11                 | 391                  | 1,538,299         | 6                                            | 11,383                                                          | 0.74                                             | 0                                                 | 0                                                | 0.00                                |
| 2009-10                 | 391                  | 1,999,309         | 6                                            | 14,518                                                          | 0.73                                             | 0                                                 | 0                                                | 0.00                                |
| 2008-09                 | 380                  | 1,949,168         | 14                                           | 36,700                                                          | 1.88                                             | 1                                                 | 5,732                                            | 0.29                                |
| 2007-08                 | 372                  | 1,633,771         | 9                                            | 25,361                                                          | 1.55                                             | 0                                                 | 0                                                | 0.00                                |
| Total Amount Delinquent |                      |                   |                                              |                                                                 |                                                  |                                                   | <u>\$ 12,629</u>                                 |                                     |

<sup>(1)</sup> Reflects final fiscal year end data reported in August of each year; does not include penalties and interest.

<sup>(2)</sup> As of January 28, 2013. Amount remaining delinquent does not include penalties and interest.

<sup>(3)</sup> First installment only. Fiscal Year 2012-13 total levy is \$1,439,257.

Source: City of San Diego.

The County has adopted a Teeter Plan for the collection and payment of taxes pursuant to which it pays 100% of the amount levied to participating agencies without regard to the actual amount of collections. The District does not participate in the County's Teeter Plan and, as a result, the District receives only the Special Taxes actually collected. Penalties and interest received on the collection of delinquent Special Taxes are paid to the City but are not pledged under the Bond Indenture to repay the 2013 Bonds.

## Estimated Assessed Value-to-Lien Ratios

Table 8 below sets forth the estimated assessed value-to-lien ratios for various categories of property ownership within the District based upon ownership status as of January 1, 2012 and the assessed values included on the Fiscal Year 2012-13 Assessor's roll. The estimated assessed value-to-lien ratio of the property within the District for which a Special Tax was levied in Fiscal Year 2012-13 based upon the principal amount of the 2013 Bonds, overlapping debt payable from other taxes and assessments levied on the property within the District, and the assessed values included on the 2012-13 Assessor's roll is 19.42 to 1\*. Because a parcel's assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel's market value. No assurance can be given that any of the value-to-lien ratios in Table 8 will be maintained during the period of time that the 2013 Bonds are outstanding. The District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See "SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios" and "—Parity Taxes and Special Assessments."

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\* Preliminary, subject to change.

Table 9 below sets forth the estimated assessed value-to-lien ratios for parcels within the District for which a Special Tax was levied in Fiscal Year 2012-13 by various ranges based upon the direct and overlapping debt information included in Table 4.

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**TABLE 8**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**

| <i>Property Owner<sup>(1)</sup></i>                          | <i>Fiscal Year<br/>2012-13<br/>Special Tax<sup>(2)</sup></i> | <i>Percentages of<br/>Fiscal Year<br/>2012-13<br/>Special Tax</i> | <i>2013 Bonds<br/>Outstanding<sup>(3)</sup></i> | <i>Overlapping<br/>Debt</i> | <i>Total Direct<br/>and<br/>Overlapping<br/>Debt</i> | <i>Net Assessed<br/>Value<sup>(4)</sup></i> | <i>Estimated<br/>Assessed<br/>Value-to-Lien<br/>Ratios<sup>(5)</sup></i> |
|--------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------|-----------------------------|------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------|
| <b>Improvement Area No. 1</b>                                |                                                              |                                                                   |                                                 |                             |                                                      |                                             |                                                                          |
| Individual Owners                                            | \$ 792,325                                                   | 55.05%                                                            | \$ 9,091,670                                    | \$ 4,232,465                | \$ 13,324,135                                        | \$ 195,195,952                              | 14.65 to 1                                                               |
| <b>Improvement Area No. 2</b>                                |                                                              |                                                                   |                                                 |                             |                                                      |                                             |                                                                          |
| <b>Zone 1</b>                                                |                                                              |                                                                   |                                                 |                             |                                                      |                                             |                                                                          |
| <u>HTH Learning</u>                                          | \$ 31,392                                                    | 2.18                                                              | \$ 360,209                                      | \$ 0                        | \$ 360,209                                           | \$ 19,826,022 <sup>(6)</sup>                | 55.04 to 1                                                               |
| Building 36                                                  | 8,143                                                        | 0.57                                                              | 93,442                                          | 0                           | 93,442                                               | 5,589,581 <sup>(6)</sup>                    | 59.82 to 1                                                               |
| Building 37                                                  | 1,712                                                        | 0.12                                                              | 19,642                                          | 0                           | 19,642                                               | 1,294,712 <sup>(6)</sup>                    | 65.92 to 1                                                               |
| Building 49                                                  | 12,509                                                       | 0.87                                                              | 143,535                                         | 0                           | 143,535                                              | 7,833,583 <sup>(6)</sup>                    | 54.58 to 1                                                               |
| Building 51                                                  | 9,028                                                        | 0.63                                                              | 103,589                                         | 0                           | 103,589                                              | 5,108,146 <sup>(6)</sup>                    | 49.31 to 1                                                               |
| <u>Liberty Station Marketplace LLC<sup>(7)</sup></u>         | 20,095                                                       | 1.40                                                              | 230,579                                         | 152,421                     | 382,999                                              | 7,029,445                                   | 18.35 to 1                                                               |
| Building 27                                                  | 10,687                                                       | 0.74                                                              | 122,627                                         | 75,834                      | 198,461                                              | 3,497,378                                   | 17.62 to 1                                                               |
| Building 28                                                  | 6,830                                                        | 0.47                                                              | 78,367                                          | 48,832                      | 127,199                                              | 2,252,073                                   | 17.71 to 1                                                               |
| Building 208                                                 | 2,578                                                        | 0.18                                                              | 29,585                                          | 27,754                      | 57,339                                               | 1,279,994                                   | 22.32 to 1                                                               |
| <u>McMillin NTC Landing LLC<sup>(7)</sup></u>                | 25,051                                                       | 1.74                                                              | 287,452                                         | 275,513                     | 562,965                                              | 12,706,306                                  | 22.57 to 1                                                               |
| Building 1                                                   | 18,621                                                       | 1.29                                                              | 213,666                                         | 180,247                     | 393,913                                              | 8,312,756                                   | 21.10 to 1                                                               |
| Building 8                                                   | 1,069                                                        | 0.07                                                              | 12,268                                          | 15,888                      | 28,156                                               | 732,719                                     | 26.02 to 1                                                               |
| Building 11                                                  | 2,223                                                        | 0.15                                                              | 25,507                                          | 36,734                      | 62,241                                               | 1,694,112                                   | 27.22 to 1                                                               |
| Building 23                                                  | 1,765                                                        | 0.12                                                              | 20,253                                          | 24,702                      | 44,954                                               | 1,139,227                                   | 25.34 to 1                                                               |
| Building 194                                                 | 1,373                                                        | 0.10                                                              | 15,757                                          | 17,943                      | 33,700                                               | 827,492                                     | 24.55 to 1                                                               |
| <u>McMillin NTC Landing LLC<sup>(7)</sup></u>                | 7,066                                                        | 0.49                                                              | 81,077                                          | 104,638                     | 185,715                                              | 4,825,769                                   | 25.98 to 1                                                               |
| Building 24                                                  | 5,126                                                        | 0.36                                                              | 58,821                                          | 73,571                      | 132,393                                              | 3,393,013                                   | 25.63 to 1                                                               |
| Building 32                                                  | 1,940                                                        | 0.13                                                              | 22,256                                          | 31,067                      | 53,323                                               | 1,432,756                                   | 26.87 to 1                                                               |
| <u>McMillin NTC LLC<sup>(7)</sup></u>                        | 654                                                          | 0.05                                                              | 7,503                                           | 7,946                       | 15,448                                               | 366,449                                     | 23.72 to 1                                                               |
| Building 20                                                  | 315                                                          | 0.02                                                              | 3,614                                           | 3,544                       | 7,159                                                | 163,459                                     | 22.83 to 1                                                               |
| Building 21                                                  | 339                                                          | 0.02                                                              | 3,888                                           | 4,401                       | 8,290                                                | 202,990                                     | 24.49 to 1                                                               |
| <u>Ocean Village Associates LLC</u>                          | 4,299                                                        | 0.30                                                              | 49,334                                          | 35,175                      | 84,509                                               | 1,622,219                                   | 19.20 to 1                                                               |
| Building 31                                                  | 2,841                                                        | 0.20                                                              | 32,603                                          | 15,875                      | 48,478                                               | 732,124                                     | 15.10 to 1                                                               |
| Building 34                                                  | 1,458                                                        | 0.10                                                              | 16,731                                          | 19,300                      | 36,031                                               | 890,095                                     | 24.70 to 1                                                               |
| Bentsen Palms LLC (Bldg. 153)                                | 3,004                                                        | 0.21                                                              | 34,466                                          | 45,573                      | 80,038                                               | 2,101,749                                   | 26.26 to 1                                                               |
| Davles LLC (Bldg. 195) <sup>(7)</sup>                        | 5,583                                                        | 0.39                                                              | 64,065                                          | 103,150                     | 167,215                                              | 4,757,134                                   | 28.45 to 1                                                               |
| Liberty Station 210 Investors LLC (Bldg. 210) <sup>(7)</sup> | 13,391                                                       | 0.93                                                              | 153,656                                         | 153,950                     | 307,607                                              | 7,100,000                                   | 23.08 to 1                                                               |
| Liberty Station Education Center (Bldg. 83)                  | 32,074                                                       | 2.23                                                              | 368,033                                         | 0                           | 368,033                                              | 18,196,045 <sup>(6)</sup>                   | 49.44 to 1                                                               |
| Liberty Station Marketplace LLC (Bldg. 30)                   | 17,511                                                       | 1.22                                                              | 200,938                                         | 206,575                     | 407,513                                              | 9,526,970                                   | 23.38 to 1                                                               |
| McMillin NTC 193 LLC <sup>(7)</sup>                          | 17,310                                                       | 1.20                                                              | 198,624                                         | 244,626                     | 443,250                                              | 11,281,849                                  | 25.45 to 1                                                               |

|                                                                        |                     |                |                      |                     |                      |                           |                   |
|------------------------------------------------------------------------|---------------------|----------------|----------------------|---------------------|----------------------|---------------------------|-------------------|
| Sail Ho Golf Course LLC (Bldg. 9/10) <sup>(7)</sup>                    | 1,872               | 0.13           | 21,479               | 38,548              | 60,026               | 1,777,772                 | 29.62 to 1        |
| San Diego Rock Church (Bldg. 94)                                       | 66,509              | 4.62           | 763,167              | 0                   | 763,167              | 31,332,250 <sup>(6)</sup> | 41.06 to 1        |
| San Diego County Regional Airport Authority (Bldg. 6/7) <sup>(7)</sup> | 4,065               | 0.28           | 46,649               | 0                   | 46,649               | 0                         | 0.00 to 1         |
| Seapro LLC (Bldg. 185)                                                 | 2,582               | 0.18           | 29,626               | 27,144              | 56,770               | 1,251,872                 | 22.05 to 1        |
| The Vons Companies Inc. (Bldg. 27, Unit M) <sup>(7)</sup>              | <u>16,133</u>       | <u>1.12</u>    | <u>185,126</u>       | <u>414,955</u>      | <u>600,081</u>       | <u>19,137,220</u>         | <u>31.89 to 1</u> |
| <b>Zone 1 Subtotal</b>                                                 | <b>\$ 268,590</b>   | <b>18.66%</b>  | <b>\$ 3,081,982</b>  | <b>\$ 1,810,213</b> | <b>\$ 4,892,195</b>  | <b>\$ 152,839,071</b>     | <b>31.24 to 1</b> |
| <b>Zone 2</b>                                                          |                     |                |                      |                     |                      |                           |                   |
| Building 907 LLC (Bldg. 907)                                           | \$ 30,213           | 2.10           | \$ 346,680           | \$ 30,672           | \$ 377,352           | \$ 1,414,558              | 3.75 to 1         |
| CDC Small Business Finance Corp. (Bldg. 904)                           | 30,183              | 2.10           | 346,339              | 231,615             | 577,954              | 10,681,791                | 18.48 to 1        |
| McMillin NTC 901 LLC (Bldg. 901)                                       | 41,555              | 2.89           | 476,829              | 218,508             | 695,337              | 10,077,324                | 14.49 to 1        |
| Kilroy Realty LP (Bldg. 902)                                           | 85,325              | 5.93           | 979,072              | 519,962             | 1,499,034            | 23,979,996                | 16.00 to 1        |
| McMillin NTC 903/904 LLC (Bldg. 903)                                   | 49,453              | 3.44           | 567,457              | 301,740             | 869,196              | 13,915,848                | 16.01 to 1        |
| McMillin NTC 905 LLC (Bldg. 905)                                       | 30,183              | 2.10           | 346,339              | 200,516             | 546,855              | 9,247,532                 | 16.91 to 1        |
| McMillin/Decatur Road 906 LLC (Bldg. 906)                              | <u>30,213</u>       | <u>2.10</u>    | <u>346,680</u>       | <u>204,338</u>      | <u>551,018</u>       | <u>9,423,826</u>          | <u>17.10 to 1</u> |
| <b>Zone 2 Subtotal</b>                                                 | <b>\$ 297,124</b>   | <b>20.64</b>   | <b>\$ 3,409,396</b>  | <b>\$ 1,707,351</b> | <b>\$ 5,116,747</b>  | <b>\$ 78,740,875</b>      | <b>15.39 to 1</b> |
| <b>Zone 3</b>                                                          |                     |                |                      |                     |                      |                           |                   |
| <u>Liberty Station HHG Hotel LP<sup>(7)</sup></u>                      | \$ 62,937           | 4.37           | \$ 722,181           | \$ 1,498,181        | \$ 2,220,362         | \$ 69,094,199             | 31.12 to 1        |
| Hotel – 150 Rooms                                                      | 26,973              | 1.87           | 309,506              | 632,848             | 942,355              | 29,186,164                | 30.97 to 1        |
| Hotel – 200 Rooms                                                      | 35,964              | 2.50           | 412,675              | 865,332             | 1,278,007            | 39,908,035                | 31.23 to 1        |
| <u>Liberty Station-Harbor Retail LLC<sup>(7)</sup></u>                 | 7,644               | 0.53           | 87,710               | 139,143             | 226,853              | 6,417,117                 | 28.29 to 1        |
| Pad A                                                                  | 2,130               | 0.15           | 24,441               | 38,446              | 62,887               | 1,773,068                 | 28.19 to 1        |
| Pad B                                                                  | 2,130               | 0.15           | 24,441               | 37,499              | 61,940               | 1,729,393                 | 27.92 to 1        |
| Pad C                                                                  | 1,936               | 0.13           | 22,219               | 28,855              | 51,074               | 1,330,765                 | 26.06 to 1        |
| Pad D                                                                  | 1,354               | 0.09           | 15,542               | 27,357              | 42,899               | 1,261,659                 | 29.41 to 1        |
| Pad E                                                                  | 93                  | 0.01           | 1,066                | 6,987               | 8,053                | 322,232                   | 40.01 to 1        |
| DRC Partners LLC (Bldg. 623) <sup>(7)</sup>                            | <u>10,637</u>       | <u>0.74</u>    | <u>122,061</u>       | <u>26,020</u>       | <u>148,080</u>       | <u>1,200,000</u>          | <u>8.10 to 1</u>  |
| <b>Zone 3 Subtotal</b>                                                 | <b>\$ 81,218</b>    | <b>5.64</b>    | <b>\$ 931,952</b>    | <b>\$ 1,663,344</b> | <b>\$ 2,595,295</b>  | <b>\$ 76,711,316</b>      | <b>29.56 to 1</b> |
| Subtotal                                                               | <u>646,932</u>      | <u>44.95%</u>  | <u>7,423,330</u>     | <u>5,180,908</u>    | <u>12,604,237</u>    | <u>308,291,262</u>        | <u>24.46 to 1</u> |
| <b>Grand Total</b>                                                     | <b>\$ 1,439,257</b> | <b>100.00%</b> | <b>\$ 16,515,000</b> | <b>\$ 9,413,372</b> | <b>\$ 25,928,372</b> | <b>\$ 503,487,214</b>     | <b>19.42 to 1</b> |

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- (1) Unless otherwise noted, reflects ownership as of January 1, 2012 as provided by County of San Diego Assessor. Reflects only property subject to the levy of the Special Tax in Fiscal Year 2012-13 based on Building Permits and/or Agency Certificates of Completion issued as of 3/1/2012. Allocation of 2013 Bonds will vary in the event that other properties are classified as "Developed Property."
- (2) Reflects actual levy for fiscal year 2012-2013.
- (3) Allocated based on actual levy for fiscal year 2012-2013. Total principal amount of 2013 Bonds provided by the Underwriters; which amount is preliminary, subject to change.
- (4) Unless otherwise noted, reflects the net Assessed values for fiscal year 2012-13, provided by the County of San Diego Assessor as of January 1, 2012. Net assessed values reflect a reduction of \$7,000 off the assessed value of a qualifying residence for homeowners' exemptions.
- (5) Represents Assessed Values column divided by the Total Direct and Overlapping Debt Column.
- (6) Represents gross Assessed Value. Net Assessed Value is \$0 because of Religious/Educational Exemptions. No ad valorem charges will be assessed, however, a Special Tax will be levied as allowed under the Rate and Method of Apportionment for CFD No. 3.
- (7) Based on ownership provided by the County of San Diego as of 1/1/12, this property is leased from the Successor Agency.
- Source: David Taussig & Associates, Inc.

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**TABLE 9**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**  
**BY RANGES**

| <i>Estimated Assessed<br/>Value-to-Lien<br/>Ratio Range</i> | <i>Number<br/>of<br/>Parcels</i> | <i>Fiscal Year<br/>2012-13<br/>Special Tax</i> | <i>Percentages<br/>of Fiscal<br/>Year 2012-<br/>13 Special<br/>Tax</i> | <i>2013 Bonds<br/>Outstanding<sup>(1)</sup></i> | <i>Metropolitan<br/>Water District<br/>G.O. Bonds<br/>Outstanding<sup>(2)</sup></i> | <i>San Diego<br/>Unified<br/>Bonds<br/>Outstanding<sup>(2)</sup></i> | <i>San Diego<br/>Community<br/>College<br/>District Bonds<br/>Outstanding<sup>(2)</sup></i> | <i>Total Direct<br/>and<br/>Overlapping<br/>Debt</i> | <i>Net Assessed<br/>Value<sup>(3)</sup></i> | <i>Estimated<br/>Assessed<br/>Value-to-<br/>Lien<br/>Ratios<sup>(4)</sup></i> |
|-------------------------------------------------------------|----------------------------------|------------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------|
| 0-2.99                                                      | 2                                | \$ 6,645                                       | 0.46%                                                                  | \$ 76,254                                       | \$ 6                                                                                | \$ 589                                                               | \$ 1,143                                                                                    | \$ 77,991                                            | \$ 80,148                                   | 1.03 to 1                                                                     |
| 3.00-9.99                                                   | 12                               | 65,413                                         | 4.54                                                                   | 750,596                                         | 348                                                                                 | 34,306                                                               | 66,592                                                                                      | 851,842                                              | 4,669,341                                   | 5.48 to 1                                                                     |
| 10.00-14.99                                                 | 167                              | 425,558                                        | 29.57                                                                  | 4,883,134                                       | 7,118                                                                               | 701,283                                                              | 1,361,274                                                                                   | 6,952,809                                            | 95,450,826                                  | 13.73 to 1                                                                    |
| 15.00-19.99                                                 | 178                              | 626,893                                        | 43.56                                                                  | 7,193,390                                       | 13,529                                                                              | 1,332,889                                                            | 2,587,299                                                                                   | 11,127,107                                           | 181,418,087                                 | 16.30 to 1                                                                    |
| 20.00-24.99                                                 | 9                                | 58,168                                         | 4.04                                                                   | 667,462                                         | 2,204                                                                               | 217,147                                                              | 421,508                                                                                     | 1,308,321                                            | 29,555,628                                  | 22.59 to 1                                                                    |
| 25.00-29.99                                                 | 13                               | 47,442                                         | 3.30                                                                   | 544,383                                         | 2,566                                                                               | 252,777                                                              | 490,671                                                                                     | 1,290,396                                            | 34,405,216                                  | 26.66 to 1                                                                    |
| 30.00 or Greater                                            | <u>10</u>                        | <u>209,137</u>                                 | <u>14.53</u>                                                           | <u>2,399,783</u>                                | <u>6,604</u>                                                                        | <u>650,609</u>                                                       | <u>1,262,910</u>                                                                            | <u>4,319,905</u>                                     | 157,907,968                                 | <u>36.55 to 1</u>                                                             |
| <b>Grand Total</b>                                          | <b>391</b>                       | <b>\$ 1,439,257</b>                            | <b>100.00%</b>                                                         | <b>\$16,515,000</b>                             | <b>\$ 32,374</b>                                                                    | <b>\$ 3,189,600</b>                                                  | <b>\$ 6,191,398</b>                                                                         | <b>\$25,928,372</b>                                  | <b>\$ 503,487,214</b>                       | <b>19.42 to 1</b>                                                             |

<sup>(1)</sup> Allocated based on actual levy for Fiscal Year 2012-2013.

<sup>(2)</sup> As of September 2, 2012. Allocated based on Fiscal Year 2012-13 levy.

<sup>(3)</sup> Fiscal year 2012-2013 net assessed values as of January 1, 2012 provided by the San Diego County Assessor. Net assessed values reflect a reduction of \$7,000 off the assessed value of a qualifying residence for homeowners' exemptions but include the gross assessed value of educational and religious parcels with net assessed value of zero.

<sup>(4)</sup> Represents "Net Assessed Value" divided by "Total Direct and Overlapping Debt."

Source: David Taussig & Associates, Inc.

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## **SPECIAL RISK FACTORS**

The purchase of the 2013 Bonds involves significant investment risks and, therefore, the 2013 Bonds may not be 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 2013 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 the District 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 2013 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” and “— Limited Secondary Market” below.

### **Risks of Real Estate Secured Investments Generally**

The Owners of the 2013 Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or commercial buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

Future events, including, but not limited to, changes in governmental rules and permitting requirements, could delay or prevent the proposed development of the remaining undeveloped property in Improvement Area No. 2. No assurance can be given as to when or whether this development will occur. See “THE DISTRICT—Current Development Status in District.”

### **Risks Related to Current Market Conditions**

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. Beginning in 2007, home developers, appraisers and market absorption consultants have reported weak housing market conditions due to factors including but not limited to the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures, (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new homes orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts, (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. One or more of these factors may negatively impact home values in the District and affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency.

### **Economic Uncertainty**

The 2013 Bonds are being issued at a time of economic uncertainty and volatility. Unemployment rates are approximately 8.1% for the City as of December 2012 (not seasonally adjusted) as compared to approximately 10.0% for calendar year 2011 (not seasonally adjusted) and are approximately 9.7% (not seasonally adjusted) for the State as of December 2012 as compared to approximately 11.7% for calendar year

2011 (not seasonally adjusted). The District cannot predict how long these conditions will last or whether to what extent they may affect the ability of property owners to pay Special Taxes when due.

### **Limited Obligations**

The 2013 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 2013 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no Owner of the 2013 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 2013 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 the District 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-1 — “IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES,” APPENDIX A 2 — “IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Special Taxes — *Rate and Method of Apportionment of Special Taxes.*”

The maximum Special Taxes that may be levied within the District based on current development are approximately 168%\* of the Annual Debt Service on the 2013 Bonds in each year. Given limitations in the Act regarding increases in Special Taxes on residential parcels to address Special Tax delinquencies, based on current development in the District, the potential coverage to respond to delinquencies is approximately 148%\* of Annual Debt Service. See Table 2 above. If there was a disruption in the Special Tax levy on the parcels ground leased by the Successor Agency, this coverage would drop to approximately 145%\* of the Annual Debt Service. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS—Special Taxes—*Provisions Regarding Agency Leased Parcels.*” Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the 2013 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 15.54 acres of City/Agency Property, Other Public Property and/or Property Owner Association Property in Improvement Area No. 1 and up to 122.36 acres of City/Agency Property, Free Standing Parking Property, Other Public Property and/or Property Owner Association Property in Improvement Area No. 2 that is in a Zone and up to 18.04 acres of Golf Course Property that is within a Zone. If for any reason property within the District becomes exempt from taxation by reason of termination of a ground lease by the Successor Agency, or ownership by a non-taxable entity such as the federal government, 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 the District. This could result in certain owners of 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.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act

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\* Preliminary, subject to change.



provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within either Improvement Area No. 1 or Improvement Area No. 2 became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Taxes which could be levied upon the remaining property within those areas might not be sufficient to pay principal of and interest on the 2013 Bonds when due and a default could occur with respect to the payment of such principal and interest.

**Moreover, if a substantial portion of land within the District 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 the District might not be sufficient to pay principal of and interest on the 2013 Bonds when due and a default could occur with respect to the payment of such principal and interest.**

### **Depletion of Reserve Account**

The Reserve Account is maintained in an amount equal to the Reserve Requirement. See “Reserve Account of the Special Tax Fund.” Funds in a Reserve Account may be used to pay principal of and interest on the 2013 Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in the District is not sufficient. If the Reserve Account is depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the 2013 Bonds. However, no replenishment of the Reserve Account from the proceeds of the Special Taxes can occur as long as the proceeds that are collected from the levy of the Special Taxes at the maximum tax rates, together with available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Account will be depleted and not replenished by the levy of the Special Taxes.

### **Proximity to the San Diego International Airport**

The District is adjacent to the San Diego International Airport (“SDIA”). The proximity of the District to SDIA could have a variety of impacts on the existing and the proposed development in the District and presents certain risks to owners of the 2013 Bonds. These risks, summarized below, are (1) the possible negative impact to real property values, (2) a reduction in the number of taxpayers in the District and/or an early redemption of 2013 Bonds as a result of the condemnation of property in the District for airport uses, and (3) delays in or limitations on future development in Improvement Area No. 2 of the District.

*Potential Negative Impact on Property Values.* A significant portion of the property within the District is subject to an aviation easement that grants the Airport Authority, as Airport Operator, the perpetual use of the airspace above the portion of the District affected by the easement and subjects such property to all noise, vibration, fumes, dust, fuel particles, inconvenience, interference with the use of enjoyment of property and any reduction in market value of the property caused by any aircraft operating to or from SDIA. The aviation easement also exempts the Airport Authority from liability for nuisances resulting from airport noise impacts, as well as impacts resulting from air emissions. It is therefore possible that airport noise, and other impacts associated with aircraft operations could negatively impact real property values in the District.

The Airport Authority adopted an updated San Diego International Airport Master Plan (“Master Plan”) in 2008. The Airport Authority is in the process of implementing the Master Plan. The Airport Authority is in various stages of construction and design to add 10 aircraft gates, provide additional aircraft parking, improve the aircraft taxiways, improve roadway access to the terminals, and increase the amount of vehicle parking within the existing airport property. The Airport Authority is also beginning the process of preparing the Airport Development Plan which will identify the next phase of SDIA improvements. While the

Airport Authority is not proposing to increase the length of the existing runway, due to the potential increase in aircraft operations proposed by the terminal facility expansion, it is possible that the future noise levels affecting the District could exceed existing noise levels, which could negatively impact real property values in the District.

*Potential Condemnation of Property.* The District is located within the Airport Influence Area (“AIA”), which defines the jurisdiction of the ALUC. The ALUCP contains policies and criteria addressing noise, airspace protection, over-flight, and safety that are used by the City and the Airport Authority for determining whether proposed developments or uses would be consistent with existing and future airport operations. The Airport Authority is currently in the process of drafting a new ALUCP that will contain new and updated airport land use compatibility policies and criteria.

A portion of Improvement Area No. 2 is located within the Runway Protection Zone (“RPZ”) as promulgated by the Federal Aviation Administration. Federal Aviation Administration (“FAA”) Guidelines prohibit residences, fuel storage facilities and places of public assembly in the RPZ. The FAA Guidelines further define churches, schools, hospitals, office buildings, shopping centers and other uses with similar concentrations of persons as places of public assembly. The location of Improvement Area No. 2 partially within the RPZ may constrain proposed development and redevelopment options. The existing RPZ utilized in the ALUCP includes only six buildings in Improvement Area No. 2 of the District (Buildings 31, 34, 153, 179, 185, and 358). The Precise Plan depicts an RPZ area which is larger than the current RPZ recognized by the FAA. The Precise Plan RPZ includes 12 existing buildings that are within Improvement Area No. 2 of the District. The Precise Plan does not permit new construction of buildings in the RPZ. Rather, the Precise Plan only permits the rehabilitation of the existing buildings within the existing structural envelopes. It also requires the City to submit all proposed development or building permits in the RPZ to the Airport Authority. The Precise Plan outlines the process whereby the Airport Authority, as the Airport Operator, can determine whether a proposed permit is consistent with the Precise Plan and request that a proposed permit be submitted to the ALUC for a consistency determination with the ALUCP.

As part of the ALUCP update effort, the Airport Authority, as the ALUC, is also considering adopting land use compatibility/safety zones beyond the geographic extent of the RPZ. If adopted, additional safety zones could result in additional restrictions on the type and intensity of future land uses allowed in the District which could also slow or limit further development in Improvement Area No. 2. It is also possible that the Airport Authority, as Airport Operator, could seek to purchase or condemn property within the RPZ or any additional safety zone for the purpose of removing existing uses or preventing new uses in the RPZ. The purchase or condemnation of properties in the portion of the District within the RPZ or a safety zone could result in an early redemption of Bonds from condemnation proceeds and could also reduce the number of taxpayers within the District, thereby decreasing the diversity of ownership of the Taxable Property.

*Potential Impacts on Future Development and Renovations.* The Airport Authority has requested that all proposed development within the AIA for SDIA, including proposed development within the District, be submitted to the ALUC for a determination of whether the proposed development is consistent with the adopted ALUCP for SDIA. As stated in its July 9, 2007 letter to the General Counsel for the Airport Authority, the City Attorney’s Office is of the opinion that the City must seek consistency determinations from the ALUC for proposed development projects until such time as the City submits the Precise Plan to the ALUC for a consistency determination. The City submits to the Airport Authority, as the ALUC, for a finding of consistency with the ALUCP discretionary development proposals and ministerial building permits that increase non-residential floor area, residential dwelling units, or structure height or changes use. In addition, the City submits ministerial building permits that result in a Certificate of Occupancy for property within the RPZ, as delineated in the Precise Plan. The City also submits ministerial building permits outside of the RPZ to the Airport Authority for consistency determinations with the ALUCP.

While the Airport Authority has approved all development to date within Improvement Area No. 2, there can be no assurance that the Airport Authority will provide consistency determinations for the remaining

650 hotel rooms and the fitness center proposed within Improvement Area No. 2 or for future renovations or reconstructions of the existing development within Improvement Area No. 2. Therefore, the ALUC review and consistency determination process could result in delays in or limitations on future development within Improvement Area No. 2.

The District is located within the FAA's airspace notification area, which defines the area that the FAA uses to evaluate proposed new buildings or modifications to existing buildings that would increase building height. The FAA conducts aeronautical studies based on information provided by development project applicants to determine if a proposed project would be hazard to air navigation. Title 14 Code of Federal Regulations, Part 77, Objects Affecting Navigable Airspace, is the federal regulation governing the evaluation process used by the FAA. The City will not approve ministerial building permits that the FAA has determined to be a hazard or recommend approval for discretionary development proposals that the FAA has determined to be a hazard. Therefore, the FAA review and air navigation hazard determination process could result in delays in or limitations on future development.

### **Natural Disasters**

The District, 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 represents a potential risk for damage to buildings, roads, bridges and property within the District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. In the event of a major earthquake, the land within the District could be subject to moderate to severe ground shaking. The District is within the Point Loma Quadrangle Earthquake Fault Zone established pursuant to the Alquist-Priolo Earthquake Fault Zoning Act adopted by the California Legislature. According to recent geotechnical reports, the nearest known major active fault to the District is the Rose Canyon Fault approximately 2.5 miles to the east of the site. In addition to the Rose Canyon Fault, there are five other known fault zones ranging from 17 to 57 miles from the District.

The District is located close to sea level adjacent to the San Diego Bay. A rise in the sea level due to a tsunami, climate change or other factors could result in substantial flooding. In August 2009, the California Climate Change Center released a final paper titled "Climate Change-Related Impacts in the San Diego Region by 2050" (the "Report"), which was prepared as a result of research conducted in the San Diego Foundation's Regional Focus 2050 Study. The Report, conceived of and commissioned by the San Diego Foundation's Environment Program, explores the regional impacts due to climate change by 2050 if current trends continue. The Report projects a rise in the 2006 mean sea level of 12 to 18 inches by 2050, and states that the combination of higher sea level, waves, tides and other weather conditions pose a serious threat to low lying coastal areas in San Diego County. Maps produced in connection with the Report show several areas along the San Diego coastline and bayfront subject to flooding from high tides in 2050. The District is bordered by water on one side consisting of a boat channel which connects to the San Diego Bay. Since the redevelopment of the land within the District began in 2001, there has been no flooding of the developed property within the District from sea water in the boat channel. Most of the development in the District is separated from the boat channel by a public park which slopes gently upward away from the boat channel placing the property within the District that is currently developed and subject to the Special Taxes more than 18 inches above the top of the boat channel. The maps produced in connection with the Report show portions of the park in the inundation zone in 2050 and a greater portion of the District in the inundation zone in 2100. Potential flooding due to a rise in sea level and high tides or other factors remains a long-term risk.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners and lessees may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District 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.

No assurance can be given regarding the extent to which any future natural disasters or a rise in sea level may impact property in the District.

### **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.

### ***United States Government Actions 1993-2001***

CERCLA provides with respect to military base closures that the federal government must covenant that any remedial action necessary to protect human health and the environment has been taken before the transfer of land within a closed base and that any future remedial action found to be necessary after the date of transfer shall be conducted by the federal government.

Prior to transfer of the Naval Training Center property by the United States to the City, it was necessary for the United States to make an affirmative determination that the property was suitable to transfer and to document such finding in a “Finding of Suitability to Transfer” (“FOST”).

By deeds recorded in 2000 and 2001, the United States transferred to the City all portions of the Naval Training Center which were the subject of a FOST. The United States warranted in each deed “that all remedial actions necessary to protect human health and the environment” had been undertaken and “that all additional remedial action found to be necessary after the date of [the] deed shall be conducted by the United States.”

The District believes that all remedial action required to be conducted by the United States with respect to property within the District has been completed.

### ***Mold in Residential Units***

In May 2005, the homebuilder within the District discovered evidence of mold stains on a vanity located along a common wall in Anchor Cove, which comprises the condominium project section of Improvement Area No. 1. This led to the homebuilder investigating approximately 140 condominium units. Impacts were found in 54 units. The mold was caused from use by the homebuilder of a cellulose insulation product sold under the name Green Fiber. The homebuilder hired experts to investigate the mold, and successfully completed a remediation program to remove the mold by March 2006. The Developer issued an

extended warranty to each homeowner to cover mold issues in February 2006 for a period of 5 years. A semiannual inspection of homes was offered and provided upon request. According to the Developer, no indications of mold were observed during those inspections and no claims have been filed by homeowners and the 5-year warranty period concluded in February 2011. The City makes no representation as to whether any mold currently exists in the District.

### **Parity Taxes and Special Assessments**

Property within the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See “THE DISTRICT — 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.

**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 the District. In addition, the landowners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *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 the District 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 caused Notices of 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 the District 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**

Special Taxes are the primary source for the repayment of the 2013 Bonds, and delinquencies could result in a draw on the Reserve Fund and, if the Reserve Fund were depleted, in a default in payment on the 2013 Bonds.

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2013 Bonds are derived, are customarily billed to the properties within the District 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 are subject to the same lien priority in the case of delinquency as are *ad valorem* property tax installments.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 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 “THE DISTRICT—Delinquency History” for a history of Special Tax delinquency rates in the District. 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 assessments 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 2013 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A 2013 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 2013 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 2013 Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other 2013 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 2013 Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of 2013 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 2013 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 2013 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.

## **Property Values; Value-to-Lien Ratios**

The value of the property within the District is a critical factor in determining the investment quality of the 2013 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. Although there has been no significant decline in

assessed property values in the District during the downturn in the real estate market that began in 2007, there is no assurance that assessed values will not decline in the future. See Table 3A under the caption “THE DISTRICT — Current Development Status in District” 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.

No assurance can be given that the estimated value-to-lien ratios as set forth in Table 8 will be maintained over time. As discussed herein, many factors which are beyond the control of the District could adversely affect the property values within the District. The District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in the District or an increase in the indebtedness secured by taxes and amounts with parity liens on property in the District, or both, could result in a lowering of the value-to-lien ratios of the property in the District. See “THE DISTRICT — Estimated Assessed Value-to-Lien Ratios” herein.

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 “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Special Tax — Proceeds of Foreclosure Sales.”

#### **FDIC/Federal Government Interests in Properties**

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the FDIC, or other federal government entities such as Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other federal agency, has or obtains an interest.

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

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels 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 would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see “— Insufficiency of Special Taxes.”

The District's remedies may also be limited in the case of delinquent Special Taxes with respect to parcels in which other federal agencies (such as the Internal Revenue Service and the Drug Enforcement Administration) have or obtain an interest.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of Beneficial Owners of the 2013 Bonds. 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 “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 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.

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.

The various legal opinions to be delivered concurrently with the delivery of the 2013 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.



Moreover, the ability of the District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) and by the laws of the State relating to judicial foreclosure.

#### **No Acceleration Provision**

The 2013 Bonds do not contain a provision allowing for the acceleration of the 2013 Bonds in the event of a payment default or other default under the 2013 Bonds or the Bond Indenture.

#### **Loss of Tax Exemption**

As discussed under the caption "LEGAL MATTERS — Tax Exemption," the interest on the 2013 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2013 Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or a change in legislation. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2013 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2013 Bonds. Should such an event of taxability occur, the 2013 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 Beneficial Owners of the 2013 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 2013 Bonds or to preserve the tax-exempt status of the 2013 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2013 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 Beneficial Owners of the 2013 Bonds.

#### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2013 Bonds or, if a secondary market exists, that the 2013 Bonds can be sold at all or for any particular price. Although the District has 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 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 XIIC and Article XIID 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 2013 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 2013 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 2013 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 2013 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 will covenant in the Bond Indenture that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding 2013 Bonds in each future Bond Year. In connection with the foregoing covenant, the District has made a finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the 2013 Bonds. The District also will covenant in the Bond Indenture 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 the District to complete the remaining proposed development. See “SPECIAL RISK FACTORS — Risks of Real Estate Secured Investments Generally” herein.

## **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate (the “Disclosure Certificate”), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, 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, 2013, 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 2013 Bonds are secured by any resources or property of the City. The 2013 Bonds are not general or special obligations of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS” and “SPECIAL RISK FACTORS — Limited Obligations.” The full text of the Disclosure Certificate is set forth in APPENDIX D — “FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT.”

Notwithstanding any provision of the Bond Indenture, failure of the District to comply with the Disclosure Certificate shall not be considered an event of default under the Bond Indenture. However, any holder of the 2013 Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the Disclosure Certificate.

During the last five calendar years the District has failed to comply in all material respects with certain of its previous undertakings with regard to Rule 15c2-12. The District filed on time that portion of its annual report regarding the specified operating data. However, the reports filed for the Fiscal Years 2006-07 and 2009-10 were incomplete due to the unavailability of the City’s audited financial statements as of the date that the District was required to file the annual reports. The audited financial statements for 2006-07 were delayed in principal part due to restatements of prior financial statements that resulted in the auditors undertaking additional procedures. The delay in releasing the audited financial statements for Fiscal Year 2009-10 was principally due to the implementation of a new accounting reporting system for the City. The District subsequently filed the audited financial statements of the City with EMMA upon their release by the City and the District is now in compliance with all previous undertakings.

## **LEGAL MATTERS**

### **Tax Exemption**

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 the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2013 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. Bond Counsel notes that, with respect to corporations, interest on the 2013 Bonds may be included as an adjustment in 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 2013 Bond (the first price at which a substantial amount of the 2013 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2013 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 Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2013 Bond. The amount of original issue discount that accrues to the Beneficial Owner of the 2013 Bonds 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 2013 Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriters 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 2013 Bonds to assure that interest on the 2013 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 2013 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 2013 Bonds. The District will covenant 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 2013 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 2013 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 2013 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2013 Bond to the Beneficial Owner. Purchasers of the 2013 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 2013 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2013 Bonds might be affected as a result of such an audit of the 2013 Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2013 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2013 Bonds or their market value.

SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE 2013 BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE 2013 BONDS OR THE MARKET VALUE OF THE 2013 BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2013 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2013 BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE 2013 BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2013 BONDS,

ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2013 BONDS.

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 Bond Indenture and the Tax Certificate relating to the 2013 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 2013 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 2013 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 2013 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 2013 Bonds.

Should interest on the 2013 Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the 2013 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Bond Indenture.

The proposed form of Bond Counsel's opinion with respect to the 2013 Bonds is attached as APPENDIX E.

### **Litigation**

No litigation is pending or threatened concerning the validity of the 2013 Bonds, the pledge of Special Taxes to repay the 2013 Bonds, the powers or authority of the District with respect to the 2013 Bonds, or seeking to restrain or enjoin development of the land within the District and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the 2013 Bonds.

### **Legal Opinion**

The validity of the 2013 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 E hereto and will accompany the 2013 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. Stradling Yocca Carlson & Rauth, a Professional Corporation expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2013 Bonds and expressly disclaims any duty to advise the Beneficial Owners of the 2013 Bonds as to matters related to this Official Statement.

### **No Rating**

The District has not made, and does not contemplate making, application to any rating agency for the assignment of a rating for the 2013 Bonds.

## **Underwriting**

The 2013 Bonds are being purchased by E. J. De La Rosa & Co. Inc. and Stifel Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriters"). The Underwriters has agreed to purchase the 2013 Bonds at a price of \$\_\_\_\_\_ (being \$\_\_\_\_\_ aggregate principal amount thereof, less Underwriters' discount of \$\_\_\_\_\_ [plus original issue premium/less original issue discount] of \$\_\_\_\_\_). The purchase agreement relating to the 2013 Bonds provides that the Underwriters will purchase all of the 2013 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 Underwriters may offer and sell the 2013 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 Underwriters.

## **Financial Interests**

The fees being paid to the Underwriters, Underwriters' Counsel, Bond Counsel, the Financial Advisor, the Special Tax Consultant and the Trustee are contingent upon the issuance and delivery of the 2013 Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the 2013 Bonds and Underwriters' Counsel represents the City on matters unrelated to the 2013 Bonds.

## **Pending Legislation**

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2013 Bonds or the ability of the District to pay the principal of and interest on the 2013 Bonds when due.

## **Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the 2013 Bonds. Quotations and summaries and explanations of the 2013 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 District has been duly authorized by the City Council acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 3  
(LIBERTY STATION)

By: \_\_\_\_\_

## **APPENDIX A-1**

### **IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Improvement Area No. 1 of Community Facilities District No. 3 ("IA No. 1") and collected each Fiscal Year commencing in Fiscal Year 2002-2003, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Other Taxable Property," and "Undeveloped Property" as described below. All of the real property in IA No. 1, 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**

This Rate and Method of Apportionment employs terms defined below and terms defined in the Rate and Method of Apportionment for Improvement Area No. 2. When necessary, terms defined in the latter shall be distinguished from terms defined in the former by including the words "IA No. 2" prior to the defined term. The terms hereinafter set forth have the following meanings:

**"Acre or Acreage"** means 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. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

**"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. 3: the costs of computing the Special Taxes and IA No. 2 Special Taxes; the costs of preparing the annual Special Tax and IA No. 2 Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes and IA No. 2 Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes and IA No. 2 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. 3 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 3 or any designee thereof of complying with disclosure requirements of the City, CFD No. 3 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax and/or IA No. 2 Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes and/or IA No. 2 Special Taxes; the costs of the City, of CFD No. 3 or any designee thereof related to an appeal of the Special Tax and/or the IA No. 2 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. 3 for any other administrative purposes of CFD No. 3, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes and/or IA No. 2 Special Taxes.

**"Agency"** means the Redevelopment Agency of the City.

**"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.

**“Backup Special Tax Appendix”** means Attachment A to this RMA consisting of the Lot Maps and Backup Special Tax table, as it may be modified from time to time pursuant to Section C.1(c) of this RMA.

**“CFD Administrator”** means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and for levying and collecting the Special Taxes.

**“CFD No. 3”** means Community Facilities District No. 3 of the City.

**“CFD No. 3 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. 3 under the Act.

**“City”** means the City of San Diego.

**“City/Agency Property”** means any Assessor’s Parcel or other property within the boundaries of IA No. 1 that is owned by the City or the Agency, provided however that so long as any such Assessor’s Parcel is conveyed through a leasehold interest to an entity other than the City or the Agency such Assessor’s Parcel shall not be considered City/Agency Property, but during the duration of the leasehold interest shall be classified and taxed according to its development status and land use. In the event that an Assessor’s Parcel that was conveyed in fee to an entity other than the City or the Agency includes an existing residential or non-residential building or a Planned Building, and is subsequently acquired by the City or the Agency pursuant to Section 9.10 of the Disposition and Development Agreement or otherwise, that Assessor’s Parcel shall not be considered City/Agency Property, but shall remain subject to the Special Tax obligation and shall be classified and taxed according to its development status and land use.

**“City Clerk”** means the city clerk of the City.

**“City Manager”** means the city manager of the City.

**“Council”** means the City Council of the City, acting as the legislative body of CFD No. 3.

**“County”** means the County of San Diego.

**“Developed Property”** means for each Fiscal Year, all Taxable Property, exclusive of Other Taxable Property, which (i) was within a Final Map that was recorded prior to January 1 of the previous Fiscal Year, and (ii) for which a building permit for new construction was issued after March 1, 2001 but prior to March 1 of the previous Fiscal Year.

**“Disposition and Development Agreement”** means the Disposition and Development Agreement between the Agency and the Master Developer that was approved by the Council and Agency on June 26, 2000, as it may be modified or supplemented from time to time.

**“Final Map”** means (i) a final map, lot line adjustment, or parcel map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) and recorded with the County Recorder that creates individual lots for which building permits may be issued, or (ii) for condominiums, a final map, or portion thereof, approved by the City and a condominium plan recorded pursuant to California Civil Code Section 1352 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.

**"Floor Area"** means for Residential Property, 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 amount of Floor Area shall be determined by reference to the building permit(s) issued by the City for each building.

**"Indenture"** means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 3 Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**"Improvement Area No. 1"** or **"IA No. 1"** means Improvement Area No. 1 of CFD No. 3, as identified on the boundary map for CFD No. 3.

**"Improvement Area No. 2"** or **"IA No. 2"** means Improvement Area No. 2 of CFD No. 3, as identified on the boundary map for CFD No. 3.

**"Land Use Class"** means any of the classes listed in Table 1.

**"Lot"** means an individual legal lot created by a Final Map for which a building permit for residential construction has been or could be issued.

**"Lot Map(s)"** means the map(s) identifying the location and lot number of each Lot and proposed residential lot located within IA No. 1 included in the Backup Special Tax Appendix.

**"Master Developer"** means McMillin-NTC, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 3.

**"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 Developed Property for which a building permit(s) was issued for a non-residential use.

**"Outstanding Bonds"** means all CFD No. 3 Bonds which are deemed to be outstanding under the Indenture.

**"Other Public Property"** means any Assessor's Parcel within the boundaries of IA No. 1 that is owned in fee or through a leasehold interest by any agency of the federal government, the State, the County, or any other public agency except the City or the Agency, provided however that any such Assessor's Parcel that includes an existing residential or non-residential building or a Planned Building shall not be considered Other Public Property, but shall be classified and taxed according to its development status and land use.

**"Other Taxable Property"** means Taxable City/Agency Property, Taxable Property Owner Association Property, and Taxable Other Public Property.

**"Planned Building"** means with respect to an Assessor's Parcel that the Precise Plan contemplates the rehabilitation or construction of a residential or non-residential building within all or a portion of such Assessor's Parcel, as determined by the CFD Administrator.

**“Precise Plan”** means the NTC Precise Plan dated October 3, 2000, approved by the Agency and the City, as it may be amended or superseded.

**“Property Owner Association Property”** means any property within the boundaries of IA No. 1 owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association. However, notwithstanding the above, any of such property which constitutes the “pad-area” located directly under a residential or occupied non-residential building shall not be considered Property Owner Association Property.

**“Proportionately” or “Proportionate”** means, (i) 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 and for IA No. 2 Developed Property that the ratio of the actual IA No. 2 Special Tax levy to the IA No. 2 Assigned Special Tax is equal for all Assessor’s Parcels of IA No. 2 Developed Property; (ii) for Undeveloped Property, 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 and the ratio of the actual IA No. 2 Special Tax per Acre to the IA No. 2 Maximum Special Tax per Acre is equal for all Assessor’s Parcels of IA No. 2 Undeveloped Property; and (iii) for Other Taxable Property 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 Other Taxable Property and for IA No. 2 Other Taxable Property that the ratio of the actual IA No. 2 Special Tax levy per Acre to the IA No. 2 Maximum Special Tax per Acre is equal for all Assessor’s Parcels of IA No. 2 Other Taxable Property. Where this RMA requires pursuant to the fourth and fifth steps in Section D.1, the second, third and fourth steps in Section D.2, and/or Section D.3, that the levy of Special Taxes and IA No. 2 Special Taxes be “Proportionate” for a category of property described in (i), (ii) or (iii) above, then the foregoing ratios shall be equal as between IA No. 1 and IA No. 2 for such category.

**“Purchase and Finance Agreement”** means the Purchase and Finance Agreement for CFD No. 3 that was approved by the Council on May 7, 2002, as it may be modified or supplemented from time to time.

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

**“RMA”** means Rate and Method of Apportionment.

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

**“Special Tax Requirement”** means that amount required in any Fiscal Year to: (i) pay debt service due in the calendar year which commences in such Fiscal year on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 3 Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 3 Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities identified on Exhibit A to the Purchase and Finance Agreement to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or the IA No. 2 Special Tax levy on Undeveloped Property; and (vi) pay for reasonably anticipated delinquent Special Taxes and IA No. 2 Special Taxes based on the delinquency rate for Special Taxes and IA No. 2 Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy and IA No. 2 Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture. The Special Tax Requirement represents the total amount to be levied in any Fiscal Year within IA No. 1 and IA No. 2.

**“State”** means the State of California.

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

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

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of IA No. 1 which (i) have been conveyed in fee ownership or leasehold interest from the City and/or the Agency to an entity other than the City or the Agency, or that were so conveyed in fee ownership by the City and/or the Agency and were subsequently reacquired by the City and/or the Agency, and (ii) 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.

**“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 or Other Taxable Property.

**B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all Taxable Property within IA No. 1 shall be classified as Developed Property, Other Taxable 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. Residential Property shall be assigned to Land Use Class 1. Non-Residential Property shall be assigned to Land Use Class 2. Each Assessor’s Parcel classified as Developed Property shall be further classified as one of the Lots depicted in the Lot Map included in the Backup Special Tax Appendix attached as Attachment A, as it may be modified from time to time strictly in conformance with Section C.1(c) below.

**C. MAXIMUM SPECIAL TAX RATE**

**1. Developed Property**

**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 Assigned Special Tax for each Land Use Class is shown below in Table 1.

**TABLE 1**

**Assigned Special Taxes for Developed Property  
Improvement Area No. 1**

| <i>Land<br/>Use<br/>Class</i> | <i>Land Use</i>          | <i>Assigned Special Tax</i>                                               |
|-------------------------------|--------------------------|---------------------------------------------------------------------------|
| 1                             | Residential Property     | \$792.63 per dwelling unit plus<br>\$1.2385 per square foot of Floor Area |
| 2                             | Non-Residential Property | \$54,485 per Acre                                                         |

c. Backup Special Tax

The Backup Special Tax for an Assessor's Parcel of Developed Property shall be the amount set forth in the Backup Special Tax table included in the Backup Special Tax Appendix for the corresponding Lot, as such Backup Special Tax Appendix is amended from time to time.

Prior to the issuance of CFD No. 3 Bonds, the Backup Special Tax Appendix shall be modified by the CFD Administrator upon the written request of the Master Developer in order to (i) conform the Lot Maps to the Lots designated in the most current Final Maps approved within IA No. 1 and (ii) the amounts in the Backup Special Tax table to the most current building product plans for those Lots. Upon receipt of the Master Developer's written request, the CFD Administrator shall assign a Backup Special Tax to each Lot in an amount equal to the Assigned Special Tax for each Lot based upon the most current building product plan for the Lot.

The Master Developer shall notify the CFD Administrator in writing each time a Final Map is approved or amended for property within IA No. 1.

Subsequent to the issuance of CFD No. 3 Bonds, the Backup Special Tax Appendix shall be modified by the CFD Administrator only to reflect any changes in the Lots pursuant to Final Maps approved or amended subsequent to the issuance of CFD No. 3 Bonds and to specify the Backup Special Tax amounts for the new Lots calculated as follows:

- (i) determine the aggregate Backup Special Taxes anticipated to apply to the changed Lots prior to the approval of the new or amended Final Maps;
- (ii) divide the result of (i) by the number of new Lots; and
- (iii) the amount determined in (ii) shall be the Backup Special Tax amount for each of the new Lots reflected in the modified Backup Special Tax table.

The modified Backup Special Tax Appendix shall be attached to an Amended Notice of Special Tax Lien recorded within sixty (60) days of the CFD Administrator's receipt of the Master Developer's written request and, in the case of a modification based on Final Maps approved or amended subsequent to the issuance of CFD No. 3 Bonds, within sixty (60) days of the CFD Administrator being notified, by the Master Developer or otherwise, of the recordation of a new Final Map.

d. 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 Class as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

## **2. Other Taxable Property and Undeveloped Property**

The Maximum Special Tax for Other Taxable Property and Undeveloped Property shall be \$54,485 per Acre.

### **D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

For each Fiscal Year the Council shall determine the Special Tax Requirement and levy the Special Tax, taking into consideration the levy of the IA No. 2 Special Tax, until the amount of Special Taxes and IA No. 2 Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows. The steps indicated in Section D.1 shall be applied in each Fiscal Year prior to and including the Fiscal Year in which a second series of CFD No. 3 Bonds is sold to finance facilities identified on Exhibit A to the Purchase and Finance Agreement. The steps indicated in Section D.2 shall be applied in the first Fiscal Year after the issuance of such second series of CFD No. 3 Bonds, and each Fiscal Year thereafter. A series of CFD No. 3 Bonds that is issued solely to refund a prior series of CFD No. 3 Bonds shall not be considered a second series of CFD No. 3 Bonds for purposes of this section.

#### **1. Prior to the Issuance of the Second Series of CFD No. 3 Bonds**

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; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Developed Property in an amount equal to 100% of the applicable IA No. 2 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, the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied Proportionately on each Assessor's Parcel of IA No. 2 Undeveloped Property at up to 100% of the IA No. 2 Maximum Special Tax for Undeveloped Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the 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; and the Council shall be notified that under the terms of the IA No. 2 RMA, the levy of the IA No. 2 Special Tax on each Assessor's Parcel of IA No. 2 Developed Property whose IA No. 2 Maximum Special Tax is determined through the application of the IA No. 2 Backup Special Tax shall be increased in equal percentages from the IA No. 2 Assigned Special Tax up to the IA No. 2 Maximum Special Tax for each such Assessor's Parcel, with the levy on Developed Property and IA No. 2 Developed Property being Proportionate;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied on each Assessor's Parcel of Other Taxable Property at up to the Maximum Special Tax for Other Taxable Property; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Other Taxable Property at up to the IA No. 2 Maximum Special Tax for Other Taxable Property, with the levy on Other Taxable Property and IA No. 2 Other Taxable Property being Proportionate.

## **2. After the Issuance of the Second Series of CFD No. 3 Bonds**

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; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Developed Property in an amount equal to 100% of the applicable IA No. 2 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 on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Undeveloped Property at up to 100% of the IA No. 2 Maximum Special Tax for Undeveloped Property, with the levy on Undeveloped Property and IA No. 2 Undeveloped Property being Proportionate;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the 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; and the Council shall be notified that under the terms of the IA No. 2 RMA, the levy of the IA No. 2 Special Tax on each Assessor's Parcel of IA No. 2 Developed Property whose IA No. 2 Maximum Special Tax is determined through the application of the IA No. 2 Backup Special Tax shall be increased in equal percentages from the IA No. 2 Assigned Special Tax up to the IA No. 2 Maximum Special Tax for each such Assessor's Parcel, with the levy on Developed Property and IA No. 2 Developed Property being Proportionate;

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 on each Assessor's Parcel of Other Taxable Property at up to the Maximum Special Tax for Other Taxable Property; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Other Taxable Property at up to the IA No. 2 Maximum Special Tax for Other Taxable Property, with the levy on Other Taxable Property and IA No. 2 Other Taxable Property being Proportionate.

## **3. Additional Levy Guidelines**

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one of Section D.1 or D.2 (above) and the IA No. 2 Assigned Special Tax in step one of Section D.1 or D.2 (of the IA No. 2 RMA), when (i) the Council is no longer required to levy a Special Tax pursuant to step two in Section D.1 or D.2 (above) and the Council is no longer required to levy an IA No. 2 Special Tax pursuant to step two in Section D.2 of the IA No. 2 RMA in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 3 Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 3 Bonds (except refunding bonds) to be supported by Special Taxes and IA No. 2 Special Taxes; and (iii) all facilities identified on Exhibit A to the Purchase and Finance Agreement have been acquired.

Further notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 3.

**E. EXEMPTIONS**

No Special Tax shall be levied on up to 15.54 Acres of City/Agency Property, Other Public Property, and/or Property Owner Association Property. However, the Acreage of any City/Agency Property that has never been conveyed in fee ownership or leasehold interest from the City and/or the Agency to an entity other than the City or the Agency shall not be included in the 15.54 Acres, and such property shall be considered exempt. Tax-exempt status for all other property will be assigned by the CFD Administrator in the chronological order in which property becomes City/Agency Property, Other Public Property, or Property Owner Association Property. However, should an Assessor's Parcel no longer be classified as City/Agency Property, Other Public Property, or Property Owner Association Property its tax-exempt status will be revoked.

City/Agency Property, Other Public Property, or Property Owner Association 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 described in Section D above, at up to 100% of the applicable Maximum Special Tax for Other Taxable Property.

**F. APPEALS AND INTERPRETATIONS**

Any tax payer 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. 3 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**

**1. Prepayment in Full**

The following definition applies to this Section H:

“**CFD Public Facilities**” means either \$20,780,000 in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, 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. 3 under the authorized Mello-Roos financing program for CFD No. 3, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more

CFD No. 3 Bonds (except refunding bonds) to be supported by Special Taxes and IA No. 2 Special Taxes.

**“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 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 facility costs.

**“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. 3 Bonds that have been issued prior to the date of prepayment.

Only an Assessor’s Parcel of Developed Property, or an Assessor’s Parcel of Undeveloped Property for which a building permit has been issued, may prepay its Special Tax obligation. The Special Tax obligation applicable to an Assessor’s Parcel in CFD No. 3 may be prepaid and the obligation of the Assessor’s Parcel to pay any Special Tax permanently 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. An owner of an Assessor’s Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. The CFD Administrator shall provide the owner with a statement of the prepayment amount for such Assessor’s Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 3 Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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 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. 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 that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 3 based on the Developed Property Special Taxes and IA No. 2 Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 3 as determined by the CFD Administrator based on the Precise Plan and other information currently available, excluding any Assessor's Parcels which have been prepaid, and (b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the total estimated Backup Special Taxes and IA No. 2 Backup Special Taxes at buildout for the entire CFD No. 3 as determined by the CFD Administrator based on the Precise Plan and other information currently available, 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 (expressed as a percentage), 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 Taxes levied on the Assessor's Parcel in the current Fiscal Year which have 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 Future Facilities Amount and the Administrative Fees and Expenses 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. 3, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD

No. 3 Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the “Administrative Fees and Expenses”).

13. The reserve fund credit (“Reserve Fund Credit”) shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
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”).
16. 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. 3.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 3 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. 3 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, the CFD Administrator 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 and IA No. 2 Maximum Special Taxes that may be levied on Taxable Property and IA No. 2 Taxable Property, respectively, after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

## **2. Prepayment in Part**

The Special Tax on an Assessor’s Parcel of Developed Property or an Assessor’s Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; 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  
P<sub>E</sub> = the Prepayment Amount calculated according to Section H.1  
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 of (i) such owner's intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) 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 and may charge a reasonable fee for providing this service.

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, and (ii) indicate in the records of CFD No. 3 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 Annual Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

#### **I. TERM OF SPECIAL TAX**

The Special Tax shall be levied for a period not to exceed forty years commencing with Fiscal Year 2002-2003, 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. 3 Bonds have been paid; (ii) all facilities have been acquired and all reimbursements to the Master Developer have been paid pursuant to the Purchase and Finance Agreement; and (iii) all required Administrative Expenses have been paid.

**ATTACHMENT A**  
**BACKUP SPECIAL TAX APPENDIX**

# Backup Special Tax Table

## NTC - UNIT No. 1

| <i>Lot<br/>Number</i> | <i>Backup<br/>Special Tax</i> | <i>SFD, ROW<br/>or TH</i> | <i>House<br/>Plan<br/>Number</i> | <i>House<br/>Plan<br/>Sq. Ft.</i> |
|-----------------------|-------------------------------|---------------------------|----------------------------------|-----------------------------------|
| 1                     | \$ 4,104.38                   | ROW                       | 3                                | 2,674                             |
| 2                     | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 3                     | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 4                     | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 5                     | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 6                     | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 7                     | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 8                     | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 9                     | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 10                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 11                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 12                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 13                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 14                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 15                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 16                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 17                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 18                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 19                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 20                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 21                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 22                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 23                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 24                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 25                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 26                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 27                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 28                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 29                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 30                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 31                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 32                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 33                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 34                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 35                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 36                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 37                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 38                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 39                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 40                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 41                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 42                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 43                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 44                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 45                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 46                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 47                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 48                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 49                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 50                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 51                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 52                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 53                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 54                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |

# Backup Special Tax Table

## NTC - UNIT No. 1

| <i>Lot<br/>Number</i> | <i>Backup<br/>Special Tax</i> | <i>SFD, ROW<br/>or TH</i> | <i>House<br/>Plan<br/>Number</i> | <i>House<br/>Plan<br/>Sq. Ft.</i> |
|-----------------------|-------------------------------|---------------------------|----------------------------------|-----------------------------------|
| 55                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 56                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 57                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 58                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 59                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 60                    | 3,192.84                      | ROW                       | 1                                | 1,938                             |
| 61                    | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 62                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 63                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 64                    | 3,192.84                      | ROW                       | 1                                | 1,938                             |
| 65                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 66                    | 3,192.84                      | ROW                       | 1                                | 1,938                             |
| 67                    | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 68                    | 3,192.84                      | ROW                       | 1                                | 1,938                             |
| 69                    | 3,192.84                      | ROW                       | 1                                | 1,938                             |
| 70                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 71                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 72                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 73                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 74                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 75                    | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 76                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 77                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 78                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 79                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 80                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 81                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 82                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 83                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 84                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 85                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 86                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 87                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 88                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 89                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 90                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 91                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 92                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 93                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 94                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 95                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 96                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 97                    | 3,637.46                      | SFD                       | 1                                | 2,297                             |
| 98                    | 4,049.89                      | SFD                       | 2                                | 2,630                             |
| 99                    | 4,307.49                      | SFD                       | 3                                | 2,838                             |
| 100                   | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 101                   | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 102                   | 4,104.38                      | ROW                       | 3                                | 2,674                             |
| 103                   | 3,192.84                      | ROW                       | 1                                | 1,938                             |
| 104                   | 3,637.46                      | ROW                       | 2                                | 2,297                             |
| 105                   | <u>4,104.38</u>               | ROW                       | 3                                | <u>2,674</u>                      |
| 105                   | \$ <u>419,225.01</u>          |                           |                                  | <u>271,295</u>                    |

**Backup Special Tax Table****NTC - UNIT No. 2**

| <i><b>Lot<br/>Number</b></i> | <i><b>Backup<br/>Special Tax</b></i> | <i><b>SFD, ROW<br/>or TH</b></i> | <i><b>Plan<br/>Number</b></i> | <i><b>Plan<br/>Sq. Ft.</b></i> |
|------------------------------|--------------------------------------|----------------------------------|-------------------------------|--------------------------------|
| 1                            | \$ 4,104.38                          | ROW                              | 3                             | 2,674                          |
| 2                            | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 3                            | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 4                            | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 5                            | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 6                            | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 7                            | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 8                            | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 9                            | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 10                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 11                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 12                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 13                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 14                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 15                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 16                           | 4,307.49                             | SFD                              | 3                             | 2,838                          |
| 17                           | 3,637.46                             | SFD                              | 1                             | 2,297                          |
| 18                           | 4,049.89                             | SFD                              | 2                             | 2,630                          |
| 19                           | 4,307.49                             | SFD                              | 3                             | 2,838                          |
| 20                           | 4,049.89                             | SFD                              | 2                             | 2,630                          |
| 21                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 22                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 23                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 24                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 25                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 26                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 27                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 28                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 29                           | 4,307.49                             | SFD                              | 3                             | 2,838                          |
| 30                           | 4,049.89                             | SFD                              | 2                             | 2,630                          |
| 31                           | 4,307.49                             | SFD                              | 3                             | 2,838                          |
| 32                           | 4,049.89                             | SFD                              | 2                             | 2,630                          |
| 33                           | 3,637.46                             | SFD                              | 1                             | 2,297                          |
| 34                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 35                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 36                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 37                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 38                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 39                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 40                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 41                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 42                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 43                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 44                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 45                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 46                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 47                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 48                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 49                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 50                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 51                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |
| 52                           | 3,192.84                             | ROW                              | 1                             | 1,938                          |
| 53                           | 3,637.46                             | ROW                              | 2                             | 2,297                          |
| 54                           | 4,104.38                             | ROW                              | 3                             | 2,674                          |

# Backup Special Tax Table

## NTC - UNIT No. 2

| <i>Lot<br/>Number</i> | <i>Backup<br/>Special Tax</i> | <i>SFD, ROW<br/>or TH</i> | <i>Plan<br/>Number</i> | <i>Plan<br/>Sq. Ft.</i> |
|-----------------------|-------------------------------|---------------------------|------------------------|-------------------------|
| 55                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 56                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 57                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 58                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 59                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 60                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 61                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 62                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 63                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 64                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 65                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 66                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 67                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 68                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 69                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 70                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 71                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 72                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 73                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 74                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 75                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 76                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 77                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 78                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 79                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 80                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 81                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 82                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 83                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 84                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 85                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 86                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 87                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 88                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 89                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 90                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 91                    | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 92                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 93                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 94                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 95                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 96                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 97                    | 4,104.38                      | ROW                       | 3                      | 2,674                   |
| 98                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 99                    | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 100                   | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 101                   | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 102                   | 3,637.46                      | ROW                       | 2                      | 2,297                   |
| 103                   | 3,192.84                      | ROW                       | 1                      | 1,938                   |
| 104                   | <u>3,637.46</u>               | ROW                       | 2                      | <u>2,297</u>            |
| 104                   | <u>\$ 378,337.18</u>          |                           |                        | <u>238,921</u>          |



**NTC - UNIT No. 2 (Condo's)**

| <b><i>Lot<br/>Number</i></b> | <b><i>Backup<br/>Special Tax</i></b> | <b><i>SFD, ROW<br/>or TH</i></b> | <b><i>Plan<br/>Number</i></b> | <b><i>Plan<br/>Sq. Ft.</i></b> |
|------------------------------|--------------------------------------|----------------------------------|-------------------------------|--------------------------------|
| 105-A                        | \$ 2,753.18                          | TH                               | 4                             | 1,583                          |
| 105-B                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 105-C                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 105-D                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 105-E                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 105-F                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 106-A                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 106-B                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 106-C                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 106-D                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 106-E                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 106-F                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 107-A                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 107-B                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 107-C                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 107-D                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 107-E                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 107-F                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 107-G                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 107-H                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 108-A                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 108-B                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 108-C                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 108-D                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 108-E                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 108-F                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 109-A                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-B                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 109-C                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 109-D                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 109-E                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 109-F                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-G                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-H                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-I                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-J                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 109-K                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 109-L                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-M                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-N                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-O                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-P                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 109-Q                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 109-R                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 109-S                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 109-T                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-U                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-V                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 109-W                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-X                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 109-Y                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 109-Z                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-A1                       | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 109-B1                       | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 110-A                        | 2,753.18                             | TH                               | 4                             | 1,583                          |

| <i>Lot<br/>Number</i> | <i>Backup<br/>Special Tax</i> | <i>SFD, ROW<br/>or TH</i> | <i>Plan<br/>Number</i> | <i>Plan<br/>Sq. Ft.</i> |
|-----------------------|-------------------------------|---------------------------|------------------------|-------------------------|
| 110-B                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 110-C                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 110-D                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 110-E                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 110-F                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 110-G                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 110-H                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 110-I                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 110-J                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 110-K                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 110-L                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 111-A                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 111-B                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 111-C                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 111-D                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 111-E                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 111-F                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 111-G                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 111-H                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 111-I                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 111-J                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 111-K                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 111-L                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 111-M                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 111-N                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 112-A                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 112-B                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 112-C                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 112-D                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 112-E                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 112-F                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 112-G                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 112-H                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 112-I                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 112-J                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 112-K                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 112-L                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 112-M                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 112-N                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 112-O                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 112-P                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 112-Q                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 112-R                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 113-A                 | 2,753.18                      | TH                        | 4                      | 1,583                   |
| 113-B                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 113-C                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 113-D                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 113-E                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 113-F                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 113-G                 | 2,458.41                      | TH                        | 3                      | 1,345                   |
| 113-H                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 113-I                 | 2,137.64                      | TH                        | 1Y                     | 1,086                   |
| 113-J                 | 2,143.83                      | TH                        | 1X                     | 1,091                   |
| 113-K                 | 2,161.17                      | TH                        | 1                      | 1,105                   |
| 113-L                 | 2,753.18                      | TH                        | 4                      | 1,583                   |

| <i><b>Lot<br/>Number</b></i> | <i><b>Backup<br/>Special Tax</b></i> | <i><b>SFD, ROW<br/>or TH</b></i> | <i><b>Plan<br/>Number</b></i> | <i><b>Plan<br/>Sq. Ft.</b></i> |
|------------------------------|--------------------------------------|----------------------------------|-------------------------------|--------------------------------|
| 114-A                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 114-B                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 114-C                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 114-D                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 114-E                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 114-F                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 114-G                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 114-H                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 115-A                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 115-B                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 115-C                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 115-D                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 115-E                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 115-F                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 115-G                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 115-H                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 115-I                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 115-J                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 115-K                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 115-L                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 115-M                        | 2,161.17                             | TH                               | 1                             | 1,105                          |
| 115-N                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 116-A                        | 2,458.41                             | TH                               | 3                             | 1,345                          |
| 116-B                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 116-C                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 116-D                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 116-E                        | 2,753.18                             | TH                               | 4                             | 1,583                          |
| 116-F                        | 2,143.83                             | TH                               | 1X                            | 1,091                          |
| 116-G                        | 2,137.64                             | TH                               | 1Y                            | 1,086                          |
| 116-H                        | <u>2,458.41</u>                      | TH                               | 3                             | <u>1,345</u>                   |
| 140                          | <u>\$ 331,756.83</u>                 |                                  |                               | <u>178,271</u>                 |

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## APPENDIX A-2

### IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Improvement Area No. 2 of Community Facilities District No. 3 ("IA No. 2") and collected each Fiscal Year commencing in Fiscal Year 2002-2003, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Other Taxable Property," and "Undeveloped Property" as described below. All of the real property in IA No. 2, 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

This Rate and Method of Apportionment employs terms defined below and terms defined in the Rate and Method of Apportionment for Improvement Area No. 1. When necessary, terms defined in the latter shall be distinguished from terms defined in the former by including the words "IA No. 1" prior to the defined term. The terms hereinafter set forth have the following meanings:

**"Acre or Acreage"** means 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. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

**"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. 3: the costs of computing the Special Taxes and IA No. 1 Special Taxes; the costs of preparing the annual Special Tax and IA No. 1 Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes and IA No. 1 Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes and IA No. 1 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. 3 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 3 or any designee thereof of complying with disclosure requirements of the City, CFD No. 3 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax and/or IA No. 1 Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes and/or IA No. 1 Special Taxes; the costs of the City, of CFD No. 3 or any designee thereof related to an appeal of the Special Tax and/or the IA No. 1 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. 3 for any other administrative purposes of CFD No. 3, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes and/or IA No. 1 Special Taxes.

**"Agency"** means the Redevelopment Agency of the City.

**"Agency Certificate of Completion"** shall have the meaning set forth in the Disposition and Development Agreement.

**"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 for levying and collecting the Special Taxes.

**“CFD No. 3”** means Community Facilities District No. 3 of the City.

**“CFD No. 3 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. 3 under the Act.

**“City”** means the City of San Diego.

**“City/Agency Property”** means any Assessor’s Parcel or other property within the boundaries of IA No. 2 that is owned by the City or the Agency, provided however that so long as any such Assessor’s Parcel is conveyed through a leasehold interest to an entity other than the City or the Agency such Assessor’s Parcel shall not be considered City/Agency Property, but during the duration of the leasehold interest shall be classified and taxed according to its development status and land use. In the event that an Assessor’s Parcel that was conveyed in fee to an entity other than the City or the Agency includes an existing residential or non-residential building or a Planned Building, and is subsequently acquired by the City or the Agency pursuant to Section 9.10 of the Disposition and Development Agreement or otherwise, that Assessor’s Parcel shall not be considered City/Agency Property, but shall remain subject to the Special Tax obligation and shall be classified and taxed according to its development status and land use.

**“City Clerk”** means the city clerk of the City.

**“City Manager”** means the city manager of the City.

**“Council”** means the City Council of the City, acting as the legislative body of CFD No. 3.

**“County”** means the County of San Diego.

**“Developed Property”** means for each Fiscal Year, all Taxable Property, exclusive of Other Taxable Property, which (a) was within a Final Map that was recorded prior to January 1 of the previous Fiscal Year, and either (b1) for which a building permit for new construction was issued after March 1, 2001 but prior to March 1 of the previous Fiscal Year or (b2) for which an Agency Certificate of Completion was executed prior to March 1 of the previous Fiscal Year.

**“Disposition and Development Agreement”** means the Disposition and Development Agreement between the Agency and the Master Developer that was approved by the Council and Agency on June 26, 2000, as it may be modified or supplemented from time to time.

**“Final Map”** means (i) a final map, lot line adjustment, or parcel map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) and recorded with the County Recorder that creates individual lots for which building permits may be issued, or (ii) for condominiums, a final map, or portion thereof, approved by the City and a condominium plan recorded

pursuant to California Civil Code Section 1352 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.

**“Floor Area”** means for Non-Residential Property, the total of the gross area of the floor surfaces within the exterior wall of the building, not including space devoted to stairwells, basement storage, required corridors, public restrooms, elevator shafts, light courts, vehicle parking and areas incident thereto, mechanical equipment incidental to the operation of such building, and covered public pedestrian circulation areas, including atriums, lobbies, plazas, patios, decks, arcades and similar areas, except such public circulation areas or portions thereof that are used solely for commercial purposes. For Residential Property, 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 amount of Floor Area shall be determined by reference to the building permit(s) issued by the City or Agency Certificate of Completion(s), as applicable, issued for each building, or if square footage is not available from those sources, as otherwise determined by the CFD Administrator.

**“Free Standing Parking Property”** means any Assessor’s Parcel within IA No. 2 that is not Public Property and for which a building permit has been issued for the construction of, or on which is located, a garage, parking lot or parking structure, provided however that any such Assessor’s parcel that includes an existing residential or non-residential building or a Planned Building shall not be considered Free Standing Parking Property, but shall be classified and taxed according to its development status and land use.

**“Golf Course Property”** means any Assessor’s Parcel within Zone 1 that is used for golf course purposes, including fairways, greens and driving ranges. Any Developed Property (other than buildings used solely for restrooms, storage, or maintenance) located on such Assessor’s Parcel shall not be considered Golf Course Property, but shall be taxed and classified in accordance with its Land Use Class.

**“Hotel Property”** means all Developed Property within Zone 3 for which a building permit or an Agency Certificate of Completion has been issued for building a non-residential structure that constitutes a place of lodging that is intended to provide sleeping accommodations and related facilities for travelers.

**“Indenture”** means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 3 Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**“Improvement Area No. 1”** or **“IA No. 1”** means Improvement Area No. 1 of CFD No. 3, as identified on the boundary map for CFD No. 3.

**“Improvement Area No. 2”** or **“IA No. 2”** means Improvement Area No. 2 of CFD No. 3, as identified on the boundary map for CFD No. 3.

**“Land Use Class”** means any of the classes listed in Tables 1 through 3.

**“Master Developer”** means McMillin-NTC, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 3.

**“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 Developed Property for which a building permit(s) or Agency Certificate of Completion was issued for a non-residential use, excluding Hotel Property.

**“Outstanding Bonds”** means all CFD No. 3 Bonds which are deemed to be outstanding under the Indenture.

**“Other Public Property”** means any Assessor’s Parcel within the boundaries of IA No. 2 that is owned in fee or through a leasehold interest by any agency of the federal government, the State, the County, or any other public agency except the City or the Agency, provided however that any such Assessor’s Parcel that includes an existing residential or non-residential building or a Planned Building shall not be considered Other Public Property, but shall be classified and taxed according to its development status and land use.

**“Other Taxable Property”** means Taxable City/Agency Property, Taxable Free Standing Parking Property, Taxable Golf Course Property, Taxable Property Owner Association Property, and Taxable Other Public Property.

**“Planned Building”** means with respect to an Assessor’s Parcel that the Precise Plan contemplates the rehabilitation or construction of a residential or non-residential building within all or a portion of such Assessor’s Parcel, as determined by the CFD Administrator.

**“Precise Plan”** means the NTC Precise Plan dated October 3, 2000, approved by the Agency and the City, as it may be amended or superseded.

**“Property Owner Association Property”** means any property within the boundaries of IA No. 2 owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association. However, notwithstanding the above, any of such property which constitutes the “pad-area” located directly under a residential or occupied non-residential building shall not be considered Property Owner Association Property.

**“Proportionately” or “Proportionate”** means, (i) 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 and for IA No. 1 Developed Property that the ratio of the actual IA No. 1 Special Tax levy to the IA No. 1 Assigned Special Tax is equal for all Assessor’s Parcels of IA No. 1 Developed Property; (ii) for Undeveloped Property, 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 and the ratio of the actual IA No. 1 Special Tax per Acre to the IA No. 1 Maximum Special Tax per Acre is equal for all Assessor’s Parcels of IA No. 1 Undeveloped Property; and (iii) for Other Taxable Property 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 Other Taxable Property and for IA No. 1 Other Taxable Property that the ratio of the actual IA No. 1 Special Tax levy per Acre to the IA No. 1 Maximum Special Tax per Acre is equal for all Assessor’s Parcels of IA No. 1 Other Taxable Property. Where this RMA requires pursuant to the fourth and fifth steps in Section D.1, the second, third and fourth steps in Section D.2, and/or Section D.3, that the levy of Special Taxes and IA No. 1 Special Taxes be “Proportionate” for a category of property described in (i), (ii) or (iii) above, then the foregoing ratios shall be equal as between IA No. 1 and IA No. 2 for such category.

**“Purchase and Finance Agreement”** means the Purchase and Finance Agreement for CFD No. 3 that was approved by the Council on May 7, 2002, as it may be modified or supplemented from time to time.

**“Residential Property”** means all Developed Property for which a building permit or Agency Certificate of Completion was issued for one or more residential dwelling units.



**“RMA”** means Rate and Method of Apportionment.

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

**“Special Tax Requirement”** means that amount required in any Fiscal Year to: (i) pay debt service due in the calendar year which commences in such Fiscal Year on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 3 Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 3 Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities identified on Exhibit A to the Purchase and Finance Agreement to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or the IA No. 1 Special Tax levy on Undeveloped Property; and (vi) pay for reasonably anticipated delinquent Special Taxes and IA No. 1 Special Taxes based on the delinquency rate for Special Taxes and IA No. 1 Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy and IA No. 1 Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture. The Special Tax Requirement represents the total amount to be levied in any Fiscal Year within IA No. 1 and IA No. 2.

**“State”** means the State of California.

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

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

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of IA No. 2 which (i) have been conveyed in fee ownership or leasehold interest from the City and/or the Agency to an entity other than the City or the Agency, or that were so conveyed in fee ownership by the City and/or the Agency and were subsequently reacquired by the City and/or the Agency, and (ii) are not exempt from the Special Tax pursuant to law or Section E below.

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

**“Taxable Golf Course Property”** means all Assessor’s Parcels of Golf Course Property that are not exempt pursuant to 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.

**“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 or Other Taxable Property.

**“Zone”** means Zone 1, Zone 2, or Zone 3, as applicable.

**“Zone 1”** means all property within Zone 1 (Existing Non-Residential), as identified on the Zone Map.

**“Zone 2”** means all property within Zone 2 (Future Non-Residential), as identified on the Zone Map.

“**Zone 3**” means all property within Zone 3 (Hotel), as identified on the Zone Map.

“**Zone Map**” means Attachment A to this RMA.

**B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, each Assessor’s Parcel of Taxable Property within IA No. 2 shall be assigned to a Zone and further classified as Developed Property, Other Taxable 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. Residential Property shall be assigned to Land Use Class 1. Non-Residential Property shall be assigned to Land Use Class 2. Hotel Property shall be assigned to Land Use Class 3.

**C. MAXIMUM SPECIAL TAX RATE**

**1. Developed Property**

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

i. The Assigned Special Tax for each Land Use Class in Zone 1 is shown below in Table 1:

**TABLE 1**

**Assigned Special Taxes for Developed Property  
Zone 1**

| <i>Land Use<br/>Class</i> | <i>Land Use</i>          | <i>Assigned Special Tax</i>                                                |
|---------------------------|--------------------------|----------------------------------------------------------------------------|
| 1                         | Residential Property     | \$792.63 per dwelling unit, plus<br>\$1.2385 per square foot of Floor Area |
| 2                         | Non-Residential Property | \$0.4550 per square foot of Floor Area                                     |

ii. The Assigned Special Tax for each Land Use Class in Zone 2 is shown below in Table 2:

**TABLE 2**

**Assigned Special Taxes for Developed Property  
Zone 2**

| <i>Land Use Class</i> | <i>Land Use</i>          | <i>Assigned Special Tax</i>                                             |
|-----------------------|--------------------------|-------------------------------------------------------------------------|
| 1                     | Residential Property     | \$792.63 per dwelling unit, plus \$1.2385 per square foot of Floor Area |
| 2                     | Non-Residential Property | \$1.1026 per square foot of Floor Area                                  |

iii. The Assigned Special Tax for each Land Use Class in Zone 3 is shown below in Table 3:

**TABLE 3**

**Assigned Special Taxes for Developed Property  
Zone 3**

| <i>Land Use Class</i> | <i>Land Use</i>          | <i>Assigned Special Tax</i>                                             |
|-----------------------|--------------------------|-------------------------------------------------------------------------|
| 1                     | Residential Property     | \$792.63 per dwelling unit, plus \$1.2385 per square foot of Floor Area |
| 2                     | Non-Residential Property | \$0.4550 per square foot of Floor Area                                  |
| 3                     | Hotel Property           | \$253.51 per room                                                       |

c. Backup Special Tax

i. Zone 1

The Backup Special Tax for an Assessor's Parcel of Developed Property within Zone 1 shall equal \$14,882 per Acre.

ii. Zone 2

The Backup Special Tax for an Assessor's Parcel of Developed Property within Zone 2 shall equal \$53,053 per Acre.

iii. Zone 3

The Backup Special Tax for an Assessor's Parcel of Developed Property within Zone 3 shall equal \$9,592 per Acre.

d. 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 Class as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

**2. Other Taxable Property and Undeveloped Property**

a. Zone 1

The Maximum Special Tax for Other Taxable Property and Undeveloped Property within Zone 1 shall be \$14,882 per Acre.

b. Zone 2

The Maximum Special Tax for Other Taxable Property and Undeveloped Property within Zone 2 shall be \$53,053 per Acre.

c. Zone 3

The Maximum Special Tax for Other Taxable Property and Undeveloped Property within Zone 3 shall be \$9,592 per Acre.

**D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

For each Fiscal Year the Council shall determine the Special Tax Requirement and levy the Special Tax, taking into consideration the levy of the IA No. 1 Special Tax, until the amount of Special Taxes and IA No. 1 Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows. The steps indicated in Section D.1 shall be applied in each Fiscal Year prior to and including the Fiscal Year in which a second series of CFD No. 3 Bonds is sold to finance facilities identified on Exhibit A to the Purchase and Finance Agreement. The steps indicated in Section D.2 shall be applied in the first Fiscal Year after the issuance of such second series of CFD No. 3 Bonds, and each Fiscal Year thereafter. A series of CFD No. 3 Bonds that is issued solely to refund a prior series of CFD No. 3 Bonds shall not be considered a second series of CFD No. 3 Bonds for purposes of this section.

**1. Prior to the Issuance of the Second Series of CFD No. 3 Bonds**

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; and the Council shall be notified that under the terms of the IA No. 1 RMA, the IA No. 1 Special Tax shall be levied on each Assessor's Parcel of IA No. 1 Developed Property in an amount equal to 100% of the applicable IA No. 1 Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Council shall be notified that under the terms of the IA No. 1 RMA, the IA No. 1 Special Tax shall be levied Proportionately on each Assessor's Parcel of IA No. 1 Undeveloped Property at up to 100% of the IA No. 1 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, 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;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the 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; and the Council shall be notified that under the terms of the IA No. 1 RMA, the levy of the IA No. 1 Special Tax on each Assessor's Parcel of IA No. 1 Developed Property whose IA No. 1 Maximum Special Tax is determined through the application of the IA No. 1 Backup Special Tax shall be increased in equal percentages from the IA No. 1 Assigned Special Tax up to the IA No. 1 Maximum Special Tax for each such Assessor's Parcel, with the levy on Developed Property and IA No. 1 Developed Property being Proportionate;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied on each Assessor's Parcel of Other Taxable Property at up to the Maximum Special Tax for Other Taxable Property; and the Council shall be notified that under the terms of the IA No. 1 RMA, the IA No. 1 Special Tax shall be levied on each Assessor's Parcel of IA No. 1 Other Taxable Property at up to the IA No. 1 Maximum Special Tax for Other Taxable Property, with the levy on Other Taxable Property and IA No. 1 Other Taxable Property being Proportionate.

## **2. After the Issuance of the Second Series of CFD No. 3 Bonds**

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; and the Council shall be notified that under the terms of the IA No. 1 RMA, the IA No. 1 Special Tax shall be levied on each Assessor's Parcel of IA No. 1 Developed Property in an amount equal to 100% of the applicable IA No. 1 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 on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property; and the Council shall be notified that under the terms of the IA No. 1 RMA, the IA No. 1 Special Tax shall be levied on each Assessor's Parcel of IA No. 1 Undeveloped Property at up to 100% of the IA No. 1 Maximum Special Tax for Undeveloped Property, with the levy on Undeveloped Property and IA No. 1 Undeveloped Property being Proportionate;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the 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; and the Council shall be notified that under the terms of the IA No. 1 RMA, the levy of the IA No. 1 Special Tax on each Assessor's Parcel of IA No. 1 Developed Property whose IA No. 1 Maximum Special Tax is determined through the application of the IA No. 1 Backup Special Tax shall be increased in equal percentages from the IA No. 1 Assigned Special Tax up to the IA No. 1 Maximum Special Tax for each such Assessor's Parcel, with the levy on Developed Property and IA No. 1 Developed Property being Proportionate;

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 on each Assessor's Parcel of Other Taxable Property at up to the Maximum Special Tax for Other Taxable Property; and the Council shall be notified that under the terms of the IA No. 1 RMA, the IA No. 1 Special Tax shall be

levied on each Assessor's Parcel of IA No. 1 Other Taxable Property at up to the IA No. 1 Maximum Special Tax for Other Taxable Property, with the levy on Other Taxable Property and IA No. 1 Other Taxable Property being Proportionate.

### **3. Additional Levy Guidelines**

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one of Section D.1 or D.2 (above) and the IA No. 1 Assigned Special Tax in step one of Section D.1 or D.2 (of the IA No. 1 RMA), when (i) the Council is no longer required to levy a Special Tax pursuant to step two in Section D.2 (above) and the Council is no longer required to levy an IA No. 1 Special Tax pursuant to step two in Section D.1 or D.2 of the IA No. 1 RMA in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 3 Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 3 Bonds (except refunding bonds) to be supported by Special Taxes and IA No. 1 Special Taxes; and (iii) all facilities identified on Exhibit A to the Purchase and Finance Agreement have been acquired.

Further notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 3.

### **E. EXEMPTIONS**

No Special Tax shall be levied on property that is not located in a Zone. No Special Tax shall be levied on up to 122.36 Acres of City/Agency Property, Free Standing Parking Property, Other Public Property, and/or Property Owner Association Property that is within a Zone and up to 18.04 Acres of Golf Course Property that is within a Zone. However, the Acreage of any City/Agency Property that has never been conveyed in fee ownership or leasehold interest from the City and/or the Agency to an entity other than the City or the Agency shall not be included in the 122.36 Acres, and such property shall be considered exempt. For all other property that is within a Zone, tax-exempt status will be assigned by the CFD Administrator in chronological order in which property becomes City/Agency Property, Free Standing Parking Property, Other Public Property, Property Owner Association Property, or Golf Course Property. However, should an Assessor's Parcel that is within a Zone no longer be classified as City/Agency Property, Free Standing Parking Property, Other Public Property, Property Owner Association Property, Public Property, or Golf Course Property its tax-exempt status will be revoked.

City/Agency Property, Free Standing Parking Property, Other Public Property, Property Owner Association Property, or Golf Course Property that is within a Zone 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 described in Section D above, at up to 100% of the applicable Maximum Special Tax for Other Taxable Property.

### **F. APPEALS AND INTERPRETATIONS**

Any tax payer 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. 3 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**

##### **1. Prepayment in Full**

The following definition applies to this Section H:

**"CFD Public Facilities"** means either \$20,780,000 in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, 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. 3 under the authorized Mello-Roos financing program for CFD No. 3, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 3 Bonds (except refunding bonds) to be supported by Special Taxes and IA No. 1 Special Taxes.

**"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 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 facility costs.

**"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. 3 Bonds that have been issued prior to the date of prepayment.

Only an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued, may prepay its Special Tax obligation. The Special Tax obligation applicable to an Assessor's Parcel in CFD No. 3 may be prepaid and the obligation of the Assessor's Parcel to pay any Special Tax permanently 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. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. The CFD Administrator shall provide the owner with a statement of the prepayment amount for such Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 3 Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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. 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 that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 3 based on the Developed Property Special Taxes and IA No. 1 Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 3 as determined by the CFD Administrator based on the Precise Plan and other information currently available, excluding any Assessor's Parcels which have been prepaid, and  
 (b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the total estimated Backup Special Taxes and IA No. 1 Backup Special Taxes at buildout for the entire CFD No. 3 as determined by the CFD Administrator based on the Precise Plan and other information currently available, 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 (expressed as a percentage), 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 Taxes levied on the Assessor's Parcel in the current Fiscal Year which have 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 Future Facilities Amount and the Administrative Fees and Expenses 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. 3, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 3 Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. The reserve fund credit ("Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
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").
16. 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. 3.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 3 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. 3 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, the CFD Administrator 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 and IA No. 1 Maximum Special Taxes that may be levied on Taxable Property and IA No. 1 Taxable Property, respectively, after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

## **2. Prepayment in Part**

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; 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  
P<sub>E</sub> = the Prepayment Amount calculated according to Section H.1  
F = the percentage by which the owner of the Assessor's Parcel(s) is partially prepaying the Special Tax.

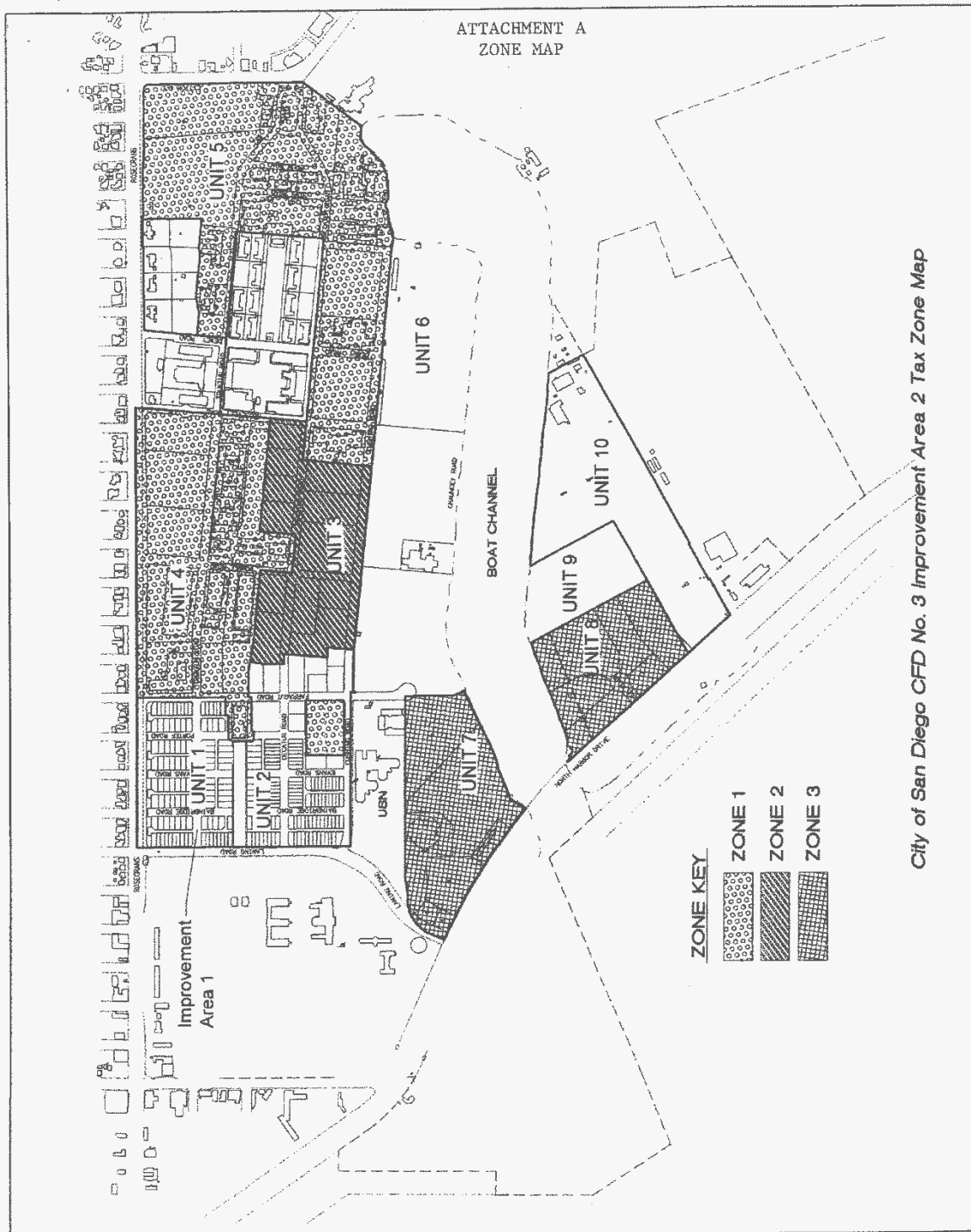
The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if 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 and may charge a reasonable fee for providing this service.

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, and (ii) indicate in the records of CFD No. 3 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 Annual Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

## **I. TERM OF SPECIAL TAX**

The Special Tax shall be levied for a period not to exceed forty years commencing with Fiscal Year 2002-2003, 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. 3 Bonds have been paid; (ii) all facilities have been acquired and all reimbursements to the Master Developer have been paid pursuant to the Purchase and Finance Agreement; and (iii) all required Administrative Expenses have been paid.

007672



[IMPROVEMENT AREA NO. 2 MAP]

SHEET 1 OF 1

PROPOSED BOUNDARIES OF  
CITY OF SAN DIEGO  
COMMUNITY FACILITIES DISTRICT NO. 3  
(LIBERTY STATION)  
COUNTY OF SAN DIEGO  
STATE OF CALIFORNIA

(1) Filed in the office of the City Clerk this 24 day of May, 2002.

Charles G. Abdelnour  
Charles G. Abdelnour  
City Clerk, City of San Diego

(2) I hereby certify that the within map showing the proposed boundaries of Community Facilities District No. 3 (Liberty Station), City of San Diego, State of California, was approved by the City Council at a regular meeting thereof, held on this 7th day of May, 2002, by its Resolution No. R-296472.

Charles G. Abdelnour  
Charles G. Abdelnour  
City Clerk, City of San Diego

(3) Filed this 09 day of May, 2002, at the hour of 8:07 o'clock A. m, in Book 36 of Maps of Assessment and Community Facilities Districts at page 21 and as Instrument No. 2002-0393206, in the Office of the County Recorder of San Diego County, State of California.

J. B. B. B. B.  
County Recorder of  
San Diego County

Reference is hereby made to the Assessor maps of the County of San Diego for an exact description of the lines and dimensions of each lot and parcel.

Conformed  
Copy

FY 2001-02  
Assessor's Parcel  
Numbers Located  
Within Community  
Facilities District No. 3  
(Liberty Station):  
450-790-14-00  
450-790-16-00  
450-790-18-00  
450-790-19-00

LEGEND

|  |                        |
|--|------------------------|
|  | CFD Boundary           |
|  | Improvement Area No. 1 |
|  | Improvement Area No. 2 |

NORTH HARBOR DRIVE

250' 500' 1,000'

PREPARED BY DAVID TAUSSIG & ASSOCIATES, INC.

BK36 PG21

2002-0393206

## **APPENDIX B**

### **DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY OF SAN DIEGO**

*Set forth below is certain demographic information regarding the City of San Diego (the “City”) and the County of San Diego (the “County”). This information is provided for informational purposes only and general background. The information set forth herein has been obtained from third party sources believed to be reliable, but such information is not guaranteed by the District as to accuracy or completeness. Neither the 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 any information contained in this Appendix B since the date of the Official Statement. The 2013 Bonds are not a debt of the City, the County, the State of California (the “State”), or any of its political subdivisions, and none of the City, the County, the State nor any of its political subdivisions is liable thereon. The information and data within this Appendix B are the latest available; however, the current state of the economy at City, County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the District.*

#### **Introduction**

The City, with a total population of approximately 1,321,315 as of January 1, 2012 and a land area of approximately 324 square miles, is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City’s diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City’s economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

#### **Population**

The following Table B-1 sets forth annual population figures for the City, the County and the State for calendar years 2003 through 2012. The City’s population increased by approximately 5.6% between 2003 and 2012, with an average annual increase of approximately 7,735.

**TABLE B-1**  
**CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA**  
**POPULATION GROWTH**  
**Calendar Years 2003 through 2012**

| <i>Calendar Year<sup>(1)</sup></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> |
|------------------------------------|--------------------------|---------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
| 2003                               | 1,251,700                | 1.22                      | 2,927,216                  | 1.28                      | 35,163,609                 | 1.26                      |
| 2004                               | 1,257,358                | 0.45                      | 2,953,703                  | 0.90                      | 35,570,847                 | 1.16                      |
| 2005                               | 1,261,035                | 0.29                      | 2,966,783                  | 0.44                      | 35,869,173                 | 0.84                      |
| 2006                               | 1,261,633                | 0.05                      | 2,976,492                  | 0.33                      | 36,116,202                 | 0.69                      |
| 2007                               | 1,266,978                | 0.42                      | 2,998,477                  | 0.74                      | 36,399,676                 | 0.78                      |
| 2008                               | 1,279,505                | 0.99                      | 3,032,689                  | 1.14                      | 36,704,375                 | 0.84                      |
| 2009                               | 1,294,031                | 1.14                      | 3,064,436                  | 1.05                      | 36,966,713                 | 0.71                      |
| 2010                               | 1,304,482                | 0.81                      | 3,091,579                  | 0.89                      | 37,223,900                 | 0.70                      |
| 2011                               | 1,309,784                | 0.41                      | 3,115,810                  | 0.78                      | 37,427,946                 | 0.55                      |
| 2012                               | 1,321,315                | 0.88                      | 3,143,429                  | 0.89                      | 37,678,563                 | 0.67                      |

<sup>(1)</sup> As of January 1 of the calendar year.

Source: State of California Department of Finance, Demographic Research Unit.

## Employment

The following Table B-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City, the County, the State and the United States for calendar years 2007 through 2011, and for December 2012 (Preliminary).

**TABLE B-2**  
**LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE<sup>(1)</sup>**  
**Calendar Years 2007 through 2011, and December <sup>(2)</sup> 2012**  
**(Not Seasonally Adjusted)**

|                                  | <i>Calendar Year</i> |             |             |             |             | <i>December 2012<sup>(2)</sup></i> |
|----------------------------------|----------------------|-------------|-------------|-------------|-------------|------------------------------------|
|                                  | <i>2007</i>          | <i>2008</i> | <i>2009</i> | <i>2010</i> | <i>2011</i> |                                    |
| <b>Civilian Labor Force</b>      |                      |             |             |             |             |                                    |
| City of San Diego <sup>(1)</sup> |                      |             |             |             |             |                                    |
| Employed                         | 647,100              | 649,600     | 627,000     | 622,200     | 643,600     | 660,400                            |
| Unemployed                       | 30,700               | 41,200      | 66,800      | 73,300      | 67,900      | 58,100                             |
| <b>Unemployment Rates</b>        |                      |             |             |             |             |                                    |
| City <sup>(1)</sup>              | 4.5%                 | 6.0%        | 9.6%        | 10.5%       | 10.0%       | 8.1%                               |
| County <sup>(1)</sup>            | 4.5                  | 6.0         | 9.6         | 10.5        | 10.0        | 8.1                                |
| California <sup>(1)</sup>        | 5.3                  | 7.2         | 11.3        | 12.4        | 11.7        | 9.7                                |
| United States <sup>(3)</sup>     | 4.6                  | 5.8         | 9.3         | 9.6         | 8.9         | 7.8                                |

<sup>(1)</sup> Estimates are revised annually in March.

<sup>(2)</sup> Preliminary, subject to change.

<sup>(3)</sup> The United States unemployment rates for calendar years 2007-2011 were generated as of March 14, 2012.

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

The State of California Employment Development Department, Labor Market Information Division (the “EDD”), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in December of 2012 was 718,500, of which approximately 58,100 persons were unemployed. Based on preliminary estimates of the EDD as of January 18, 2013, the City’s unemployment rate of 8.1% in December of 2012, on a seasonally unadjusted basis, equaled that of the County at 8.1% and was below the unemployment rate of the State, which was 9.7%. The City’s unemployment rate exceeded that of the United States, which was 7.8%. The following Table B-3 sets forth estimates of total annual civilian nonfarm employment by number of employees in each major industry category in the County for calendar years 2008 through December of 2012. Annual industry employment information is not compiled by sector for the City.

**TABLE B-3**  
**COUNTY OF SAN DIEGO**  
**NONFARM EMPLOYMENT**  
**Calendar Years 2008 through December 2012<sup>(1)</sup>**  
**(In Number of Jobs By Industry)**

| <i>Industry Category</i>                | <i>2008</i>             | <i>2009</i>             | <i>2010</i>             | <i>2011</i>             | <i>2012<sup>(4)</sup></i> |
|-----------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| Services <sup>(2)</sup>                 | 603,400                 | 580,900                 | 579,300                 | 588,600                 | 612,200                   |
| Government                              | 225,100                 | 224,500                 | 230,400                 | 228,400                 | 231,800                   |
| Federal                                 | 41,600                  | 43,700                  | 47,000                  | 46,700                  | 46,400                    |
| State and Local                         | 183,500                 | 180,800                 | 183,500                 | 181,800                 | 185,400                   |
| Trade                                   | 186,900                 | 172,200                 | 170,800                 | 172,900                 | 184,500                   |
| Wholesale                               | 44,900                  | 40,600                  | 40,100                  | 40,700                  | 39,600                    |
| Retail                                  | 142,000                 | 131,600                 | 130,700                 | 132,200                 | 144,900                   |
| Manufacturing                           | 102,800                 | 95,300                  | 92,900                  | 92,800                  | 90,100                    |
| Nondurable Goods                        | 24,700                  | 22,200                  | 21,900                  | 21,900                  | 21,000                    |
| Durable Goods                           | 78,100                  | 73,100                  | 71,000                  | 70,800                  | 69,100                    |
| Financial Activities                    | 75,200                  | 69,800                  | 67,200                  | 66,800                  | 67,900                    |
| Construction                            | 76,100                  | 61,100                  | 55,300                  | 55,200                  | 57,500                    |
| Transportation, Warehousing & Utilities | 29,000                  | 27,400                  | 26,500                  | 26,100                  | 26,900                    |
| Mining & Logging                        | 400                     | 400                     | 400                     | 400                     | 400                       |
| <b>TOTAL NONFARM<sup>(3)</sup></b>      | <b><u>1,298,700</u></b> | <b><u>1,231,400</u></b> | <b><u>1,222,800</u></b> | <b><u>1,231,200</u></b> | <b><u>1,271,300</u></b>   |

(1) Estimates are revised annually in March.

(2) Includes professional and business, information, educational and health, leisure and hospitality and other services.

(3) Line items may not add to totals due to independent calculations.

(4) Preliminary as of December 2012.

Source: State of California Employment Development Department, Labor Market Information Division.

Since the industry employment data referenced above are organized by standard industrial classification codes, employment in the various high tech categories, such as telecommunications, software and biotechnology may not fall into a single employment section alone. For example, some telecommunications firms appear in Manufacturing while others appear in Services.

## Taxable Sales

The following Table B-4-1 sets forth taxable transactions in the City for calendar years 2006 through 2010 and the following Table B-4-2 sets forth taxable transactions in the City for the first three quarters of calendar years 2010 and 2011, the most recent period for which State Board of Equalization data is available.

**TABLE B-4-1**  
**CITY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**Calendar Years 2006 through 2010**  
**(In Thousands)**

|                                    | <i>2006</i>          | <i>2007</i>          | <i>2008</i>                        | <i>2009<sup>(1)</sup></i>          | <i>2010<sup>(1)</sup></i>          |
|------------------------------------|----------------------|----------------------|------------------------------------|------------------------------------|------------------------------------|
| Retail and Food Services           |                      |                      |                                    |                                    |                                    |
| Apparel                            | \$ 924,301           | \$ 959,509           | \$ 1,123,736                       | \$ 1,358,011                       | \$ 1,476,887                       |
| General Merchandise                | 2,236,087            | 2,272,494            | 1,995,887                          | 1,443,341                          | 1,505,694                          |
| Food                               | 843,800              | 881,871              | 828,471                            | 864,733                            | 874,855                            |
| Eating and Drinking                | 2,466,681            | 2,617,392            | 2,682,884                          | 2,582,572                          | 2,674,975                          |
| Home Furnishings and<br>Appliances | 706,043              | 655,097              | 749,808                            | 1,005,324                          | 1,064,083                          |
| Building Materials                 | 1,427,987            | 1,098,559            | 865,280                            | 707,657                            | 735,040                            |
| Motor Vehicles and Parts           | 2,132,207            | 2,237,019            | 1,852,953                          | 1,606,349                          | 1,720,348                          |
| Service Stations                   | 1,567,032            | 1,656,784            | 1,847,002                          | 1,319,720                          | 1,527,002                          |
| Other Retail Stores                | <u>2,527,653</u>     | <u>2,321,276</u>     | <u>2,045,273</u>                   | <u>1,481,096</u>                   | <u>1,483,428</u>                   |
| Total Retail and Food Services     | \$ 14,831,791        | \$ 14,700,001        | \$ 13,991,295                      | \$ 12,368,802                      | \$ 13,062,313                      |
| All Other Outlets                  | <u>5,227,476</u>     | <u>5,356,105</u>     | <u>5,422,964</u>                   | <u>4,795,162</u>                   | <u>4,816,619</u>                   |
| TOTAL ALL OUTLETS                  | <u>\$ 20,059,267</u> | <u>\$ 20,056,106</u> | <u>\$ 19,414,259<sup>(2)</sup></u> | <u>\$ 17,163,965<sup>(2)</sup></u> | <u>\$ 17,878,932<sup>(2)</sup></u> |

<sup>(1)</sup> In early 2007 the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System ("NAICS") codes. Beginning in 2009, the California State Board of Equalization reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, industry data for 2009 and 2010 are not comparable with data from prior years.

<sup>(2)</sup> Line items may not add to totals due to independent rounding.

Source: California State Board of Equalization.

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**TABLE B-4-2**  
**CITY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**2010 First Three Quarters and 2011 First Three Quarters**  
**(in Thousands)**

| <i>Type of Business</i>         | <i>2010<br/>First Three Quarters</i> | <i>2011<br/>First Three Quarters</i> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Retail and Food Services        |                                      |                                      |
| Apparel                         | \$ 1,024,731                         | \$ 1,125,082                         |
| General Merchandise             | 1,039,960                            | 1,082,795                            |
| Food                            | 640,274                              | 665,333                              |
| Eating and Drinking             | 2,030,134                            | 2,160,891                            |
| Home Furnishings and Appliances | 786,789                              | 835,966                              |
| Building Materials              | 557,523                              | 601,316                              |
| Motor Vehicles and Parts        | 1,291,491                            | 1,410,015                            |
| Service Stations                | 1,131,610                            | 1,400,862                            |
| Other Retail Stores             | <u>1,083,596</u>                     | <u>1,136,553</u>                     |
| Total Retail and Food Services  | \$ 9,586,287                         | \$ 10,418,812                        |
| All Other Outlets               | <u>3,567,464</u>                     | <u>3,991,358</u>                     |
| TOTAL ALL OUTLETS               | <u>\$ 13,153,751</u>                 | <u>\$ 14,410,170</u>                 |

Source: California State Board of Equalization, Taxable Sales in California.

Total taxable sales in the City during the first three quarters of 2011 increased by approximately 9.6%, compared to the same period of the prior year.

### **Tourism**

The tourism industry is the County's third largest industry in terms of business revenue generation, following manufacturing and the military. The following Table B-5 sets forth total visitor spending in the County for the calendar years 2007 through 2011.

**TABLE B-5**  
**COUNTY OF SAN DIEGO**  
**TOTAL VISITOR SPENDING**  
**Calendar Years 2007 through 2011**  
**(In Millions)**

| <i>Calendar Year</i> | <i>Amount</i> |
|----------------------|---------------|
| 2007 <sup>(1)</sup>  | \$7,899       |
| 2008                 | 7,916         |
| 2009                 | 6,958         |
| 2010                 | 7,080         |
| 2011 <sup>(2)</sup>  | 7,485         |

<sup>(1)</sup> For calendar years 2007-2010, 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.

<sup>(2)</sup> For calendar year 2011, the estimate of visitor expenditures is derived from the Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau by Tourism Economics.

Source: San Diego Convention and Visitors Bureau.

The following Table B-6 sets forth the City's transient occupancy tax revenues for Fiscal Years 2008 through 2012.

**TABLE B-6**  
**CITY OF SAN DIEGO**  
**TRANSIENT OCCUPANCY TAX<sup>(1)</sup>**  
**Fiscal Years 2008 through 2012**  
**(in thousands)**

| <i>Fiscal Year</i> | <i>Amount</i> |
|--------------------|---------------|
| 2008               | 159,348       |
| 2009               | 140,657       |
| 2010               | 123,879       |
| 2011               | 139,545       |
| 2012               | 148,795       |

<sup>(1)</sup> Includes both the General Fund portion of TOT (5.5¢ of 10.5¢) and the balance (5¢ of 10.5¢) allocated to Special Promotional Programs. Special Promotional Programs are intended to: advance the City's economy by promoting the City as a visitor destination; develop, maintain, and enhance visitor-related facilities; and support the City's cultural amenities and natural attractions.

Source: Fiscal Year 2012 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego.

The City is the focal point for tourism in the County. According to the San Diego Tourism Authority, as of November 2012, 70% of hotel rooms in the County are located within the City of San Diego. Through calendar year November 2012, Smith Travel Research reported that hotel occupancy in the City of San Diego averaged 74.5%, up 3.58% compared to same time last year.

In addition, most of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Zoo's Safari Park and SeaWorld San Diego, 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, Balboa Park and a host of other cultural and recreational activities.

Based on information provided by the San Diego Tourism Authority, in Calendar year 2011 there were more than 31 million visitors to San Diego County, and they spent more than \$7 billion. About half of the 31 million stayed overnight in private homes or hotels. In Calendar Year 2012 through November 2012, there were 7,925,001 airport arrivals and 703,577 Amtrak arrivals, up 2.30% and 4.14%, respectively, compared to the same time for the prior year.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major sporting events. The City annually hosts the Farmers Insurance Open, a Professional Golfers' Association Tour Event played at the world renowned Torrey Pines Golf Course. In addition, the City has annually hosted a pair of post season contests of elite college football teams, the Holiday Bowl and the Poinsettia Bowl.

The San Diego Convention Center (the "Convention Center") has 2.6 million total gross square feet of buildings, including the parking structure. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated over \$22.3 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

## Military

The information set forth below is taken from the San Diego Military Impact Study released in June 2012 (the “Military Study”) prepared by the San Diego Military Advisory Council (“SDMAC”). The District has not independently verified the information in the Military Study.

Military and related defense spending are significant factors in the County economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot; Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

Approximately 25% of the jobs in the County are directly and indirectly related to the military. There are over 100,000 active duty military personnel and 30,000 full-time civilian workers directly employed by the military. The level of military employment is expected to remain steady in 2013. The direct defense-related spending by the military in the County was \$20.6 billion for the federal fiscal year ending September 30, 2012 and is projected to remain at approximately \$20.7 billion in the federal fiscal year ending September 30, 2012. In the 2010 federal fiscal year, military spending in the County was approximately \$19 billion and was \$20.3 billion in the 2011 federal fiscal year.

Efforts by the federal government to reduce the federal deficit could negatively impact military spending throughout the country and in the County. Under the terms of the Budget Control Act enacted by Congress in 2012, unless new legislation is enacted to reduce spending, beginning January 1, 2013 automatic spending cuts (referred to as sequestration) will be implemented. One-half of the spending cuts would be related to the military and this could result in a reduction in military spending in 2013 of \$60 billion. If the spending cuts are implemented, it could result in reductions in military expenditures in the County.

## International Trade

The following Table B-7 sets forth the valuation of exports originating in the San Diego Customs District for calendar years 2007 through 2011.

**TABLE B-7**  
**VALUATION OF EXPORTS**  
**ORIGINATING IN SAN DIEGO CUSTOMS DISTRICT<sup>(1)</sup>**  
**Calendar Years 2007 through 2011**  
**(In Millions)**

| <i>Calendar Year</i> | <i>Amount</i> |
|----------------------|---------------|
| 2007                 | \$16,002      |
| 2008                 | 16,607        |
| 2009                 | 14,007        |
| 2010                 | 16,252        |
| 2011                 | 18,559        |

<sup>(1)</sup> The San Diego Customs District includes the ports of San Diego, Andrade, Calexico, San Ysidro, Tecate, Otay Mesa Station, and Calexico-East.

Source: RAND California, Business and Economic Statistics and US Census Bureau Foreign Trade Statistics.

## Top Ten Principal Employers

The following Table B-8 sets forth the top 10 principal employers in the City for Fiscal Year 2012.

**TABLE B-8**  
**CITY OF SAN DIEGO**  
**TOP TEN PRINCIPAL EMPLOYERS**  
**Fiscal Year 2012**  
**(unaudited)**

| <i>Employer</i>                                   | <i>Number of Employees</i> | <i>Percentage of Total Employment<sup>(1)</sup></i> |
|---------------------------------------------------|----------------------------|-----------------------------------------------------|
| University of California San Diego <sup>(2)</sup> | 28,071                     | 3.95%                                               |
| United States Navy <sup>(3)</sup>                 | 27,869                     | 3.92                                                |
| Sharp Healthcare <sup>(4)</sup>                   | 15,366                     | 2.16                                                |
| San Diego County                                  | 15,171                     | 2.13                                                |
| San Diego Unified School District                 | 13,633                     | 1.92                                                |
| Qualcomm, Inc.                                    | 11,877                     | 1.67                                                |
| City of San Diego <sup>(5)</sup>                  | 9,841                      | 1.38                                                |
| Kaiser Permanente                                 | 7,425                      | 1.04                                                |
| UC San Diego Medical Center                       | 6,039                      | 0.85                                                |
| San Diego Gas & Electric Co. <sup>(6)</sup>       | <u>5,028</u>               | <u>0.71</u>                                         |
| Total Top Employers                               | <u>140,320</u>             | <u>19.72%</u>                                       |

(1) Percentage based on total employment of 711,500 provided by the EDD Labor Force Data.

(2) Employee count includes full and part time, academic and support staff.

(3) Employee count includes Navy personnel only (civilian/military).

(4) Employee count is companywide.

(5) Employee count is provided by the City of San Diego, Office of the Comptroller – Payroll Division.

(6) Employee count does not include Sempra Energy or other affiliate companies.

Source: Fiscal Year 2012 Comprehensive Annual Financial Report, Statistical Section (Unaudited).

## Personal Income

The following Table B-9 sets forth the per capita personal income in the County, the State and the United States for calendar years 2007 through 2011.

**TABLE B-9**  
**COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES**  
**PER CAPITA PERSONAL INCOME<sup>(1)</sup>**  
**Calendar Years 2007 through 2011**

| <i>Calendar Year</i> | <i>County of San Diego</i> | <i>State of California</i> | <i>United States</i> |
|----------------------|----------------------------|----------------------------|----------------------|
| 2007                 | \$45,768                   | \$43,211                   | \$39,506             |
| 2008                 | 47,197                     | 44,003                     | 40,947               |
| 2009                 | 44,107                     | 41,034                     | 38,637               |
| 2010                 | 44,951                     | 41,893                     | 39,791               |
| 2011                 | 46,800                     | 43,647                     | 41,560               |

(1) Amounts for County and State may not be comparable based on different source methodology.

Source: U.S. Bureau of Economic Analysis and Bureau of the Census.

## Property Value and Construction

Residential and non-residential construction declined after peaking in 2005, in part due to the subprime mortgage crisis and the resulting significant increase in the number of foreclosures. However, residential and non-residential construction activity has increased since 2010. Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. In Fiscal Year 2012, construction permits valuation increased by 43%, or \$499.5 million from Fiscal Year 2011.

The following Table B-10 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2008 through 2012.

**TABLE B-10**  
**CITY OF SAN DIEGO**  
**Assessed Value and Construction Permit Valuation**  
**Fiscal Years 2008 through 2012**  
**(\$ in thousands)**  
**(unaudited)**

| <i><b>Fiscal<br/>Year</b></i> | <i><b>Residential<sup>(1)</sup></b></i> |                                                | <i><b>Non-Residential<sup>(2)</sup></b></i> |                                                | <i><b>Total Permit<br/>Assessed Value<br/>Estimate<sup>(3)</sup></b></i> |
|-------------------------------|-----------------------------------------|------------------------------------------------|---------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------|
|                               | <i><b>Dwelling<br/>Units</b></i>        | <i><b>Assessed<br/>Value<sup>(3)</sup></b></i> | <i><b>Permits</b></i>                       | <i><b>Assessed<br/>Value<sup>(3)</sup></b></i> |                                                                          |
| 2008                          | 2,228                                   | \$437,934                                      | 175                                         | \$931,648                                      | \$1,369,582                                                              |
| 2009                          | 1,117                                   | 202,268                                        | 138                                         | 576,879                                        | 779,147                                                                  |
| 2010                          | 1,147                                   | 234,868                                        | 76                                          | 368,098                                        | 602,966                                                                  |
| 2011                          | 2,024                                   | 342,598                                        | 98                                          | 818,627                                        | 1,161,225                                                                |
| 2012                          | 2,406                                   | 518,091                                        | 113                                         | 1,142,674                                      | 1,660,765                                                                |

<sup>(1)</sup> Residential reflects construction of new structures.

<sup>(2)</sup> Non-residential reflects construction of new structures whose intended use includes commercial, industrial, and other uses. Each permit is a separate structure.

<sup>(3)</sup> Valuation figures only include valuation of newly created structures. These figures do not include minor modification work such as interior remodels, reroofs, etc. Total Permit Assessed Value is an estimate determined at time of permit issuance; actuals may vary.

Source: Development Services Department, City of San Diego; Permit Tracking System Database.

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## Foreclosure Activity

The following Table B-11 sets forth foreclosure activity in the County for calendar years 2008 through 2012.

**TABLE B-11  
COUNTY OF SAN DIEGO  
FORECLOSURE ACTIVITY  
Calendar Years 2008 through 2012**

| <i>Calendar Year</i> | <i>Foreclosures</i> | <i>Total Number of<br/>Housing Units<sup>(1)</sup></i> | <i>% of Total<br/>Housing Units</i> |
|----------------------|---------------------|--------------------------------------------------------|-------------------------------------|
| 2008                 | 19,577              | 1,140,654                                              | 1.72%                               |
| 2009                 | 15,487              | 1,145,548                                              | 1.35                                |
| 2010                 | 13,467              | 1,158,076 <sup>(2)</sup>                               | 1.16                                |
| 2011                 | 12,216              | 1,161,720                                              | 1.05                                |
| 2012                 | 7,195               | 1,165,818                                              | 0.62                                |

<sup>(1)</sup> As of January 1 of the indicated year.

<sup>(2)</sup> County of San Diego Total Number of Housing Units for calendar year 2010 was calculated based on 2010 census data.  
Source: County of San Diego, Assessor's Records; and SANDAG.

According to the San Diego County Recorder's Office, there has been a decrease in the number of notices of loan defaults recorded in the County in calendar year 2012 compared to calendar year 2011. In addition, foreclosures have dropped during this time frame as well. There were 22,101 notices of default recorded in the County in calendar year 2011, which decreased to 16,597 notices recorded in 2012. Furthermore, there were 12,216 foreclosures in the County in calendar year 2011, which decreased by 41% to 7,195 foreclosures in 2012.

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## APPENDIX C

### SUMMARY OF BOND INDENTURE

*The following is a summary of certain definitions and provisions of the Bond Indenture (the "Bond 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 Bond Indenture for a full and complete statement of their 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.

"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 and any Special Tax Consultant to the District, any fees and related costs for credit enhancement for the 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 \$60,000.

"Annual Debt Service" means the principal amount of any Outstanding Bonds payable in a Bond Year at maturity and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

"Authorized Representative of the District" means the Mayor of the City, the Chief Operating Officer of the City, the Treasurer of the City or any other person or persons designated by the Mayor of the City, the Chief Operating Officer of the City or the Treasurer of the City by a written certificate signed by one of such officers 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 Special Tax Refunding Bonds, Series 2013 issued on \_\_\_\_\_, 2013 in the aggregate principal amount of \$ \_\_\_\_\_.

"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, 2013; 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 28, 2013.

“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 District.

“Certificate of the Special Tax Administrator” means a certificate of an Authorized Representative of the District, or any successor entity appointed by the City, to administer the calculation and collection of the Special Taxes.

“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.

“Continuing Disclosure Certificate” together, means that certain Continuing Disclosure Certificate dated as of February 1, 2013, executed and delivered by the District, together with any amendments thereto.

“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 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.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“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.

“District” means Community Facilities District No. 3 (Liberty Station) established pursuant to the Act and the Resolution of Formation.

“Event of Default” shall mean the “event of default” described in the Indenture.

“Federal Certificates” means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Federal Securities” means any of the following: (a) non-callable direct obligations of the United States of America (“Treasures”); (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasures 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 (c) pre-refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s and Moody’s, respectively (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, New York, New York, or its successors, and if such organization shall for any reason no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds 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.

“Indenture” means the Bond Indenture herein described, together with any Supplemental Indenture approved pursuant to the Indenture.

“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;
- (2) does not have any substantial interest, direct or indirect, in the District; 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, 2013; 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.

“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, New York, New York, or its successors, and if such organization shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“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-19078 adopted by the legislative body of the District providing for the levying of the Special Tax, as it may be amended from time to time, or any other ordinance adopted by the City Council levying the Special Taxes.

“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.

“Permitted 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:

(1) Federal Securities or Federal Certificates;

(2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

(c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations

(d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest Rating Category by two Rating Agencies;

(4) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are rated, at the time of purchase, by “A1/P1/F1” by two Rating Agencies or, if the term of such indebtedness is longer than one year, rated in the highest Rating Category by two Rating Agencies;

(5) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, which are rated, at the time of purchase, “A1/P1/F1” by two Rating Agencies;

(6) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts shall be either (a) continuously insured by the Federal Deposit Insurance Corporation; or (b) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated, at the time of purchase, in the highest short term rating by two Rating Agencies ;

(7) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category, and which bankers acceptances mature not later than 365 days from the date of purchase;

(8) Any repurchase agreement: (a) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars (\$100,000,000) and having short-term debt which is rated, at the time of the purchase, by two Rating Agencies in one of the three highest short-term Rating Categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (b) which agreement is secured by any one or more of the securities and obligations described in clause (i) or (ii) of this definition and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and shall be placed with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Trustee shall be entitled to rely on each such undertaking;

(9) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii) and (viii) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii) (iii) and (viii) of this definition and which money market fund is rated, at the time or purchase, by two Rating Agencies in the highest Rating Category;

(10) Any guaranteed investment contract, including forward delivery agreements (“FDAs”) and forward purchase agreements (“FPAs”), with a financial institution or insurance company which has (or which is unconditionally guaranteed by a legal entity which has), at the date of execution thereof, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability which is rated, at the time of purchase, by two Rating Agencies in one of two highest long-term Rating Categories. Only Permitted Investments described in clause (i) and (ii) above and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(11) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated, at the time of purchase, by two Rating Agencies

in the highest short-term Rating Category or within one of the three highest long-term Rating Categories, but excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date;

(12) For amounts less than \$250,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(13) Investments in taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are: (a) rated, at the time of purchase, by two Rating Agencies in one of the two highest Rating Categories; or (b) have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(14) Investments in the City's pooled investment fund;

(15) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code of the State;

(16) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) of this definition and which companies are: (a) rated, at the time of purchase, by two Rating Agencies in the highest Rating Category; or (b) have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000);

(17) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended; and

(18) Any other investment, with confirmation (or other action, satisfactory to the City) from each rating agency that has a current rating on the Bonds at the time of initial purchase thereof, that its rating on the Bonds will not be lowered or withdrawn as a result of such investment.

"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 the District made in accordance with the RMA.

"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 indentures pursuant to which municipal or governmental obligations are issued.

"Rating Agency" means Fitch, Moody's and Standard & Poor's, or any one of such entities, as the context requires.

"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 Trustee 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 (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds.

“Resolution of Formation” means Resolution No. R-296710 adopted by the City Council of the City on June 25, 2002 pursuant to which the City formed the District.

“RMA” ” means, as applicable, the Rate and Method of Apportionment of Special Taxes for Improvement Area No. 1 and the Rate and Method of Apportionment of Special Taxes for Improvement Area No. 2 in the form attached to the Resolution of Formation.

“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 schedules set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

“Special Tax Fund” means the fund by that name created and established pursuant to the Indenture.

“Special Taxes” means the taxes authorized to be levied by the legislative body of the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the June 25, 2002 election in the District, , including any scheduled payments and any Prepayments thereof, 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, but excluding therefrom penalties and interest imposed upon delinquent installments of Special Taxes, which shall be applied in accordance with Chapter VI, Article 1, Division 23 of the San Diego Municipal Code.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business or its successors and if such organization shall no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Subordinated Bonds” means any bonds or indebtedness of the District that have a lien, charge, pledge or encumbrance on the Net Taxes junior and subordinated to the lien, charge, pledge and encumbrance thereon for the Bonds and any Parity Bonds.

“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.

“Term Bonds” means the Bonds maturing on September 1, 20\_\_, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Trustee” means Wells Fargo Bank, National Association 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.

“Underwriters” means E. J. De La Rosa & Co. 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 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 secured by a pledge, charge, lien and encumbrance upon

and 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 hereby 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 Costs of Issuance 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.

Nothing in the Indenture or any Supplemental Indenture shall preclude: (i) subject to the limitations contained in the Indenture, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California; or (ii) the issuance, subject to the limitations contained in the Indenture, of Parity Bonds which shall be payable from Net Taxes.

**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 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 Community Facilities District No. 3 Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).

(2) The Community Facilities District No. 3 Rebate Fund (the "Rebate Fund").

(3) The Community Facilities District No. 3 Costs of Issuance Fund (the “Costs of Issuance Fund”).

(4) The Community Facilities District No. 3 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 Prepayments which shall be deposited to the Redemption Account as specified in a Certificate of an Authorized Representative, 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 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 requisition, substantially in the form attached as Exhibit D, executed by 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 Permitted Investments as directed in writing by an Authorized Representative of the Water 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, 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, 20\_\_, 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 schedules 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 pursuant to the Indenture and to the Redemption Account for Sinking Fund Payments then due pursuant to subparagraph (a) of this Section, 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 therein) 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, along with any amounts that an Authorized Officer of the District directs to be transferred from the Reserve Account to the Redemption Account in connection with any Prepayments, 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; provided that amounts shall be transferred from the Reserve Account only if immediately following such redemption the amount in the Reserve Account will meet the Reserve Requirement.

(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, other than Prepayments, may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the next sentence. Purchases of Outstanding 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 by 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 pursuant to the Indenture 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 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 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 a redemption of Bonds in accordance with the Indenture, or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds 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, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds 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 transferred to the Fees Account and the Project Account of the Acquisition and Construction Fund in the percentages specified in the Indenture until all amounts have been disbursed from the Acquisition and Construction Fund and thereafter to the Interest Account of the Special Tax Fund.

#### **Rebate Fund.**

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. The District shall cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund with respect to the Bonds shall be governed by the Indenture and the Tax Certificate.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final treasury regulations as may be applicable to the Bonds from time to time, which the District covenants to pay or cause to be paid to the United States at the times and in the amounts determined under the Tax Certificate. The Trustee agrees to comply with all instructions given to it by the District in accordance with this covenant. The Trustee shall conclusively be deemed to have complied with the provisions of this section if it follows the instructions of the District and shall not be required to take any actions hereunder in the absence of instructions from the District.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund with respect to the Bonds and each series of Parity Bonds after payment in full of such issue and after making the payments required to comply with this section and the applicable Tax Certificate for such issue may be withdrawn by the Trustee at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or the Indenture to the contrary, the obligation to comply with the requirements of this section shall survive the defeasance and final payment of the Bonds and any Parity Bonds.

(d) Amendment Without Consent of Owners. This section of the Indenture may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect 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. Notwithstanding any provision of this section, if the District shall provide to the Trustee an opinion of a nationally recognized bond or tax counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis, the Trustee and the District may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the Indenture shall be deemed to be modified to that extent.

**Surplus Fund.** After making the foregoing 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; or (iv) 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 Permitted 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 Permitted 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.

**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 Permitted Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Permitted 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 Costs of Issuance 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 shall be invested by the Trustee as directed in writing by the District, from time to time, in Permitted Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund shall be invested in Permitted 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 Costs of Issuance Fund.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Permitted 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 Permitted Investments; provided that no such Permitted Investment of amounts in the Reserve Account shall mature later than the earlier of the final maturity date of the Bonds or any Parity Bonds.

(d) Moneys in the Rebate Fund shall be invested only in Permitted Investments of the type described in clause (1) 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 Permitted Investments of the type described in clause (9) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Permitted Investments specified in clause (9) of the definition thereof.

The Trustee shall sell, or present for redemption, any Permitted Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least annually within 5 Business Days prior to each September 1. In making any valuations under the Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything herein to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Trustee may sell at the best market price obtainable, or present for redemption, any Permitted Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

## **COVENANTS AND WARRANTY**

**Warranty.** The District warrants that it 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 makes 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; 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:

(a) Punctual Payment; Against Encumbrances. The District covenants 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 as soon as reasonably practicable following 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 covenants 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 Special Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien, charge, pledge or encumbrance upon the Net Taxes senior or superior to or on a parity with the Bonds, other than Parity Bonds. Nothing herein 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.

(b) Levy of Special Tax. Beginning in Fiscal Year 2013-14 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 and 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 "Annual Special Tax Levy"). The District further covenants 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.

(c) Commence Foreclosure Proceedings. The District covenants 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 covenants that it will deposit the net proceeds of any foreclosure in the Special Tax Fund 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.

(d) 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.

(e) 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 improvements constructed with the proceeds of bonded indebtedness issued by the District, 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.

(f) Federal Tax Covenants. 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 covenants 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 of 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.

(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.

(g) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this section would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District covenants, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property within the District to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) 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 two percent (2%) in each subsequent Fiscal Year.

Notwithstanding the foregoing, the District may modify, alter or amend the RMA in any manner, so long as the Trustee receives a certificate of an Independent Financial Consultant stating that such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment.

(h) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District 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.

(i) Limitation on Right to Tender Bonds. The District covenants 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.

(j) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Certificate and with the terms of any agreement executed by the District with respect to any Parity Bonds to assist the Underwriters in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission.

(k) Further Assurances. The District shall preserve and protect the security pledged to the Bonds and any Parity Bonds against all claims and demands as long as the Bonds or Parity Bonds are Outstanding and shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or desirable 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 and any Parity Bonds of the rights and benefits provided in the Indenture.



## AMENDMENTS TO INDENTURE

**Supplemental Indentures 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 of the Indenture 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) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners or that is contrary to the rules and regulations of the Municipal Securities Rulemaking Board.

**Supplemental Indentures 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, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond over any other Bond or Parity Bond; or (d) 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 Bond 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.** Wells Fargo Bank, National Association 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 10 days of the Trustee's knowledge of a default of the type described in (c) above which, if not cured, with the passage of time would become an Event of Default.

**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 Bond.

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:

- (a) 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;
- (b) 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
- (c) 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 twenty-five percent (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, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of 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 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 under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

**Non-Waiver.** Nothing in the Indenture or in any other provision of 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 (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Indenture before granted or to institute such action, suit or proceeding in its own name; (c) 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 (d) 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 or Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond or Parity Bonds 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.

**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**

**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 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.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds and Parity Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

**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 hereunder issue 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, charge, pledge and encumbrance upon such amounts equal to the lien, charge pledge and encumbrance securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder 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 an 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 therein 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. The Trustee shall destroy such Bonds and Parity Bonds, as provided by law, and, upon request of the District, furnish to the District a certificate of such destruction.

**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 written request of the District or the Trustee shall, at the expense of the District, 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 of the Indenture 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 issuing Subordinated Bonds or creating other indebtedness payable from a pledge, lien, charge and encumbrance upon 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 desirable 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.

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## APPENDIX D

### CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of February 1, 2013 (the “Disclosure Certificate”) is executed and delivered by Community Facilities District No. 3 (Liberty Station) (the “Issuer”) in connection with the issuance and delivery by the Issuer of its \$\_\_\_\_\_ Special Tax Refunding Bonds Series 2013 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of February 1, 2013 by and between the Issuer and Wells Fargo Bank, National Association, 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 Underwriters in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Bond 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 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 [Chief Operating Officer or the Chief Financial Officer of the City of San Diego], 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.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Issuer” shall mean the Community Facilities District No. 3 (Liberty Station) established by the City of San Diego.

“Listed Events” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement for the Bonds dated \_\_\_\_\_, 2013.

“Participating Underwriters” shall mean E.J. De La Rosa & Co. Inc. and Stifel Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus.

“Rate and Method of Apportionment” means together, the Rate and Method of Apportionment of Special Taxes for Improvement Area No. 1 and the Rate and Method of Apportionment for Improvement Area No. 2 as described in City of San Diego Ordinance No. O-19078, as it may be amended from time to time.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“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.

### 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, 2012, provide to the Repository 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 City 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 the Repository 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, 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 the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository, in the form required by the Repository.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to the Repository and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

#### SECTION 4. Content of Annual Reports.

(a) The first annual Report shall be comprised of the financial statements listed below and a copy of the Official Statement. Thereafter, the Annual Report shall consist of the financial statements described in (b) below and the financial and operating data described in (c) below.

(b) Financial Statements. The audited financial statements of the City for the most recent fiscal year then ended shall be provided in the Annual Report. 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 City 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 City shall be audited by such auditor as shall then be required or permitted by State law and 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 City 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 City shall modify the basis upon which its financial statements are prepared, the City shall provide the information referenced in Section 8(d) below.

(c) Financial and Operating Data. 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 Bond Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) 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 description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(iv) an update of Table 7 of the Official Statement including a list of all taxpayers which own property within the Issuer's boundaries 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;

(v) an update to Tables 8 and 9 of the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report; and

(vi) any information not already included under (i) through (v) 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 the Repository. 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 in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) 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:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;

4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that 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 the Repository.

(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 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 (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 Bond 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 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 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: Chief Financial Officer

IN WITNESS WHEREOF, this Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 3  
(LIBERTY STATION)

By: \_\_\_\_\_  
Disclosure Representative

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## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

\_\_\_\_\_, 2013

Community Facilities District No. 3 (Liberty Station)  
San Diego, California

Re:     \$ \_\_\_\_\_ *Community Facilities District No. 3 (Liberty Station) Special Tax Refunding  
Bonds Series 2013*

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 authorization and issuance by the Community Facilities District No. 3 (Liberty Station) (the "District") of its Special Tax Refunding Bonds Series 2013 in the aggregate principal amount of \$ \_\_\_\_\_ (the "2013 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 2013 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2013 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, 2013 (the "Indenture") between the District and Wells Fargo Bank, National Association, as Trustee (the "Bond Indenture"). All capitalized terms not defined herein shall have the meaning set forth in the Bond Indenture.

The 2013 Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Bond Indenture. The 2013 Bonds bear interest payable semiannually on each March 1 and September 1, commencing on September 1, 2013, at the rates per annum set forth in the Bond Indenture. The 2013 Bonds are registered 2013 Bonds in the form set forth in the Bond Indenture, redeemable in the amounts, at the times and in the manner provided for in the Bond 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 2013 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 Bond 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 2013 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 Bond Indenture has been duly authorized by the District, and the Bond 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 Bond Indenture to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Bond Indenture creates a valid pledge of that which the Bond Indenture purports to pledge, subject to the provisions of the Bond Indenture, except to the extent that enforceability of the Bond 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 2013 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 2013 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a 2013 Bond (the first price at which a substantial amount of the 2013 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2013 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable 2013 Bond. Original issue discount that accrues for the Bondowner 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 Bondowner's original basis for determining loss on sale or exchange in the applicable 2013 Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2013 Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable 2013 Bond premium reduces the Bondowner's basis in the applicable 2013 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 2013 Bond premium may result in a Bondowner realizing a taxable gain when a 2013 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2013 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 2013 Bonds is subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2013 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 2013 Bonds to be included in gross income for federal income tax

purposes retroactive to the date of issuance of the 2013 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 2013 Bonds.

Certain requirements and procedures contained or referred to in the Bond Indenture may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Bond Indenture, 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 2013 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 Bond 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 2013 Bonds and expressly disclaim any duty to advise the owners of the 2013 Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX F

### 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](http://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 a Standard & Poor's rating of "AA+." 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](http://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.

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FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272