NEW ISSUE – BOOK-ENTRY-ONLY **NO RATING**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the 2008 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 2008 Bonds is exempt from State of California personal income tax. The difference between the issue price of a 2008 Bond (the first price at which a substantial amount of 2008 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2008 Bond constitutes original issue discount. See "LEGAL MATTERS—Tax Exemption" herein.

$12,365,000
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
SPECIAL TAX BONDS SERIES A OF 2008

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

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.

The Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series A of 2008 (the "2008 Bonds") are being issued and delivered by Community Facilities District No. 4 (Black Mountain Ranch Villages) (the "District") primarily to finance various public improvements needed to develop property located within the District, to fund the Reserve Account securing the 2008 Bonds and to pay costs of issuance for the 2008 Bonds. The District has been formed by and is located in the City of San Diego, California (the "City"). The City Council of the City is the legislative body of the District.

The 2008 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 (the "Bond Indenture"), dated as of August 1, 2008, by and between the District and Wells Fargo Bank, National Association (the "Trustee"). The 2008 Bonds are special, limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on certain taxable property within the District 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 the District, approved by the City Council of the City and the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes."

The 2008 Bonds are being issued in book-entry form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of $5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the 2008 Bonds will not receive certificates representing their beneficial ownership of the 2008 Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2008 Bonds will be payable semiannually on each March 1 and September 1 commencing March 1, 2009. Principal of and interest on the 2008 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the 2008 Bonds. See "THE 2008 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 2008 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2008 Bonds. The 2008 Bonds are special tax obligations of the District payable solely from a portion of the Special Taxes and other amounts pledged under the Bond Indenture as more fully described herein.

The 2008 Bonds are subject to optional redemption, extraordinary redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE 2008 BONDS—Redemption" herein.

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2008 BONDS WHEN DUE. THE PURCHASE OF THE 2008 BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE 2008 BONDS ARE NOT SUITABLE INVESTMENTS FOR MANY INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "SPECIAL RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE 2008 BONDS.

MATURITY SCHEDULE
(See Inside Cover Page)

The 2008 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California, as counsel to the Underwriter. It is anticipated that the 2008 Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about August 21, 2008.

STONE & YOUNGBERG

Dated: August 8, 2008

MATURITY SCHEDULE

(Base CUSIP: 797316)†

Maturity Date (September 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†	*Maturity Date (September 1)*	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†
2009	$200,000	3.125%	3.125%	BQ8	2020	$330,000	5.125%	5.200%	CB0
2010	225,000	3.375	3.375	BR6	2021	345,000	5.250	5.300	CC8
2011	230,000	3.625	3.625	BS4	2022	360,000	5.375	5.400	CD6
2012	235,000	3.875	3.875	BT2	2023	380,000	5.375	5.500	CE4
2013	245,000	4.125	4.125	BU9	2024	400,000	5.500	5.600	CF1
2014	255,000	4.375	4.375	BV7	2025	420,000	5.625	5.700	CG9
2015	265,000	4.500	4.550	BW5	2026	440,000	5.750	5.800	CH7
2016	275,000	4.700	4.700	BX3	2027	465,000	5.875	5.900	CJ3
2017	285,000	4.850	4.850	BY1	2028	490,000	5.875	5.950	CK0
2018	300,000	5.000	5.000	BZ8	2029	520,000	6.000	6.000	CL8
2019	315,000	5.000	5.100	CA2	2030	550,000	6.000	6.050	CM6

$4,835,000 6.000% Term Bonds due September 1, 2037 Yield: 6.148% CUSIP†: 797316 CN4

CITY OF SAN DIEGO, CALIFORNIA

Jerry Sanders, *Mayor*

CITY COUNCIL

Scott Peters
Kevin Faulconer
Toni Atkins
Tony Young
Brian Maienschein
Donna Frye
Jim Madaffer
Ben Hueso

CITY ATTORNEY

Michael J. Aguirre

CITY OFFICIALS

Jay M. Goldstone
Chief Operating Officer

Mary Lewis
Chief Financial Officer

Gail R. Granewich
City Treasurer

Elizabeth Maland
City Clerk

BOND COUNSEL AND DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates, Inc.
Irvine, California

UNDERWRITER'S COUNSEL

McFarlin & Anderson LLP
Lake Forest, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

PRICE TREND AND MORTGAGE REPORT CONSULTANT

Empire Economics, Inc.
Capistrano Beach, California

TRUSTEE

Wells Fargo Bank, National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the 2008 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District, the Trustee or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the 2008 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

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

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

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

All information material to the making of an informed investment decision with respect to the 2008 Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “THE DISTRICT” and “THE DEVELOPMENT AND PROPERTY OWNERSHIP.”

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

IN CONNECTION WITH THE OFFERING OF THE 2008 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2008 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 2008 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2008 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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Date of Exhibit: 03.02.08

CFD No. 4 - Regional Location Map

City of San Diego Community Facilities Districts (CFD)

$12,365,000
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
SPECIAL TAX BONDS SERIES A OF 2008

INTRODUCTION

Changes to Preliminary Official Statement

Certain information since the Preliminary Official Statement, dated July 25, 2008, as supplemented by Supplement to Preliminary Official Statement, dated August 4, 2008, has been updated in this Official Statement. Information under the caption "SPECIAL RISK FACTORS—Assessment Appeals" has been updated to August 7, 2008 and Table 1 in Appendix B has been updated to reflect revised population data recently released by the State of California Department of Finance.

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 the 2008 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 CERTAIN PROVISIONS OF THE BOND INDENTURE" herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance of the $12,365,000 Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series A of 2008 (the "2008 Bonds"). The proceeds of the 2008 Bonds will be used to acquire various public improvements required with respect to the development of certain land within Community Facilities District No. 4 (Black Mountain Ranch Villages) (the "District"), to fund the Reserve Account securing the 2008 Bonds and to pay costs of issuance of the 2008 Bonds.

The 2008 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 (the "Bond Indenture"), dated as of August 1, 2008, by and between the District and Wells Fargo Bank, National Association (the "Trustee"). The 2008 Bonds are secured under the Bond Indenture by a pledge of and lien upon a portion of the Special Taxes (as defined herein) collected by the District and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) under the Bond Indenture.

The District

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

The Act was enacted by the legislature of the State of California (the "State") 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 and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District, authorizing the levy of Special Taxes on property within the District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On November 21, 2000, at elections held pursuant to the Act, the landowners who comprised the qualified voters of the District authorized the District to incur bonded indebtedness on behalf of the District in an aggregate principal amount not to exceed $25,000,000. At the elections held on November 21, 2000, and in order to provide a source of funds to pay the principal of and interest on the $25,000,000 of authorized bonds, the qualified voters of the District approved a rate and method of apportionment for the District. On June 25, 2002, the City Council adopted a resolution expressing its intention to amend the rate and method of apportionment approved on November 21, 2000 and increase the indebtedness that the District is authorized to issue to $30,000,000. On July 30, 2002, the qualified voters of the District approved the amended and restated rate and method of apportionment for the District (as amended and restated, the "Rate and Method") and authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed $30,000,000. The Rate and Method is attached hereto as Appendix A. See "THE 2008 BONDS—Authority for Issuance."

Description and Development. The District consists of approximately 321 gross acres, of which approximately 203 acres are developable. As of July 1, 2008, approximately 69 acres had been developed within the District. The District is located in the northern portion of the City, west of Interstate 15, north of Rancho Peñasquitos, and east of San Dieguito Road, off State Route 56 between Interstate 5 and Interstate 15, seven miles from Pacific Ocean and twenty miles from downtown San Diego.

The land use entitlements for the District permit development of 527 residential units and 16,000 square feet of commercial space. Development within the District began in 2001. As of July 1, 2008, 329 residential building permits had been issued and 306 residential units had been built and sold to individual homeowners, with escrow having closed. All of the commercial property in the District has been developed as a shopping center. For a more detailed description of the status of development within the District, see "DEVELOPMENT AND PROPERTY OWNERSHIP—Land Use Entitlements" and "—Status of Development."

No representation is made as to when or whether additional building permits will be issued or additional homes will be sold in the District. In evaluating an investment in the 2008 Bonds, investors should not assume that any additional development will occur in the District. Since 2006, home sales in San Diego have slowed and prices have declined substantially and could decline further. See "SPECIAL RISK FACTORS—Risks Related to Adjustable Rate Mortgages, Creative Mortgage Financing Tools and Declines in Real Estate Prices."

Developer. The master developer of the property in the District is Black Mountain Ranch LLC, a California limited liability company (the "Developer"), which is preparing the land for vertical construction by merchant builders. There are currently two merchant builders developing homes in the District. For more information concerning the Developer and the merchant builders, see "THE DEVELOPMENT AND PROPERTY OWNERSHIP—Property Ownership."

Value-to-Lien. The estimated assessed value-to-lien ratio of the property in the District based upon the projected levy in Fiscal Year 2008-09 and all direct and overlapping debt in the District is 12.90 to 1. See Table 6 below.

Sources of Payment for the 2008 Bonds

Special Taxes. As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against certain interests in property within the District. The Special Tax will be levied on property within the District in accordance with the Rate and Method, which is the approved rate and method of apportionment for the District. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes" and APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES)." Under the Bond Indenture, the District has pledged to repay the 2008 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 2008 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 2008 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. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Reserve Account of the Special Tax Fund."

Foreclosure Proceeds. The Special Taxes are secured by a continuing lien against the parcels of real property upon which they are levied. This continuing lien is on a parity with the lien for other taxes and assessments levied by public agencies on such parcels and, except for limited circumstances in which the Federal Deposit Insurance Corporation has an interest in a parcel, have priority over all existing and future private loans on the parcels. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein. If a property owner fails to pay Special Taxes when due, the District's only method of collection is through a sale of the delinquent parcel at a judicial foreclosure sale. The District has covenanted for the benefit of the owners of the 2008 Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings (i) against Assessor's Parcels 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 (ii) 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 (iii) against all Assessor's Parcels with delinquent Special Taxes if the amount in the Reserve Account is less than the Reserve Requirement. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes—*Proceeds of Foreclosure Sales*" 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 2008 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."

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2008 BONDS. THE 2008 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 2008 Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the 2008 Bonds ("Parity Bonds") of up to $17,635,000 for future additional public improvements and in any amount for refunding bonds; provided, however, that Parity Bonds may only be issued in accordance with the Bond Indenture. See "SOURCES OF PAYMENT FOR THE 2008 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, Special Assessments and Land Development Costs" herein.

Description of the 2008 Bonds

The 2008 Bonds will be issued and delivered as fully registered 2008 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 2008 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 2008 Bonds. In the event that the Book-Entry-Only System described herein is no longer used with respect to the 2008 Bonds, the 2008 Bonds will be registered and transferred in accordance with the Bond Indenture. See APPENDIX F—"BOOK-ENTRY-ONLY SYSTEM."

Principal of, premium, if any, and interest on the 2008 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. See APPENDIX F—"BOOK-ENTRY-ONLY SYSTEM."

The 2008 Bonds are subject to optional redemption, extraordinary redemption and mandatory sinking fund redemption as described herein. For a more complete description of the 2008 Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE 2008 BONDS" and APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 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 on the 2008 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 on the 2008 Bonds is exempt from State of California personal income tax. The difference between the issue price of a 2008 Bond (the first price at which a substantial amount of the 2008 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a 2008 Bond constitutes original issue discount, and, in the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a 2008 Bond is excluded from gross income of such 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. See "LEGAL MATTERS—Tax Exemption" herein.

Professionals Involved in the Offering

Wells Fargo Bank, National Association, Los Angeles, California will act as Trustee under the Bond Indenture. Stone & Youngberg LLC is the Underwriter of the 2008 Bonds. Certain proceedings in connection with the issuance and delivery of the 2008 Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Fieldman, Rolapp & Associates, Inc. is acting as Financial Advisor to the City in connection with the 2008 Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney, and for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California, as Underwriter's Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant and Empire Economics, Inc., as Price Trend and Mortgage Report 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 2008 Bonds, see “LEGAL MATTERS—Financial Interests” herein.

Continuing Disclosure

The District will execute a Continuing Disclosure Certificate pursuant to which it will agree to provide, or cause to be provided, certain annual financial information and operating data to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission. The District will also agree to provide notice of certain material events under the Continuing Disclosure Certificate. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” herein and Appendix 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. Filing required to be made under the Continuing Disclosure Certificate of the District may be made through the Central Post Office (as defined in Appendix D hereto).

Bond Owners’ Risks

Certain events could affect the timely repayment of the principal of and interest on the 2008 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 2008 Bonds. The 2008 Bonds are not rated by any credit rating agency. ***The purchase of the 2008 Bonds involves significant investment risks, and the 2008 Bonds are not suitable investments for many investors***. See “SPECIAL RISK FACTORS” herein.

Other Information

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

Brief descriptions of the 2008 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 2008 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 2008 Bonds, by reference to the Bond Indenture.

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

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of 2008 Bond proceeds:

Sources of Funds	
Principal Amount of 2008 Bonds	$ 12,365,000.00
Net Original Issue Discount	(128,682.40)
TOTAL SOURCES	$ 12,236,317.60
Uses of Funds	
Acquisition and Construction Fund	$ 10,541,964.13
Reserve Account	896,939.97
Cost of Issuance Account	675,000.00
Underwriter's Discount	122,413.50
TOTAL USES	$ 12,236,317.60

THE 2008 BONDS

General Provisions

The 2008 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2009 (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 2008 Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any 2008 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2008 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 occurring after the issuance of the 2008 Bonds, in which event interest will be payable from the dated date of the 2008 Bonds; provided, however, that if at the time of authentication of a 2008 Bond, interest is in default, interest on that 2008 Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Interest on any 2008 Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Owner of the 2008 Bonds at its address on the registration books. Pursuant to a written request prior to the Record Date of an Owner of the 2008 Bonds of at least $1,000,000 in aggregate principal amount of 2008 Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States of America.

Principal of the 2008 Bonds and any premium due upon redemption is payable upon presentation and surrender of the 2008 Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

Authority for Issuance

The 2008 Bonds are issued pursuant to the Act and the Bond Indenture. As required by the Act, the City Council of the City, acting for itself, or as the legislative body of the District, as applicable, has taken the following actions with respect to establishing the District and the 2008 Bonds:

***Resolutions of Intention**:* On October 16, 2000, the City Council of the City adopted a resolution stating its intention to establish the District and to authorize the levy of a special tax therein, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed $25,000,000.

***Resolutions of Formation**:* Immediately following a noticed public hearing opened on November 21, 2000, the City Council of the City adopted resolutions which established the District, authorized the levy of a special tax within the District, 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 November 21, 2000 also called for an election by the landowners within the District 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 November 21, 2000, an election was held for the District at which the landowners within the District approved a ballot proposition authorizing the issuance by the District of up to $25,000,000 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 of apportionment of special tax.

***Special Tax Lien**:* A Notice of Special Tax Lien for the District was recorded in the real property records of the County on December 1, 2000, as Document No. 2000-0653392, as a continuing lien against the property in the District.

***Ordinance Levying Special Taxes**:* On December 5, 2000, the City Council, acting as the legislative body of the District, adopted Ordinance No. O-18905 levying the Special Tax within the District.

***Resolution of Consideration**:* On June 25, 2002, the City Council, acting as the legislative body of the District, adopted a resolution expressing its intention to amend and restate the rate and method of special tax approved on November 21, 2000 and to increase the indebtedness that the District is authorized to issue to $30,000,000.

***Landowner Election and Declaration of Results**:* On July 30, 2002, the qualified voters of the District approved the amended and restated rate and method of apportionment of special tax (defined above as the "Rate and Method") and authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed $30,000,000.

***Amended Notice of Special Tax Lien**:* An Amended Notice of Special Tax Lien for the District was recorded in the real property records of the County on August 7, 2002, as Document No. 2002-0665501, as a continuing lien against the property within the District.

***Ordinance Levying Special Taxes**:* On September 3, 2002, the City Council, acting as the legislative body of the District, adopted Ordinance No. O-19090, pursuant to which it repealed Ordinance No. O-18905 and levied Special Taxes in the District based on the Rate and Method.

***Resolution Authorizing Issuance of the 2008 Bonds**:* On April 21, 2008, the City Council, acting as the legislative body of the District, adopted a resolution approving issuance of the 2008 Bonds.

Debt Service Schedule

The following table presents the semiannual debt service on the 2008 Bonds (including sinking fund redemptions), assuming that there are no optional or extraordinary redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part ("Prepayments") and the Bond Indenture requires that Prepayments be applied on a pro rata basis to the extraordinary redemption of the 2008 Bonds and Parity Bonds, if any. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes" and "THE 2008 BONDS—Redemption."

Payment Date	*2008 Bonds Principal*	*2008 Bonds Interest*	*Total*
March 1, 2009	$ 0.00	$ 357,888.09	$ 357,888.09
September 1, 2009	200,000.00	339,051.88	539,051.88
March 1, 2010	0.00	335,926.88	335,926.88
September 1, 2010	225,000.00	335,926.88	560,926.88
March 1, 2011	0.00	332,130.00	332,130.00
September 1, 2011	230,000.00	332,130.00	562,130.00
March 1, 2012	0.00	327,961.25	327,961.25
September 1, 2012	235,000.00	327,961.25	562,961.25
March 1, 2013	0.00	323,408.13	323,408.13
September 1, 2013	245,000.00	323,408.13	568,408.13
March 1, 2014	0.00	318,355.00	318,355.00
September 1, 2014	255,000.00	318,355.00	573,355.00
March 1, 2015	0.00	312,776.88	312,776.88
September 1, 2015	265,000.00	312,776.88	577,776.88
March 1, 2016	0.00	306,814.38	306,814.38
September 1, 2016	275,000.00	306,814.38	581,814.38
March 1, 2017	0.00	300,351.88	300,351.88
September 1, 2017	285,000.00	300,351.88	585,351.88
March 1, 2018	0.00	293,440.63	293,440.63
September 1, 2018	300,000.00	293,440.63	593,440.63
March 1, 2019	0.00	285,940.63	285,940.63
September 1, 2019	315,000.00	285,940.63	600,940.63
March 1, 2020	0.00	278,065.63	278,065.63
September 1, 2020	330,000.00	278,065.63	608,065.63
March 1, 2021	0.00	269,609.38	269,609.38
September 1, 2021	345,000.00	269,609.38	614,609.38
March 1, 2022	0.00	260,553.13	260,553.13
September 1, 2022	360,000.00	260,553.13	620,553.13
March 1, 2023	0.00	250,878.13	250,878.13
September 1, 2023	380,000.00	250,878.13	630,878.13
March 1, 2024	0.00	240,665.63	240,665.63
September 1, 2024	400,000.00	240,665.63	640,665.63
March 1, 2025	0.00	229,665.63	229,665.63
September 1, 2025	420,000.00	229,665.63	649,665.63
March 1, 2026	0.00	217,853.13	217,853.13
September 1, 2026	440,000.00	217,853.13	657,853.13
March 1, 2027	0.00	205,203.13	205,203.13
September 1, 2027	465,000.00	205,203.13	670,203.13
March 1, 2028	0.00	191,543.75	191,543.75
September 1, 2028	490,000.00	191,543.75	681,543.75
March 1, 2029	0.00	177,150.00	177,150.00
September 1, 2029	520,000.00	177,150.00	697,150.00
March 1, 2030	0.00	161,550.00	161,550.00
September 1, 2030	550,000.00	161,550.00	711,550.00
March 1, 2031	0.00	145,050.00	145,050.00
September 1, 2031	580,000.00	145,050.00	725,050.00
March 1, 2032	0.00	127,650.00	127,650.00
September 1, 2032	615,000.00	127,650.00	742,650.00
March 1, 2033	0.00	109,200.00	109,200.00
September 1, 2033	650,000.00	109,200.00	759,200.00
March 1, 2034	0.00	89,700.00	89,700.00
September 1, 2034	685,000.00	89,700.00	774,700.00
March 1, 2035	0.00	69,150.00	69,150.00
September 1, 2035	725,000.00	69,150.00	794,150.00
March 1, 2036	0.00	47,400.00	47,400.00
September 1, 2036	770,000.00	47,400.00	817,400.00
March 1, 2037	0.00	24,300.00	24,300.00
September 1, 2037	810,000.00	24,300.00	834,300.00
TOTAL	$ 12,365,000.00	$ 13,161,526.37	$ 25,526,526.37

Source: The Underwriter.

Estimated Debt Service Coverage

Table 1 below sets forth the estimated debt service coverage on the 2008 Bonds based on the Assigned Special Taxes that may be generated from Residential Property and Non-Residential Property in the District for which building permits had been issued prior to July 1, 2008.

Table 1 below does not include, and the District does not expect to levy, Special Taxes on Final Mapped Property and Undeveloped Property to pay debt service on the 2008 Bonds. However, in the event that Parity Bonds are issued, or if there are significant delinquencies in the payment of Special Taxes among property owners of Taxable Property currently anticipated to be classified as Developed Property for Fiscal Year 2008-09, the District could levy Special Taxes (i) in an amount up to $962,549 against 68.9 acres of Taxable Property anticipated to be classified as Final Mapped Property for Fiscal Year 2008-09, and (ii) in an amount up to $1,734,867 against 124.2 acres of Taxable Property anticipated to be classified as Undeveloped Property for Fiscal Year 2008-09.

TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
2008 BONDS DEBT SERVICE COVERAGE

Year Ending (September 1)	*Assigned Special Taxes*[1]	*Annual Administrative Expenses*[2]	*Available for 2008 Bond Debt Service*[3]	*2008 Bonds Debt Service*[4]	*Coverage from Developed Property Special Taxes*[5]
2009	$ 1,038,837	$ 51,000	$ 987,837	$ 896,940	110.13%
2010	1,098,681	52,020	1,046,661	896,854	116.70
2011	1,098,681	53,060	1,045,621	894,260	116.93
2012	1,098,681	54,122	1,044,559	890,923	117.24
2013	1,098,681	55,204	1,043,477	891,816	117.01
2014	1,098,681	56,308	1,042,373	891,710	116.90
2015	1,098,681	57,434	1,041,247	890,554	116.92
2016	1,098,681	58,583	1,040,098	888,629	117.05
2017	1,098,681	59,755	1,038,926	885,704	117.30
2018	1,098,681	60,950	1,037,731	886,881	117.01
2019	1,098,681	62,169	1,036,512	886,881	116.87
2020	1,098,681	63,412	1,035,269	886,131	116.83
2021	1,098,681	64,680	1,034,001	884,219	116.94
2022	1,098,681	65,974	1,032,707	881,106	117.21
2023	1,098,681	67,293	1,031,388	881,756	116.97
2024	1,098,681	68,639	1,030,042	881,331	116.87
2025	1,098,681	70,012	1,028,669	879,331	116.98
2027	1,098,681	71,412	1,027,269	875,706	117.31
2026	1,098,681	72,841	1,025,840	875,406	117.18
2028	1,098,681	74,297	1,024,384	873,088	117.33
2029	1,098,681	75,783	1,022,898	874,300	117.00
2030	1,098,681	77,299	1,021,382	873,100	116.98
2031	1,098,681	78,845	1,019,836	870,100	117.21
2032	1,098,681	80,422	1,018,259	870,300	117.00
2033	1,098,681	82,030	1,016,651	868,400	117.07
2034	1,098,681	83,671	1,015,010	864,400	117.42
2035	1,098,681	85,344	1,013,337	863,300	117.38
2036	1,098,681	87,051	1,011,630	864,800	116.98
2037	1,098,681	88,792	1,009,889	858,600	117.62

(1) Fiscal Year 2008-09 Special Tax levy is based on the Assigned Special Taxes levied on Taxable Property within the District which (i) was within a final map that was recorded prior to January 1, 2008, and (ii) for which a building permit for new construction was issued as of March 1, 2008. Special Tax levies for Fiscal Years 2009-10 through 2036-37 are based on the Assigned Special Taxes expected to be generated from Taxable Property which (i) was within a final map that was recorded prior to January 1, 2008, and (ii) for which a building permit for new construction was issued as of July 1, 2008. Pursuant to the Rate and Method, the District may levy Special Taxes on other Taxable Property within the District to repay the 2008 Bonds. From March 1, 2008 through July 1, 2008, building permits had been issued for an additional 11 units in the District. The Special Taxes to be generated by these units are not included in the calculation of the coverage above for Fiscal Year 2008-09 but are included for the calculation of the coverage above for Fiscal Years 2009-10 through 2036-37.

(2) Administrative Expenses will not exceed $51,000 in Fiscal Year 2008-09 and will escalate by two percent from a base of $51,000 each Fiscal Year thereafter.

(3) Represents Assigned Special Tax column less the Annual Administrative Expenses column.

(4) Based on $12,365,000 of principal and a true interest cost of 5.91%.

(5) Coverage from Developed Property Special Taxes only could be reduced upon the issuance of Parity Bonds. See "2008 Bonds—Issuance of Parity Bonds" below.

Source: David Taussig and Associates, Inc.

Redemption

Optional Redemption. The 2008 Bonds maturing on or after September 1, 2009 are subject to optional redemption prior to maturity at the option of the District from such maturity or maturities as selected by the District and by lot within a maturity, from any available funds, on any Interest Payment Date on or after March 1, 2009, in whole or in part, 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***
March 1, 2009 through and including March 1, 2016	103.0%
September 1, 2016 and March 1, 2017	102.0
September 1, 2017 and March 1, 2018	101.0
September 1, 2018 and Interest Payment Date thereafter	100.0

Mandatory Sinking Payment Redemption. The Term Bonds maturing on September 1, 2037 (the "2037 Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 2031, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2037 Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed 2037 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2037

Redemption Date (September 1)	***Principal Amount***
2031	$580,000
2032	615,000
2033	650,000
2034	685,000
2035	725,000
2036	770,000
2037 (Maturity)	810,000

If the District purchases Term Bonds during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above, the District is required to notify the Trustee at least 45 days prior to the redemption date as to the principal amount purchased, and the amount purchased will be credited at the time of purchase, to the extent of the full principal amount of the purchase. In the event of a partial optional redemption or extraordinary redemption of the Term Bonds as set forth in the Bond Indenture, 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. The 2008 Bonds are subject to extraordinary redemption as a whole, or in part, as nearly as practicable, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see "SOURCES OF PAYMENT FOR THE 2008 BONDS—Reserve Account of the Special Tax Fund") which are allocated to the redemption of the 2008 Bonds, 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***
March 1, 2009 through and including March 1, 2016	103.0%
September 1, 2016 and March 1, 2017	102.0
September 1, 2017 and March 1, 2018	101.0
September 1, 2018 and any Interest Payment Date thereafter	100.0

Notice of Redemption. The Trustee is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the original purchasers of the 2008 Bonds or Parity Bonds and the respective registered Owner of the 2008 Bonds or Parity Bonds at the addresses appearing on the 2008 Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the 2008 Bond numbers and the maturity date or dates of the 2008 Bonds or Parity Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the 2008 Bonds or Parity Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the 2008 Bonds or Parity Bonds are to be redeemed; (v) in the case of 2008 Bonds or Parity Bonds to be redeemed only in part, state the portion of such 2008 Bond which is to be redeemed; (vi) state the date of issue of the 2008 Bonds or Parity Bonds as originally issued; (vii) state the rate of interest borne by each 2008 Bond or Parity Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 2008 Bonds or Parity Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any 2008 Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such 2008 Bonds or the cessation of interest on the date fixed for redemption.

With respect to any notice of optional redemption of the 2008 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 2008 Bonds to be redeemed and that, if such money shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2008 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, 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.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the 2008 Bonds called for redemption is set aside for that purpose in the Redemption Account, the 2008 Bonds designated for redemption will become due and payable on the date fixed for redemption, and will be paid upon presentation and surrender of the 2008 Bonds at the place specified in the notice of redemption, and no interest will accrue on the 2008 Bonds called for redemption from and after the redemption date, and the Owners of the redeemed 2008 Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such 2008 Bonds or portions of 2008 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 2008 Bonds. The ownership of the 2008 Bonds will be established by the bond registration books held by the Trustee.

Transfer or Exchange. Whenever any 2008 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new 2008 Bond or 2008 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) 2008 Bonds for a period of 15 days next preceding the date of any selection of the 2008 Bonds to be redeemed; or (ii) any 2008 Bonds chosen for redemption.

SOURCES OF PAYMENT FOR THE 2008 BONDS

Limited Obligations

The 2008 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 2008 Bonds. Under the Bond Indenture, the District has pledged to repay the 2008 Bonds and any Parity Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses of up to the Administrative Expenses Cap) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein) established under the Bond Indenture. Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof and the net proceeds of the redemption of delinquent Special Taxes or sale of interests in property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, but excluding penalties and interest thereon.

In the event that the Special Tax revenues are not received when due, the only source of funds available to pay the debt service on the 2008 Bonds will be amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the 2008 Bonds and any Parity 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 2008 BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2008 BONDS. THE 2008 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET 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 2008 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—"AMENDED AND RESTATED RATE AND METHOD OF

APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES)" 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 2008 Bonds when due. See "SPECIAL RISK FACTORS—Insufficiency of Special Taxes" herein.

Rate and Method of Apportionment. Special Taxes are levied each Fiscal Year pursuant to the Rate and Method 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.

Under the Rate and Method, all Taxable Property in the District will be assigned to a zone (either Zone 1 or Zone 2) and further classified as Developed Property, Final Mapped Property, Taxable Property Owner Association Property, Taxable Public Property, or Undeveloped Property, and will be subject to Special Taxes in accordance with the Rate and Method. Residential Property will be assigned to a particular land use class based on 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. Non-Residential Property will be assigned to a separate land use class. The Rate and Method defines Non-Residential Property as all Assessor's Parcels of Developed Property, for which a building permit(s) was issued for a non-residential use. The Rate and Method defines Residential Property as all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

The Maximum Special Tax for each Assessor's Parcel classified as 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. The Assigned Special Tax for Residential Property in Zone 1 is $100.00 per unit for each affordable residential unit and ranges from $1,124.13 to $12,399.44 for the remaining residential units. The Assigned Special Tax for Residential Property in Zone 2 is $100.00 per unit for each affordable residential unit and ranges from $1,331.10 to $17,029.36 for the remaining residential units. The Assigned Special Tax for Non-Residential Property is $0.0500 per square foot of Non-Residential Floor Area in Zone 1 and Zone 2. The Backup Special Tax for an Assessor's Parcel of Developed Property within Zone 1 and Zone 2 will equal $0.3205 per square foot of land area within the Assessor's Parcel.

The Rate and Method further provides that in the instances where 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 will 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 will 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 will 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 Maximum Special Tax for Final Mapped Property, Taxable Property Owner Association Property, Taxable Public Property and Undeveloped Property within Zone 1 and Zone 2 will be $13,962.94 per Acre.

Prepayment of Special Taxes. Under the Rate and Method, the owner of a parcel which is Developed Property, Final Mapped 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 may result in an extraordinary redemption of the 2008 Bonds and/or any Parity Bonds. See "THE 2008 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 ordinary *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 and will covenant to foreclose (as described below) and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

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 2008 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 to less than 110% of the sum of estimated Administrative Expenses and Maximum Annual Debt Service on Outstanding 2008 Bonds and Parity Bonds. See "SPECIAL RISK FACTORS—Proposition 218." Second, the District has covenanted not to permit the tender of 2008 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 2008 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, Special Assessments and Land Development Costs" 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. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund and will be applied on a pro rata basis to redeem 2008 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 2008 Bonds and any Parity 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; (vii) to the Surplus Fund; and (viii) for any other lawful purpose of the District. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE."

Special Taxes Are Not Within Teeter Plan. Section 4701 *et seq*. of the California Revenue and Taxation Code allows for a county to adopt a tax distribution procedure 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 2008 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 2008 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 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 2008 Bonds that it (i) will commence judicial foreclosure proceedings against Assessor's 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 Assessor's 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; (iii) will commence judicial foreclosure proceedings against all Assessor's Parcels with delinquent Special Taxes if the amount on deposit in the Reserve Account is less than the Reserve Requirement; and (iv) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the 2008 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" 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.

Reserve Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the 2008 Bonds and any Parity Bonds, the District is required, upon delivery of the 2008 Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Bond Indenture provides that the amount in the Reserve Account shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the 2008 Bonds and any Parity Bonds (less original issue discount with respect to a particular maturity if in excess of two percent of the stated redemption amount at maturity of that maturity); (ii) the maximum annual debt service on the then outstanding 2008 Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the 2008 Bonds and any Parity Bonds (the "Reserve Requirement").

Subject to the limits on the maximum annual Special Tax which may be levied in accordance with the Act within the District, as described in Appendix A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the 2008 Bonds and any Parity Bonds, to the extent other monies are not available therefor; (ii) redeem the 2008 Bonds and any Parity Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of the 2008 Bonds and any issue of Parity 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 2008 Bonds and any Parity Bonds. As described in the Rate and Method, the Reserve Fund Credit (as defined in the Rate and Method) will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Fund Credit if the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C—

"SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Reserve Account of the Special Tax Fund" herein.

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 2008 Bonds, issue additional 2008 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 2008 Bonds and any Parity Bonds theretofore issued pursuant to the Bond Indenture or under any Supplemental Indenture. As a condition of issuing Parity Bonds, the Bond Indenture requires that the Maximum Special Taxes that may be levied on Developed Property and on Final Mapped Property (not including any parcels of Developed Property and Final Mapped Property with delinquent Special Taxes and assuming taxation as "Developed Property" and "Final Mapped Property" as defined in the Rate and Method of Apportionment of Special Taxes) in each Fiscal Year is not less than the sum of the Administrative Expenses Cap and 110% of the annual debt service in the bond year that begins in such Fiscal Year. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" and APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" hereto.

North
No Scale

Date of Aerial Photo: 07.23.07
Date of Exhibit: 03.02.08

CFD No. 4

City of San Diego Community Facilities Districts (CFD)

THE DISTRICT

General Description of the District

The District consists of approximately 321 gross acres, of which approximately 203 acres are developable, and of which approximately 69 acres have been developed as of July 1, 2008. The District is located in the northern portion of the City, west of Interstate 15, north of Rancho Peñasquitos, and east of San Dieguito Road, off State Route 56 between Interstate 5 and Interstate 15, seven miles from Pacific Ocean and twenty miles from downtown San Diego.

The District is a portion of the area originally known as "Black Mountain Ranch." The entitlements for the District provide for the development of 527 residential units and 16,000 square feet of commercial property. Development within the District began in 2001. The residential development in the District is broken up into four clusters. The four clusters consist of the South Village, the North Cluster, the West Cluster and the East Cluster. For a more detailed description of the status of development within the District, see "DEVELOPMENT AND PROPERTY OWNERSHIP."

Description of Authorized Facilities

The District is authorized to acquire various street improvements, utility improvements and sewer line improvements with the proceeds of the 2008 Bonds and any Parity Bonds when and if issued. The Purchase and Finance Agreement, dated October 16, 2000, by and between the City and Black Mountain Ranch Limited Partnership, a Maryland limited partnership ("Black Mountain Ranch LP") sets forth the conditions and schedule for financing the acquisition and development of such facilities with 2008 Bond and Parity Bond proceeds.

Black Mountain Ranch LP has completed the installation of various street and utility improvements related to extending Camino Del Sur, a roadway serving the District and surrounding areas, from San Dieguito to Paseo Del Sur. It is anticipated that Black Mountain Ranch LP will be reimbursed approximately $10,541,964.13 from proceeds of the 2008 Bonds for such improvements. The District is authorized to issue Parity Bonds in the aggregate amount of $17,635,000. The Developer has not determined which facilities would be financed with Parity Bonds, if issued. The District gives no assurance as to whether any Parity Bonds will be issued or whether the Developer will have access to sources other than the proceeds of the 2008 Bonds to finance additional improvements for acquisition by the District. All of the infrastructure required to complete the development of the property now under development in the District is already in place. See "DEVELOPMENT AND PROPERTY OWNERSHIP—Financing Plan" for a description of the Developer's financing plan with respect to future improvements in the District.

Estimated Direct and Overlapping Indebtedness

The land within the boundaries of the District is served by numerous overlapping local agencies that provide public services. Some of these local agencies have outstanding bonds that are secured by taxes and assessments on the parcels within the District and others have authorized but not issued bonds that, 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 taxes and assessments on the parcels within the District for Fiscal Year 2007-08 is shown in Table 2 below (the "Debt Report").

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

TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
DIRECT AND OVERLAPPING DEBT SUMMARY[(1)]

Overlapping District[(2)]	*FY 2007-08 Total Levy*	*Amount of Levy on Parcels in the District[(3)]*	*Percent of Levy on Parcels in the District[(3)]*	*Total Debt Outstanding[(4)]*	*District Share of Total Debt Outstanding*
Zone 1 (South Village)					
Metropolitan Water District G.O. Bonds[(5)]	$107,058,798	$ 8,243	0.0077%	$327,215,000	$ 25,195
City of San Diego Public Safety Comm. System[(6)]	1,954,473	2,180	0.1115	8,170,000	9,112
Palomar Community College District G.O. Bonds Series 2006A[(7)]	8,761,217	18,026	0.2057	158,000,000	325,079
Poway Unified School District CFD No. 12[(8)]	532,289	412,145	77.4288	7,689,087	5,953,566
Subtotal					$ 6,312,953
Zone 2 (North Cluster, East Cluster and West Cluster)					
Metropolitan Water District G.O. Bonds[(5)]	$107,058,798	$ 2,874	0.0027%	$327,215,000	$ 8,783
City of San Diego Public Safety Comm. System[(6)]	1,954,473	760	0.0389	8,170,000	3,177
Palomar Pomerado Health G.O. Bonds Series 2005A[(9)]	8,837,325	11,335	0.1283	309,443,319	396,917
Palomar Community College District G.O. Bonds Series 2006A[(7)]	8,761,217	6,284	0.0717	158,000,000	113,325
Poway Unified School District CFD No. 12[(8)]	532,289	120,144	22.5712	7,689,087	1,735,521
Subtotal					$ 2,257,723
Estimated Share of Overlapping Debt Allocable to the District					$ 8,570,676
Plus: 2008 Bonds					$12,365,000[(10)]
Estimated Share of Direct and Overlapping Debt Allocable to the District					$20,935,676

(1) Numbers may not sum due to rounding.
(2) Includes *ad valorem* taxes, general obligation, special taxes, and standby charges that support any type of outstanding debt.
(3) Pursuant to the Rate and Method, parcels classified as Developed Property for Fiscal Year 2007-08 include all Taxable Property which (i) was within a final map that was recorded prior to January 1, 2007 and (ii) for which a building permit for new construction was issued prior to March 1, 2007. For purposes of this table, Developed Property also includes all property for which a building permit for new construction was issued between March 1, 2007 and March 1, 2008.
(4) Figures are as of July 1, 2008.
(5) As of April 15, 2008, Metropolitan Water District had $431,810,000 of authorized but unissued general obligation bonds that would be paid in part from additional *ad valorem* taxes levied on property within the District.
(6) As of April 15, 2008, City of San Diego Public Safety Communications System did not have any authorized debt that overlaps the District.
(7) As of April 15, 2008, Palomar Community College District had $534,000,000 of authorized but unissued general obligation bonds that would be paid in part from additional *ad valorem* taxes levied on property within the District.
(8) As of April 15, 2008, Poway Unified School District had $10,310,913 of authorized but unissued bonds for CFD No. 12 that would be paid in part by special taxes levied on property within the District.
(9) As of April 15, 2008, Palomar Pomerado Health had $174,916,681 of authorized but unissued general obligation bonds that overlaps the would be paid in part from additional *ad valorem* taxes levied on property within the District.
(10) The District may, without the consent of the Owners of the 2008 Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the 2008 Bonds of up to $17,635,000 for future additional public improvements and in any amount for refunding bonds. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Issuance of Parity Bonds" herein.

Source: David Taussig & Associates, Inc.

Expected Tax Burden

The estimated total tax burden on the residential units previously sold and closed is less than 2% of the average assessed value of the units. It is expected that the total tax burden on residential units in the District remaining to be sold and closed will be less than 2% of the initial sales price of the units. Tables 3A and 3B below set forth an estimated property tax bill for typical residential units in the District in Zone 1 and Zone 2, respectively. The estimated tax rates and amounts presented herein are based on currently available information for Fiscal Year 2007-08. The actual amounts charged may vary and may increase in future years.

TABLE 3A
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
SAMPLE PROPERTY TAX BILL
ZONE 1 (SOUTH VILLAGE)

		Projected Amount		
Assessed Valuation and Property Taxes	*Percent of Total AV*	*Home Size 2,501-2,750 SF*	*Home Size 3,001-3,250 SF*	*Home Size 3,751-4,250 SF*
Averaged Assessed Value of Occupied Unit[1]		$ 697,070	$ 813,840	$ 886,027
Less: Homeowner's Exemption		(7,000)	(7,000)	(7,000)
Net Taxable Value[2]		$ 690,070	$ 806,840	$ 879,027
AD VALOREM PROPERTY TAXES[2][3]				
Base Property Tax Rate	1.00000%	$ 6,900.70	$ 8,068.40	$ 8,790.27
Metropolitan Water District Debt Service	0.00450	31.05	36.31	39.56
City of San Diego Public Safety Communication Systems	0.00119	8.21	9.60	10.46
City of San Diego Zoological Exhibits	0.00500	34.50	40.34	43.95
Palomar Community College District G.O. Bonds Series 2006A	0.00984	67.90	79.39	86.50
Total General Property Taxes and Overrides	1.02053%	$ 7,042.38	$ 8,234.04	$ 8,970.74
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
County of San Diego / Mosquito Surveillance		$ 2.28	$ 2.28	$ 2.28
County of San Diego / Vector Disease Control		5.92	5.92	5.92
San Diego County CWA Water Availability Standby Charge		10.00	10.00	10.00
MWD Water Availability Standby Charge		11.50	11.50	11.50
Black Mountain Ranch Maintenance Assessment District[4]		309.04	309.04	309.04
Poway USD CFD No. 12[5]		1,546.28	1,861.24	2,333.64
City of San Diego CFD No. 4 (Black Mountain Ranch Villages)[6]		2,500.02	2,936.92	3,683.42
Total Assessments, Special Taxes and Parcel Charges		$ 4,385.04	$ 5,136.90	$ 6,355.80
TOTAL PROPERTY TAXES		$ 11,427.42	$ 13,370.94	$ 15,326.54
Total Effective Tax Rate (as % of Average Assessed Value)		1.6393%	1.6429%	1.7298%

(1) Based on actual San Diego County Secured Property Tax Details assessed value, as of January 1, 2007.
(2) Net Taxable Value and *ad valorem* taxes incorporate owner-occupied assessed value exemption of $7,000.
(3) Based on Fiscal Year 2007-08 *ad valorem* rates for Tax Rate Areas 08-050, 08-187 and 08-279. Rates subject to change in future years.
(4) Based on Fiscal Year 2007-08 actual assessment amount per parcel. Maximum authorized Fiscal Year 2007-08 assessment amount is $521.55 per parcel.
(5) Based on Fiscal Year 2007-08 assigned annual special tax of Poway Unified School District CFD No. 12.
(6) Based on Fiscal Year 2007-08 Assigned Special Tax for the District.

Source: David Taussig & Associates, Inc.

TABLE 3B
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
SAMPLE PROPERTY TAX BILL
ZONE 2 (NORTH CLUSTER AND EAST CLUSTER)

		Estimated Amount		
Estimated Assessed Valuation and Property Taxes	***Percent of Total AV***	***Home Size 2,751-3,000 SF***	***Home Size 4,251-4,750 SF***	***Home Size 6,501-7,250 SF***
Estimated Base Sales Price[1]		$ 900,000	$ 1,350,000	$ 1,925,000
Less: Homeowner's Exemption		(7,000)	(7,000)	(7,000)
Estimated Assessed Value[2]		$ 893,000	$ 1,343,000	$ 1,918,000
AD VALOREM PROPERTY TAXES[2][3]				
Base Property Tax Rate	1.00000%	$ 8,930.00	$ 13,430.00	$ 19,180.00
Metropolitan Water District Debt Service	0.00450	40.19	60.44	86.31
City of San Diego Public Safety Communication Systems	0.00119	10.63	15.98	22.82
City of San Diego Zoological Exhibits	0.00500	44.65	67.15	95.90
Palomar Pomerado Health G.O. Bonds Series 2005A	0.01775	158.51	238.38	340.45
Palomar Community College District G.O. Bonds Series 2006A	0.00984	87.87	132.15	188.73
Total General Property Taxes and Overrides	1.03828%	$ 9,271.84	$ 13,944.10	$ 19,914.21
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES[3]				
County of San Diego / Mosquito Surveillance		$ 2.28	$ 2.28	$ 2.28
County of San Diego / Vector Disease Control		5.92	5.92	5.92
San Diego County CWA Water Availability Standby Charge		10.00	10.00	10.00
MWD Water Availability Standby Charge		11.50	11.50	11.50
Black Mountain Ranch North Maintenance Assessment District[4]		25.98	25.98	25.98
Poway USD CFD No. 12[5]		1,923.80	2,635.02	2,635.02
City of San Diego CFD No. 4 (Black Mountain Ranch Villages)[6]		3,442.94	6,601.60	11,294.10
Total Assessments, Special Taxes and Parcel Charges		$ 5,422.42	$ 9,292.30	$ 13,984.80
TOTAL PROPERTY TAXES		$ 14,694.26	$ 23,236.40	$ 33,899.01
Total Effective Tax Rate (as % of Estimated Base Sales Price)		1.6327%	1.7212%	1.7610%

(1) Based on development information provided by the Developer.
(2) Assessed Value and *ad valorem* taxes incorporate owner-occupied assessed value exemption of $7,000.
(3) Based on Fiscal Year 2007-08 *ad valorem* rates for Tax Rate Areas 08-050, 08-187 and 08-279. Rates subject to change in future years.
(4) Based on Fiscal Year 2007-08 actual assessment amount per parcel within Zone C. Maximum authorized Fiscal Year 2007-08 assessment amount for any parcel within the North Cluster or the West Cluster is $180.32 per parcel. A maintenance assessment district has not yet been formed on the East Cluster.
(5) Based on Fiscal Year 2007-08 assigned annual special tax of Poway Unified School District CFD No. 12.
(6) Based on Fiscal Year 2007-08 Assigned Special Tax for the District.

Source: David Taussig & Associates, Inc.

Principal Taxpayers

Tables 4A and 4B below set forth the Special Taxes levied on property within the District for Fiscal Year 2007-08 based on development status as of March 1, 2007 and the Special Taxes projected to be levied in Fiscal Year 2008-09 based on the development status in the District as of March 1, 2008. The actual Fiscal Year 2008-09 Special Tax levy will be based on the development status of the land within the District as of March 1, 2008.

TABLE 4A
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
PRINCIPAL TAXPAYERS FOR
FISCAL YEAR 2007-08

Owner[1]	***Land Use Class***[2]	***Number of Parcels***	***Fiscal Year 2007-08 Special Tax Levy***	***Percentage of Fiscal Year 2007-08 Special Tax Levy***
Individual Homeowners	Residential	280	$ 790,305	82.58%
Standard Pacific Homes	Residential	23	142,973	14.94
Artesian Investments LLC	Residential	3	22,933	2.40
Piazza Santaluz LLC	Commercial	2	800	0.08
Total		308	$ 957,011	100.00%

(1) Ownership provided by the County of San Diego Assessor.
(2) Based on development status as of March 1, 2007.
Source: David Taussig & Associates, Inc.

TABLE 4B
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
PROJECTED PRINCIPAL TAXPAYERS FOR
FISCAL YEAR 2008-09

Owner[1]	***Land Use Class***[2]	***Number of Parcels***[2]	***Fiscal Year 2008-09 Special Tax Levy***[2][3]	***Percentage of Fiscal Year 2008-09 Special Tax Levy***
Individual Homeowners	Residential	305	$ 956,909	92.11%
Artesian Investments LLC	Residential	5	38,222	3.68
Standard Pacific Homes	Residential	7	38,130	3.67
Individual Landowner	Residential	1	4,777	0.46
Piazza Santaluz LLC	Commercial	2	800	0.08
Total		320	$ 1,038,837	100.00%

(1) Ownership provided by the County of San Diego and updated by the Developer as of July 1, 2008.
(2) Based on development status as of March 1, 2008.
(3) Based on the levy of 100% of the Assigned Special Tax against all Taxable Property which (i) was within a final map that was recorded prior to January 1, 2008 and (ii) for which a building permit for new construction was issued as of March 1, 2008.
Source: David Taussig & Associates, Inc.

Delinquency History

Table 5 summarizes the Special Tax delinquencies for property within the boundaries of the District for Fiscal Year 2003-04 through Fiscal Year 2007-08.

TABLE 5
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
SPECIAL TAX DELINQUENCY HISTORY

			Fiscal Year-End Delinquencies[1]			*Delinquencies as of June 30, 2008*		
Fiscal Year	*Amount Levied*	*Parcels Levied*	*Parcels Delinquent*	*Amount Delinquent*	*Percent Delinquent*	*Parcels Delinquent*	*Amount Delinquent*	*Percent Delinquent*
2003-04[2]	$512,489	168	3	$ 4,676	0.91%	0	$ 0	0.00%
2004-05	680,086	260	2	6,534	0.96	0	0	0.00
2005-06	680,886	262	3	7,585	1.11	1	2,818	0.41
2006-07	775,732	279	12	24,702	3.18	5	10,661	1.37
2007-08	957,011	308	14	40,758	4.26	14	40,758	4.26

(1) The data is as of July 23, 2004 for Fiscal Year 2003-04; August 11, 2005 for Fiscal Year 2004-05; August 28, 2006 for Fiscal Year 2005-06; August 8, 2007 for Fiscal Year 2006-07; and June 30, 2008 for Fiscal Year 2007-08.
(2) The District was formed on November 21, 2000 and levies commenced in Fiscal Year 2003-04.
Source: Debt Management, City of San Diego, based on reports from County of San Diego Auditor & Controller's office.

For an analysis regarding the Special Tax delinquencies in the District, see APPENDIX G—"PRICE TREND AND MORTGAGE REPORT" hereto.

Estimated Assessed Value-to-Lien Ratios

Table 6 below sets forth the estimated assessed value-to-lien ratios for the property within the District subject to the Special Tax levy in Fiscal Year 2008-09, based upon the development status as of March 1, 2008, the ownership status as of July 1, 2008, and the assessed values included on the Fiscal Year 2008-09 County Assessor's roll. The assessed value of such property within the District for Fiscal Year 2008-09 is $269,993,706. The estimated assessed value-to-lien ratio of the property based upon the Special Tax levy in Fiscal Year 2008-09 and all direct overlapping debt in the District, calculated as described in Table 6 below, is 12.90 to 1. The principal amount of the 2008 Bonds assigned in Table 6 below to the various property owners has been assigned by multiplying each of these property owner's estimated percentage share of the Fiscal Year 2008-09 Special Tax levy, based on development status as of March 1, 2008, by the principal amount of the 2008 Bonds. See "SPECIAL RISK FACTORS—Assessment Appeals" for a discussion of possible reductions of assessed values in the District.

TABLE 6
COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS
FOR DEVELOPED PROPERTY

Owner[(1)]	*Units/Parcels/ Sq. Ft.*[(2)]	*Fiscal Year 2008-09 Assigned Special Tax*[(3)]	*Percentage of Fiscal Year 2008-09 Assigned Special Tax*	*2008 Bonds*[(4)]	*Overlapping Debt*[(5)]	*Total Direct and Overlapping Debt*	*Assessed Values*[(6)]	*Estimated Assessed Value-to-Lien Ratios*[(7)]
Zone 1 (Southern Village)								
Individual Owners	260 Units	$ 680,086	65.47%	$ 8,094,871	$ 6,305,671	$ 14,400,542	$ 186,133,058	12.93 to 1
Piazza Santaluz LLC (Non-Residential)	16,000 Sq. Ft.	800	0.08	9,521	7,282	16,803	6,501,313	386.92 to 1
Zone 1 Subtotal	N/A	$ 680,886	65.54%	$ 8,104,392	$ 6,312,953	$ 14,417,345	$ 192,634,371	13.36 to 1
Zone 2 (North, East and West Cluster)								
North Cluster	48 Units	$ 280,464	27.00%	$ 3,338,303	$ 2,042,284	$ 5,380,587	$ 59,812,179	11.12 to 1
Individual Homeowners	40 Units	237,558	22.87	2,827,628	1,921,993	4,749,621	53,917,027	11.35 to 1
Individual Landowner[(8)]	1 Parcel	4,777	0.46	56,879	106	56,985	505,196	8.87 to 1
Standard Pacific	7 Units	38,130	3.67	453,796	120,185	573,981	5,389,956	9.39 to 1
East Cluster	0 Units	$ 0	0.00%	$ 0	$ 0	$ 0	$ 0	N/A
Black Mountain Ranch LLC	0 Units	0	0.00	0	0	0	0	N/A
West Cluster	10 Units	$ 77,487	7.46	$ 922,305	$ 215,439	$ 1,137,744	$ 17,547,156	15.42 to 1
Individual Homeowners	5 Units	39,265	3.78	467,397	115,554	582,951	9,924,512	17.02 to 1
Artesian Investments	5 Units	38,222	3.68	454,908	99,885	554,793	7,622,644	13.74 to 1
Zone 2 Subtotal	N/A	$ 357,951	34.46%	$ 4,260,608	$ 2,257,723	$ 6,518,331	$ 77,359,335	11.87 to 1
Total	N/A	$ 1,038,837	100.00%	$ 12,365,000	$ 8,570,676	$ 20,935,676	$ 269,993,706	12.90 to 1

(1) Reflects ownership provided by County of San Diego Assessor and updated by the Developer.
(2) Based on development status as of March 1, 2008. Standard Pacific Homes owns 11 additional lots and Artesian Investments owns 4 additional lots in the District on which the District does not expect to levy a Special Tax in Fiscal Year 2008-09. The Standard Pacific Homes lots will be subject to a Special Tax levy in Fiscal Year 2009-10 and the Artesian Investment lots are not expected to be levied upon until building permits are issued and such lots are categorized as Developed Property. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP—Status of Development" herein.
(3) Based on the levy of 100% of the Assigned Special Tax against all Taxable Property which (i) was within a final map that was recorded prior to January 1, 2008 and (ii) for which a building permit for new construction was issued as of March 1, 2008.
(4) Allocated based on Percentage of Fiscal Year 2008-09 Special Tax. Assumes taxes are levied on Developed Property at 100% of the Assigned Special Tax Rate. Figures are rounded.
(5) Amount allocated to Developed Property based on actual Fiscal Year 2007-08 levy.
(6) Assessed Values for Fiscal Year 2008-09 are values as of January 1, 2008 as provided by the County of San Diego Assessor. Does not include any adjustments for assessment appeals requesting reductions of $2,188,561.
(7) Represents Assessed Values column divided by the Total Direct and Overlapping Debt column.
(8) A building permit has been issued and a custom home is currently under construction on this lot.

Source: David Taussig & Associates, Inc.

As a part of its Annual Report delivered pursuant to its Continuing Disclosure Certificate, the District will provide the estimated assessed value-to-lien ratio for all Developed Property in the aggregate and, if Special Taxes have been levied on Final Mapped Property or on Undeveloped Property, on each owner of Final Mapped Property or Undeveloped Property.

THE DEVELOPMENT AND PROPERTY OWNERSHIP

The Developer has provided the information in this section. The following information regarding ownership of property in the District has been included because it is considered relevant to an informed evaluation of the 2008 Bonds.

No assurance can be given that the remaining proposed development within the District will occur as described below. As the remaining proposed development progresses and parcels are sold, it is expected that the ownership of the land within the District will become more diversified. No assurance can be given that development of the property within the District will continue to completion, or that it will occur in a timely manner or in the configuration or intensity described herein, or that any property owner described herein will obtain or retain ownership of any of the land within the District. The 2008 Bonds and the Special Taxes are not personal obligations of any property owners and, in the event that a property owner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any property owner other than the property interest upon which the Special Tax is levied. As a result, other than as provided herein, no financial statements or information is, or will be, provided about any property owner. The 2008 Bonds are secured solely by the Special Taxes and other amounts pledged under the Indenture. See "SOURCES OF PAYMENT FOR THE 2008 BONDS" and "SPECIAL RISK FACTORS."

Property Ownership

Master Developer. Black Mountain Ranch LLC, a California limited liability company (the "Developer") was formed on June 19, 2003. The members of the Developer are BMR Communities LLC, a California limited liability company ("BMR Communities") and Black Mountain Ranch LP. Each member has a 50% interest in the Developer. BMR Communities is the managing member of the Developer. Standard Pacific Corp., a Delaware corporation ("Standard Pacific Homes") is a member of BMR Communities.

Current Ownership. As of July 1, 2008, Artesian Investments, LLC, a California limited liability company ("Artesian Investments"), the merchant builder for the homes in the area of the District known as the West Cluster, owned 9 residential parcels, Standard Pacific Homes, the merchant builder for the homes in the area of the District known as the North Cluster, owned 18 residential parcels, an individual landowner owned one parcel of land in the North Cluster and individual homeowners owned 306 residential units in the District. See "—Status of Development" below for a discussion of numbers of permits obtained, number of completed units, number of units under construction, number of home closings and number of homes under contract in the District. The remaining property within the District is owned by the Developer. For a more complete and detailed description of the break-down of property owned by various entities, see "—Status of Development—*Development within the District*" below.

Artesian Investments. Artesian Investments is owned by several investors, including Monty McCullough, Brett Ames, Artesian Ridge Oklahoma, LLC and three other individual investors. McCullough-Ames Development, Inc., a California corporation ("McCullough-Ames") is the manager of Artesian Investments. McCullough-Ames is a privately held company that was formed in 1998 by Brett Ames and Monty McCullough. Mr. Ames comes from a business, land development and commercial background. Mr. McCullough has experience in designing custom estate homes in San Diego County. McCullough-Ames and its affiliates build high end custom and semi-custom estate homes in San Diego County ranging in price from $1.1 million to $3 million. McCullough-Ames and its affiliates have completed over 100 estate style homes in San Diego County. Artesian Investments was formed to develop homes in the District in the Artesian Investments Ridge (West Clusters) master planned community of Del Sur, which is currently marketed as the Gables Crossing. Artesian Investments uses a combination of construction financing through a loan from California Bank and Trust and revenues generated from home sales to develop the property that it owns in the District. Any contributions by Artesian Investments to fund the costs of such developments and home construction and the payment of *ad valorem* property taxes and special taxes are entirely voluntary.

Standard Pacific Homes. Standard Pacific is a geographically diversified builder of single-family attached and detached homes. The company constructs homes within a wide range of price and size targeting a broad range of homebuyers. The company has operations in major metropolitan markets in California, Florida, Arizona, Texas, the Carolinas, Colorado and Nevada and has built homes for more than 101,000 families during its 42-year history. In addition to its core homebuilding operations, Standard Pacific also provides mortgage financing and title services to its homebuyers through its subsidiaries and joint ventures: Standard Pacific Mortgage, SPH Home Mortgage, Universal Land Title of South Florida and SPH Title. The company's principal executive offices are located in Irvine, California.

Standard Pacific is subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such filings, particularly Standard Pacific's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed by Standard Pacific with the SEC on February 25, 2008, and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, as filed by Standard Pacific with the SEC on May 12, 2008, set forth certain data relative to the consolidated results of operations and financial position of Standard Pacific and its subsidiaries as of such date. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including Standard Pacific. The address of such Internet web site is www.sec.gov. In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, NY 10005. Standard Pacific is listed on the NYSE (trading symbol "SPF"): All documents subsequently filed by Standard Pacific pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in such manner as the SEC prescribes.

Copies of Standard Pacific's Annual Report and each of its other quarterly and current reports, including any amendments, are available from Standard Pacific's website at www.standardpacifichomes.com. The Internet addresses and references to filings with the SEC are included for reference only, and the information on these Internet sites and on file with the SEC are not a part of this Official Statement and are not incorporated by reference into this Official Statement.

Land Use Entitlements

Background Information; Black Mountain Ranch Project. The District is a portion of a larger development known as Black Mountain Ranch. The land use entitlements for the Black Mountain Ranch development are summarized below.

In 1988, a predecessor to Black Mountain Ranch LP received approval by the voters of the City for the implementation of the Black Mountain Ranch Subarea Specific Plan. In 1992, pursuant to the Black Mountain Ranch Subarea Specific Plan, the City Council approved a density of one house per four acres for the Black Mountain Ranch project. The Black Mountain Ranch project was thereafter proposed for approximately 3,132 single-family residential dwelling units, approximately 1,299 multi-family residential dwelling units, approximately 650,000 square feet of commercial/retail uses, an approximate 300-room hotel, two 18-hole championship golf courses and other office and institutional uses. In 1997, Black Mountain Ranch LP and the City entered into a Second Amended and Restated Development Agreement, dated March 17, 1997, and in 2001 entered into a First Amendment to Second Amended and Restated Development Agreement, dated December 10, 2001 (collectively, the "Development Agreement'). The Development Agreement provides for the improvement of the Black Mountain Ranch project, including but not limited to grading, the construction of infrastructure and public facilities related to the Black Mountain Ranch project, the construction of structures and buildings and the installation of landscaping. In 1998, Black Mountain Ranch LP supported Proposition K, which was adopted by the voters and allows an increase in density consistent with the Black Mountain Ranch Subarea Plan. The implementation of the Black Mountain Ranch Subarea Plan was approved by voters in Proposition K as well.

An environmental impact report for the Black Mountain Ranch project was originally approved in 1995 and several addendums have been approved since that time. The property within the District is subject to (i) the Mitigation Monitoring and Reporting Program included in the Black Mountain Ranch Phase II Environmental Impact Report, certified on October 1, 1995, by Resolution No. R-286501; and (ii) the Mitigation Monitoring and Reporting Program included in the Black Mountain Ranch (Subarea) Environmental Impact Report (LDR No. 96-7902/SCH No. 97111070), certified on July 28, 1998, as supplemented by Addendum LDR No. 99-1054 and Addendum LDR No. 40-0529, which Addendums were certified on June 19, 2001, and Addendum LDR No. 40-0528, which was certified on November 27, 2001. The approvals have been in compliance with the California Environmental Quality Act. On November 27, 2007, the City Council certified the Black Mountain Ranch Subarea I Addendum to Environmental Impact Report in conjunction with the Black Mountain Ranch Subarea I Specific Plan.

The District. The land use entitlements for the District provide for the development of 527 residential units and 16,000 square feet of commercial property. The residential development in the District is broken up into four clusters. The four clusters consist of the South Village, the North Cluster, the West Cluster and the East Cluster. All four clusters have recorded final maps which create all of the legal parcels required to construct the 527 residential units and the commercial property. The table below sets forth the development and sales status of the properties within each cluster as of July 1, 2008:

		Development Status			*Sales Status*		
Cluster	***Number of Proposed Units***	***Number of Permits Issued***	***Number of Completed Units***	***Number of Units Under Construction***	***Number of Home Closings***	***Number of Homes Under Contract***	***Status as of July 1, 2008***
South Village	260	260	260	0	260	0	Complete and Sold
North Cluster	59	59	42[(1)]	17	41[(2)]	9	Under Development[(1)]
West Cluster	70	10	8[(3)]	2	5	3[(4)]	Partially Under Development[(3)]
East Cluster	138	0	0	0	0	0	Future Development
Total	527	329	310	19	306[(2)]	12	

(1) Includes three models that have been completed.
(2) Includes one parcel owned by an individual landowner on which a custom home is under construction.
(3) Includes one model that has been completed.
(4) Two homes under contract are under construction. A third lot for which a building permit has not been pulled is also under contract.

No representation is made as to when or whether additional building permits will be issued or additional homes will be sold in the District. In evaluating an investment in the 2008 Bonds, investors should not assume that additional development will occur within the District. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Issuance of Parity Bonds" herein.

Status of Development

Background Information; Pesticide Studies; Prior Agricultural Use. Portions of the property within the District and/or adjacent properties, had been commercially farmed from the 1950s until 1988. Portions of the property were used as cattle rangeland between 1988 and 1997, and organic farming from 1997 through 2005. A Pesticide Assessment and Re-Use Plan was prepared in April 2004. In 2004 tests were conducted for pesticides, including DDT (and/or its degradation products DDE and DDD) and toxaphene. Concentrations of DDT (and/or its degradation products) and toxaphene were detected in some of the samples. A plan for on-site reuse of the affected soils that would comply with regulatory criteria and would be protective of human health was developed and implemented. In the opinion of the Developer, the property within the District owned by the Developer can be developed as planned.

Development within the District. The development within the District began in 2001. As of March 1, 2008, building permits had been issued for 318 residential units in the District. From March 1, 2008 through July 1, 2008, building permits had been issued for an additional 11 units in the District. As July 1, 2008, 310 residential units had been completed, 1 parcel had been sold to an individual landowner upon which a custom home is under construction, 306 residential units had been built and sold to individual homeowners, with escrow having closed, and 12 additional residential units were under contract for sale to individual homeowners. All of the commercial property in the District has been developed. The commercial property consists of a neighborhood shopping center and various retail stores in the South Village located on two parcels which are subject to the Special Tax.

South Cluster. As of July 1, 2008, the South Village was fully developed and built. Development in the South Village commenced in 2001 and all homes were sold-out during 2004. The South Village was marketed under the project name of "Verrazzano" by Shea Homes. The South Village consists of all of the commercial property in the District and 260 residential units. Of the 260 residential units, 218 are detached residential units and 42 are affordable residential units.

North Cluster. As of July 1, 2008, all of the property in the North Cluster was in a finished lot condition. The North Cluster is marketed under the project name of "Avaron." The North Cluster consists of 59 detached residential lots. The Developer sold 58 of such lots to Standard Pacific Homes in 2005 and one lot to an individual landowner in 2007. Standard Pacific Homes is the merchant builder for the 58 detached residential lots that it purchased from the Developer. Standard Pacific Homes commenced production of homes in the North Cluster in 2006. As of July 1, 2008, Standard Pacific Homes had obtained 58 building permits, had completed 3 models, had completed 39 additional units, had 16 units under construction, had closed the sale of 40 units to individual homeowners with escrow having closed and had an additional 9 units under contract for sale to individual homeowners. Standard Pacific Homes expects to complete the construction of the homes currently under construction by the end of 2008.

As of July 1, 2008, the base prices of the homes being developed by Standard Pacific Homes in the District ranged from $1,157,900 to $1,549,000. In recent months, Standard Pacific Homes has experienced approximately 33% rate of cancellation of homes under contract for sale to individual homeowners in the North Cluster. The rate of sales in the real estate market has slowed considerably in 2007 and early 2008 and no assurance can be given as to when the remainder of the homes within the North Cluster will be built, sold and occupied.

West Cluster. As of July 1, 2008, all of the property in the West Cluster was in a finished lot condition. The West Cluster consists of 70 detached residential lots, 12 of which are located in "Unit 1" of the West Cluster and 58 of which are located in "Unit 2" of the West Cluster. Artesian Investments purchased 14 detached residential lots located in Unit 2 from the Developer in 2006 and 2007 and is currently developing residential units on such property. Artesian Investments originally was under contract with the Developer to purchase more lots, but due to market slow-down, did not proceed to purchase the lots. The Developer sent a notice of default to Artesian Investments, cancelled the escrow for the additional lots and retained the nonrefundable deposit made by Artesian Investments. As of July 1, 2008, Artesian Investments was in negotiations to purchase one additional lot in the West Cluster. No assurance can be given as to whether or when such purchase will occur. Artesian Investments commenced production of homes in Unit 2 in 2006. Artesian Investments is marketing the property that it owns in the District under the project name of "Gables Crossing." As of July 1, 2008, Artesian Investments had obtained 10 building permits, had completed 1 model, had completed 7 additional units, had 2 units under construction, had sold 5 units to individual homeowners, with escrow having closed, and had an additional 3 units under contract for sale to individual homeowners. Artesian Investments has recently notified the District that, due to market conditions and uncertainty as to the value of the remaining property owned by Artesian Investments and its affiliates, it is uncertain as to whether it or its affiliates remain solvent. No assurance can be given that Artesian Investments will be able to complete any further development in the District.

As of July 1, 2008, the base prices of the homes being developed by Artesian Investments in the District ranged from $1,895,000 to $2,295,000. The rate of sales on the real estate market has slowed considerably in 2007 and no assurance can be given as to when or if the remainder of the homes being developed by Artesian Investments will be built, sold and occupied. As of July 1, 2008, there was no definitive start or build-out date for the remaining lots within Unit 1 or Unit 2. The Developer's business plan calls for selling the remaining portion of the property that it owns in the West Cluster to one or more merchant builders.

East Cluster. As of July 1, 2008, the property in the East Cluster was not developed and was in a rough graded condition. The East Cluster is expected to consists of 138 detached residential lots. The East Cluster consists of "Unit 1," "Unit 2" and "Unit 3." Unit 1 is expected to consist of 20 residential lots, Unit 2 is expected to consist of 28 residential lots and Unit 3 is expected to consist of 90 residential lots. As of July 1, 2008, there was no definitive start or build-out date for the lots within the East Cluster. The Developer's business plan calls for selling the remaining portion of the property that it owns in the East Cluster to one or more merchant builders.

Financing Plan

Developer. All of the infrastructure required for the completed and sold units and the remaining units to be developed in the North Cluster by Standard Pacific Homes and the West Cluster by Artesian Investments is complete and in place. Additional expenditures will be required to complete the planned development of the property within the District owned by the Developer. The Developer plans to install the infrastructure required to complete the proposed development within the District and bring the lots within the East Cluster to a finished lot condition at a time when market conditions support development. The Developer believes that it will have adequate funds with which to complete these improvements. The Developer projects that from January 1, 2008 to October 1, 2012, it will incur approximately $29,000,000 of expenses related to the remaining development to be completed by it in the District. During this same timeframe the Developer expects to have approximately $54,500,000 of total funding sources available to it to fund these expenses, including cash on hand, 2008 Bond proceeds, proceeds from the sale of property and loan proceeds. The Developer may also have access to proceeds of Parity Bonds, if issued. The Developer has obtained a loan from Union Bank of California, with participation from Bank of America, N.A. and PNC Bank, National Association, to finance infrastructure costs related to the District. The total commitment amount of the loan is $80,000,000, $46,021,585 of which was outstanding as of July 1, 2008 and the remainder of which was available to the Developer. The loan terminates on May 24, 2009 and can be extended at the option of the Developer for one additional year and is available for all costs of development within the District, including future phases of development. The Developer is permitted to use the loan to finance development outside of the District and there is no assurance that any portion of the loan will be available to finance future development costs related to the District.

The Developer is current on its payment of *ad valorem* property taxes and the Special Taxes for the property that it owns in the District.

Standard Pacific Homes. To date, Standard Pacific Homes has financed its land acquisition and various site development and home construction costs related to its property in the District through internally generated funds and through the use of its revolving credit facility. Standard Pacific Homes' plan is to finance its remaining site development and home construction costs within the District, as well as all related carrying costs (including *ad valorem* property taxes and any Special Taxes levied against property it owns within the District until full sellout of its homes), with internal funding and funding under its revolving credit facility. While projected home sales revenue for Standard Pacific Homes' project in the District may be enough to complete the development, that money is not segregated and set aside for that purpose. Home sales revenue is swept up daily from the divisions for use in operations and to pay down the credit facility and might get diverted to other Standard Pacific Homes needs at the discretion of Standard Pacific Homes management.

During 2006 and 2007 and continuing into 2008 Standard Pacific Homes' operations were impacted by weak housing demand in most of the major housing markets across the country. The decline in demand throughout this period led to significant home price reductions and incentives to move inventory which eroded Standard Pacific Homes' margins and triggered asset impairments and land deposit write-offs. For the three months ended March 31, 2008 and for the year ended December 31, 2007, Standard Pacific Homes incurred net losses of $216.4 million, or $3.34 per diluted share, and $767.3 million, or $11.85 per diluted share, respectively. The significant net losses experienced during these periods were driven in large part by pretax inventory impairments and other write-offs, which totaled $1,655.6 million for the two year period ended March 31, 2008.

The net losses Standard Pacific Homes incurred during the current market downturn negatively impacted its ability to comply with the financial covenants and conditions to borrowing (particularly the net worth and leverage covenants and conditions) contained in its credit facilities. Standard Pacific Homes amended these credit facilities twice during 2007 to provide covenant relief. Notwithstanding these amendments, Standard Pacific Homes was unable to comply with certain of the amended financial covenants contained in these credit facilities as of January 1, 2008 and as a result it sought and obtained a series of waivers of its non-compliance. In addition, Standard Pacific Homes' financial condition as of March 31, 2008 left it unable to meet the conditions that would permit it to incur additional indebtedness (other than specified categories of indebtedness) under its public notes or to make restricted payments (including payments to satisfy joint venture obligations).

As a result of the deterioration in homebuilding market conditions and the impact of these conditions on Standard Pacific Homes' overall financial condition, on May 26, 2008 Standard Pacific Homes elected to enter into an agreement (the "Investment Agreement") with an affiliate of MatlinPatterson Advisers, LLC ("MatlinPatterson"), pursuant to which MatlinPatterson committed to invest, in the aggregate, more than $530 million of equity in Standard Pacific Homes.

Pursuant to the terms of the Investment Agreement, on June 27, 2008, in exchange for Standard Pacific Homes preferred stock and warrants, MatlinPatterson invested approximately $381.3 million in cash in Standard Pacific Homes and surrendered approximately $128.5 million of the Company's outstanding notes. This closing was contingent upon Standard Pacific Homes amending its bank credit facilities, which has been successfully completed. As part of the amendment, Standard Pacific Homes reduced its total commitment under the revolving credit facility from $500 million to $395 million, paid down its revolver balance from $90 million to $55 million and its Term Loan A balance from $100 million to $65 million, agreed to make quarterly principal amortization payments of $2.5 million under each of the revolver and Term Loan A and agreed to secure future borrowings. In addition, Standard Pacific Homes agreed to commence a rights offering to its existing public stockholders pursuant to which each holder of its common stock will be offered the transferable right to purchase up to such holder's pro rata share of approximately 50 million shares of Standard Pacific Homes' common stock at an aggregate purchase price of approximately $152.5 million. MatlinPatterson has agreed to purchase, in the form of preferred stock, the shares not purchased by Standard Pacific Homes' stockholders in the rights offering. There is a risk that the rights offering will not be completed.

While MatlinPatterson's equity investment provides Standard Pacific Homes with significant equity capital, there can be no assurance that Standard Pacific Homes will continue to provide internal sources or have access to sources to fund the remaining development and home construction costs or to pay *ad valorem* property taxes or Special Taxes on Standard Pacific Homes' property in the District. Many factors beyond Standard Pacific Homes' control, or a decision by Standard Pacific Homes to alter its current plans, may cause Standard Pacific Homes to not have sufficient sources to finance its development in the District or pay *ad valorem* property taxes or Special Taxes. If and to the extent that internal funding and borrowings under Standard Pacific Homes' revolving credit facility are unavailable or inadequate to pay the costs to complete the planned development, it is likely that other financing would not be available. In such a case, if other financing is not available, it is likely that Standard Pacific Homes will be unable to continue to develop the property or pay its *ad valorem* property taxes or Special Taxes. Neither Standard Pacific Homes, nor its lenders, nor any of its related entities are under any legal obligation of any kind to expend funds for the development of and construction of homes, or the payment of *ad valorem* property taxes or Special Taxes on Standard Pacific Homes' property in the District. Any contributions by Standard Pacific Homes to fund the costs of such development and home construction and the payment of *ad valorem* property taxes and Special Taxes are entirely voluntary.

Standard Pacific Homes experienced a net loss for the quarter ended June 30, 2008 of $248.2 million, or $3.82 per share, compared to a net loss of $165.9 million, or $2.56 per share, in the year earlier period. Homebuilding revenues from continuing operations for the 2008 second quarter were $410.6 million versus $660.9 million last year. Standard Pacific Homes' results for the 2008 second quarter included pretax impairment charges of $149.2 million. In addition, Standard Pacific Homes' 2008 second quarter operating results also included a noncash charge of $130.9 million related to an increase in Standard Pacific Homes' deferred tax asset valuation allowance, and a noncash charge of $9.1 million related to the early extinguishment of $128.5 million of homebuilding debt exchanged for warrants to purchase Senior Preferred Stock. Standard Pacific Homes was able to reduce its aggregate homebuilding debt balance during the 2008 second quarter by $156.3 million, net of approximately $47.7 million of project specific debt assumed in conjunction with the unwinding of one Southern California joint venture, and ended the 2008 second quarter with $572.4 million of homebuilding cash on its balance sheet.

SPECIAL RISK FACTORS

The purchase of the 2008 Bonds involves significant investment risks and, therefore, the 2008 Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the 2008 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 2008 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 and the value of the 2008 Bonds in the secondary market.

Principal Taxpayers

Based on the development status of the land within the District as of March 1, 2008 and the land ownership as of July 1, 2008, approximately 92.11% of the Special Taxes projected to be levied in Fiscal Year 2008-09 would be payable by individual homeowners, 3.68% by Artesian Investments and 3.67% by Standard Pacific Homes. See "THE DISTRICT—Principal Taxpayers; Maximum Special Tax Capacity." Any failure of these landowners, or any successor thereof, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the 2008 Bonds, when due. See "SPECIAL RISK FACTORS—Failure to Develop Properties" below.

No assurance can be given that the existing landowners, or their successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" below, for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The 2008 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 2008 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no owner of the 2008 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 2008 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 Developed Property, Final Mapped Property or Undeveloped Property, and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES)" and "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes—*Rates and Method of Apportionment*."

The Maximum Special Taxes that may be levied within the District as well as the Maximum Special Taxes that may be levied on the Developed Property existing within the District as of July 1, 2008 are equal to at least 110% of Maximum Annual Debt Service on the 2008 Bonds. See Table 1 above. Special Taxes may be levied on Final Mapped Property and Undeveloped Property for repayment of the 2008 Bonds. Notwithstanding the Maximum Special Taxes that may be levied in the District exceeds debt service due on the 2008 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 115.6 acres of Property Owner Association Property and/or Public Property in the District. If for any reason property within the District becomes exempt from taxation by reason of 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 would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

Moreover, if a substantial portion of land within the District 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 2008 Bonds when due and a default could occur with respect to the payment of such principal and interest.

Failure to Develop Properties

The payment of the principal of and interest on the 2008 Bonds will depend on the receipt of Special Taxes levied on Developed Property and may depend in part upon the receipt of Special Taxes levied on Final Mapped Property and Undeveloped Property. See "SPECIAL RISK FACTORS—Principal Taxpayers" above. Partially developed property is less valuable per unit of area than developed and completed property, especially if there are severe restrictions on the development of such property. Partially developed property also provides less security to the Owners of the 2008 Bonds should it be necessary for the District to foreclose on such property due to the nonpayment of the Special Taxes. Furthermore, the inability to develop the land within the District as currently proposed will make the Owners of the 2008 Bonds dependent upon timely payment of the Special Taxes levied on partially developed property for a longer period of time than projected. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the owners of the partially developed property to make Special Tax payments on such property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See "SPECIAL RISK FACTORS—Property Values" below.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

There can be no assurance that land development operations within the District will not be adversely affected by the current real estate market conditions, a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect property values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the 2008 Bonds when due.

Owners of the 2008 Bonds should assume that any event that significantly impacts the ability to develop and occupy the partially developed property within the District would cause the property values of such property to decrease substantially and could affect the willingness and ability of the owners of such property to pay the Special Taxes when due.

Risks Related to Adjustable Rate Mortgages, Creative Mortgage Financing Tools and Declines in Real Estate Prices

During calendar years 2003 through 2006, many persons financed the purchase of new homes using mortgage loans that featured adjustable interest rates and 'creative' loan structures, such as interest only payments, negative amortization of principal, and introductory 'teaser' rates. Interest only payments on loans allow the borrower to pay interest only for an initial period (e.g., five years) and negative amortization of principal results in lower monthly mortgage payments, but a higher aggregate principal amount of the mortgage loan. Teaser rates are mortgage interest rates that start low and are subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions.

In the opinion of some economists, the significant increase in home prices during calendar years 2003 through 2007 was driven, in part, by the ability of home purchasers to access adjustable rate loans and creative loans, as well as loans up to the full value of the home, in some cases with minimal documentation of purchaser income qualification. These economists predict that increased interest rates on more conventional mortgage loans, and resets on adjustable rate loans to higher interest rates (and payments increased), fewer borrowers will be able to qualify for mortgage loans and, as a result, home sale prices will decrease. Additionally, under such circumstances, homeowners in the District with adjustable loans and limited economic resources may be unable or unwilling to pay higher mortgage payments as well as Special Tax and *ad valorem* tax payments when due. Interest rates on adjustable mortgage rate loans have, in some instances, previously reset to higher interest rates and some financial studies predict that, nationwide, mortgage loans with teaser rates have experienced significant resets in 2007 and are likely to experience significant resets through 2009, resulting in higher levels of mortgage payments.

Some borrowers who purchased homes with adjustable rate loans may refinance before the interest reset date to obtain loans with fixed interest rates. However, other borrowers who purchased homes in recent years may not be able to access replacement financing for their adjustable rate mortgage loans for a number of reasons. Recent news accounts indicate that many borrowers in recent years have financed 100% of the price of their home with adjustable rate loans. In the event there is a decline in home value such borrowers may not be able to obtain replacement financing because outstanding loan balances exceed the value of their homes. Additionally, according to recent articles in the financial press, there may be a tightening of underwriting criteria for mortgage loans, such that lenders may no longer offer 100% financing or other creative mortgage structures. Regulatory changes or changes in standards of practice in the mortgage lending industry could also create requirements of stricter income verification, higher income to loan ratios, higher credit ratings, or some combination of such credit factors. In the event borrowers experience a decline in income or an increase in mortgage interest rates, or both, taxpayers may be less able to pay their special tax payments when due.

Homeowners in the District who purchased their homes with adjustable rate loans may experience difficulty in making their loan payments and paying the Special Taxes levied on their property. This would result in an increase in the Special Tax delinquency rate in the District and possible depletion of the Reserve Account. If there were significant delinquencies in Special Tax collections in the District and the Reserve Account was depleted, there could be a default in the payment of principal of and interest on the 2008 Bonds.

Some economists also report recent increases in recorded notices of default on home mortgage loans in the County and in Southern California. The filing of a notice of default reflects the failure of a homeowner to pay mortgage loan payments in a timely manner for a certain period of time, usually three consecutive months. If home prices decline in the future, the number of notices of default may increase due to decreased home equity.

As reported in the Price Trend and Mortgage Report (defined below) home prices have been declining in the County and the District. Any decline in home values in the District could result in further property owner unwillingness or inability to pay mortgage payments, as well as *ad valorem* taxes and special taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" below.

Given the foregoing risks, the District retained Empire Economics, Inc. ("Empire") to prepare a report (the "Price Trend and Mortgage Report") to analyze (1) recent housing price trends in the County and the District and (2) certain characteristics of the mortgage loans on the residential properties in the District. The Price Trend and Mortgage Report, updated as of June 26, 2008, concludes that there is a concentration of risk in recently developed communities that is not present in the broader housing market due to homeowners with little or no equity in their homes, a greater rise of adjustable rate loans and creative loan structures and a high incidence of similar mortgage loan structures due to a number of initial purchasers using the builder's preferred lender. A copy of the Price Trend and Mortgage Report is attached as Appendix G hereto. The Price Trend and Mortgage Report focuses on two specific characteristics of the mortgage loans: first, a comparison of the mortgage loan to sales price ratios (ML-SP) and second, the percentage of adjustable loans in the District. These two characteristics were analyzed for current homeowners for which such information was available and for parcels that have been delinquent at any time in the payment of one or more installments of Special Taxes from fiscal year 2003-04 through fiscal year 2007-08.

Part I of the Price Trend and Mortgage Report focuses on recent housing price trends and patterns in the County and the District. It concludes that housing prices in the County increased significantly, more than tripling, from 1998 to 2005, stabilized in 2006 and decreased in 2007 and 2008. On average, prices in the January through April 2008 time period were 19.7% lower than in the January through April 2007 time period. Subsequent to the completion of the Price Trend and Mortgage Report, Empire reported to the District that, on average, housing prices in the County in May 2008 were 23.2% lower than in May 2007. Looking at the District, the Price Trend and Mortgage Report concluded the following: (1) that prices for homes in the South Village increased from August 2002 to June 2006, peaked in June 2006 and have decreased by approximately 26% since that date, and (2) prices for homes in the North Cluster have decreased from November 2006 to May 2008 by approximately 36%. Part I of the Price Trend and Mortgage Report also reviewed the resale of 18 homes in the District that occurred between January 1, 2007 and May 30, 2008 and concluded that resale prices of these homes was, on average, 23.3% above the January 1, 2007 assessed values for these homes. Fourteen of the homes that were resold had prices that were above such homes' January 1, 2007 assessed value. The remaining four homes were resold at a price below such homes' January 1, 2007 assessed value.

The Price Trend and Mortgage Report concludes that the parcels with a higher ML-SP ratio tended to have a higher rate of Special Tax delinquency and such delinquent parcels also had a higher percentage of adjustable rate loans than non-delinquent parcels. The Price Trend and Mortgage Report analyzed data for 294 units in the District for which current ownership and mortgage information was available. For these 294 homes it was determined that approximately 2.7% have ML-SP ratios of 100%, 32.7% have ratios of 90 to 99%, 23.1% have ratios of 80 to 89%, 34.7% have ratios of 1 to 80% and 6.8% have ratios of 0%. 64 parcels have been delinquent in one or more Special Tax installments since fiscal year 2003-04. A number of these delinquencies were cured and do not correspond to the historical delinquency information in Table 5. The parcels with higher ML-SP ratios tended to have a higher rate of delinquency. 37.5% of the parcels with ML-SP ratios of 100% have been delinquent in one or more Special Tax installments as compared to 24.3% with ML-SP ratios of 90 to 99%, 22.7% with ML-SP ratios of 80 to 89%, 18.8% with ML-SP ratios of 1 to 80% and 17.6% with ML-SP ratios of 0%. Of the non-delinquent parcels 59% had adjustable rate mortgages compared to 78% for the delinquent parcels. The Price Trend and Mortgage Report observes that interest rates on adjustable mortgages have risen on the average by approximately 1.3% between the 2002-04 time period and 2007-08 and that to the extent the homeowners in the District have had rate adjustments on their loans since the end of 2004, they will likely be paying higher mortgage payments now than when the home was purchased. There can be no assurance as to whether or the extent to which rates on adjustable mortgages will increase, remain the same or decrease in the future.

The Price Trend and Mortgage Report is being provided for informational purposes only, and no statement in the Price Trend and Mortgage Report shall be construed as a prediction, or an assurance by the City or the District, that the existing landowners within the District or any successors thereof will continue making the Special Tax payments when due.

Fallout from Subprime Mortgage Defaults

During 2007 and the first half of 2008, mortgage delinquencies and defaults have escalated nationwide, particularly among property owners with subprime mortgages. As a result, the secondary market for subprime and other risky home loans has declined substantially, resulting in significant financial losses and in some cases bankruptcies among subprime lenders unable to sell those loans and acquire fresh capital. The subprime lender fallout has resulted in conventional lenders tightening their lending criteria, making it more difficult to borrow when purchasing or refinancing a home. Fewer conventional lenders are offering 100% financing, second mortgages or undocumented loans; and jumbo loan rates have increased substantially.

Residential mortgage loans are either "conforming" or "non-conforming." Conforming loans comply with the guidelines established by the two largest purchasers of home loans in the country: the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Fannie Mae and Freddie Mac do not make mortgage loans. Instead, they purchase "conforming loans" from mortgage lending institutions, package the mortgages into securities ("mortgage-backed securities") and sell the mortgage-backed securities to investors. Fannie Mae and Freddie Mac guarantee the timely payment of principal and interest on their mortgage-backed securities.

The 2007 conforming loan limit for first mortgages in the continental United States was $417,000. Loans above the conforming loan amount are known as "jumbo" loans. Because jumbo loans are bought and sold on a much smaller scale than conforming loans, they often have higher interest rates than conforming loans; however, the spread between the interest rate on conforming and jumbo loans varies with economic conditions.

Since August 2007, as a result of various economic factors, including increasing defaults on residential mortgages throughout the United States, most notably "sub-prime loans," investor demand for uninsured loans (i.e., loans that could not be purchased by Fannie Mae or Freddie Mac) substantially decreased. This decreased investor demand for jumbo loans caused the interest rate on jumbo loans to increase relative to the interest rate on conforming loans. In some cases, lenders stopped making jumbo loans altogether. Market conditions may improve sufficiently to reduce the current difficulty in obtaining jumbo loans or legislation could be enacted to address some of the regulatory issues contributing to the current difficulties. However, there is no certainty that improvement in market conditions or regulatory changes will occur, either in the immediate future or at all. Given home prices in the District, in many cases a jumbo loan would be necessary to finance a home purchase.

On February 13, 2008, President Bush signed H.R. 5140, the Recovery Rebates and Economic Stimulus for the American People Act of 2008 (the "Stimulus Package"). The Stimulus Package provides a new provision to temporarily raise the limits for loans that may be purchased by Fannie Mae and Freddie Mac through December 31, 2008. The new limits for such loans is approximately $729,000. While the Stimulus Package might provide some temporary relief with respect to refinancing jumbo loans, no assurance can be given that this will result in jumbo loans being available to property owners in the District seeking to refinance their homes.

As a result of the tightening credit market, homeowners in the District seeking to refinance existing loans may have difficulty finding financing, and stricter underwriting criteria and reduced availability of mortgage loans may significantly reduce the number of potential purchasers of homes in the District. This could result in a reduction in home resale prices in the District.

There are various legislative proposals being made in the U.S. Congress to assist homeowners affected by subprime mortgages. It is possible that laws could be enacted in the future to assist homeowners in default in the payment of mortgages and taxes. It is further possible that federal laws could be enacted that would adversely impact the ability of the District to foreclose on parcels with delinquent Special Taxes.

Future Land Use Regulations and Growth Control Initiatives

It is possible that future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the portions of the District not yet developed with the effect of negatively impacting the ability of the owners of such land to complete the development of such land if they should desire to develop it. This possibility presents a risk to prospective purchasers of the 2008 Bonds in that an inability to complete desired development will result in less diversification of ownership in the District increasing the risk that the 2008 Bonds will not be repaid when due. The owners of the 2008 Bonds should assume that any reduction in the permitted density, significant increase in the cost of the development planned within the District, or substantial delay in the development caused by growth and building permit restrictions, or more restrictive land use regulations, could cause the values of such land within the District to decrease. A reduction in property values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the 2008 Bonds when due.

Completion of construction of any proposed structures on the vacant land within the District is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. It is possible that the construction of the remaining planned development could be impacted by future land use regulations and restrictions which could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of such property and the ability or willingness of owners of such property to pay Special Taxes when due, and also could cause the values of such properties to decrease.

The development of any future property within the District is dependent upon the availability of water. No assurance can be given that water service will be available and the lack of water availability could adversely affect the planned development in the District. A slowdown or stoppage in the continued development of the District would reduce the willingness and ability of the owners of such property to make Special Tax payments and could greatly reduce the value of such property in the event it has to be foreclosed upon.

Endangered Species

Pursuant to an environmental impact report prepared for the District, the development of the property within the District would result in direct and cumulative impacts to upland habitats and sensitive species. The sensitive plant and animal species include, but are not limited to, the following: San Diego thornmint, California adolphia, San Diego sagewort, Encinitas coyote bush, Orcutt's brodiaea, wart-stemmed ceanothus, Orcutt's spineflower, summer holly, San Diego sand aster, western dichondra, variegated dudleya, coast barrel cactus, Palmer's grapplinghook, San Diego marsh-elder, spiny rush, willowy monardella, San Diego golden star, California adder's-tongue fern, ashy spikemoss, three pairs of coastal California gnatcatchers, orange-throated whiptail lizard, San Diego horned lizard, grasshopper sparrow, southern California rufous-crowned sparrow, black-shouldered kite, loggerhead shrike, Swanson's hawk, California horned lark, blue grosbeak, Bell's sage sparrow and Cooper's hawk.

Notwithstanding the existence of these species on certain properties with the District, neither the District nor the Developer is aware of any endangered or threatened species within the District that would prevent the completion of the planned development within the District. This fact does not entirely eliminate the possibility that development in the District is delayed or altered due to environmental issues related to endangered or threatened species. In recent years there has been an increase in activity at the State and federal levels related to the possible listing of certain plant and animal species found in San Diego County as endangered species. The identification of an endangered or threatened species on property adjacent to the District could curtail development in the District. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively impact the ability of the Developer and any subsequent owners to develop the land within the District that remains undeveloped. This, in turn, could reduce the likelihood of timely payment of the Special Taxes levied against such land, in the event Special Taxes are levied on such land, and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent Special Taxes. See "SPECIAL RISK FACTORS—Failure to Develop Properties" above.

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, mud slides 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 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 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. In the event of a major earthquake, the land within the District could be subject to moderate to severe ground shaking. In October 2007, there were wildfires in San Diego County, which came close to the District. There was no damage to any of the property in the District by such wildfires. No assurance can be given that there will be no natural disasters in the future that will impact the District or to the extent to which any future natural disasters may impact the development 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.

The Developer is not aware of any current presence of hazardous substances on any property in the District.

Parity Taxes, Special Assessments and Land Development Costs

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 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.

Completion of the remaining development within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, parks and street lighting, as well as local in-tract improvements and on-site grading and related improvements. Certain of these improvements have been acquired and/or completed; however, there can be no assurance that the remaining improvements will be constructed or will be constructed in time for development to proceed as currently expected. The cost of these additional improvements plus the public and private in-tract, on-site and off-site improvements could increase the public and private debt for which the property within the District is security. This increased debt could reduce the ability or willingness of the property owners to pay the annual Special Taxes levied on their property interest. In that event there could be a default in the payment of principal of, and interest on, the 2008 Bonds when due.

Neither the City nor the District has control over the ability of other entities 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 property owners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, and *ad valorem* taxes or assessments. Any such special taxes, and *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described herein.

If Parity Bonds are issued, the owners of the 2008 Bonds will not have any prior claim on the Special Taxes levied on the property within the District, but will have an equal claim with the owners of the Parity Bonds on the Net Taxes collected within the District. Parity Bonds could also be issued at a time where certain of the property upon which Special Taxes will be levied is undeveloped or categorized for purposes of the Rate and Method as Developed Property because a building permit was issued, but is undeveloped because no construction has commenced. This could result in Owners of the 2008 Bonds having to rely upon the payment of Special Taxes from undeveloped property to a greater degree than as of the date the 2008 Bonds are issued.

Disclosures to Future Purchasers

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

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2008 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 bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments. The Special Taxes securing payment of the 2008 Bonds do not include any penalties or interest collected in connection with delinquent installments.

See "SOURCES OF PAYMENT FOR THE 2008 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 "—Bankruptcy and Foreclosure" below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessment and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a 2008 Bond or Parity Bond in full or partial payment of any installment of the Special Taxes. A 2008 Bond or Parity Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if 2008 Bonds or Parity Bonds can be purchased in the secondary market at a discount, it may be to the advantage of the owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a 2008 Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other 2008 Bonds or Parity Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other 2008 Bonds or Parity Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of 2008 Bonds or Parity Bonds in payment of Special Taxes, the Bond Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of 2008 Bonds or Parity Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Special Tax revenues to pay the principal of and interest on all Outstanding 2008 Bonds and any Parity Bonds when due.

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

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel in a 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

The value of the property within the District is a critical factor in determining the investment quality of the 2008 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 will adversely impact the security underlying the Special Taxes and would reduce the estimated assessed value-to-lien ratios set forth 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 established by the San Diego County Assessor, 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. The assessed value can also be decreased as set forth in "—Assessment Appeals" below. No assurance can be given that a parcel subject to foreclosure could actually be sold for its assessed value.

Prospective purchasers of the 2008 Bonds should not assume that the property within the District could be sold for its assessed or market value at a foreclosure sale for delinquent Special Taxes. No assurance can be given that any bid will be received for an Assessor's Parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes—*Proceeds of Foreclosure Sales*."

Assessment Appeals

There are two basic types of assessment appeals provided for under California law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the Assessor immediately subsequent to a change in ownership or completion of new construction. If the base year value assigned by the Assessor is reduced, the valuation of the property cannot increase in subsequent years more than two percent annually unless and until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value. The District cannot provide any assurance as to the likelihood, extent or success of any assessment appeal by any property owner in the District in the future.

As of August 7, 2008, there were assessment appeals pending on 11 parcels within the District seeking a reduction of $2,188,561 in assessed value. As of such date, the County Assessor had not set a hearing date for these assessment appeals and had not yet determined whether he will recommend any reductions on assessed values on these parcels. An additional 2 homeowners attempted to file appeals in December 2007 but these filings were rejected by the County Assessor as untimely appeals for fiscal year 2007-08. See Table 6 above. Proposition 8 appeals do not affect the amount of Special Taxes levied against a parcel. Given the ongoing decline in real estate prices in San Diego it is likely that the number of appeals under Proposition 8 will increase which could result in reductions in assessed values. Reductions in real estate values adversely impacts the security underlying the Special Taxes and would reduce the estimated value to lien ratios set forth in Table 6 above. In addition, the County Assessor can initiate reductions in assessed values based on his own determination that current market values have dropped below assessed values. The District cannot provide any assurance as to the likelihood, extent or success of any assessment appeal in the District and can not predict whether the County Assessor will initiate assessed value reductions.

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

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

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. If enough parcels were so affected by the Policy, it could result in a draw on the Reserve Account and perhaps, ultimately, a default in payment on the 2008 Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of Owners of the 2008 Bonds in at least three ways. First, the payment by a taxpayer of Special Taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes—*Proceeds of Foreclosure Sales*." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Secondly, the Bankruptcy Code might prevent moneys on deposit in the Project Account of the Acquisition and Construction Fund from being applied to pay interest on the 2008 Bonds and/or to redeem 2008 Bonds if bankruptcy proceedings were brought by or against the Developer or its related entities or successors and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Thirdly, a bankruptcy involving the County and the County Treasurer's Investment Pool (the "Pool") might cause Special Taxes held in the Pool to be temporarily unavailable to the District and, in turn, the Trustee. The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a few weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the Pool.

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

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

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

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

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

It is possible that laws could be enacted in the future that would adversely impact the ability of the District to foreclose on the parcels with delinquent Special Taxes. See "SPECIAL RISK FACTORS—Fallout from Subprime Mortgage Defaults."

The various legal opinions to be delivered concurrently with the delivery of the 2008 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The 2008 Bonds do not contain a provision allowing for the acceleration of the 2008 Bonds in the event of a payment default or other default under the 2008 Bonds or the Bond Indenture.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS—Tax Exemption," the interest on the 2008 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2008 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 other factors. Should such an event of taxability occur, the 2008 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Bond Indenture. See "LEGAL MATTERS—Tax Exemption" below.

Limitations on Remedies

Remedies available to the Owners of the 2008 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 2008 Bonds or to preserve the tax-exempt status of the 2008 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2008 Bonds and of the Bond Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the 2008 Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2008 Bonds or, if a secondary market exists, that such 2008 Bonds can be sold 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 Owners of the 2008 Bonds on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Certain Investigations Regarding City

The City has been under investigation by various governmental agencies stemming from misstatements and/or omissions concerning the City's pension system in the City's 2002 and 2003 financial statements and/or related securities offerings disclosure. The Securities and Exchange Commission (the "SEC") concluded its investigation into the City on November 14, 2006 by entering a Cease-and-Desist Order (the "Order") against the City wherein the SEC found that the City had violated the fraud provisions of the securities laws in failing to accurately disclose the City's growing pension liability in relation to several City bond offerings in 2002 and 2003. On April 7, 2008, the SEC filed securities fraud charges against five former City officials, including the former City Manager, former Auditor and Comptroller, former Assistant Auditor and Comptroller, former Deputy City Manager and former City Treasurer, for allegedly giving false and misleading statements regarding City bond offerings in 2002 and 2003. Investigations by the SEC into entities other than the City, including current and former City officials, are ongoing. To date, neither the investigations nor the Order involve any special tax bonds issued by community facilities districts within the City. Nonetheless, the District can provide no assurance that a significant negative development with respect to the City's overall financial condition or the pending investigations would not have a negative impact on the value of the 2008 Bonds in the secondary market. It is uncertain when the investigations will be completed, and the District can provide no assurance as to whether any new investigations will be initiated. The District has no reason to believe that any pending or future investigation would adversely interfere with the timely payment of principal and interest on the 2008 Bonds.

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 XIIIC and Article XIIID 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 Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the 2008 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 XIIIC 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 2008 Bonds. The provisions of the Initiative relating to the exercise of the initiative power have not been interpreted by the courts, and no assurance can be given as to the outcome of any such litigation.

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 2008 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 2008 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District to less than an amount equal to 110% of Maximum Annual Debt Service on the Outstanding 2008 Bonds and Parity Bonds. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the 2008 Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See "SPECIAL RISK FACTORS—Limitations on Remedies."

Ballot Initiatives and Legislative Measures

Articles XIIIA, XIIIB, XIIIC and XIIID of the California Constitution were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative or legislation 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 property owners within the District to complete the remaining proposed development. See "SPECIAL RISK FACTORS—Failure to Develop Properties" herein.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the District (the "Disclosure Certificate"), the District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data concerning the District. Any filings required to be made by the District under the Disclosure Certificate may be made through the Central Post Office as defined in Appendix D hereto. The Annual Report to be filed by the District is to be filed not later than April 1 of each year, beginning April 1, 2009, and is to include audited financial statements of the City. The requirement that the District file the audited financial statements of the City 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 2008 Bonds are secured by any resources or property of the City. See "SOURCES OF PAYMENT FOR THE 2008 BONDS" and "SPECIAL RISK FACTORS—Limited Obligations." The District has not entered into any previous undertakings with respect to Rule 15c2-12.

Prior to March 2004, the City had never failed to comply with its previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. Since that date the City has failed to comply with various filing deadlines for a number of previous undertakings due to the lack of availability of the City's audited financial statements, as described in greater detail below.

In September 2003, the City found errors in various financial statements for the year ended June 30, 2002. As a result of the discovery of the errors regarding the results in certain 2002 financial statements, the City retained the accounting firm of KPMG LLP to perform a full scope audit on the 2003 financial statements, and on March 12, 2007 KPMG released an unqualified opinion regarding the City's 2003 financial statements. On May 11, 2007, Macias, the City's current auditing firm, released an unqualified opinion on the City's financial statements for fiscal year 2004. On October 26, 2007, Macias released an unqualified opinion on the City's financial statements for fiscal year 2005. On December 13, 2007, the Chief Financial Officer of the City announced that the City was reopening the 2005 financial statements for the limited purpose of reviewing Note 18 of such financial statements with respect to issues related to the City's pension system. On February 8, 2008, Macias issued an unqualified audit opinion on the City's 2005 financial statements incorporating the opinion of October 26 and covering the subsequent revisions to the 2005 financial statements. The 2005 financial statements were reviewed by the City's Audit Committee and received and filed by the City Council on March 25, 2008. On March 21, 2008, Macias issued an unqualified audit opinion on the City's 2006 financial statements. The 2006 financial statements were reviewed by the City's Audit Committee and received and filed by the City Council on April 22, 2008. It is unknown at this time when the City's financial statements for fiscal year 2007 will be completed.

On February 8, 2008, the City filed annual reports (including financial statements) on securities issued by the Public Facilities Financing Authority of the City of San Diego that are secured by either the Water Utility Fund or Sewer Revenue Fund for fiscal years 2003 and 2004 and on June 13, 2008 filed the annual report for fiscal year 2005. In addition, on December 11, 2007 the City filed the annual report (including financial statements) relating to 7 securities that are secured directly or indirectly by the City's General Fund for the fiscal years 2003 and 2004 and on June 13, 2008 filed the annual report for fiscal year 2005. With regard to special tax and assessment bonds, the various districts filed reports for fiscal year ended June 30, 2003 on time without financial statements, did not file reports for fiscal year ended June 30, 2004 when due, filed reports for fiscal years ended June 30, 2004 and June 30, 2005 prior to the filing deadline for the report due June 30, 2005 without financial statements, filed the reports for fiscal years ended June 30, 2006 on time without financial statements and filed the reports for the fiscal year ended June 30, 2007 on time without financial statements. The 2003, 2004, 2005 and 2006 financial statements have been filed with the Repositories.

The City failed to comply with the undertakings related to 21 series of outstanding obligations in each of fiscal years 2004, 2005, 2006, 2007 and 2008. The City is not current with respect to the following continuing disclosure reports for the fiscal years indicated below due to the unavailability of the financial statements from prior fiscal years:

Issue Name	Delinquent (Fiscal Year Ended June 30)
General Fund Bonds	
$33,430,000 City of San Diego, California Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996A	2006 and 2007
$11,720,000 City of San Diego, California Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B	2006 and 2007
$17,425,000 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) Evidencing Undivided Proportionate Interest in Lease Payments to be Made by the City of San Diego Pursuant to a Lease with the San Diego Facilities and Equipment Leasing Corporation	2006 and 2007
$68,425,000 Public Facilities Financing Authority of the City of San Diego Taxable Lease Revenue Bonds, Series 1996A (San Diego Jack Murphy Stadium)	2006 and 2007
$25,070,000 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project)	2006 and 2007
$205,000,000 Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A (City of San Diego, California, as Lessee)	2006 and 2007
$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding)	2006 and 2007
Special Tax and Assessment Bonds	
$59,465,000 City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998	2007
$56,020,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 1 Special Tax Bonds Series A of 2000	2007
$5,000,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 1 Special Tax Bonds Series A of 2004	2007
$4,350,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000	2007
$9,965,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 Special Tax Bonds Series A of 2004	2007
Public Facilities Financing Authority of the City of San Diego $30,515,000 Refunding Revenue Bonds (Reassessment District No. 1999-1) Series 1999-A Senior Lien Bonds / Public Facilities Financing Authority of the City of San Diego $7,630,000 Refunding Revenue Bonds (Reassessment District No. 1999-1) Series 1999-B Subordinate Lien Bonds	2007
$8,850,000 City of San Diego Reassessment District 2003-1 Limited Obligation Refunding Bonds	2007
$5,430,000 City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds	2007
Water and Sewer Bonds	
$350,000,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1995 (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	2006 and 2007
$250,000,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1997 A and Series 1997 B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	2006 and 2007
$315,410,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1999 A and Series 1999 B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	2006 and 2007
$385,000,000 Certificates of Undivided Interest (In Installment Payments Payable From Net System Revenues of the Water Utility Fund of the City of San Diego, California) Series 1998	2006 and 2007
$286,945,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2002 (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)	2006 and 2007
Tobacco Settlement Asset-Backed Bonds	
$105,400,000 City of San Diego, California, Tobacco Settlement Revenue Funding Corporation Tobacco Settlement Asset-Backed Bonds Series 2006	2007

LEGAL MATTERS

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2008 Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2008 Bonds (including any original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a 2008 Bond (the first price at which a substantial amount of the 2008 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2008 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner of the 2008 Bonds before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an Owner of the 2008 Bonds will increase such owner's basis in the applicable 2008 Bond. The amount of original issue discount that accrues to the Owner of the 2008 Bonds is excluded from the gross income of such Owner of the 2008 Bonds 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 2008 Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriter and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the 2008 Bonds to assure that interest on the 2008 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 2008 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 2008 Bonds. The District has covenanted to comply with all such requirements.

Should interest on the 2008 Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the 2008 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Bond Indenture.

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (the "Tax Increase Prevention Act"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by the Tax Increase Prevention Act, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligation were issued. The purpose of this change was to assist in relevant information-gathering for the IRS relating to other applicable tax provisions. The Tax Increase Prevention Act provides that backup withholding may apply to such interest payments made after March 31, 2007, to any 2008 Bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of the Tax Increase Prevention Act do not affect the excludability of such interest from gross income for federal income tax purposes.

It is possible that subsequent to the issuance of the 2008 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 2008 Bonds or the market value of the 2008 Bonds. No assurance can be given that subsequent to the issuance of the 2008 Bonds such changes or interpretations will not occur.

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 2008 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2008 Bonds might be affected as a result of such an audit of the 2008 Bonds (or by an audit of similar 2008 Bonds).

The amount by which an owner's original basis for determining loss on sale or exchange in the applicable 2008 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2008 Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2008 Bond premium reduces the owner's basis in the applicable 2008 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 2008 Bond premium may result in an Owner of the 2008 Bonds realizing a taxable gain when a 2008 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2008 Bond to the owner. Purchasers of the 2008 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2008 Bond premium.

Bond Counsel's opinions 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 2008 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 effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2008 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 (and original issue discount) on the 2008 Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2008 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2008 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2008 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2008 Bonds.

The form of Bond Counsel's opinion with respect to the 2008 Bonds is attached as Appendix E.

Litigation

No litigation is pending or threatened concerning the validity of the 2008 Bonds, the pledge of Special Taxes to repay the 2008 Bonds, the powers or authority of the District with respect to the 2008 Bonds, or seeking to restrain or enjoin development of the property within the District and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the 2008 Bonds.

Legal Opinion

The validity of the 2008 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 2008 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Bond Counsel undertakes no responsibility to the Owners of the

2008 Bonds for the accuracy, completeness or fairness of this Official Statement and expressly disclaims any duty to advise the Owners of the 2008 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 of the 2008 Bonds.

Underwriting

The 2008 Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the 2008 Bonds at a price of $12,113,904.10 (being $12,365,000.00 aggregate principal amount thereof, less Underwriter's discount of $122,413.50 and less net original issue discount of $128,682.40). The purchase agreement relating to the 2008 Bonds provides that the Underwriter will purchase all but not less than all of the 2008 Bonds. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the 2008 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

Financial Interests

The fees being paid to the Underwriter and Underwriter's Counsel and Bond Counsel are contingent upon the issuance and delivery of the 2008 Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the 2008 Bonds.

Pending Legislation

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2008 Bonds or the ability of the District to pay the principal of and interest on the 2008 Bonds when due.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the 2008 Bonds. Quotations and summaries and explanations of the 2008 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 the Chief Operating Officer of the City has been duly authorized by the City Council acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES)

By: /s/ Jay M. Goldstone
Chief Operating Officer of the City of San Diego

APPENDIX A

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 4 (Black Mountain Ranch Villages) ("CFD No. 4") 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," "Final Mapped Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 4, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. <u>DEFINITIONS</u>

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

"Affordable Unit(s)" means up to 100 dwelling units located on one or more Assessor's Parcels of Residential Property, including Affordable Companion Units, that are subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City providing for affordable housing. Dwelling units shall be classified as Affordable Units by the CFD Administrator in the chronological order in which the building permits for such property are issued. If the total number of Affordable Units exceeds the amount stated above, then the units exceeding such total shall be not be considered Affordable Units and shall be assigned to Land Use Class 1 through 18 based on the location and Residential Floor Area for each such unit.

“Affordable Companion Unit(s)” means any Companion Units that are subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City providing for affordable housing. The Residential Floor Area of an Affordable Companion Unit shall not be included when calculating the total Residential Floor Area for the Assessor’s Parcel on which it is located. However, the Assigned Special Tax for the Affordable Companion Unit shall be added to the Assigned Special Tax of all other Land Use Classes located on the Assessor’s Parcel.

“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.

“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. 4 under the Act.

“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. 4” means Community Facilities District No. 4 (Black Mountain Ranch Villages).

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

“City” means the City of San Diego.

“Companion Unit(s)” means any dwelling unit located on an Assessor’s Parcel of Residential Property for which the building permit was issued for purposes of constructing an attached or detached secondary unit on a single family lot. The Residential Floor Area of a Companion Unit, except for Affordable Companion Units, shall be added to the Residential Floor Area of the primary dwelling unit when calculating the total Residential Floor Area for the Assessor’s Parcel on which it is located.

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

“County” means the County of San Diego.

“Developed Property” means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Property Owner Association Property or Taxable Public Property 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 prior to March 1 of the previous Fiscal Year.

“Final Mapped Property” means, for each Fiscal Year, all Taxable Property, exclusive of Developed Property, Taxable Property Owner Association Property or Taxable Public Property, which as of January 1 of the previous Fiscal Year was located within (i) a final 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 Mapped Property" shall include any parcel map or subdivision map or portion thereof, that creates individual lots for which a building permit may be issued, including parcels that are designated as a remainder parcel.

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

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

"Land Use Class" means any of the classes listed in Table 1 and Table 2.

"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 Floor Area" for any Non-Residential Property means 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. The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

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

"Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.

"Property Owner Association Property" means any property within the boundaries of CFD No. 4 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 non-residential building shall not be considered Property Owner Association Property.

"Proportionately" means, for Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property, or where the Backup Special Tax is being levied, that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor's Parcels upon which a Backup Special Tax is being levied. For Final Mapped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Final Mapped Property. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property.

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

“Purchase and Financing Agreement” means the Purchase and Financing Agreement for CFD No. 4 that was approved by the Council on October 3, 2000, as it may be modified or supplemented from time to time.

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

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

“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Developed Property, Final Mapped Property, Taxable Property Owner Association Property, Taxable Public 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 on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of CFD No. 4 facilities eligible under the Act; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

“State” means the State of California.

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

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

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

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

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

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

“Zone 1” means all property within Zone 1, as identified on the Zone Map.

“Zone 2” means all property within Zone 2, as identified on the Zone Map.

“Zone Map” means Exhibit A to this rate and method of apportionment.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, each Assessor's Parcel of Taxable Property within CFD No. 4 shall be assigned to a Zone and further classified as Developed Property, Final Mapped Property, Taxable Property Owner Association Property, Taxable Public 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, D and E below. Residential Property shall be assigned to Land Use Classes 1 through 19 based on the type of use and the Residential Floor Area for each unit. Non-Residential Property shall be assigned to Land Use Class 20.

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
Community Facilities District No. 4
Zone 1

Land Use Class	***Land Use***	***Residential Floor Area/Description***	***Assigned Special Tax***
1	Residential Property	<= 1,500 sq. ft.	$1,124.13 per unit
2	Residential Property	1,501 to 1,750 sq. ft.	$1,393.64 per unit
3	Residential Property	1,751 to 2,000 sq. ft.	$1,663.15 per unit
4	Residential Property	2,001 to 2,250 sq. ft.	$1,932.66 per unit
5	Residential Property	2,251 to 2,500 sq. ft.	$2,202.17 per unit
6	Residential Property	2,501 to 2,750 sq. ft.	$2,500.02 per unit
7	Residential Property	2,751 to 3,000 sq. ft.	$2,817.53 per unit
8	Residential Property	3,001 to 3,250 sq. ft.	$2,936.92 per unit
9	Residential Property	3,251 to 3,500 sq. ft.	$3,298.83 per unit
10	Residential Property	3,501 to 3,750 sq. ft.	$3,597.32 per unit
11	Residential Property	3,751 to 4,250 sq. ft.	$3,683.42 per unit
12	Residential Property	4,251 to 4,750 sq. ft.	$4,475.93 per unit
13	Residential Property	4,751 to 5,250 sq. ft.	$5,268.44 per unit
14	Residential Property	5,251 to 5,750 sq. ft.	$6,060.95 per unit
15	Residential Property	5,751 to 6,500 sq. ft.	$6,853.46 per unit
16	Residential Property	6,501 to 7,250 sq. ft.	$8,042.22 per unit
17	Residential Property	7,251 to 9,250 sq. ft.	$9,230.99 per unit
18	Residential Property	> 9,250 sq. ft.	$12,399.44 per unit
19	Residential Property	Affordable Units	$100.00 per unit
20	Non-Residential Property	Not Applicable	$0.0500 per square foot of Non-Residential 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
Community Facilities District No. 4
Zone 2

Land Use Class	***Land Use***	***Residential Floor Area/Description***	***Assigned Special Tax***
1	Residential Property	<= 1,500 sq. ft.	$1,331.10 per unit
2	Residential Property	1,501 to 1,750 sq. ft.	$1,642.32 per unit
3	Residential Property	1,751 to 2,000 sq. ft.	$1,953.54 per unit
4	Residential Property	2,001 to 2,250 sq. ft.	$2,264.76 per unit
5	Residential Property	2,251 to 2,500 sq. ft.	$2,575.98 per unit
6	Residential Property	2,501 to 2,750 sq. ft.	$3,109.50 per unit
7	Residential Property	2,751 to 3,000 sq. ft.	$3,442.95 per unit
8	Residential Property	3,001 to 3,250 sq. ft.	$3,776.40 per unit
9	Residential Property	3,251 to 3,500 sq. ft.	$4,109.85 per unit
10	Residential Property	3,501 to 3,750 sq. ft.	$4,443.30 per unit
11	Residential Property	3,751 to 4,250 sq. ft.	$4,776.75 per unit
12	Residential Property	4,251 to 4,750 sq. ft.	$6,601.61 per unit
13	Residential Property	4,751 to 5,250 sq. ft.	$7,644.38 per unit
14	Residential Property	5,251 to 5,750 sq. ft.	$8,687.16 per unit
15	Residential Property	5,751 to 6,500 sq. ft.	$9,729.93 per unit
16	Residential Property	6,501 to 7,250 sq. ft.	$11,294.10 per unit
17	Residential Property	7,251 to 9,250 sq. ft.	$12,858.26 per unit
18	Residential Property	> 9,250 sq. ft.	$17,029.36 per unit
19	Residential Property	Affordable Units	$100.00 per unit
20	Non-Residential Property	Not Applicable	$0.0500 per square foot of Non-Residential Floor Area

c. Backup Special Tax

The Backup Special Tax for an Assessor's Parcel of Developed Property within Zone 1 and Zone 2 shall equal $0.3205 per square foot of land area within the Assessor's Parcel.

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. Final Mapped Property, Taxable Property Owner Association Property, Taxable Public Property and Undeveloped Property

The Maximum Special Tax for Final Mapped Property, Taxable Property Owner Association Property, Taxable Public Property and Undeveloped Property within Zone 1 and Zone 2 shall be $13,962.94 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2002-03 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

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 Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property or Taxable Public Property at up to the Maximum Special Tax for Taxable Property Owner Association Property or Taxable Public Property.

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

E. EXEMPTIONS

No Special Tax shall be levied on up to 115.6 Acres of Property Owner Association Property and/or Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property, its tax-exempt status will be revoked.

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

F. APPEALS AND INTERPRETATIONS

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

Interpretations may be made by the Council by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this rate and method of apportionment.

G. MANNER OF COLLECTION

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

H. PREPAYMENT OF SPECIAL TAX

1. Prepayment in Full

The following definition applies to this Section H:

"CFD Public Facilities" means either $22,584,045 in 2002 dollars, which shall increase by the Construction Inflation Index on July 1, 2003, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 4 under the authorized Mello-Roos financing program for CFD No. 4, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 4 Bonds (except refunding bonds) to be supported by CFD No. 4 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 public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

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

"Previously Issued Bonds" means all CFD No. 4 Bonds that have been issued by CFD No. 4 prior to the date of prepayment.

Only an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Final Mapped Property or Undeveloped Property for which a building permit has been issued, may be prepaid. The Special Tax obligation applicable to an Assessor's Parcel in CFD No. 4 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. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 4 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
	less	Capitalized Interest Credit
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 Final Mapped Property and 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. 4 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through

buildout of CFD No. 4 as determined by the CFD Administrator, excluding any Assessor's Parcels which have been prepaid, and

(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the total estimated Backup Special Taxes at buildout for the entire CFD No. 4, 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. 4, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

13. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.

14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

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. 4.

The Prepayment Amount may be sufficient to redeem other than a $5,000 increment of 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 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 Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Annual Special Taxes that may be levied on Taxable Property within CFD No. 4 after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds following such prepayment. A prepayment in full example is attached as Exhibit B.

2. Prepayment in Part

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Final Mapped Property or 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:

$$PP = PE \times F.$$

These terms have the following meaning:

PP = the partial prepayment
PE = 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. 4 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's

Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum 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 fifty 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. 4 bonds have been paid; and (ii) all facilities have been acquired and all reimbursements to the developer have been paid pursuant to the Purchase and Financing Agreement.

EXHIBIT A

ZONE MAP

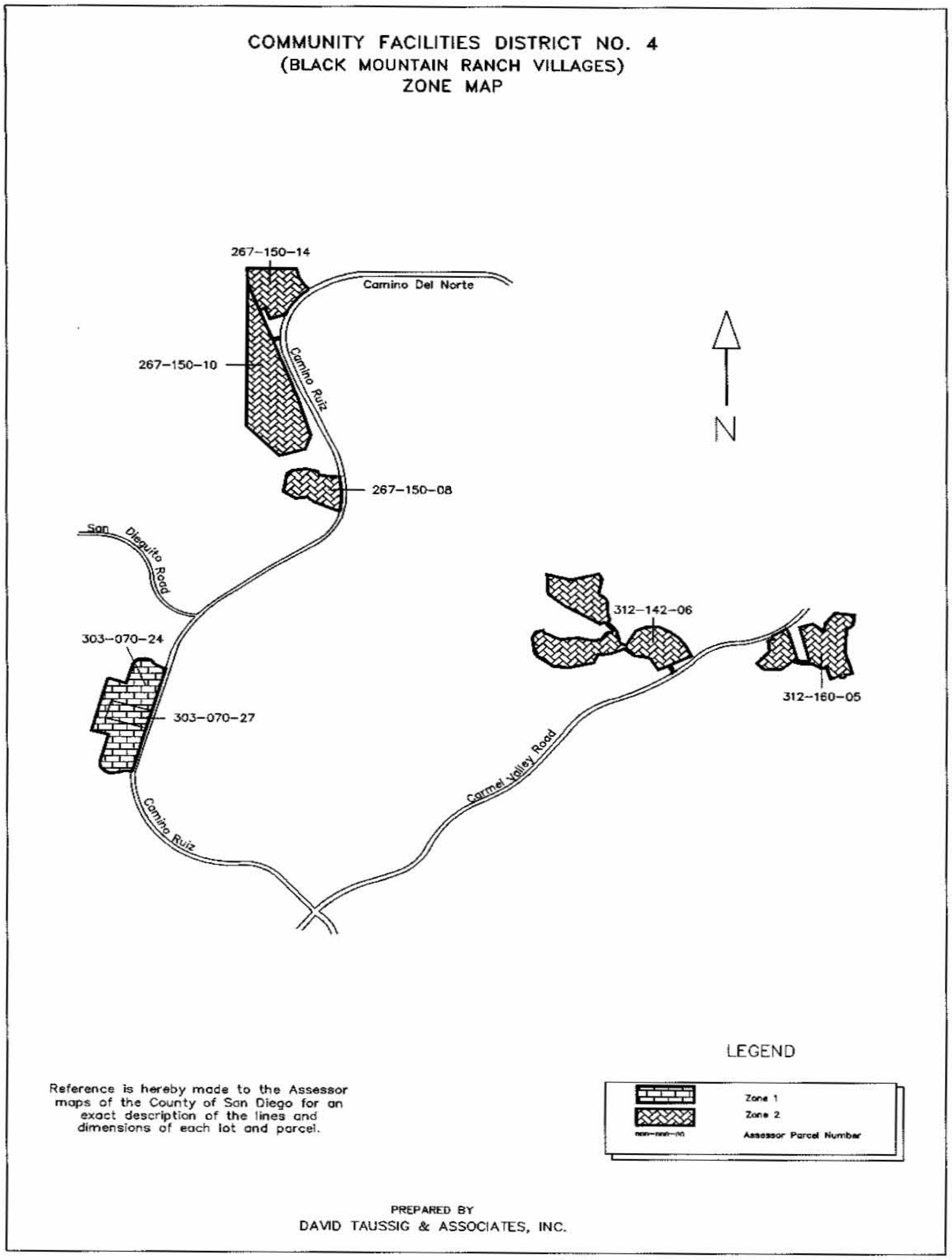


EXHIBIT B

PREPAYMENT IN FULL EXAMPLE

COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
PREPAYMENT IN FULL EXAMPLE
(Assumes Prepayment after the issuance of the Series 2004 Bonds)

LOT CHARACTERISTICS	
Special Tax Class	***Estimated Lot SF***
Zone 2 – Class 12	16,893

CFD No. 4 CURRENT DEVELOPMENT AND RATE SUMMARY				
	Zone 1		**Zone 2**	
Special Tax Classes	***Units / SF***	***Assigned Special Tax***	***Units / SF***	***Assigned Special Tax***
Class 1 Residential Property (<= 1,500 sq. ft.)	0	$1,124.13	0	$1,331.10
Class 2 Residential Property (1,501 to 1,750 sq. ft.)	0	$1,393.64	0	$1,642.32
Class 3 Residential Property (1,751 to 2,000 sq. ft.)	0	$1,663.15	0	$1,953.54
Class 4 Residential Property (2,001 to 2,250 sq. ft.)	0	$1,932.66	0	$2,264.76
Class 5 Residential Property (2,251 to 2,500 sq. ft.)	0	$2,202.17	0	$2,575.98
Class 6 Residential Property (2,501 to 2,750 sq. ft.)	43	$2,500.02	0	$3,109.50
Class 7 Residential Property (2,751 to 3,000 sq. ft.)	23	$2,817.53	0	$3,442.95
Class 8 Residential Property (3,001 to 3,250 sq. ft.)	60	$2,936.92	10	$3,776.40
Class 9 Residential Property (3,251 to 3,500 sq. ft.)	27	$3,298.83	20	$4,109.85
Class 10 Residential Property (3,501 to 3,750 sq. ft.)	65	$3,597.32	35	$4,443.30
Class 11 Residential Property (3,751 to 4,250 sq. ft.)	0	$3,683.42	47	$4,775.75
Class 12 Residential Property (4,251 to 4,750 sq. ft.)	0	$4,475.93	50	$6,601.61
Class 13 Residential Property (4,751 to 5,250 sq. ft.)	0	$5,268.44	45	$7,644.38
Class 14 Residential Property (5,251 to 5,750 sq. ft.)	0	$6,060.95	25	$8,687.16
Class 15 Residential Property (5,751 to 6,500 sq. ft.)	0	$6,853.46	20	$9,729.93
Class 16 Residential Property (6,501 to 7,250 sq. ft.)	0	$8,042.22	9	$11,294.10
Class 17 Residential Property (7,251 to 9,250 sq. ft.)	0	$9,230.99	6	$12,858.26
Class 18 Residential Property (> 9,250 sq. ft.)	0	$12,399.44	0	$17,029.36
Class 19 Residential Property (Affordable Units)	42	$100.00	0	$100.00
Class 20 Non-Residential Property	16,000	$0.0500	0	$0.0500
Back-up Special Tax (Per Lot Square Foot)		$0.3205		$0.3205
Total Net Taxable Square Feet =	8,958,132			

PREPAYMENT PORTION CALCULATION

Method A. Proportion Based on Assigned Special Tax

Assigned Special Tax =	Number of Units X Assigned Rate
=	1 X $6,601.61
=	$6,601.61
Total CFD Assigned Special Tax =	$2,441,048.87
Proportionate Share of Assigned Tax =	0.2704%

Method B. Proportion Based on Back-up Special Tax

Back-up Special Tax =	Lot SF X Back-up Rate
=	16,893 X $0.3205
=	$5,414.21
Total CFD Back-up Special Tax =	CFD Lot SF X Back-up Rate
=	8,958,132 X $0.3205
=	$2,871,081.31
Proportionate Share of Back-up Tax =	0.1886%

Prepayment Portion =	**Maximum of Method A or B**
=	**0.2704%**

COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)
PREPAYMENT IN FULL EXAMPLE
(Assumes Prepayment after the issuance of the Series 2004 Bonds)

Assessor's Parcel Number:	NA		
Prepayment Portion	0.2704%		
Next Call Date	NA		
Maturities Called	NA		
Redemption Premium	3.00%		
Reinvestment Rate	4.50%		
Prepayment Date	Sept. 2004		
STEP 1: BOND REDEMPTION AMOUNT			
Outstanding Obligations[1]		$16,140,000	
Times Prepayment Portion			$43,649
STEP 2: REDEMPTION PREMIUM			
Premium @ 3.00%[2]			$1,309
STEP 3: FUTURE FACILITIES AMOUNT			
Future Facilities Costs (inflated @ 2.0% per year)		$8,930,840	
Times Prepayment Portion			$24,153
STEP 4: DEFEASANCE AMOUNT			
Call Protection Interest Payment Amount[3]			NA
Unpaid Special Taxes During Current Fiscal Year[3]			NA
Credit for Reinvestment Earnings thru Call Protection Period[3]			NA
Total, Defeasance Amount			NA
STEP 5: ADMINISTRATIVE FEES AND EXPENSES			
Administrative Fees			$500
Prepayment Notification Expenses/Recorder Fees[3]			NA
Other Expenses (including computation fees)[3]			NA
Total, Administrative Fees and Expenses			$500
STEP 6: RESERVE FUND CREDIT			
Current Reserve Fund Balance			$1,333,481
Less Reserve Fund Balance After Prepayment			$1,329,874
Reserve Fund Credit			$3,606
STEP 7: CAPITALIZED INTEREST CREDIT			
Current Capitalized Interest Fund Balance			$0
Times Prepayment Portion			$0
STEP 8: PREPAYMENT AMOUNT			
Bond Redemption Amount			$43,649
Redemption Premium			$1,309
Future Facilities Amount			$24,153
Defeasance Amount			NA
Administrative Fees and Expenses			$500
Less Reserve Fund Credit			($3,606)
Less Capitalized Interest Credit			$0
TOTAL, PREPAYMENT AMOUNT			$66,005

(1) Based upon current projections for the Series 2004 Bonds.
(2) Estimate, will reflect actual premium as reflected in the Indenture for the Bonds.
(3) NA means not available at time of prepayment estimate.

APPENDIX B

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SAN DIEGO

This Appendix contains principally economic and demographic information relating to the City of San Diego. 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 2008 Bonds. The 2008 Bonds are special tax obligations of the District payable solely from a portion of the Special Taxes and other amounts pledged under the Bond Indenture, as more fully described in the Official Statement to which this Appendix is appended. The information set forth herein has been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

This Appendix may make "forward-looking statements" by using forward-looking words such as "may," "will," "should," "expects," "believes," "anticipates," "estimates," or others. Forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

Data contained under this caption is intended to portray economic, demographic, and business trends within the City. All the information presented in the following tables and other specific data references is the latest information available from the respective data sources.

Introduction

The City of San Diego (the "City"), with a total population of approximately 1.3 million in 2007 and a land area of approximately 340 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 of San Diego (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. The City has a diversified economy. Major components of this diversified economy include international trade, high–tech manufacturing and research, professional services, tourism and defense. The City has historically benefited from manufacturing (ship building, industrial machinery, television and video equipment, and printing and publishing), public and private higher education, health services, military, and local government employment.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

As set forth in Table 1 below, between January 1, 1999 and January 1, 2008, the City's population has increased by 12.4% (or by approximately 16,331 new residents annually during this period).

Table 1
Population Growth Estimates
Calendar Years 1999 through 2008

Calendar Year[(1)]	*City of San Diego*	*Annual Growth Rate*	*County of San Diego*	*Annual Growth Rate*	*State of California*	*Annual Growth Rate*
1999	1,189,885	1.9%	2,751,011	1.8%	33,140,771	1.5%
2000	1,207,003	1.4	2,801,336	1.8	33,721,583	1.8
2001	1,242,148	2.9	2,865,208	2.3	34,430,970	2.1
2002	1,256,643	1.2	2,922,758	2.0	35,063,959	1.8
2003	1,279,790	1.8	2,975,082	1.8	35,652,700	1.7
2004	1,287,703	0.6	3,011,770	1.2	36,199,342	1.5
2005	1,296,869	0.7	3,038,074	0.9	36,675,346	1.3
2006	1,306,028	0.7	3,065,077	0.9	37,114,598	1.2
2007	1,317,625	0.9	3,100,132	1.1	37,559,440	1.2
2008	1,336,865	1.5	3,146,274	1.5	38,049,462	1.3

(1) As of January 1 of the calendar year.

Source: For calendar years 1999 and 2000, State of California, Department of Finance, E-8 Historical Population and Housing Estimates for Cities, Counties and the State, 1990-2000. Sacramento, California, August 2007.
For calendar years 2001 through 2008, State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2008, with 2000 Benchmark. Sacramento, California, May 2008.

Employment Summary

As shown in Table 2, the City's unemployment rate for calendar year 2007 averaged 4.6%, with a nationwide rate of 4.6% and the State's rate of 5.4%.

Table 2
Labor Force – Estimated Average Annual Employment and Unemployment of City of San Diego Civilian Labor Force
Calendar Years 2003 through 2007

	2003	***2004***	***2005***	***2006***	***2007***
Civilian Labor Force[1]					
City of San Diego					
Employed	621,300	634,000	643,100	651,700	656,900
Unemployed	34,100	31,500	29,000	27,000	31,600
Unemployment Rates					
City	5.2%	4.7%	4.3%	4.0%	4.6%
County	5.2	4.7	4.3	4.0	4.6
California	6.8	6.2	5.4	4.9	5.4
United States	6.0	5.5	5.1	4.6	4.6

(1) The revised labor force data is based on the March 2007 benchmark.
Source: State of California Employment Development Department, Labor Market Information Division; and the U.S. Department of Labor, Bureau of Labor Statistics.

Table 3 provides the California Employment Development Department's estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry in the County from calendar years 2003 through 2007. Annual employment information is not regularly compiled by sector for the City alone. The table below reflects industry data as classified under the North American Industry Classification System (NAICS).

Table 3
County of San Diego
Wage and Salary Employment
Calendar Years 2003 through 2007[(1)]

Industry Category	*2003*	*2004*	*2005*	*2006*	*2007*
Natural Resources & Mining	300	400	400	500	400
Construction	80,200	87,700	90,800	92,700	87,200
Manufacturing					
Nondurable Goods	26,500	26,200	25,400	25,500	25,000
Durable Goods	78,800	78,100	79,100	78,400	77,100
Total Manufacturing	105,300	104,300	104,500	103,900	102,100
Transportation, Warehousing & Utilities	27,300	28,400	28,400	28,700	28,800
Trade					
Wholesale	41,600	41,900	43,600	45,100	45,500
Retail	140,800	144,900	147,400	148,300	148,700
Total Trade	182,400	186,800	191,000	193,400	194,200
Financial Activities[(2)]	79,900	81,900	83,200	83,700	80,400
Services[(3)]	547,400	556,400	568,700	580,900	593,000
Government					
Federal	40,100	39,700	39,700	40,400	40,700
State and Local	177,100	174,600	175,400	177,500	181,400
Total Government	217,300	214,300	215,100	217,900	222,100
TOTAL NONAGRICULTURAL[(4)]	1,240,100	1,260,300	1,282,100	1,301,600	1,308,200

(1) All figures are based on a March 2007 benchmark.
(2) Includes finance, insurance, and real estate.
(3) Includes professional and business, information, educational and health, leisure and hospitality, and other services.
(4) Figures may not add to total due to independent rounding.
Source: State of California Employment Development Department, Labor Market Information Division.

Taxable Sales

The following Table 4 sets forth taxable transactions in the City for calendar years 2002 through 2006 and the first and second quarters of calendar year 2007. Information for the second quarter of calendar year 2007 is the latest information available from the California State Board of Equalization.

Table 4
City of San Diego
Taxable Transactions
Calendar Years 2002 through 2006
(In Thousands)

	2002	*2003*	*2004*	*2005*	*2006*	*2007 (Q1 and Q2)*
Retail Stores						
Apparel	$ 681,338	$ 732,526	$ 785,563	$ 865,833	$ 924,301	$ 437,464
General Merchandise	1,926,369	2,040,450	2,142,892	2,170,831	2,236,087	1,045,737
Food	690,819	696,398	741,899	801,351	843,800	418,181
Eating and Drinking	1,931,214	2,066,425	2,197,430	2,311,013	2,466,681	1,282,619
Home Furnishings and Appliances	664,607	690,345	728,841	747,339	706,043	322,522
Building Materials and Farm Implements	1,160,915	1,248,903	1,440,726	1,396,894	1,427,987	570,162
Auto Dealers and Supplies	2,033,999	2,138,480	2,213,662	2,228,510	2,132,207	1,139,535
Service Stations	959,059	1,085,386	1,232,354	1,398,512	1,567,032	801,234
Other Retail Stores	2,085,876	2,232,817	2,375,353	2,465,882	2,527,653	1,125,426
Total Retail Stores	$ 12,134,196	$ 12,931,730	$ 13,858,720	$ 14,386,165	$ 14,831,791	7,142,880
All Other Outlets	$ 4,491,659	$ 4,533,632	$ 4,679,723	$ 5,105,581	$ 5,227,476	2,617,504
TOTAL ALL OUTLETS	$ 16,625,855	$ 17,465,362	$ 18,538,443	$ 19,491,746	$ 20,059,267	9,760,384

Source: California State Board of Equalization.

Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to manufacturing, financial services, retail trade and amusement and recreation. Table 5 lists the City's major employers.

Table 5
County of San Diego
Major Employers
As of January 1, 2007

Employer	*Product/Service*
10,000 or More Employees:	
State of California	Government
Federal Government	Government
University of California, San Diego	Higher Education
County of San Diego	Government
San Diego Unified School District	Education
Sharp Health Care	Health Care
Scripps Health	Health Care
San Diego State University	Higher Education
City of San Diego	Government
5,000 – 9,999 Employees:	
Qualcomm	Wireless Communications
Kaiser Permanente	Health Care
US Postal Service, San Diego District	Shipping, Transportation, & Delivery Service
San Diego Community College District	Higher Education
Sempra Energy	Utility
3,000 – 4,999 Employees:	
General Dynamics Nassco	Shipbuilding, Repair
Science Applications International Corporation	Research and Development
Northrop Grumman	Defense Technology
Barona Valley Ranch Resort & Casino	Resort & Casino
Rady Children's Hospital & Health Center	Health Care
University of San Diego	Higher Education
General Atomics	Defense and Energy Systems
Palomar Pomerado Health	Health Care
2,000 – 2,999 Employees:	
BAE Systems	Defense Systems
Jack in the Box Inc.	Restaurants
Scripps Research Institute	Research
Ace Parking Management, Inc.	Parking Services
Veterans Affairs San Diego Healthcare System	Health care
Sycuan Resort & Casino	Resort and Casino
Grossmont–Cuyamaca Community College District	Higher Education
Tri–City Medical Center	Health Care
Cox Communications	Telecommunications Services
United Parcel Service	Transportation and Supply Chain Services
Sony Electronics	Audio/Video Electronics and Information Technology Provider
SeaWorld San Diego	Entertainment
Pala Casino Spa & Resort	Resort and Casino
Zoological Society of San Diego	Entertainment

Source: San Diego Business Journal, December 31, 2007 – Book of Lists.

Building Permits

Table 6 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 2004 through 2008. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects.

Table 6
City of San Diego
Building Permit Valuations
and Number of New Dwelling Units
Fiscal Years Ended June 30, 2004 through 2008

	2004	*2005*	*2006*	*2007*	*2008*
Valuation (in thousands)					
Residential	$1,227,388	$1,321,526	$1,006,378	$ 820,581	$ 674,315
Nonresidential	717,693	641,857	953,714	670,497	724,811
Total	$1,945,081	$1,963,383	$1,960,092	$1,491,078	$1,399,126
Number of New Dwelling Units:					
Single Family	1,877	1,271	1,290	903	719
Multiple Family	4,005	5,334	3,260	3,004	120
Total	5,882	6,605	4,550	3,907	839

Source: Development Services Department, City of San Diego.

Property Taxes

The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes, including Special Taxes levied by the District, held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If not paid, the property is subject to default. Such property may be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1.5% per month from July 1 of the following year to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of the fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase in assessed value prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric and SBC Communications, Inc. In lieu of the property tax on these previously included assessed valuations, the City now receives from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

Table 7 presents the assessed valuation within the City for each of the last five Fiscal Years.

Table 7
ASSESSED VALUATION(1)
Fiscal Years Ended June 30, 2004 through 2008

Fiscal Year	*Secured*	*Unsecured*	*Utilities*	*Total(2)*
2003-04	$107,710,122,385	$6,978,679,690	$164,917,925	$114,853,720,000
2004-05	118,889,517,256	6,526,940,629	133,588,259	125,550,046,144
2005-06	135,026,705,814	6,863,879,689	120,401,042	142,010,986,545
2006-07	150,571,633,332	7,601,251,625	113,348,591	158,286,233,548
2007-08	165,678,925,446	7,226,415,914	85,054,348	172,990,395,708

(1) Net of all other exemptions, except homeowners exemption which is reimbursed by the State of California.
(2) Reflects total assessed valuation before any reduction for redevelopment tax increment.
Source: County of San Diego Report ID VAL File-01 PSVVP7@/California Municipal Statistics, Inc.

Table 8 shows the City's secured tax collections for each of the most recent five Fiscal Years.

Table 8
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 2003 through 2007
(in thousands except for percentages)

Fiscal Year	*Secured Tax Charge(1)*	*Amount Delinquent June 30*	*% Delinquent June 30*
2002-03	$ 159,607,914	$ 2,146,695	1.34%
2003-04	173,858,862	2,129,291	1.22
2004-05	189,598,350	2,999,133	1.58
2005-06	212,346,286	4,287,125	2.02
2006-07	234,749,368	6,792,932	2.89

(1) City's share of secured property tax levy. Total secured levy is higher with portions paid to other taxing agencies.
Source: County of San Diego Report ID ACAP-232A/California Municipal Statistics, Inc.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a summary of certain definitions and provisions of 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 its provisions.

DEFINITIONS

"Account" means any account created pursuant to the Bond Indenture.

"Act" means the Mello Roos Community Facilities Act of 1982, as amended, being Sections 53311 *et seq.* of the California Government Code.

"Acquisition Agreement" means that certain Purchase and Finance Agreement dated October 16, 2000, by and between the City and Black Mountain Ranch Limited Partnership, a Maryland limited partnership, together with any amendments thereto.

"Acquisition and Construction Fund" means the fund by that name established pursuant to the Bond Indenture.

"Administrative Expense Account" means the account by that name created and established in the Special Tax Fund pursuant to the Bond Indenture.

"Administrative Expenses" means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys' fees and other costs related thereto, the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District's compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds, any Parity 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 Bond Indenture.

"Administrative Expenses Cap" means $51,000 for Fiscal Year 2008-09, increasing at a rate of 2% per Fiscal Year thereafter.

"Alternate Penalty Account" means the account by that name created and established in the Rebate Fund pursuant to the Bond Indenture.

"Annual Debt Service" means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

"Assessor's Parcels" means a parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) Direct obligations of the U.S. Treasury Department of the United States of America (the "Department of Treasury") (including CATS, TIGRS and similar securities which have been stripped by the Department of Treasury itself, State and Local Government Securities and debt obligations issued or held in book-entry form on the books of the Department of the Treasury).

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration (FmHA) — Certificates of beneficial ownership,

(ii) Federal Financing Bank,

(iii) Federal Housing Administration Debentures (FHA),

(iv) Government National Mortgage Association (GNMA or "Ginnie Mae"),
GNMA - Guaranteed mortgage-backed bonds,
GNMA - guaranteed pass-through obligations.

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System (FHLB)-Senior debt obligations,

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Participation Certificates or senior debt obligations,

(iii) Federal National Mortgage Association (FNMA or "Fannie Mae") - Mortgage-backed securities and senior debt obligations,

(iv) Student Loan Marketing Association (SLMA or "Sallie Mae") - Senior debt obligations (not issued by SLM Corp.),

(v) Resolution Funding Corp. (REFCORP) obligations,

(vi) Federal Farm Credit Bank System (FFCB) - Consolidated systemwide bonds and notes,

(vii) Tennessee Valley Authority (TVA) - Senior debt obligations,

(viii) Farmer Mac (FMAC) - notes.

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating of AAAm-G or AAA-m by Standard & Poor's or a rating of Aaa by Moody's.

(e) Negotiable certificates of deposit issued by nationally or state-chartered bank or a state or federal savings institution or a state-licensed branch of a foreign bank (Yankee) with a maximum maturity of three years and having long-term ratings, at the time of purchase, equivalent to an "A" rating category by at least two national recognized statistical-rating organizations (NRSRO).

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC.

(g) Commercial paper (with maturities of not more than 270 days) rated, at the time of purchase, in the highest short-term rating category by at least two nationally recognized statistical-rating organizations and issued by a corporation organized and operating in the United States with at least $500,000,000 in total assets. The corporation must have other debt, besides commercial paper, that is rated "A" or higher by a nationally recognized statistical-rating organization.

(h) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.

(i) Bankers acceptances with a maximum term of 180 days issued by a bank which has an unsecured, uninsured and non-guaranteed obligation rating of "P-1" or "A2" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.

(j) The Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code or any similar pooled investment fund administered by the State, to the extent such investment is held in the name and to the credit of the Trustee.

(k) Repurchase Agreements, which must follow the following criteria:

(i) Repurchase Agreements must be between the Trustee or the District and a major bank or primary dealer securities firm as the counter-party.

(ii) The counter-party, if a Primary dealer, must be a reporting dealer to the Federal Reserve which is rated "A" or better by Standard & Poor's and Moody's, or a major bank rated "A" or above by Standard & Poor's and Moody's.

(iii) The Repurchase Agreement must meet the following criteria:

(A) Securities which are acceptable for transfer as collateral are defined in (a) through (c) of this definition.

(B) The term of the Repurchase Agreement may be up to 365 days.

(C) The collateral must be delivered to the Trustee (if the Trustee is not supplying the collateral) or a third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(iv) Valuation of Collateral:

(A) The securities must be valued weekly by the Trustee, marked-to market at current market plus accrued interest.

(B) The value of collateral must be equal to 104% of the amount of cash transferred by the District or the Trustee to the dealer bank or security firm under the Repurchase Agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the District or the Trustee, then additional cash and/or acceptable securities must be transferred.

(l) Any investment agreements (including Guaranteed Investment Contracts and Forward Purchase/Delivery Agreements) with a financial institution or insurer (provider) which must meet the following criteria:

(i) If the investment agreement is uncollateralized the provider of the agreement or any guarantor of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of "Aa" by Moody's and "AA" by Standard & Poor's.

(ii) If the investment agreement is fully collateralized, the provider of the agreement or any guarantor of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of "A" by both Moody's and Standard & Poor's. Securities which are acceptable for collateralization are defined in (a) through (c) of this definition.

(iii) The investment agreement must be supported by appropriate opinions of counsel.

(iv) The investment agreement must meet the requirements of the District, bond insurer (if an insured issue) or the rating agency (if required).

(v) The investment agreement must have a maturity date or collateral with a maturity date of no more than 5 years.

(m) Any cash sweep or similar account arrangement of or available to the Trustee, the investment of which are limited to investments described in clauses (a) through (c) of this definition; or Repurchase Agreements secured by one or more obligations described in clauses (a) through (c) of this definition, and any money market fund, the entire investments of which are limited to investments described in clauses (a) through (c) of this definition; or Repurchase Agreements secured by any one or more obligations described in clauses (a) through (c) of this definition, and which money market fund is rated by their respective highest rating categories by Moody's and Standard & Poor's.

"Authorized Representative of the City" means the Mayor of the City, the Chief Operating Officer of the City, the Chief Financial 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, the Chief Financial 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.

"Authorized Representative of the District" means the Mayor of the City, the Chief Operating Officer of the City, the Chief Financial Officer 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 Chief Financial Officer 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.

"Bond Indenture" means the Bond Indenture, together with any Supplemental Indenture approved pursuant to the Bond Indenture.

"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" or "Registered Owner" means the person or persons in whose name or names any Bond or Parity Bond is registered.

"Bonds" means the Community Facilities District No. 4 Special Tax Bonds Series A of 2008.

"Bond Year" means the twelve month period commencing on February 1 of each year and ending on January 31 of the following year, except that the first Bond Year for the Bonds and each issue of Parity Bonds shall begin on the Delivery Date and end on the following January 31.

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

"Certificate of an Authorized Representative" means a written certificate or warrant request executed by an Authorized Representative of the City.

"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.

"Costs of Issuance" means the costs and expenses incurred in connection with the formation and administration of the District and the issuance and sale of the Bonds or any Parity Bonds, including, but not limited to, the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and any preliminary and final official statements for the Parity Bonds, fees of financial consultants, special tax consultants and appraisers and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

"Defeasance Securities" means any of the following: (a) non-callable direct obligations of the United States of America of the type described in clause (A) of the definition of Authorized Investments ("Treasuries"); (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated; and (c) pre-refunded municipal obligations rated "AAA" and "Aaa" by Standard & Poor's and Moody's, respectively (or any combination thereof).

"Delivery Date" means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

"Depository" means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Bonds and Parity Bonds, or any other securities depository acting as Depository under the Bond Indenture.

Developed Property" shall have the meaning set forth in the Rate and Method of Apportionment of Special Taxes

"Direct Debt for Developed Property and Final Mapped Property" means that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds (including for purposes of this calculation any Parity Bonds proposed to be issued) which is allocable to the Developed Property and Final Mapped Property as described below. For this purpose, there will be allocated to the Developed Property and Final Mapped Property the largest principal amount of Bonds and Parity Bonds Outstanding (including for purposes of this calculation any Parity Bonds proposed to be issued) that results in (a) the maximum Special Taxes that may be levied on Developed Property and Final Mapped Property (not including any parcels of Developed Property and Final Mapped Property with delinquent Special Taxes and assuming taxation as "Developed Property" and "Final Mapped Property" as defined in the Rate and Method of Apportionment of Special Taxes) in each Fiscal Year until the final maturity of the Bonds and Parity Bonds being at least equal to the sum of 110% of Annual Debt Service on such Bonds and Parity Bonds in the Bond Year beginning on the February 1 of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Property and Final Mapped Property for such Fiscal Year of taxation; and (b) a Value of Developed Property and Final Mapped Property at least four (4) times the sum of Direct Debt for Developed Property and Final Mapped Property plus Overlapping Debt allocable to Developed Property and Final Mapped Property. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Direct Debt for Developed Property and Final Mapped Property and the portion of the total Administrative Expenses allocable to Developed Property and Final Mapped Property shall be the same portion that Special Taxes on Developed Property and Final Mapped Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

"Direct Debt for District Property" means that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds (including for purposes of this calculation any Parity Bonds proposed to be issued) which is allocable to the property in the District as described below. For this purpose there will be allocated to the property in the District the largest principal amount of Bonds and Parity Bonds (including for purposes of this calculation any Parity Bonds proposed to be issued) that results in a Value of District Property at least four (4) times the sum of Direct Debt for District Property plus Overlapping Debt allocable to all property in the District subject to the Special Tax.

"Direct Debt for Undeveloped Property" means that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds (including for purposes of this calculation any Parity Bonds proposed to be issued) which is allocable to the Undeveloped Property as described below. For this purpose, there will be allocated to the Undeveloped Property the remaining principal amount of Bonds and Parity Bonds (including for purposes of this calculation any Parity Bonds proposed to be issued) not previously allocated to Developed Property and Final Mapped Property that results in:

(a) the maximum Special Taxes that may be levied on Undeveloped Property (assuming taxation as "Undeveloped Property" as defined in and according to the levy priority set forth in the Rate and Method of Apportionment of Special Taxes) in each Fiscal Year until the final maturity of the Bonds and Parity Bonds being at least equal to the sum of 110% of Annual Debt Service on such Bonds and Parity Bonds in the Bond Year beginning on the February 1 of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Undeveloped Property for such Fiscal Year of taxation, which for purposes of such calculation shall be the remainder of the Administrative Expenses not allocated in the calculation of Direct Debt for Developed Property and Final Mapped Property; and

(b) a Value of Undeveloped Property at least three (3) times the sum of Direct Debt for Undeveloped Property plus Overlapping Debt for Undeveloped Property; provided, however, there shall be excluded from the calculations under (a) above and this paragraph (b) any parcel of Undeveloped Property with delinquent Special Taxes and any parcel for which the Value of Undeveloped Property is less than two (2) times the sum of the Direct Debt for Undeveloped Property and Overlapping Debt allocable thereto. The Direct Debt for Undeveloped Property allocable to each parcel of Undeveloped Property shall be determined by multiplying the aggregate principal amount of the Bonds and Parity Bonds proposed to be allocated to Undeveloped Property by a fraction, the numerator of which is the maximum amount of Special Taxes that may be levied on such parcel and the denominator of which is the maximum amount of Special Taxes that may be levied on all parcels of Undeveloped Property.

"District" means Community Facilities District No. 4 (Black Mountain Ranch Villages) established pursuant to the Act and the Resolution of Formation.

"Event of Default" means the "event of default" described in the Bond Indenture.

"Fair Market Value" means the value of each Assessor's Parcel of Developed Property, Final Mapped Property and Undeveloped Property as determined by the appraiser selected by the District, which value shall be the fee simple estate for all Assessor's Parcels owned in fee by the entity subject to the Special Tax.

"Final Map" means (a) 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 (b) 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.

"Final Mapped Property" shall have the meaning set forth in the Rate and Method of Apportionment of Special Taxes.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

"Fitch" means Fitch Ratings, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns.

"Gross Taxes" means the amount of all Special Taxes received by the District, including any Special Taxes collected from the sale of property pursuant to the foreclosure provisions of the Bond Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

"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:

(a) is in fact independent and not under the domination of the District;

(b) does not have any substantial interest, direct or indirect, in the District; and

(c) 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 Bond Indenture.

"Interest Payment Date" means each March 1 and September 1, commencing March 1, 2009; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

"Investment Agreement" means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in the definition of Authorized Investments in the Bond Indenture.

"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:

(a) 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

(b) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Net Taxes" means Gross Taxes minus amounts set aside to pay Administrative Expenses.

"Nominee" shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Bond Indenture.

"Ordinance" means Ordinance No. O-19090 adopted by the legislative body of the District on September 3, 2002, providing for the levying of the Special Tax.

"Outstanding" or "Outstanding Bonds and Parity Bonds" means all Bonds and Parity Bonds theretofore issued by the District, except:

(a) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Bond Indenture;

(b) Bonds and Parity Bonds paid or deemed to have been paid within the meaning of the Bond Indenture or Bonds and Parity Bonds called for redemption for which monies shall have been theretofore deposited in trust, as provided in the Bond Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(c) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Bond Indenture or for which a replacement has been issued pursuant to the Bond Indenture.

"Overlapping Debt" means with respect to any parcel within the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such parcel and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such parcel (the "Other CFD Bonds") determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such parcel and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year.

"Parity Bonds" means all bonds, notes or other similar evidences of indebtedness issued, payable out of the Net Taxes and which, as provided in the Bond 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 a securities depository.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Prepayments" means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the Rate and Method of Apportionment of Special Taxes.

"Principal Account" means the account by that name created and established in the Special Tax Fund pursuant to the Bond 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 Bond Indenture pursuant to which municipal or governmental obligations are issued.

"Project" means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

"Rate and Method of Apportionment of Special Taxes" means the Amended and Restated Rate and Method of Apportionment of Special Taxes for Community Facilities District No. 4 (Black Mountain Ranch Villages) in the form attached to the Resolution of Consideration.

"Rating Agency" means Moody's, Standard & Poor's and Fitch, or all, as the context requires.

"Rebate Account" means the account by that name created and established in the Rebate Fund pursuant to the Bond Indenture.

"Rebate Fund" means the fund by that name established pursuant to the Bond Indenture in which there are established the Accounts described in the Bond 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 Bond 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 that certain Blanket Letter of Representations from the District and the Paying Agent to the Depository in the form required by the Depository in order to have the Bonds and any Parity Bonds held in the Depository's book-entry system.

"Reserve Account" means the account by that name created and established in the Special Tax Fund pursuant to the Bond Indenture.

"Reserve Requirement" means that amount as of any date of calculation equal to the least of (a) 10% of the initial principal amount of the Bonds and Parity Bonds, if any (less original issue discount with respect to a particular maturity if in excess of two percent of the stated redemption amount at maturity of that maturity); (b) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (c) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any.

"Resolution of Consideration" means Resolution No. R-296736 adopted by the legislative body of the District on June 25, 2002.

"Resolution of Formation" means Resolution No. R-294259 adopted by the City Council of the City on November 21, 2000, pursuant to which the City formed the District, together with Resolution No. R-294261 adopted by the legislative body of the District on November 21, 2000.

"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 Bond Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

"Six Month Period" means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

"Special Tax Consultant" means an individual or a firm retained by the District and engaged in the business of administering the levy of special taxes in community facilities districts.

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

"Special Taxes" means the special taxes authorized to be levied by the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Resolution of Consideration, the Act and the voter approval obtained at the July 30, 2002 election in the District, (but excluding such special taxes levied by the District prior to Fiscal Year 2008-09 that is not transferred to the Trustee on the date of issuance of the Bonds) including any scheduled payments and any Prepayments thereof and the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of such special taxes to the amount of said lien, as such special taxes may be modified in accordance with the Act and the Bond Indenture. Special Taxes shall not include any penalties and interest relating to delinquent payments of Special Taxes.

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw Hill, its successors and assigns.

"Supplemental Indenture" means any supplemental indenture amending or supplementing the Bond Indenture.

"Surplus Fund" means the fund by that name created and established pursuant to the Bond Indenture.

"Tax Certificate" means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

"Tax Exempt" means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

"Term Bonds" means the Term Bonds defined in the body of the Official Statement 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 Bond Indenture and any successor thereto.

"Undeveloped Property" shall have the meaning set forth in the Rate and Method of Apportionment of Special Taxes.

"Value of Developed Property and Final Mapped Property" means for all Assessor's Parcels of Developed Property and Final Mapped Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, either (a) the Fair Market Value, as of the date of the appraisal described below, of such Assessor's Parcels of Developed Property and Final Mapped Property, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City's policy for appraisals for community facilities districts, provided that, if deemed appropriate by the Appraiser, a mass appraisal methodology may be applied when valuing some or all of the Developed Property; or (b) the full cash value of any or all of such Assessor's Parcels of Developed Property and Final Mapped Property, including with respect to such Assessor's Parcels the value of the improvements thereon, as set forth on the last equalized assessment roll of the County Assessor of the County of San Diego.

"Value of District Property" means for all parcels of property in the District which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, either (a) the Fair Market Value, as of the date of the appraisal described below, of such Assessor's Parcels, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City's policy for appraisals for community facilities districts, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (b) the full cash value of any or all of such Assessor's Parcels, including with respect to such Assessor's Parcels the value of the improvements thereon, as set forth on the last equalized assessment roll of the County Assessor of the County of San Diego.

"Value of Undeveloped Property" means for all Assessor's Parcels of Undeveloped Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, either (a) the Fair Market Value, as of the date of the appraisal provided for below of such Assessor's Parcels of Undeveloped Property, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City's policy for appraisals for community facilities districts; or (b) the full cash value of any or all of such Assessor's Parcels of Undeveloped Property, including with respect to such Assessor's Parcels the value of the improvements thereon, as set forth on the last equalized assessment roll of the County Assessor of the County of San Diego.

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 Net 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 Bond 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 Bond 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 Bond 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 Bond Indenture, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are pledged and 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 Bond Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Bond Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Acquisition and Construction Fund or the Administrative Expense Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in the Bond Indenture or any Supplemental Indenture shall preclude: (i) subject to the limitations contained under the Bond 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 or under any other law of the State of California; or (ii) the issuance, subject to the limitations contained in the Bond Indenture, of Parity Bonds which shall be payable from Net Taxes.

Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds. If any Bond or Parity Bond shall become mutilated, the District shall execute, and the Trustee shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to the Bond Indenture. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the Trustee shall be given, the District shall execute and the Trustee shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits of the Bond Indenture with all other Bonds and Parity Bonds issued under the Bond Indenture. The Trustee shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered under the Bond Indenture or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding under the Bond Indenture, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of this paragraph, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds or Parity Bonds.

Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and shall not be dependent upon the completion of the financing of the Project or upon the performance by any Person of his obligation with respect to the Project, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Transfers Outside Book Entry System. In the event (a) the Depository determines not to continue to act as securities depository for the Bonds; or (b) the District determines that the Depository shall no longer so act, then the District will discontinue the book entry system with the Depository. If an Authorized Representative of 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 Bond Indenture.

Payments to the Nominee. Notwithstanding any other provisions of the Bond 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. The following funds and accounts are created and established and shall be maintained by the Trustee:

(a) The Community Facilities District No. 4 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).

(b) The Community Facilities District No. 4 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(c) The Community Facilities District No. 4 Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Project Account).

(d) The Community Facilities District No. 4 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 Bond Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Bond 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.

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 Bond Indenture.

Deposits to and Disbursements from Special Tax Fund.

(a) Except for the portion of any Prepayment to be deposited to the Redemption Account as specified in a Certificate of an Authorized Representative, 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 , other than as to amounts transferred to the Administrative Expense Account, the Rebate Fund and the Surplus Fund. 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, in the following order of priority, to:

(1) the Administrative Expense Account of the Special Tax Fund up to the Administrative Expenses Cap;

(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;

(7) the Administrative Expense Account of the Special Tax Fund for amounts in excess of the Administrative Expenses Cap; and

(8) 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 Bond Indenture may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund. The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit in the Bond Indenture, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve

Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Bond Indenture, at least one Business Day prior to each March 1 and September 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due; and

(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, 2009, 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 Bond 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 pursuant to the Bond 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 Bond Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund and to the Redemption Account for Sinking Fund Payments then due pursuant to the preceding paragraph, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Bond Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense

Account in the Bond Indenture) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Bond 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. When a Prepayment is received, the Certificate of Authorized Representative delivered to the Trustee in connection with such Prepayment shall specify the dollar amount of such Prepayment to be applied to redeem Bonds and any Parity Bonds.

(d) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Bond Indenture. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Bond Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds or 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 an optional or extraordinary redemption of Bonds pursuant the Bond Indenture or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Bond Indenture, 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 Bond Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of the Bond Indenture shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and shall be transferred for deposit in the Project Account of the Acquisition and Construction Fund until all amounts have been disbursed from the Acquisition and Construction Fund, and the Trustee has received a Certificate of an Authorized Representative of the District pursuant to the Bond Indenture, and thereafter to the Interest Account of the Special Tax Fund.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Bond Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account in the Bond Indenture. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the Bonds and each issue of Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds or an issue of Parity Bonds shall be governed by the Bond Indenture and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied.

Surplus Fund. After making the transfers required by the Bond 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, (a) 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 Bond Indenture; or (b) that certain amounts be transferred to the Project Account of the Acquisition and Construction Fund because such amounts were included in the levy of Special Taxes for the previous Fiscal Year to pay for the acquisition or construction of the Project; provided, however, that, if a transfer is made to the Project Account and unexpended proceeds of the Bonds or an issue of Parity Bonds remain in the Project Account, the Trustee shall establish a Subaccount of the Project Account for amounts transferred from the Surplus Fund. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the

Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses; (iv) to the Project Account of the Acquisition and Construction Fund to pay Project Costs; or (v) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of an Authorized Representative of the District in Authorized Investments the interest on which is excludable from gross income under the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Acquisition and Construction Fund.

(a) The moneys in the Costs of Issuance Account of the Acquisition and Construction Fund shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District. On the earlier of six months after the Delivery Date, or the date of receipt by the Trustee of written direction by an Authorized Representative of the District, any balance remaining in the Cost of Issuance Account shall be transferred for deposit in the Project Account.

(b) The Trustee shall hold the moneys in the Project Account of the Acquisition and Construction Fund and shall apply such moneys to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee on behalf of the District from the Project Account of the Acquisition and Construction Fund as specified in a Request for Disbursement of Project Costs, substantially in the form of attached to the Bond Indenture, which must be submitted by an Authorized Representative of the District to the Trustee in connection with each requested disbursement.

(c) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Project Account to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Bond Indenture shall be invested at the written direction of an Authorized Representative of the District or an Authorized Representative of the City in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds and Accounts, and

(ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in the Bond Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Bond Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Acquisition and Construction Fund shall be invested in the Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Bond Indenture to the contrary, amounts in the Acquisition and Construction Fund three years after the Delivery Date for the Bonds, and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the Delivery Date of such issue of Parity Bonds, shall be invested by the District only in Authorized Investments, the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code), or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived; unless (i) otherwise provided in the Tax Certificate or (ii) in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes. Notwithstanding the foregoing, such amounts may be invested in Authorized Investments at a yield in excess of the yield on the Bonds in accordance with the provisions of the Tax Certificate.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) Monies in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Bond Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government or in Authorized Investments of the type described in clause (d) of the definition thereof.

(e) In the absence of written investment directions from an Authorized Representative of the District, the Trustee shall invest solely in Authorized Investments specified in clause (d) or (m) of the definition thereof.

The Trustee, at the direction of an Authorized Representative of the City, shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to the Funds and Accounts established under the Bond Indenture 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 semiannually on or before each Interest Payment Date. In making any valuations under the Bond 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 in the Bond Indenture 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 Bond Indenture.

The Trustee or an affiliate may act as agent in the making or disposing of any investment and shall be entitled to its customary fee for such investment. The Trustee may sell at the best market price obtainable, or present for redemption, any Authorized 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 Authorized Investment is credited, and, subject to the provisions of the Bond 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 Bond 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 Bond Indenture.

COVENANTS AND WARRANTY

Warranty. The District shall preserve and protect the security pledged under the Bond 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 Bond Indenture are Outstanding and unpaid, the District has made the following covenants with the Bondowners under the provisions of the Act and the Bond Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust for the Owners and will deposit all Special Taxes with the Trustee promptly 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 Bond Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Bond Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Bond 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 Bond Indenture to the extent that Net Taxes and other amounts pledged under the Bond Indenture are available therefor, and that the payments into the Funds and Accounts created under the Bond Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Bond Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Bond Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Bond Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Bond Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Bond Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

Levy of Special Tax. Beginning in Fiscal Year 2008-09 and so long as any Bonds or Parity Bonds issued under the Bond Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax up to the maximum permitted rate as specified in the Rate and Method of Apportionment of Special Taxes in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay (i) the principal of and interest on the Bonds and any Parity Bonds when due; (ii) the Administrative Expenses; and (iii) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. The District has further covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

Commence Foreclosure Proceedings. The District has covenanted for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against Assessor's 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 Assessor's 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 (iii) will commence judicial foreclosure proceedings against all Assessor's Parcels with delinquent Special taxes if the amount on deposit in the Reserve Account is less than the Reserve Requirement; and (iv) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid.

The District has covenanted that it will deposit the net proceeds of any foreclosure in the Special Tax Fund (other than penalty and interest proceeds relating to any such delinquency) and will apply such proceeds remaining after the payment of Administrative Expenses to make payments of principal and interest on the Bonds and any Parity Bonds then due and owing and to bring the amount on deposit in the Reserve Account up to the Reserve Requirement.

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 therein) or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing contained in the Bond Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

Federal Tax Covenants. Notwithstanding any other provision of the Bond Indenture, absent an opinion of Bond Counsel that 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 for federal income tax purposes will not be adversely affected, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds,

(f) 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 Bond Indenture and incorporated by reference in the Bond Indenture.

(g) 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.

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 the Bond Indenture 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 has covenanted, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect for the District) in each Bond Year for any Bonds and Parity Bonds Outstanding and expected to be issued in the future will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding and any Parity Bonds expected to be issued after the reduction is approved; (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds; and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year.

Covenants to Defend. The District has covenanted that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Bond Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Bond Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Limitation on Right to Tender Bonds. The District has covenanted that it will not adopt any policy pursuant to Section 53341.1 of 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.

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

Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Bond Indenture and for better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Bond 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 Bond Indenture which may be inconsistent with any other provision in the Bond Indenture, or to make any other provision with respect to matters or questions arising under the Bond Indenture or in any Supplemental Indenture, 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 Bond Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Bond 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 Bond Indenture;

(d) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect, or to comply with the Code or regulations issued under the Bond 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 or amend the Rate and Method of Apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that required by the Bond Indenture; or

(f) to modify, alter, amend or supplement the Bond Indenture in any other respect which is not materially adverse to the Bondowners.

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the Bond Indenture, 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 Bond Indenture; provided, however, that nothing in the Bond Indenture shall permit, or be construed as permitting; (i) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (ii) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (iii) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (iv) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Bond Indenture 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 Bond 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, provisions of the Bond Indenture shall apply.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Bond Indenture, the Bond Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Bond Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced under the Bond Indenture, subject in all respects to such modifications and amendments.

Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds. After the effective date of any action taken as provided in the Bond Indenture, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

TRUSTEE

Appointment and Powers of Trustee. Wells Fargo Bank, National Association shall be the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Bond Indenture. The District may, at any time, appoint a successor Trustee satisfying the requirements of the Bond Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Bond Indenture and to allocate, use and apply the same as provided in the Bond Indenture.

The Trustee is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Bond Indenture, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Bond Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Bond Indenture. The Trustee shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Trustee is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Bond Indenture.

The District shall indemnify and save the Trustee, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities, including, without limitation, fees and expenses of its attorneys, not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Bond Indenture. The foregoing obligation of the District to indemnify the Trustee shall survive the removal or resignation of the Trustee or the discharge of the Bonds.

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. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Bond Indenture the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. 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 Bond 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.

Liability of Trustee. The recitals of fact and all promises, covenants and agreements contained in the Bond Indenture and in the Bonds and any Parity Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Bond Indenture, the Bonds or any Parity Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Bond Indenture, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Trustee. The Trustee shall not be liable in connection with the performance of its duties under the Bond Indenture, except for its own negligence or willful misconduct.

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered under the Bond Indenture in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Bond Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Bond Indenture, such matter (unless other evidence in respect thereof be in the Bond Indenture specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Bond Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Bond Indenture, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for such funds as it shall actually receive. No provision in the Bond Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Bond Indenture, or in the exercise of its rights or powers.

The Trustee shall not be deemed to have knowledge of any default or event of default until an officer at the Trustee's corporate trust office responsible for the administration of its duties under the Bond Indenture shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its corporate trust office.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Bond Indenture to the contrary notwithstanding. The Trustee shall provide written notice to the District in advance of any such merger, conversion or consolidation.

Fees of the Trustee. The Trustee shall receive as compensation for its services under the Bond Indenture such fees as set forth on the fee schedule, and the Trustee shall be entitled to be reimbursed by the District for its other reasonable expenses under the Bond Indenture, including the reasonable compensation, expenses and disbursements of such agents, representatives, experts and counsel as the Trustee may employ in connection with the exercise and performance of its rights and its duties under the Bond Indenture. All such fees and reimbursements shall be paid solely from amounts held in the Administrative Expense Account, pursuant to a Certificate of an Authorized Representative.

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 Bond Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The Trustee has agreed to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within 30 days of the Trustee's knowledge of an event of default under (c) above.

Remedies of Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Bond Indenture, including:

(a) by mandamus or other suit or proceeding at law or in equity to enforce its 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 Bond 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 one or more of the rights and powers conferred by the Bond Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy conferred in the Bond 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 Bond Indenture or now or later 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 Bond 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 Bond 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 the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(1) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(2) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(3) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Bond 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 and Parity 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 Bond 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 Bond Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds issued under the Bond 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 Bond 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 Bond 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 Bond Indenture, pending such proceedings, with such powers as the court making appointment shall confer.

Non Waiver. Nothing in the Bond 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 Bond Indenture, out of the Net Taxes and other moneys pledged in the Bond Indenture for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds or Parity Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or the Owners by the Act or by the Bond Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued under the Bond Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Bond 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 granted in the Bond Indenture 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 declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the Bond 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 Bond Indenture, except in the manner provided in the Bond Indenture, and that all proceedings at law or in equity to enforce any provision of the Bond Indenture shall be instituted, had and maintained in the manner provided in the Bond Indenture and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as provided in the Bond Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding any other provision of the Bond Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Bond 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 Bond Indenture, respectively, with regard to the property subject to the Bond Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

DEFEASANCE AND PARITY BONDS

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Bond 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 Bond Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied.

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, Defeasance 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 Bond Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District contained in the Bond Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Bond Indenture, 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 Bond 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 Bond 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 Bond 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 under the Bond Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account in the Bond Indenture) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Bond Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued in accordance with the Bond Indenture. Parity Bonds may be issued subject to the following specific conditions, which are conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Bond 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:

(i) 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 payment of all costs and the funding of all reserves incidental to or connected with such issuance;

(ii) the authorized principal amount of such Parity Bonds;

(iii) the date and the maturity date or dates of such Parity Bonds; provided that (A) each maturity date shall fall on a September 1; (B) all such Parity Bonds of like maturity shall be identical in all respects, except as to number; and (C) 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;

(iv) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(v) the denominations and method of numbering of such Parity Bonds;

(vi) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(vii) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount in the Bond Indenture to the Reserve Requirement;

(viii) the form of such Parity Bonds; and

(ix) such other provisions as are necessary or appropriate and not inconsistent with the Bond 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):

(i) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(ii) a written request of the District as to the delivery of such Parity Bonds;

(iii) an opinion of Bond Counsel and/or general counsel to the District to the effect that (A) the District has the right and power under the Act to adopt the Bond Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Bond 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); (B) the Bond Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Bond Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Bond Indenture; and (C) 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 Bond Indenture and all Supplemental Indentures thereto and are entitled to the benefits of the Bond 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 Bond 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;

(iv) a certificate of an Authorized Representative of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Bond Indenture;

(v) where the Parity Bonds are issued to refund the Bonds or other Parity Bonds, a certificate of an Independent Financial Consultant certifying that in each Bond Year, in which the Parity Bonds proposed to be issued will be Outstanding, 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;

(vi) where the Parity Bonds are being issued other than to refund the Bonds or other Parity Bonds, a certificate of the Special Tax Consultant certifying that (A) the Maximum Special Taxes (as defined in the Rate and Method of Apportionment of Special Taxes) that may be levied on Developed Property and on Final Mapped Property (not including any parcels of Developed Property and Final Mapped Property with delinquent Special Taxes and assuming taxation as "Developed Property" and "Final Mapped Property" as defined in the Rate and Method of Apportionment of Special Taxes) in each Fiscal Year is not less than 110% of the sum of Annual Debt Service in the Bond Year that begins in such Fiscal Year and the Administrative Expenses Cap applicable in such Fiscal Year; (B) the Value of District Property is not less than four (4) times the sum of Direct Debt for District Property plus Overlapping Debt allocable to all property in the District subject to the Special Tax; and (C) if it is determined that the Direct Debt for Undeveloped Property is greater than zero (0), the Value of Undeveloped Property is at least three (3) times the sum of Direct Debt for Undeveloped Property plus Overlapping Debt for Undeveloped Property; and

(vii) such further documents, money and securities as are required by the provisions of the Bond 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 Bond 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. Anything in the Bond Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the expense of the District, shall cause to be mailed by first class mail, postage prepaid, to the Registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Provisions Constitute Contract. The provisions of the Bond Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Bond Indenture shall be construed in accordance with the laws of the State of California. Nothing in the Bond Indenture, expressed or implied, is intended to give any other person other than the District, the Trustee and the Owners of the Bonds any right, remedy or claim under or by reason of the Bond Indenture.

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 Bond Indenture shall be irrepealable, but shall be subject to modifications to the extent and in the manner provided in the Bond Indenture, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Bond Indenture shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge under the Bond 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 Bond Indenture.

Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Bond 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 Bond Indenture.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Bond Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Bond 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 Bond Indenture, the Bonds and any Parity Bonds issued pursuant to the Bond Indenture shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

Payment Due on Other than a Business Day. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Bond Indenture, is not a Business Day, such payment, with no interest accruing for the period after such nominal date, may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in the Bond Indenture.

Disqualified Bonds and Parity Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds and Parity Bonds have concurred in any demand, request, direction, consent or waiver under the Bond Indenture, Bonds and Parity Bonds which are owned or held by or for the account of the City or the District (but excluding Bonds and Parity Bonds held in any employees' or retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds and Parity Bonds which the Trustee knows to be so owned or held shall be disregarded. Upon request, the District shall specify to the Trustee those Bonds and Parity Bonds disqualified pursuant to the Bond Indenture.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of August 1, 2008 (the "Disclosure Certificate") is executed and delivered by Community Facilities District No. 4 (Black Mountain Ranch Villages) (the "Issuer") in connection with the issuance and delivery by the Issuer of its $12,365,000 Special Tax Bonds Series A of 2008 (the "2008 Bonds"). The 2008 Bonds are being issued pursuant to a Bond Indenture (the "Bond Indenture"), dated as of August 1, 2008, by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). 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 2008 Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the 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 2008 Bonds (including persons holding 2008 Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any 2008 Bonds for federal income purposes.

"Central Post Office" means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this District Continuing Disclosure Certificate.

"City" shall mean the City of San Diego.

"Disclosure Representative" shall mean the Mayor, the Chief Operating Officer of the City, Chief Financial Officer of the City or their designees, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent a written acceptance of such designation.

"District" shall mean Community Facilities District No. 4 (Black Mountain Ranch Villages) established by the City of San Diego.

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

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

"Official Statement" means the Official Statement for the 2008 Bonds dated August 8, 2008.

"Participating Underwriter" shall mean Stone & Youngberg LLC.

"Rate and Method of Apportionment" means the Amended and Restated Rate and Method of Apportionment for District.

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

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

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

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than the April 1 after the end of the Issuer's Fiscal Year (which currently ends on June 30), commencing with the report for the Fiscal Year ending June 30, 2008, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

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

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories and the Participating Underwriter, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Issuer is the Dissemination Agent and Issuer is unable to provide to the Repositories and Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board, the Repositories, if any, and the Participating Underwriter in substantially the form attached to this Disclosure Certificate as Exhibit A. If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories and the Participating Underwriter by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Participating Underwriter, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Any filing required under this Section 3 may be made through the Central Post Office.

SECTION 4. Content of Annual Reports.

(a) Financial Statements. The audited financial statements of the City with a copy to the Dissemination Agent and the Underwriter for the most recent Fiscal Year of the Issuer then ended shall be provided in the Annual Report. If the Issuer prepares audited financial statements and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Bond Indenture. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below. For purposes of this Section 4(a), the financial statements of the City shall be deemed to be the financial statements of the Issuer.

(b) 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 2008 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 summary of the facts related to the collection of any Backup Special Tax and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(iv) a statement of the assessed value-to-lien ratio of the property within the District as a whole upon which Special Taxes were most recently levied and the assessed value-to-lien ratio of the Developed Property as a whole and each parcel of Final Mapped Property or Undeveloped Property within the District upon which Special Taxes were most recently levied, in each case based on the most recent equalized Assessor's Roll; provided, however, that, if the Special Taxes are being levied only on Developed Property and the estimated assessed value-to-lien ratio for all parcels is greater than 7 to 1, then the Annual Report need only include a statement to that effect;

(v) an update of Table 4A of the Official Statement entitled "Principal Taxpayers for Fiscal Year 2007-08" including a list of all taxpayers within the District which own property in the District upon which 5% or more of the total Special Taxes for the current Fiscal Year have been levied, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;

(vi) any event known to the Issuer which results in a moratorium on future building within the District;

(vii) an update of Table 5 of the Official Statement entitled "Special Tax Delinquency History" including information for the five most recent Fiscal Years in which Special Taxes were levied and any foreclosures;

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

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the 2008 Bonds, if material:

(i) principal and interest payment delinquencies;

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

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

(iv) unscheduled draws on any credit enhancements securing the 2008 Bonds reflecting financial difficulties;

(v) any change in the provider of any letter of credit or any municipal 2008 Bond insurance policy securing the 2008 Bonds or any failure by the providers of such letters of credit or municipal 2008 Bond insurance policies to perform on the letter of credit or municipal 2008 Bond insurance policy;

(vi) adverse tax opinions or events adversely affecting the tax-exempt status of the 2008 Bonds;

(vii) modifications to the rights of Owners of the 2008 Bonds;

(viii) unscheduled redemption of any 2008 Bond;

(ix) defeasances;

(x) any release, substitution, or sale of property securing repayment of the 2008 Bonds; and

(xi) rating changes.

(b) As soon as practicable based on the time needed to discover the occurrence of the event, to assess it materiality and to prepare and disseminate the notice, if , the Issuer has determined that the occurrence of a Listed Event would be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(c) If the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (d).

(d) If the Issuer is acting as Dissemination Agent, as soon as practicable based on the time needed to discover the occurrence of the event, to assess it materiality and to prepare and disseminate the notice, if the Issuer has determined that the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository and, in either case, with the Participating Underwriter and each State Repository. If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, with the Participating Underwriter and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected 2008 Bonds pursuant to the Bond Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (d) prior to the occurrence of such Listed Event.

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

(f) Any filing required under this Section 5 may be made through the Central Post Office with a copy to the Dissemination Agent and the Participating Underwriter.

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 2008 Bonds. If such termination occurs prior to the final maturity of the 2008 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 or such amendment shall have been approved by the Owners in the same manner as an amendment to the Bond Indenture; and (v) the Issuer shall have delivered copies of such opinion and amendment to each Repository and the Participating Underwriter.

(b) This Disclosure Certificate also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Bond Indenture for amendments to the Indenture with the consent of the Owners of the 2008 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.

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

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the 2008 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 2008 Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the 2008 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 San Diego, California 92101 Attention: Debt Management Director
Participating Underwriter:	Stone & Youngberg LLC 4350 La Jolla Village Drive, Suite 140 San Diego, California 92122 Attention: Municipal Securities

SECTION 13. Governing Law. This Disclosure Certificate shall be construed and governed in accordance with the laws of the State of California.

SECTION 14. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Certificate shall be deemed to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to Section 4 and Section 5 hereof.

SECTION 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 16. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

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

COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES)

By:____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Community Facilities District No. 4 (Black Mountain Ranch Villages)
Name of 2008 Bond Issue:	$12,365,000 Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series A of 2008
Date of Issuance:	August 21, 2008

NOTICE IS HEREBY GIVEN that Community Facilities District No. 4 (Black Mountain Ranch Villages) (the "Issuer") has not provided an Annual Report with respect to the above-named 2008 Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of August 1, 2008. [The Issuer anticipates that the Annual Report will be filed by ________.]

Dated:______________________________

COMMUNITY FACILITIES DISTRICT NO. 4 (BLACK MOUNTAIN RANCH VILLAGES), as Dissemination Agent

cc: Stone & Youngberg LLC

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Community Facilities District No. 4
(Black Mountain Ranch Villages)
San Diego, California

Re: $12,365,000 Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series A of 2008

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of San Diego taken in connection with the formation of Community Facilities District No. 4 (Black Mountain Ranch Villages) (the "District") and the authorization and issuance of the District's Special Tax Bonds Series A of 2008 in the aggregate principal amount of $12,365,000 (the "2008 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 2008 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2008 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 (the "Bond Indenture"), dated as of August 1, 2008, by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). All capitalized terms not defined herein shall have the meaning set forth in the Bond Indenture.

The 2008 Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Bond Indenture. The 2008 Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2009, at the rates per annum set forth in the Bond Indenture. The 2008 Bonds are registered 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 2008 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 2008 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, and by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, and 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 or as to any indemnification, contribution, choice of law, choice of forum, penalty 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 2008 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 2008 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a 2008 Bond (the first price at which a substantial amount of the 2008 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2008 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner of the 2008 Bonds before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an Owner of the 2008 Bonds will increase such owner's basis in the applicable 2008 Bond. Original issue discount that accrues for the Owner of the 2008 Bonds 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 an owner's original basis for determining loss on sale or exchange in the applicable 2008 Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2008 Bond premium which must be amortized under Section 171 of the Code; such amortizable 2008 Bond premium reduces the owner's basis in the applicable 2008 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 2008 Bond premium may result in an Owner of the 2008 Bonds realizing a taxable gain when a 2008 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2008 Bond to the owner.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2008 Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2008 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

2008 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2008 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 2008 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 effect on exclusion of interest on the 2008 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 2008 Bonds and expressly disclaim any duty to advise the owners of the 2008 Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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 2008 Bonds, payment of principal, premium, if any, accreted value and interest on the 2008 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2008 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2008 Bonds (the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities 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 amount of such issue.

2. DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities 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 Trustee, 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, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, 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.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing gent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

APPENDIX G

PRICE TREND AND MORTGAGE REPORT

RECENT HOUSING PRICE TRENDS/PATTERNS
AND
MORTGAGE LOAN CHARACTERISTICS

COMMUNITY FACILITIES DISTRICT NO. 4
(BLACK MOUNTAIN RANCH VILLAGES)

CITY OF SAN DIEGO, CALIFORNIA

PREPARED FOR:

CITY OF SAN DIEGO

PREPARED BY:

EMPIRE ECONOMICS, INC.

JOSEPH T. JANCZYK, PH.D.

UPDATED STUDY: JUNE 26, 2008

(ORIGINAL STUDY: FEBRUARY 28, 2008)

This report was prepared by Empire Economics specifically for the City of San Diego for its Bond Offering of Bonds of Community Facilities District No. 4 (Black Mountain Ranch Villages). The use of this report or portions thereof for any other purpose could lead to misleading interpretations and conclusions.

This report should not be construed as a recommendation to invest in, or make a purchase of, the Bonds.

TABLE OF CONTENTS

INTRODUCTION

The purpose of this report is to discuss the recent housing price trends/patterns as well as the mortgage loan characteristics of the parcels owned by the homeowners in Community Facilities District No. 4 (Black Mountain Ranch Villages); additionally, the mortgage loan characteristics are related to the timeliness of the special tax payments for these parcels.

This report is intended to provide prospective bond purchasers with information relevant in their consideration of whether to invest in the bonds; however, this report should not be construed as a recommendation to invest in, or make a purchase of, the Bonds.

This report does not intend to arrive at any predictions of future special tax delinquencies for homeowners in CFD No. 4.

During Summer-2004 through Summer-2007 there was a fundamental shift in the driving force underlying housing price appreciation, from the historical role of employment growth to adjustable rate and creative financing structures. During this time period, these financing structures and related financing factors were the primary driving forces underlying the extraordinary rate of housing price appreciation for Southern California, by approximately 50% and also for San Diego County, by approximately 48%.

Recently, there has been a considerable amount of discussion regarding the softening of the residential real estate market, as a whole, and how this may impact special tax delinquencies, in particular. Furthermore, recent purchasers of new homes in newly developing communities may be at a higher risk of having mortgage loan delinquencies as well as tax delinquencies due to the following factors:

- Recent purchasers of homes pay current market prices, and so they typically have not accumulated much equity.
- Recent purchasers of homes often utilize adjustable loan structures (which include, in some cases, aggressive, creative mortgage loan structures).
- Many of the recent purchasers of new homes in a specific project have similar mortgage structures, since most of them used the builder's preferred lender.

So, for recent purchasers of homes in newly developing communities, there is a concentration of risk as compared to the broader housing market which has homeowners who are much more diverse, with regards to the time of purchase and hence amount of equity as well as various types of mortgage structures and geographical locations.

Although residential projects that have their homes built and occupied by homeowners are typically viewed as providing bondholders with strong credits, some of the homeowners, due to their adjustable loan structures (which include, in some cases, aggressive, creative mortgage loan structures), may face challenges in making their mortgage and tax payments on a timely basis.

Site Visit of CFD No. 4 – Black Mountain Ranch Villages
Currently Active Projects – Model Complexes

December 19, 2007

Standard Pacific: Avaron

Artesian Investments, LLC: The Gable Crossing

PART I: RECENT HOUSING PRICE TRENDS/PATTERNS

OVERVIEW / EXECUTIVE SUMMARY

(Note: Data compiled on prices through June 2008)

The purpose of this section is to perform an analysis of the recent housing price trends/patterns for San Diego County and also the homes in CFD No. 4 and, additionally, to "test" the Assessed Values for the homes in CFD No. 4 that have sold during January 2007 through May 2008, using recent sales prices; accordingly, the primary results are as follows:

San Diego County Housing Price Trends/Patterns

- The analysis of the recent housing price trends/patterns for the San Diego County, as a whole, starts with an overview of the various price indices, and then selects the index which is regarded as having the highest degree of accuracy/reliability.
- With regards to the selection of a specific index, Empire regards the S&P/Case-Schiller Index as having the highest degree of accuracy-reliability, since it uses paired sales (the recent and prior sales prices of the same homes).
- During the 1998 to 2005 time period, housing prices in San Diego County increased significantly, but then, due to the softness in the real estate market, prices stabilized in 2006 and then declined in 2007 and so far in 2008.
- Further analysis of prices on a monthly basis reveals that there have been substantial price declines during January-April 2008, approximately -19.7%, as compared to January-April 2007.

Price Trends/Patterns for Homes in CFD No. 4

- The purpose of this analysis is to gauge the trends for changes in housing prices for the homes in CFD No. 4, in particular.
- Based upon an analysis of the sales dates and value ratios for the 282 home sales in CFD No. 4, including original sales as well as resales, prices increased from August 2002 to June 2006, with value ratios rising from approximately $190/sq.ft. to approximately $345/sq.ft.; however, since then, prices have decreased somewhat, with value ratios declining to approximately $257/sq.ft., a decline of about -26%.
- Based upon an analysis of the sales dates and value ratios for the 38 detached homes in the North Cluster, value ratios have decreased from November 2006 to May 2008, from approximately $405/sq.ft. to approximately $260/sq.ft., a decrease of about -36%. Additionally, based upon information obtained from the sales office, the current value ratio for the homes, amounts to approximately $297/sq.ft., on the average.

CFD Recent Resales: Assessed Values vs. Recent Sales Prices:

The purpose of this section is to "test" the Assessed Values (AVs) for the homes in CFD No. 4 that have been resold during January 1, 2007 to May 2008.

- Empire identified 18 home resales in CFD No. 4 that occurred during January 2007 through May 2008.
- Their Recent Sales Prices are higher than their AVs as of January 1, 2007 by approximately $184,337, or +23.3%, on the average.
- Further detailed analysis of the eighteen recent home sales revealed the following:
    - Fourteen of them had Recent Sales Prices that were higher than their AV as of January 1, 2007.
    - Four of them had Recent Sales Prices that were lower than their AVs as of January 1, 2007, and all of these sales occurred since September 2007.

SECTION I

SAN DIEGO COUNTY PRICE TRENDS/PATTERNS

The analysis of recent housing price trends/patterns for San Diego County, as a whole, starts with an overview of the various price indices, and then selects the index which is regarded as having the highest degree of accuracy/reliability. Next, the recent changes in housing prices are analyzed on an annual basis for 1988-2007 as well as on a monthly basis during January 2006 through April 2008.

Description of the Four Major Price Indices and Selection of an Index

Based upon extensive research on various measures of housing prices, Empire has identified four major housing price indices; accordingly, their characteristics are set-forth in the following table:

	S&P/Case-Schiller	**DataQuick**	**Office of Federal Housing Enterprise Oversight (OFHEO)**	**Board of Realtors**
Entity	Private Company	Private Company	Federal Government Agency	Private Company
Source of Data	Public Records on Housing Sales	Public Records on Housing Sales	Public Records Sales Data & Also Loan Data	Multiple Listings
Market Coverage	Existing Single-family Homes	All Recorded Sales; Existing and New Homes	Existing Single-family Homes	All Sales by Realtors
Price Statistic	Paired Sales; Resales Only	Median	Paired Sales; Resales Only	Median
Price Statistic - Remarks	Controlled Sample	Home Sizes May Vary	Controlled Sample	Home Sizes May Vary
Data Releases	Monthly	Monthly	Quarterly	Monthly
Remarks	Excludes New Homes and Attached Homes	Includes Apartment Conversions	Homes with Conforming Loans Only	Limited to Realtor Sales

With regards to the selection of a specific index, Empire regards the S&P/Case-Schiller Index as having the highest degree of accuracy-reliability, due to the following:

- This index uses paired sales and so the index accurately reflects changes in housing prices by using repeat sales of the same homes at different times, thereby controlling for their specific characteristics.
  Paired Sale: The most recent sales price of a home, as compared to the prior sales price of the same home.

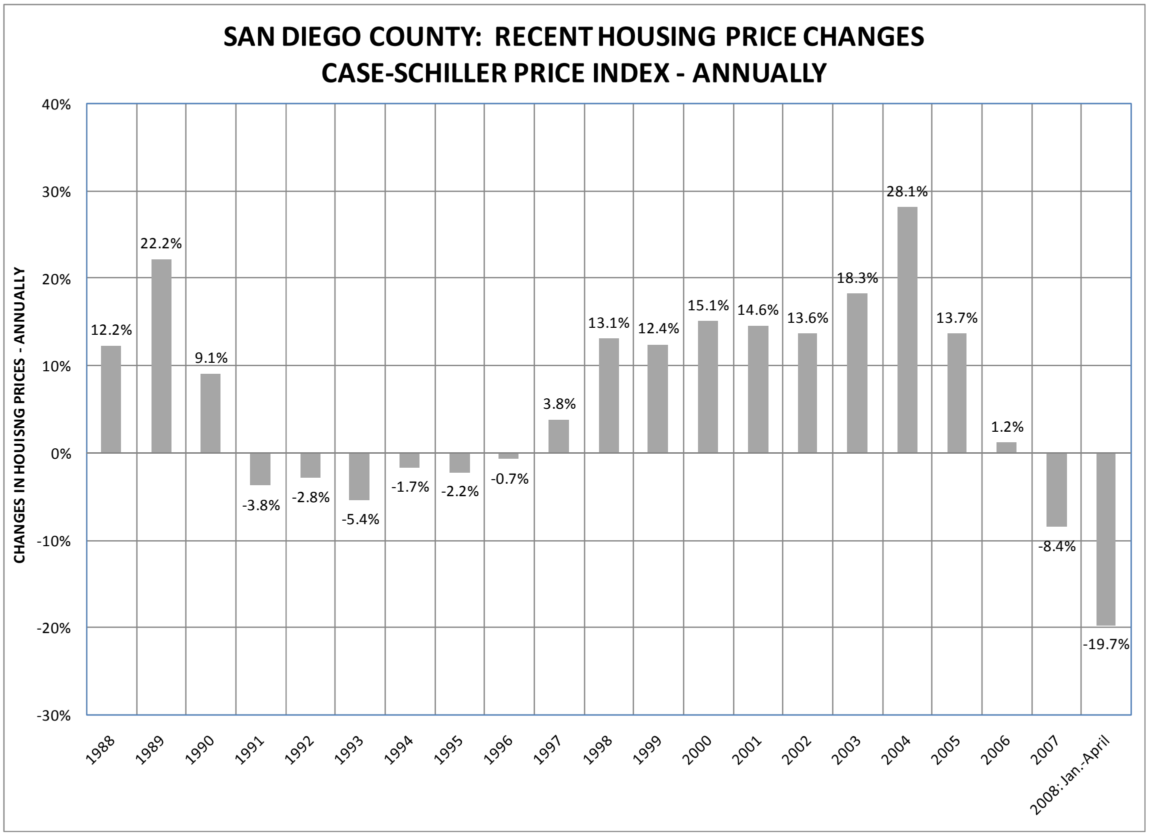
- By comparison, most other indices use the median price for homes that sell in a specific time period, and so part of the changes in housing prices may be due to differences in the characteristics of the homes in different time periods – product types, lot sizes, sizes of living areas, etc.

Finally, it is worthwhile to note that the S&P/Case-Schiller Index, in the context of the current housing market downturn, probably represents a somewhat conservative estimate of actual housing price declines. This is because the index does not include new housing sales, and these have recently been subject to sharper price declines than existing homes, as builders have liquidated their levels of standing inventory.

Recent Changes in Housing Prices - Annually: Case-Schiller Index

The recent changes in housing prices during the 1988 through April 2008 time period, according to the Case Schiller Index, are shown on the following graph:

Note: Data for 2008 include information through April 2008, the most recent month available.



- During the 1998 to 2005 time period, when the housing market was robust, housing prices in San Diego County increased by a total of 228%, more than tripling, for a compounded rate of growth of approximately 14.7% per year, on the average, during these eight years.

- In 2006, housing prices stabilized, with an increase of only 1.2% from their 2005 levels.

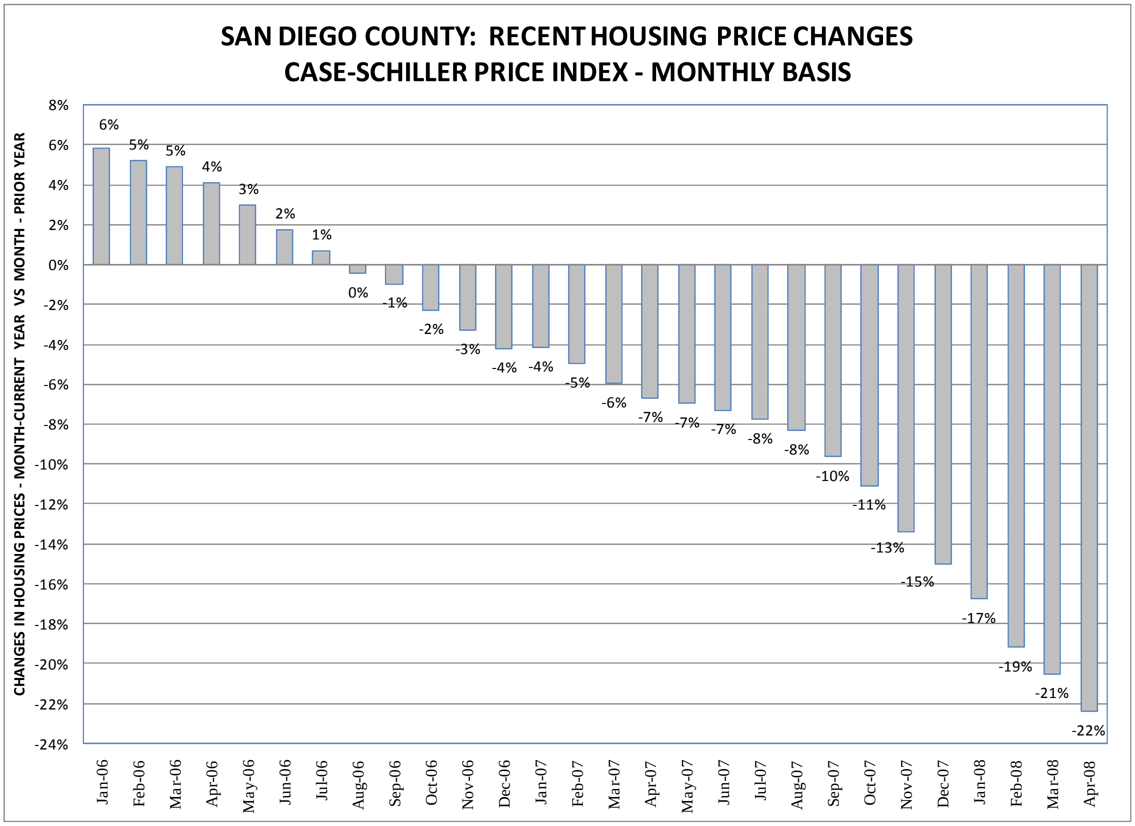
- For 2007, housing prices decreased by approximately -8.4% from their 2006 levels.

- During January-April 2008, housing prices decreased by approximately -19.7% from their January-April 2007 levels.

Recent Changes in Housing Prices - Monthly: Case-Schiller Index

The above analysis of changes in housing prices on a yearly basis represents changes for the current year as compared to the prior year, for all of the months in each year, on the average. However, due to the dramatic shifts that have recently occurred in the housing market, the changes in prices on a monthly basis may provide further insight on emerging trends. Accordingly, the changes in housing prices on a monthly basis during the 2006-2007 time period, according to the Case Schiller Index, are shown on the following graph:

Note: The percentages on the graph below represent the price changes that have occurred during the past 12 months, for the current month vs. the same month from the prior year.



During the January 2006 to April 2008 time period, rate of changes for housing prices exhibited a declining trend, with the rate of decrease accelerating in recent months:

- Prices rose by about 6% in January 2006, as compared to their level in January 2005.
- Prices were virtually stable in July 2006, an increase of only about 1%, as compared to July 2005.
- Prices declined at a moderate rate during September 2006 through August 2007, with monthly declines ranging from -1% to -8%, respectively.
- Then declined at an accelerated rate during October 2007 through April 2008, by rates of -11% to -22%, respectively.

So, the analysis of prices on a monthly basis reveals that prices have declined since August 2006, and, furthermore, that the rate of decline has accelerated in recent months.

SECTION II

PRICE TRENDS/PATTERNS FOR HOMES IN CFD NO. 4

The analysis of the recent housing price trends/patterns for homes in CFD No. 4 starts with a discussion of the methodology, and then provides statistics on the recent housing price trends/patterns.

The housing price information in this section is based upon sales that occurred through early May 2008.

Methodology Underlying the Formulation of a Price Index: South Village

For all of the home sales that have occurred in CFD No. 4, information was compiled on the following:

- Sales Date
- Sales Price
- Size of Living Area

Next, to reduce price differences as a result of variations in the sizes of living area, the value ratios for all of the homes were calculated, using the following formula:

Value Ratio = Sales Price / Living Area

The following analysis uses a trend line for gauging changes in housing prices, based upon their value ratios (sales prices divided by sizes of living areas) as well as their times of sale. However, actual sales prices also depend upon numerous other factors such as the specific location of a home, interior improvements and landscaping enhancements, among many others. Empire does not have sufficient information to incorporate these other factors into its analysis, since such information is not readily available from public records.

Accordingly, the trend line represents changes for the prices for homes, on a generalized basis, and, as such should not be used to measure price changes for specific homes, in particular.

Price Trends for Homes – South Village – Market Priced Homes

The South Village is a 218 single-family detached home project (market priced homes) by Shea Homes; these have all been constructed and sold to homeowners.

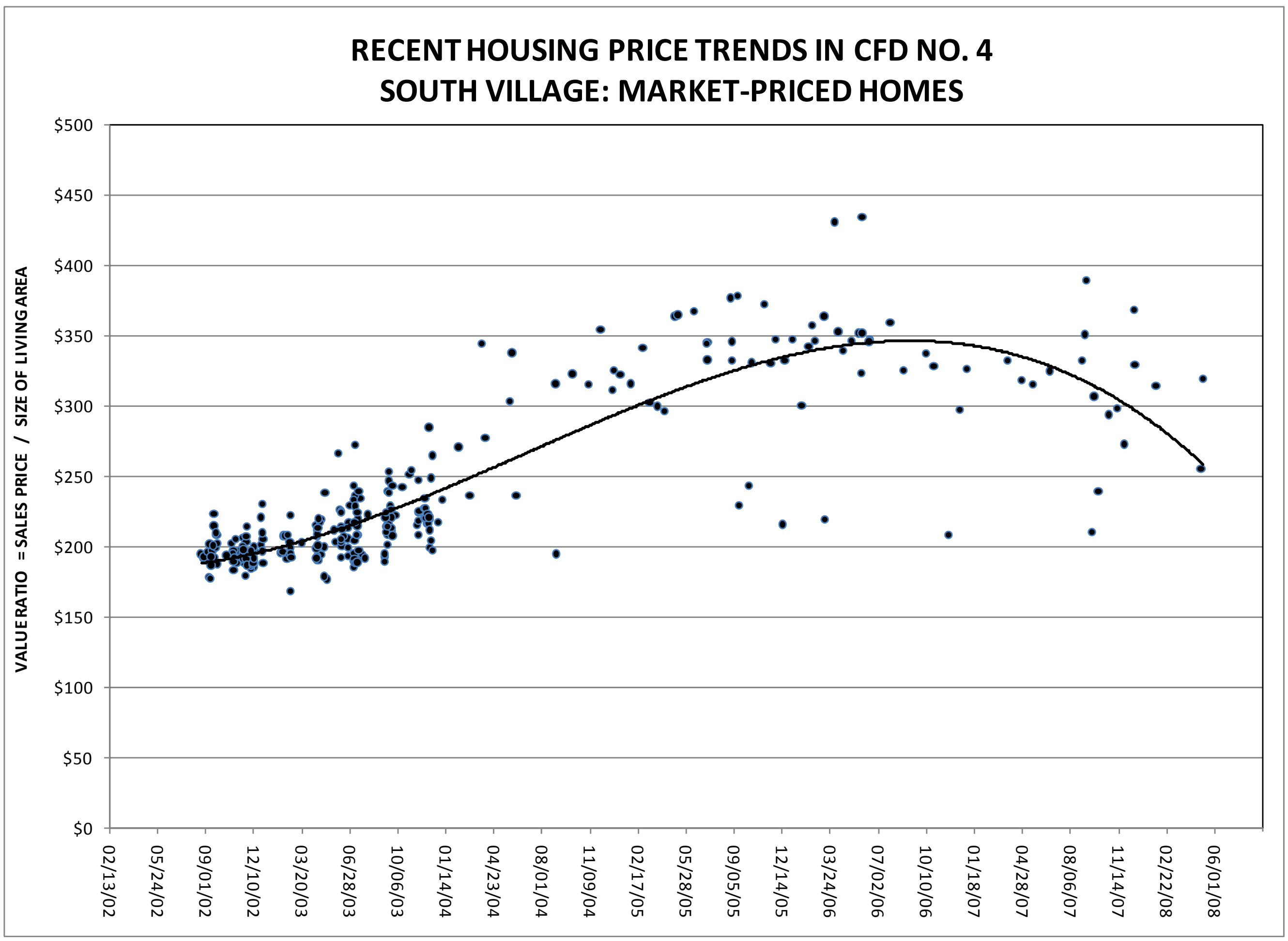
After making some minor adjustments for sales that did not have complete information, the number of sales amounted to 282; of these, 213 were original sales and the other 69 were resales.

Based upon an analysis of the sales dates and value ratios for the 282 home sales in the South Village, including original sales as well as resales, the trend line reflects the following:

- Prices increased from August 2002 to June 2006, with value ratios rising from approximately $190/sq.ft. to approximately $345/sq.ft., an increase of about 45%.

- Prices reached a peak level in June 2006, with value ratios at approximately $345/sq.ft.

- Since June 2006, prices have decreased, with value ratios declining from $345/sq.ft. to $257/sq.ft., a decline of about -26%.



Price Trends for Homes – North Cluster

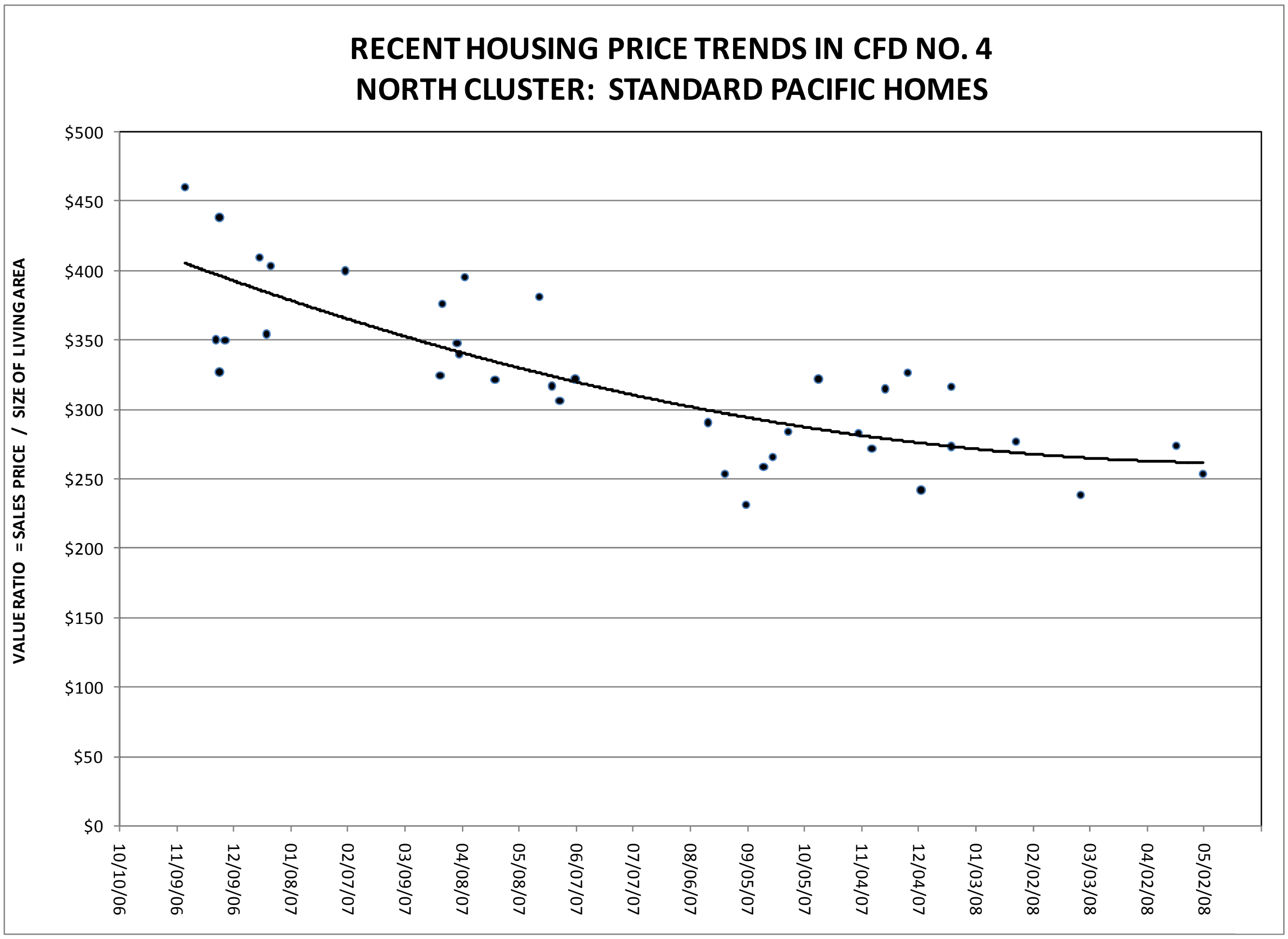
The North Cluster is an active project by Standard Pacific Homes, Avaron, with entitlements for 58 single-family detached homes; of these, 38 have been closed as of early May 2008.

Pricing and sales information was available on these 38 homes.

Based upon an analysis of the sales dates and value ratios for the 38 detached homes in the North Cluster, the trend line reflects the following:

- Value ratios have decreased from November 2006 to May 2008, from approximately $405/sq.ft. to approximately $260/sq.ft., a decrease of about -36%.

- According to information obtained from the sales office, the current value ratio for the homes, after taking into consideration the base prices represented by the sales office less the incentives that are presently being offered to purchasers, amounts to approximately $297/sq.ft., on the average.



SECTION III

CFD NO. 4 RECENT RESALES: ASSESSED VALUES VS. RECENT SALES PRICES:

Most of the homes in the CFD's original project by Shea Homes were originally sold primarily during the 2002-2003 time period. During the January 2003 through July 2006 time period, San Diego County, as a whole, has experienced some significant increases in housing prices. However, since August 2006, housing prices have declined significantly from their recent peak levels.

The purpose of this section is to "test" the Assessed Values for the homes in CFD No. 4 that have been resold during January 2007 through May 2008. Specifically, for each of the homes that have been resold, information is available on the following:

- Recent Actual Sales Prices, for homes sold since January 1, 2007.

  AND

- Assessed Values (AVs) as of January 1, 2007, for these same homes.

Thus, a comparison of the Recent Sales Price and the Assessed Value for a home reveals whether the former is higher, similar or lower than the latter.

- If the Recent Sales Price is higher than the AV as of January 1, 2007, then the revised AV as of January 1, 2008 is likely to be higher than the Current AV. This is because the Assessors' Office, in setting the new AV as of January 1, 2008, will consider the recent, higher sales price.

- However, if the Recent Sales Price is lower than the Current AV as of January 1, 2007, then the revised AV as of January 1, 2008 is likely to be lower than the Current AV. This is because the Assessors Office, in setting the new AV as of January 1, 2008, will consider the recent, lower sales price.

(Note: Some purchasers of homes qualify for reduced AVs due to their ability to transfer the AV from their prior residences; the analysis herein identified one such situation where the original AV was significantly lower than the original purchase prices, and so this parcel was excluded from the analysis.)

Accordingly, Empire identified 18 home resales in CFD No. 4 that occurred during January 1, 2007 to early May 2008; their Recent Sales Prices during January 2007 through early May 2008, as of their dates of sale, and their Assessed Values as of January 1, 2007 are as follows:

- The Recent Sales Prices of the homes amounted to $975,250, on the average, and they had a range of $642,500 to $1,299,000.

- The Assessed Values as of January 1, 2007 of the homes amounted to $790,913, on the average, and they had a range of $540,397 to $1,078,140.

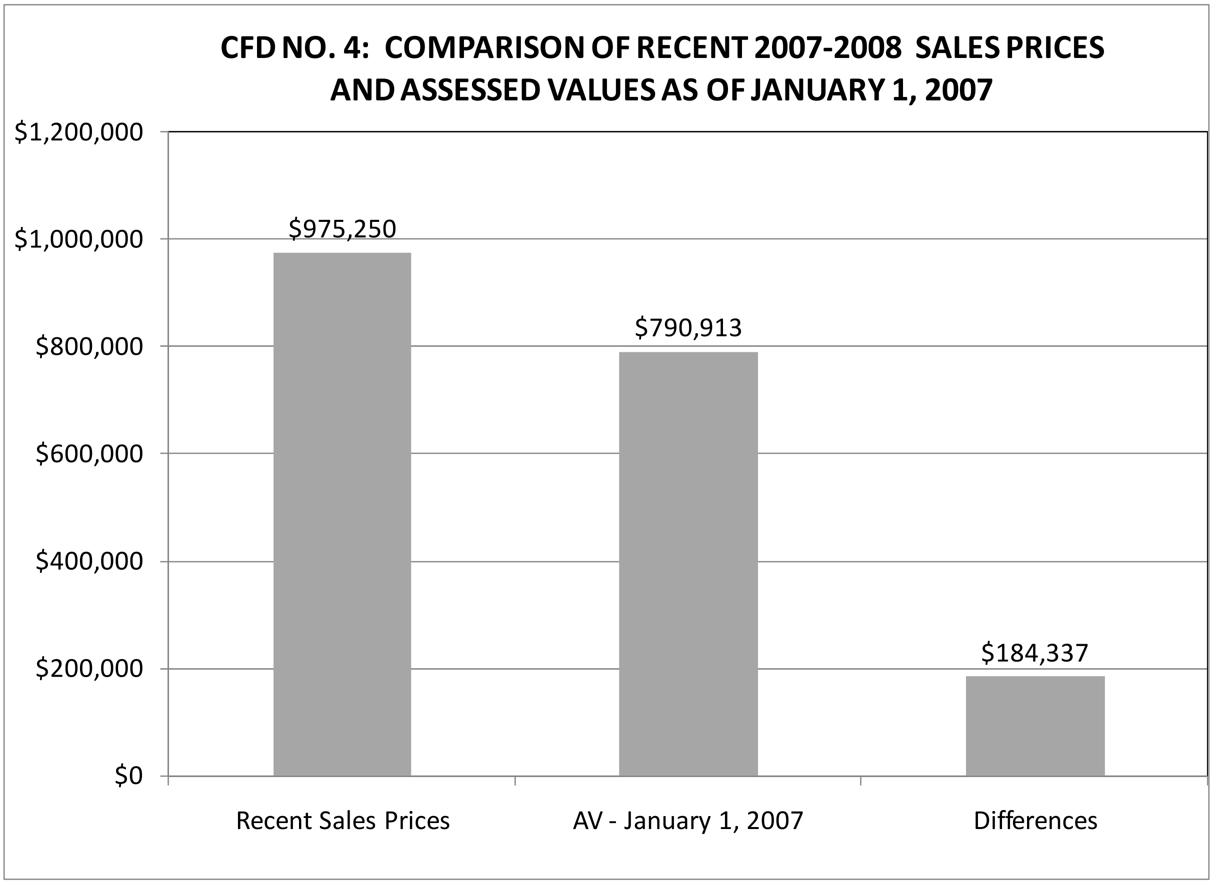
- So, the Recent Sales Prices are higher than their AVs as of January 1, 2007 by approximately $184,337, or +23.3%, on the average. This positive differential can be attributed to these homes being previously sold primarily during 2002 and 2003, during the early stages of the rapid escalation of housing prices.

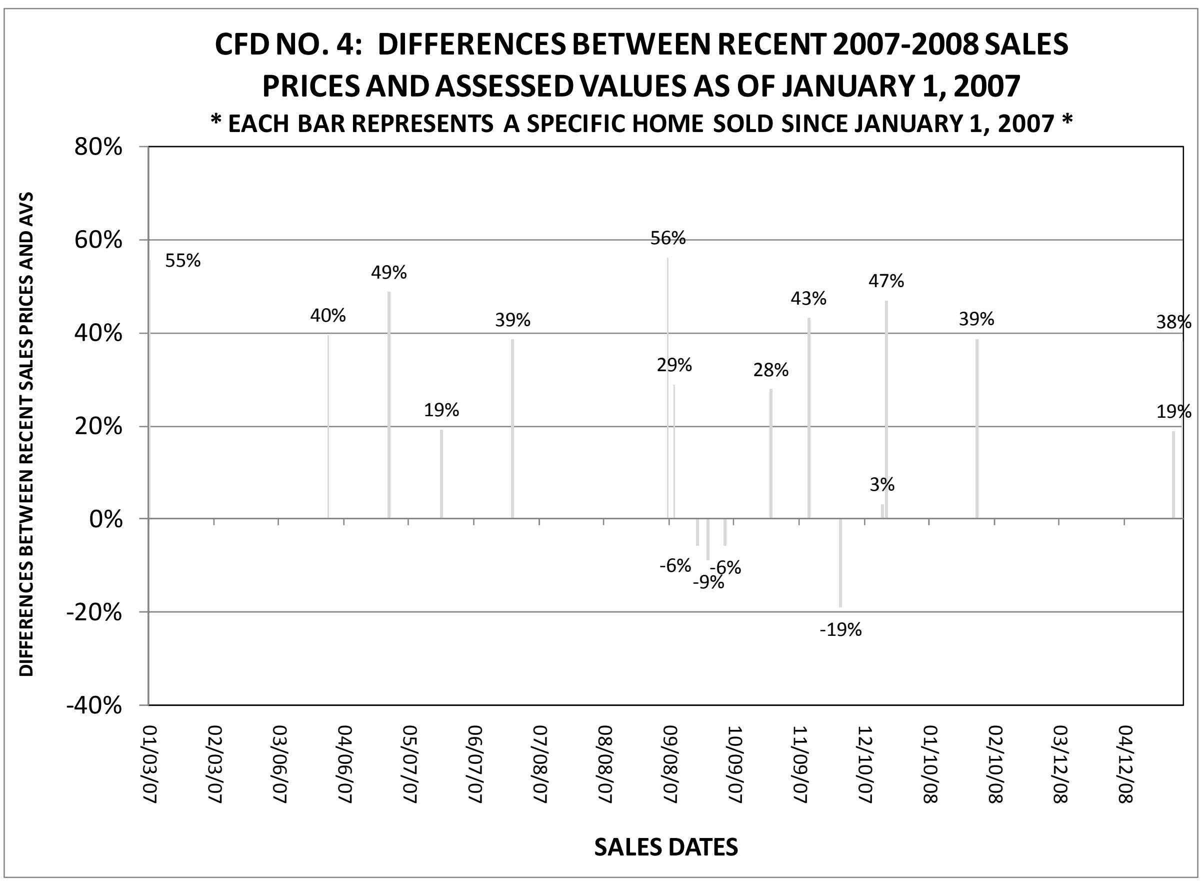
- Further detailed analysis of the 18 recent home sales revealed the following:

    - Fourteen of them had Recent Sales Prices that were higher their AVs as of January 1, 2007.

    - Four of them had Recent Sales Prices that were lower than their AVs as of January 1, 2007, and all of these sales occurred since September 2007.

The result of Recent Sales Prices being higher than the AV as of January 1, 2007 by +23.3% should NOT be extrapolated to the AV of the remaining homes in CFD No. 4, since the specific characteristics of the homes sold since January 1, 2007 probably differs from those that did not sell – such as date of original sales, etc.


CFD NO. 4: COMPARISON OF RECENT 2007-2008 SALES PRICES AND ASSESSED VALUES AS OF JANUARY 1, 2007
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
$975,250
$790,913
$184,337
Recent Sales Prices
AV - January 1, 2007
Differences


CFD NO. 4: DIFFERENCES BETWEEN RECENT 2007-2008 SALES PRICES AND ASSESSED VALUES AS OF JANUARY 1, 2007
* EACH BAR REPRESENTS A SPECIFIC HOME SOLD SINCE JANUARY 1, 2007 *
DIFFERENCES BETWEEN RECENT SALES PRICES AND AVS
80%
60%
40%
20%
0%
-20%
-40%
55%
40%
49%
19%
39%
56%
29%
-6%
-9%
-6%
28%
43%
-19%
3%
47%
39%
38%
19%
01/03/07
02/03/07
03/06/07
04/06/07
05/07/07
06/07/07
07/08/07
08/08/07
09/08/07
10/09/07
11/09/07
12/10/07
01/10/08
02/10/08
03/12/08
04/12/08
SALES DATES

PART II: MORTGAGE LOAN CHARACTERISTICS OF HOMEOWNERS

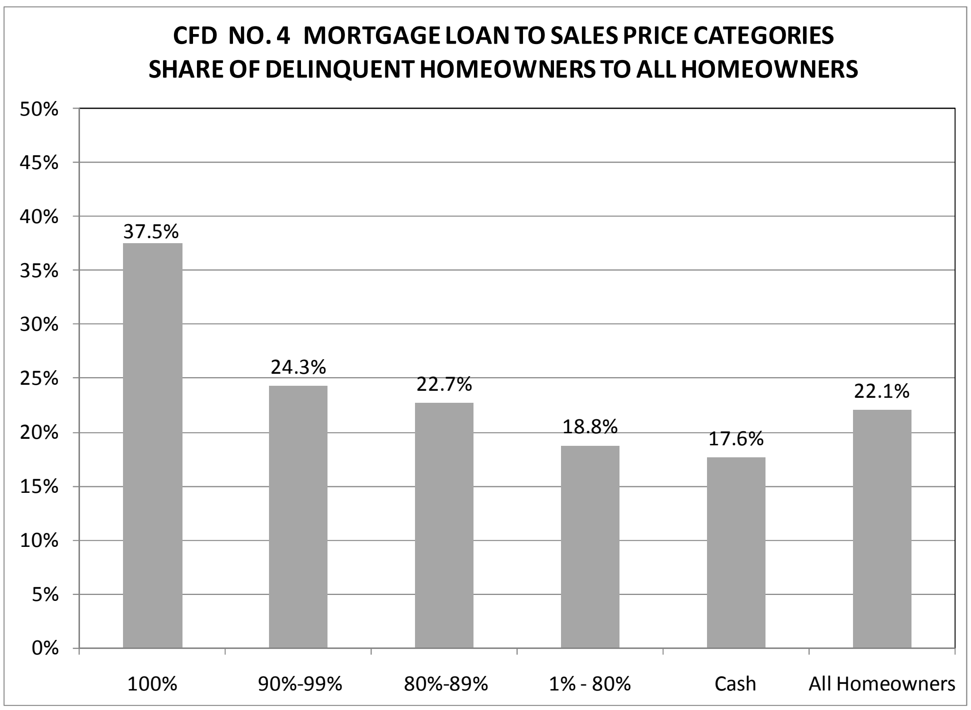
OVERVIEW / EXECUTIVE SUMMARY

The study focuses on two specific characteristics of the mortgage loans in CFD No. 4: first, a comparison of the mortgage loan to sales price ratios (ML-SP) and, second, the percentage of adjustable rate loans.

- Section I below provides this information for all of the current homeowners for which such information is available.

- Section II provides this information for parcels that have been delinquent in the payment of their special taxes and also for those parcels that have not been delinquent.

As revealed by an analysis of the comparative categories of ML-SP, those parcels with higher ML-SP tended to have higher rates of delinquencies for special tax payments; furthermore, such parcels also had a higher percentage of adjustable rate loans as well.



So, the proportion of homeowners that have been delinquent in the payment of their special taxes represents approximately 22.1% of all of the homeowners. However, this is not reflective of the current delinquency rate for CFD No. 4, since many of the prior special tax delinquencies have been cured.

- For the highest ML-SP category, 37.5% of these homeowners have been delinquent, almost double the overall average. (Note: There are a total of 8 homeowners in this category.)
- By comparison, for the lowest ML-SP category, below 80%, 18.8% of those homeowners have been delinquent. (Note: There are a total of 96 homeowners in this category.)

Thus, the incidence of special tax delinquencies is approximately two times higher for the 100% category as compared to the below 80% category.

Description of Data Sources for Mortgage Loans and Special Tax Payments

The credibility of the statistical analysis on the mortgage loan characteristics and tax delinquencies depends upon the accuracy/reliability of the data utilized.

Sources of Data

Accordingly, Empire Economics (Empire) compiled data on mortgage loan characteristics and tax delinquencies from a broad set of sources, in order to maximize the accuracy/reliability of the data, and these included the following;

- Standard Pacific Homes and Artesian Investments, LLC, the builders for the two currently active projects, provided some information on the original sales of their homes. The data included the sales dates and the sales prices as well as the mortgage loan characteristics, such as the amount of the loan and the mortgage interest rate.
  Standard Pacific Homes on 35 homes and Artesian Investments, LLC on 3 homes

  Note: The 218 units in the South Village project by Shea Homes, has been sold-out for some time; sales and mortgage information were **not** available from this builder.

- First American Core Logic, a major provider of real estate data that Empire has utilized for more than ten years, was used to compile information on the mortgage loan characteristics for the homeowners, including original sales as well as resales. The data provided included the sales dates and the sales prices as well as the mortgage loan characteristics such as the amount of the loan and the type of the mortgage structure, fixed or adjustable, among other factors such as the sizes of the homes, etc.
  294 homes with 36 types of data

- The Special Tax Administrator for CFD No. 4 provided information on the features of the homes, such as the tract numbers, sizes of living area, dates of building permit issuance, etc.
  294 homes with 24 types of data

- The City of San Diego provided information that it obtained from the San Diego County Assessor's Office on the special tax delinquencies that occurred during the 2003-2004 FY through 2007-2008 FY, for both the first and the second installments.

The data were originally compiled from various sources during the mid to latter part of January 2008 and then updated during the mid to latter part of June 2008.

Consolidation of Databases

Empire has spent significant time consolidating these databases, in order to arrive at the most accurate/reliable data set for the mortgage/tax analysis, and this included the following procedures:

- The database from the Special Tax Administrator included, for each of the homes, their Assessor Parcel Numbers, or APNs.

    - These APNs were used to link the other databases which also had APNs, and this included First American Core Logic.
    - However, for the builders databases, APNs were not provided, and so other correlating factors were utilized, such as the sales prices and the date of the sale.

- After linking the various databases, the next step was to cross-check data and also maximize the amount of data:

    - The cross-checking involved comparing the data among the various databases for consistency, such as sales prices, sales dates, mortgage amounts and so forth.
    - The maximizing process involved selecting data from the various databases to compile the most comprehensive data set.
        - For instance, the builder databases, which covered the majority of the homes, provided mortgage rate information on most of these whereas the other databases were missing some mortgage data, and so the builder data was used to fill in some of these gaps.
        - On the other hand, the First American database had information on homes that had resales, whereas the builder data had only original sales, and so the former were used to fill in such gaps.

So, the result of this process was the formulation of a database that is comprehensive as well as accurate/reliable and, as such, provides a substantive foundation of the mortgage/tax analysis.

Further information on the various databases, including full details on all on the parcels, are included in Appendix I and also Appendix II, filed under separate cover with the City of San Diego.

Affordable Homes: CFD No. 4 has 40 homes located in the South Village that are “affordable”, and, as such have some special features that are useful to mention:

- These homes were sold at below market prices, and their Assessed Values are also based upon these below market prices.
- The affordable homes have very low levels of Special Taxes, $100 per home per year.

SECTION I

MORTGAGE LOAN CHARACTERISTICS FOR CURRENT HOMEOWNERS

This section performs an analysis of the mortgage loan characteristics of the current homeowners in CFD No. 4 as of May 2008, using the most recent sales prices as well as the most recent mortgage loan characteristics. Consequently, for homes that have been resold, the following analysis uses the resale prices as well as the most recent mortgage loan characteristics for the current owners.

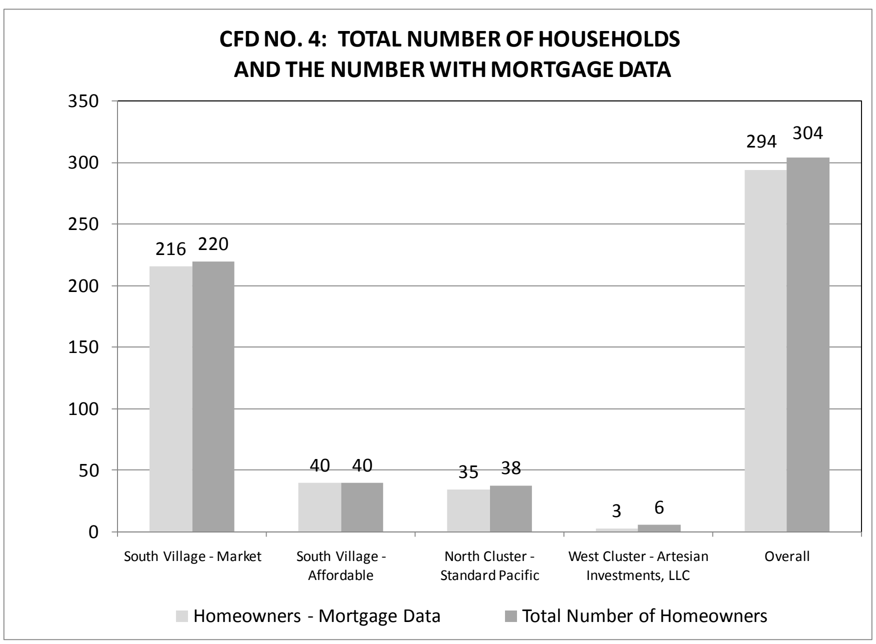
Number of Homes with Sufficient Data for Analysis

CFD No. 4 has a total of 304 housing units that have been constructed and sold to homeowners, and these are spread among four different project areas.

South Village – Market Priced Homes by Shea Homes; sold out.
South Village – Affordable Homes by Shea Homes; sold-out.
North Cluster – Standard Pacific Homes; currently active.
West Cluster – Artesian Investments, LLC; currently active.

With regards to selecting specific homes for the mortgage analysis, Empire's primary criteria was whether there was sufficient information to calculate the Mortgage Loan to Sales Price Ratio (ML-SP), which requires the sales price of the home as well as the amount of the mortgage loan(s).

Based upon a review of the data available for each of the homes in the database, the number of homes that had sufficient information for calculating the ML-SP amounted to 294 of the homeowners, or approximately 97% of all the homes in the CFD. From a statistical perspective, this is regarded as being an excellent sample for performing the mortgage loan analysis for the homeowners in CFD No. 4.

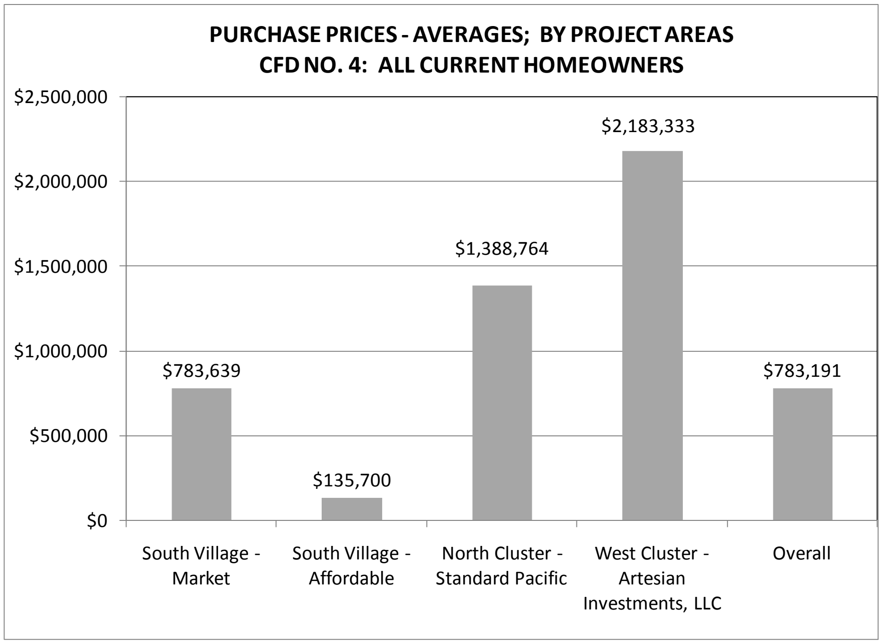


For the remainder of this section, references to "all" homeowners refers to the 294 homeowners for which there are sufficient data to calculate their ML-SP.

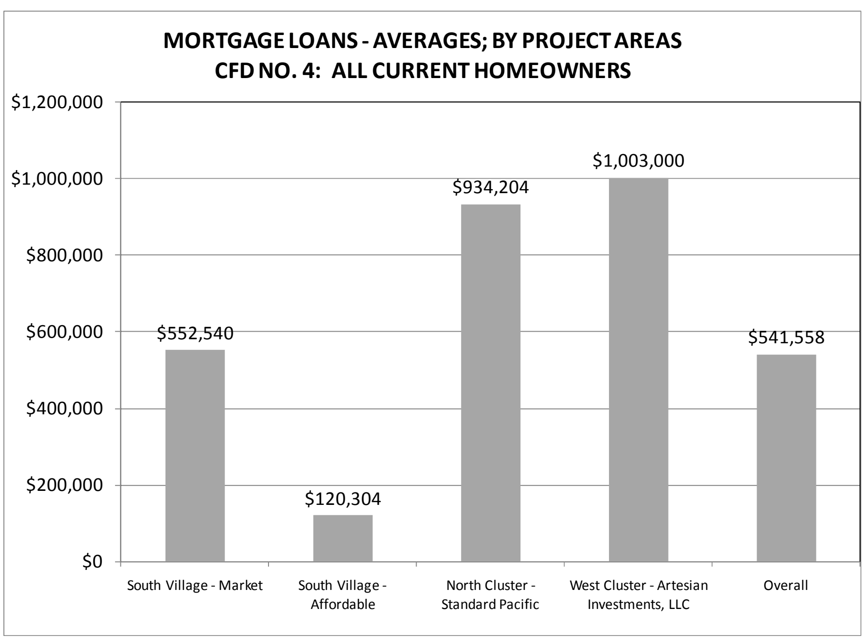
Housing Prices and Mortgage Loan Amounts

As a starting point for the analysis, it is useful to provide an overview of the components underlying the calculation of the ML-SP, the sales prices of the homes and mortgage loan amounts.

- The sales prices for all of the homeowners during the entire 2003-May 2008 time period amounts to $783,191, on the average, and the sales prices vary from a low of $135,700 for the affordable homes in the South Village to a high of $2,183,333 for the West Cluster-Artesian Investments, LLC.



- The mortgage loans for all of the homeowners during the entire 2003-May 2008 time period amounts to $541,558, on the average, and the mortgage loans vary from a low of $120,304 for the affordable homes in the South Village to a high of $1,003,000 for the West Cluster-Artesian Investments, LLC.



Mortgage Loan to Sales Price Ratios for Homeowners

The Mortgage Loan to Sales Price Ratios (ML-SP) for the homeowners were calculated using the following formula:

$$\frac{\text{First and Second Loans}}{\text{Sales Price}}$$

(Note: The data compiled from the various sources report only the first and second loans on a parcel, and so additional loans are not included in this analysis; however, in general, such additional loans are not common occurrences.)

Accordingly, for each of the ML-SP categories, the proportions of homeowners in the various categories are as follows:

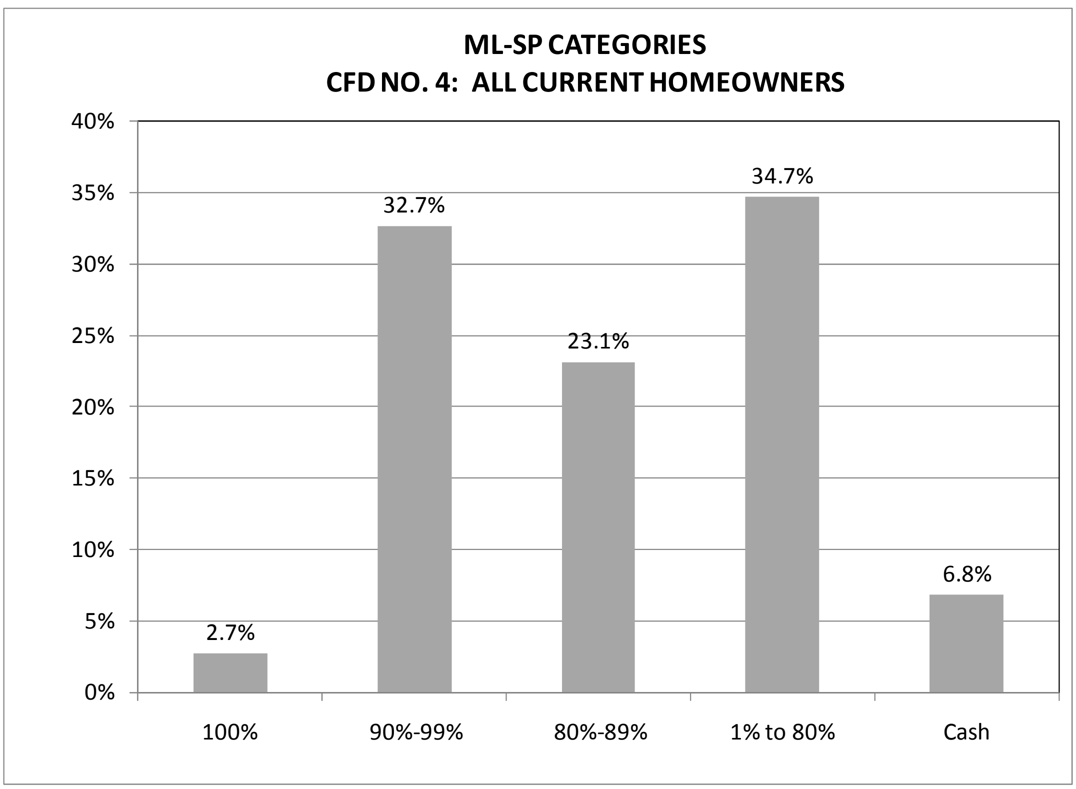
100% ML-SP: 2.7% of the current homeowners

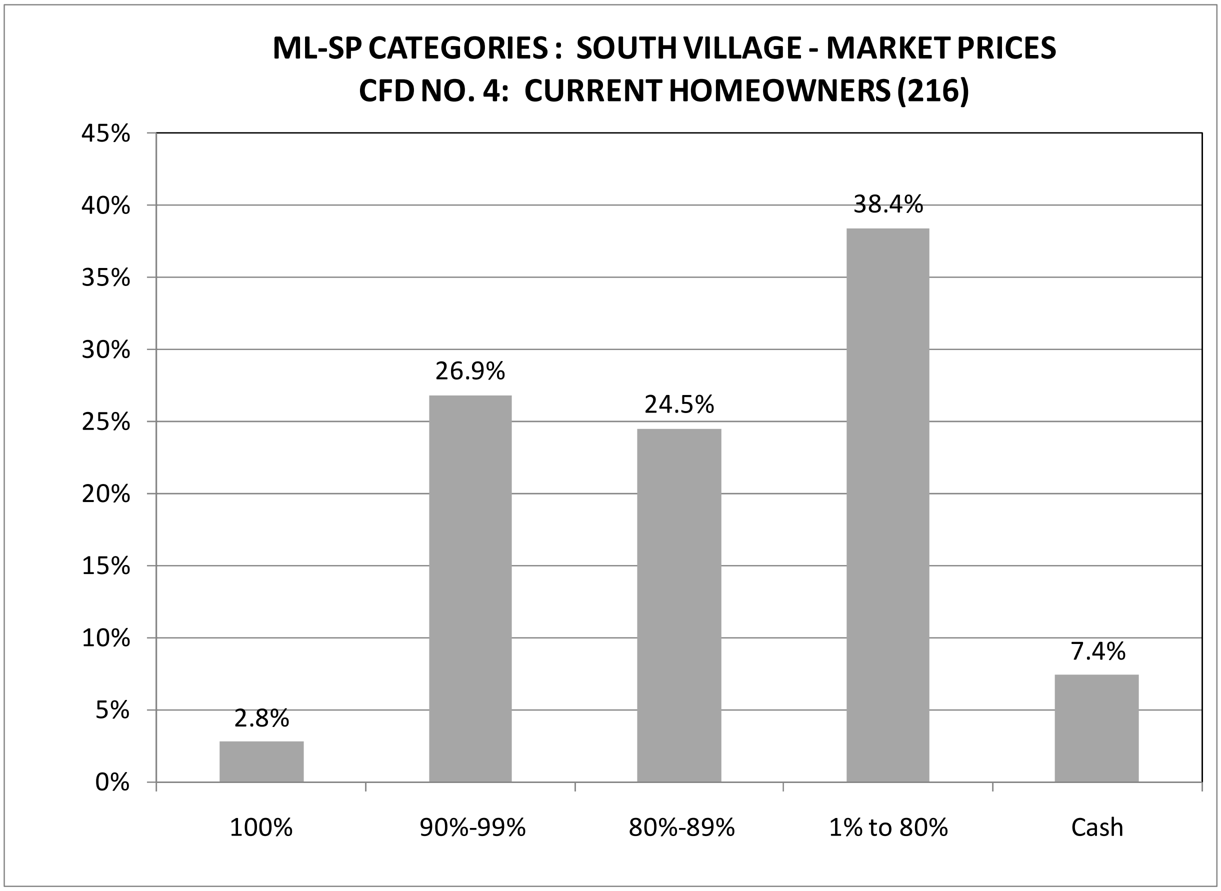
90-99% ML-SP: 32.7% of the current homeowners

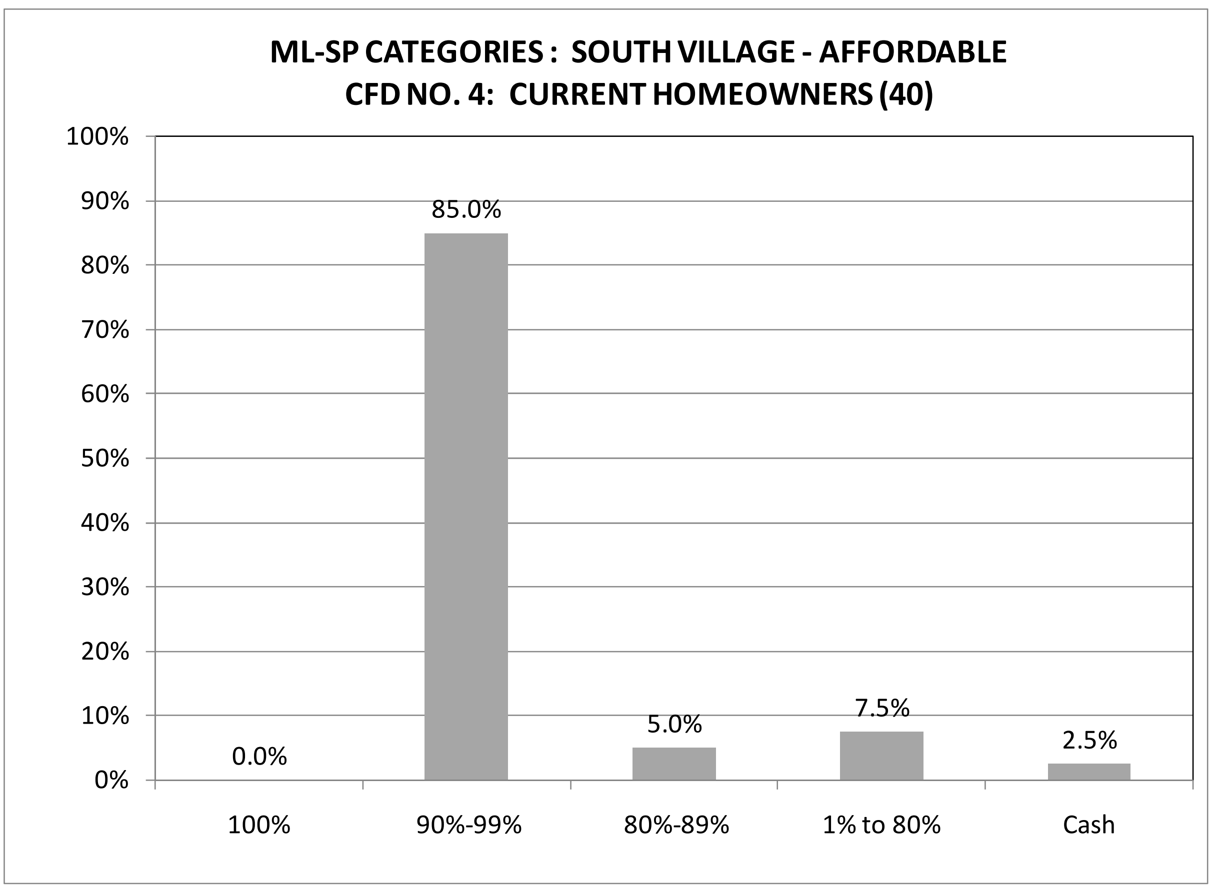
80-89% ML-SP: 23.1% of the current homeowners

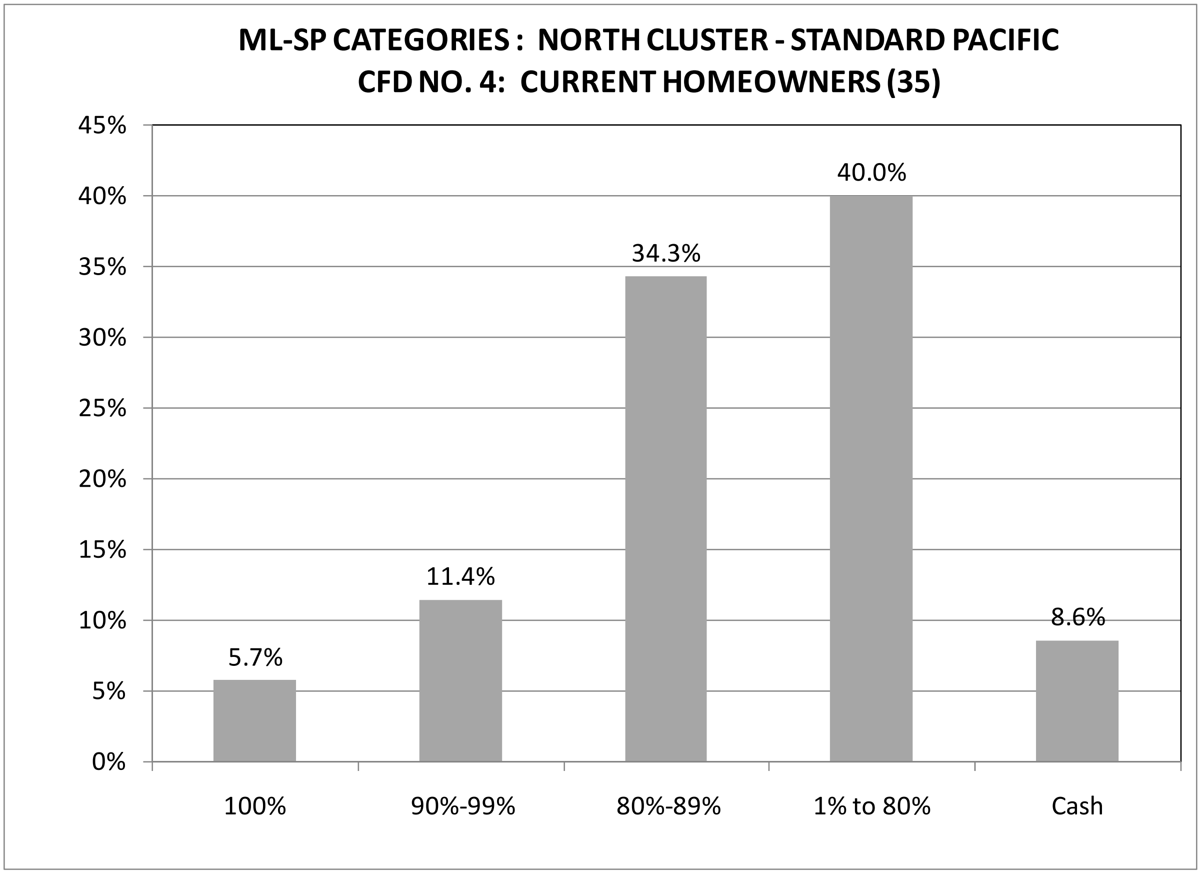
1% - 80% ML-SP: 34.7% of the current homeowners

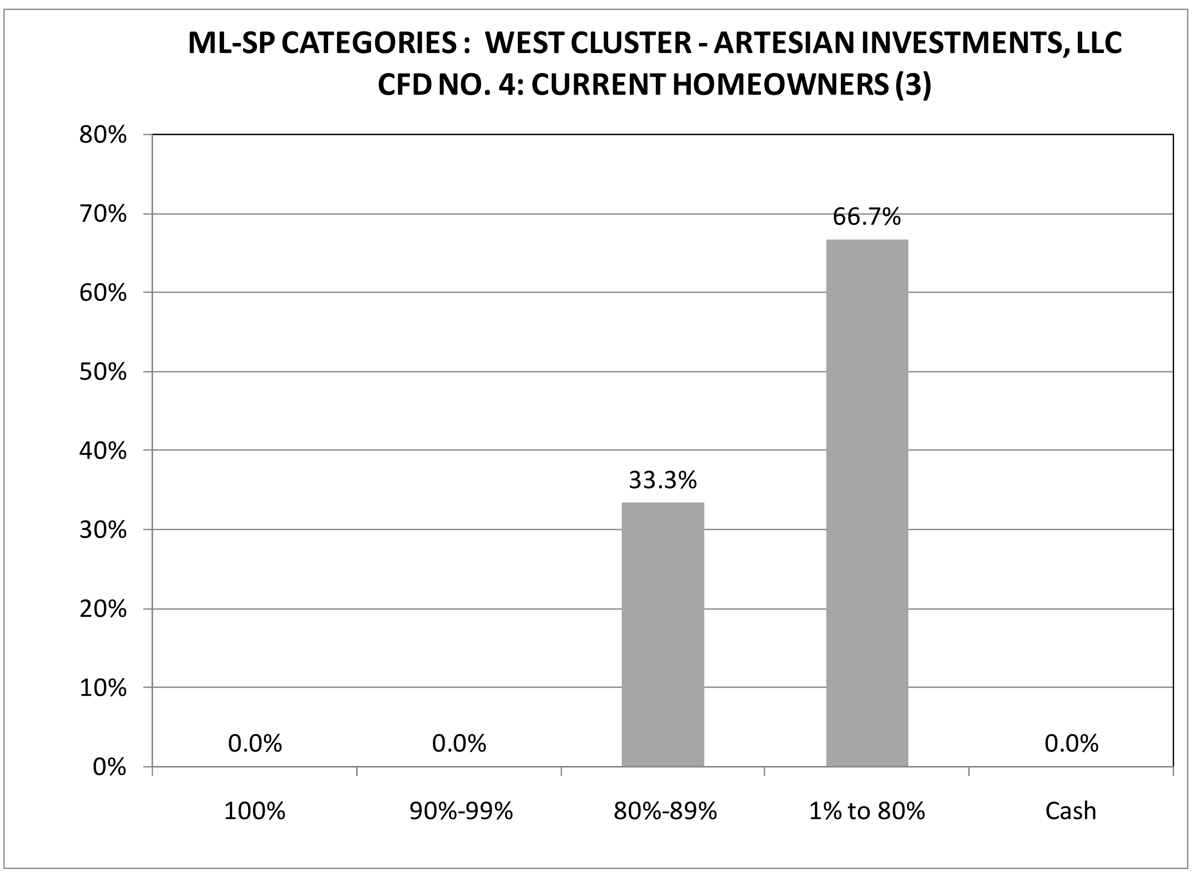
Cash: 6.8% of all the homeowners




ML-SP CATEGORIES : SOUTH VILLAGE - MARKET PRICES
CFD NO. 4: CURRENT HOMEOWNERS (216)
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
2.8%
26.9%
24.5%
38.4%
7.4%
100%
90%-99%
80%-89%
1% to 80%
Cash


ML-SP CATEGORIES : SOUTH VILLAGE - AFFORDABLE
CFD NO. 4: CURRENT HOMEOWNERS (40)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0.0%
85.0%
5.0%
7.5%
2.5%
100%
90%-99%
80%-89%
1% to 80%
Cash


ML-SP CATEGORIES : NORTH CLUSTER - STANDARD PACIFIC
CFD NO. 4: CURRENT HOMEOWNERS (35)
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
5.7%
11.4%
34.3%
40.0%
8.6%
100%
90%-99%
80%-89%
1% to 80%
Cash


ML-SP CATEGORIES : WEST CLUSTER - ARTESIAN INVESTMENTS, LLC
CFD NO. 4: CURRENT HOMEOWNERS (3)
80%
70%
60%
50%
40%
30%
20%
10%
0%
0.0%
0.0%
33.3%
66.7%
0.0%
100%
90%-99%
80%-89%
1% to 80%
Cash

Types of Loans for Homeowners: Adjustable vs. Fixed

The following analysis computes the types of mortgage loans for the households that had mortgage loans; of the 294 households, there were 274 that had mortgage loans, and the remaining 20 were cash purchasers.

The types of mortgage loans that the homeowners utilize can generally be classified as either fixed (level payment and fully amortized) or adjustable (payments vary according to changes in interest rates and also types of mortgage loan structures). Accordingly, these were compiled for all of the current homeowners, and these reflect the mortgage loans that were in place at the time of the purchase of the homes.

Although it would be desirable to further classify the adjustable mortgage loans by various categories, such as sub-prime, teaser rates, and option ARMs, among others, the public records do not provide sufficient information to perform such classifications.

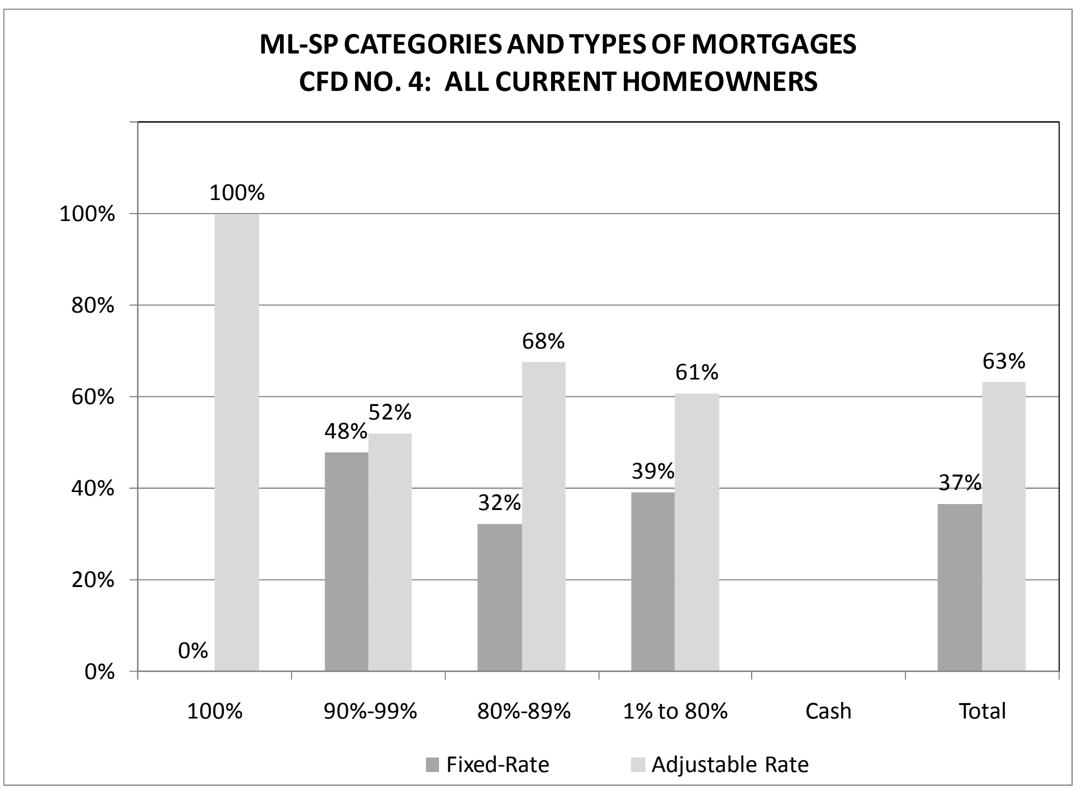
The share of adjustable rate loans amounted to 63% for all of the homeowners that had mortgages, and the distribution by the ML-SP categories is as follows:

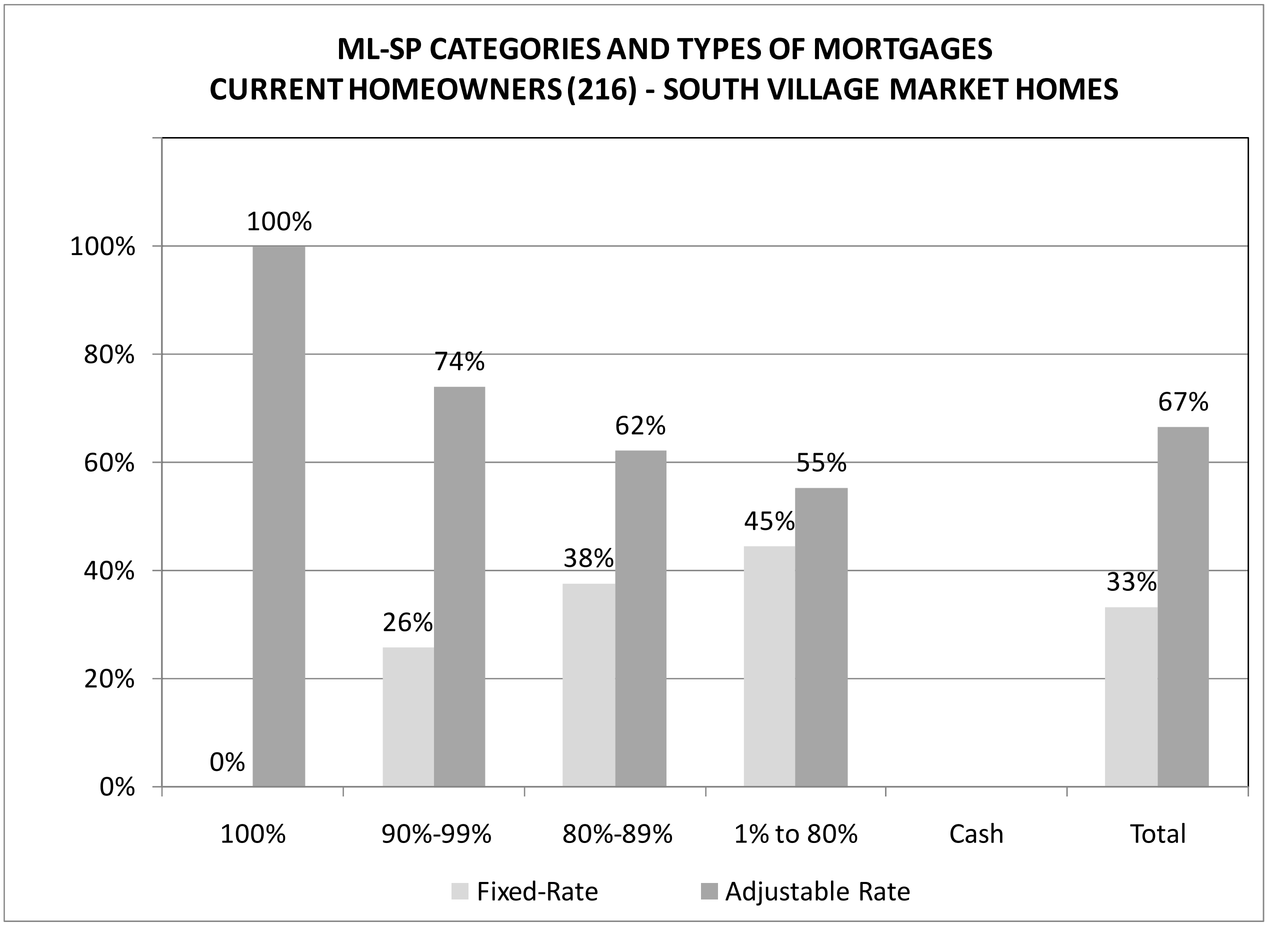
100% ML-SP: 100% of the current homeowners with adjustable rate loans.

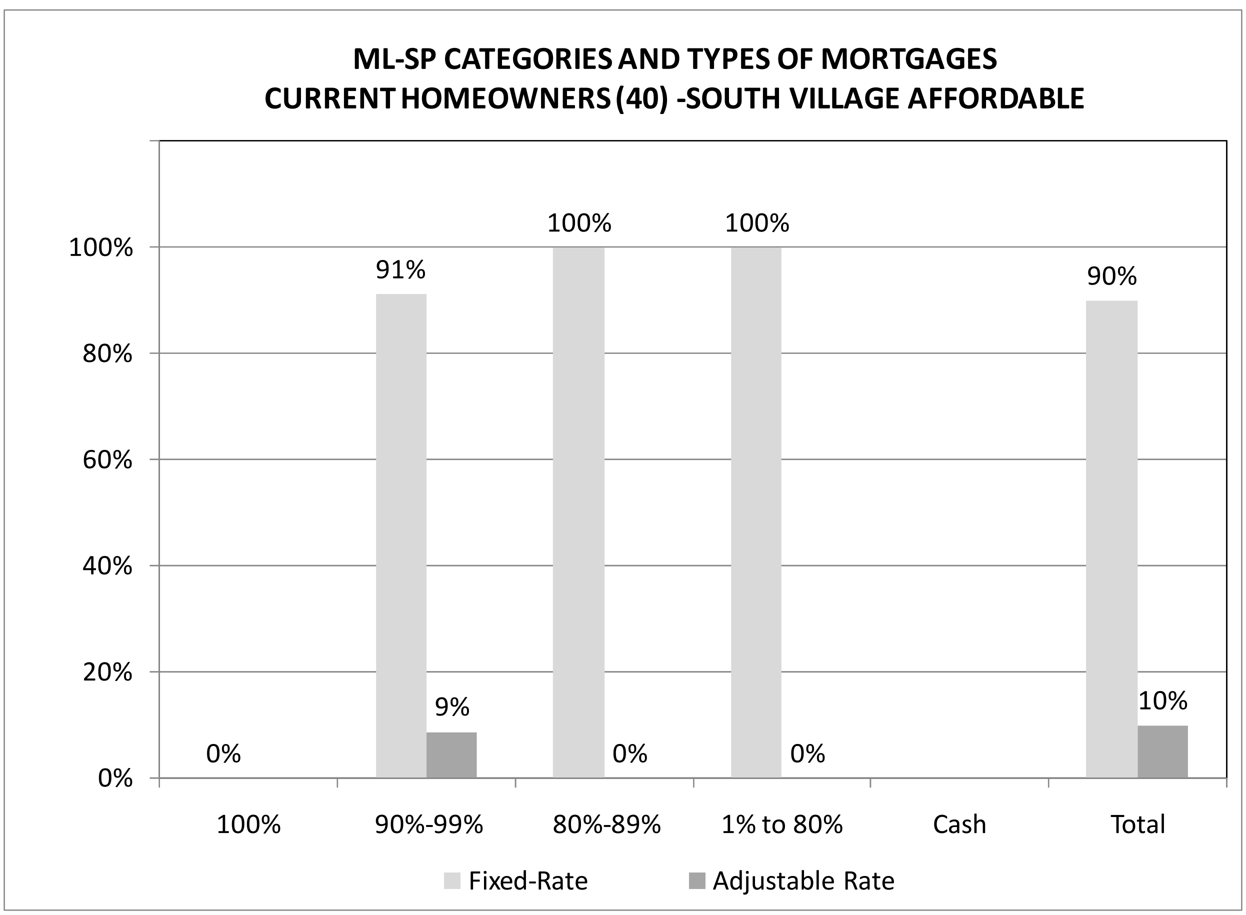
90-99% ML-SP: 52% of the current homeowners with adjustable rate loans.

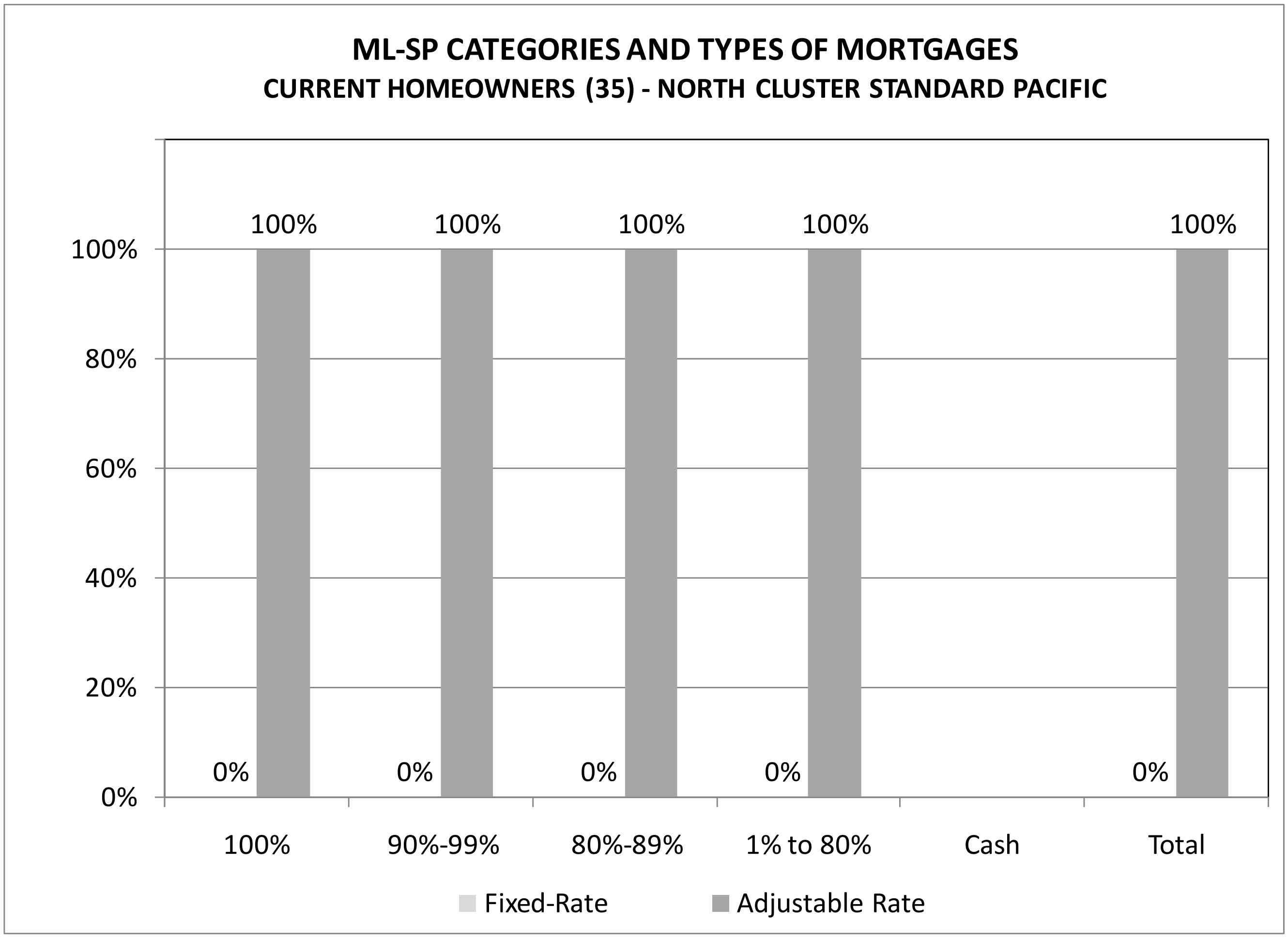
80-89% ML-SP: 68% of the current homeowners with adjustable rate loans.

Below-80% ML-SP: 61% of the current homeowners with adjustable rate loans.




ML-SP CATEGORIES AND TYPES OF MORTGAGES
CURRENT HOMEOWNERS (216) - SOUTH VILLAGE MARKET HOMES
100%
80%
60%
40%
20%
0%
100%
74%
62%
67%
55%
45%
38%
33%
26%
0%
100%
90%-99%
80%-89%
1% to 80%
Cash
Total
Fixed-Rate
Adjustable Rate


ML-SP CATEGORIES AND TYPES OF MORTGAGES
CURRENT HOMEOWNERS (40) -SOUTH VILLAGE AFFORDABLE
100%
80%
60%
40%
20%
0%
100%
100%
91%
90%
9%
10%
0%
0%
0%
100%
90%-99%
80%-89%
1% to 80%
Cash
Total
Fixed-Rate
Adjustable Rate



<u>West Cluster: Artesian Investments, LLC: No Data Available on Types of Loans</u>

Recent Trends in Interest Rates for Adjustable Rate Loans for New/Existing Homes

The above statistics reveal that homeowners that have relatively high Mortgage Loan – Sales Price (ML-SP) ratios also tend to have adjustable rate mortgages as well. Accordingly, the purpose of this section is to discuss the recent trends in interest rates for adjustable rate mortgages.

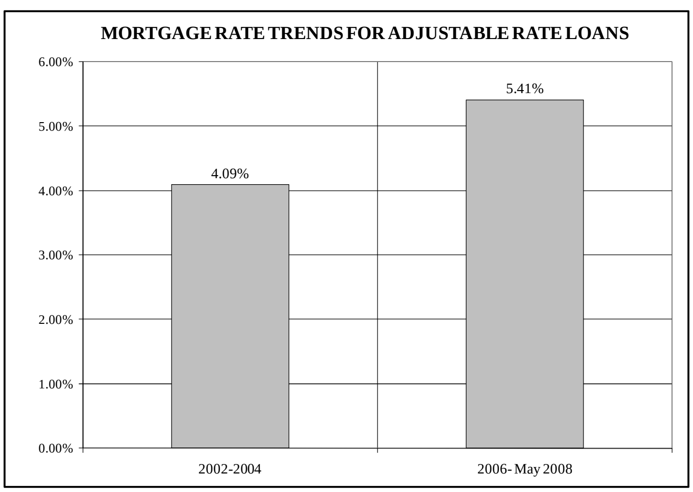
Before proceeding, it is significant to note that there are many types of adjustable rate mortgages, from those that may adjust on a monthly basis to others that adjust only after a designated number of years, such as 3, 5 or 10 years. So, the following analysis is not meant to imply that all of the homeowners with adjustable rate mortgages have had certain changes in their levels of mortgage loan payments, but rather to provide an indication of the overall financial trends.

Additionally, adjustable loans may, over time, change to fixed rate loans; however, such data is not readily available from public records.

To compare changes in the interest rates on one-year adjustable mortgages, two time periods are selected, 2002-2004 and also January 2006-May 2008; the rates on such mortgages were compiled from Freddie Mac, a major provider of statistics on mortgages loans.

- **Initial Purchase Interest Rates:** This represents the 2002-2004 time period, when most of the homes in CFD No. 4 were initially sold to homeowners: during this time, adjustable rates averaged approximately 4.09%.

- **Recent Interest Rates:** This represents the 2006-May 2008 time period, during which adjustable rates were relatively stable; adjustable rates averaged approximately 5.41%. The recent interest rates would apply to homeowners originating loans with adjustable rates during January 2006-May 2008 as well as the prior purchasers of homes during 2002-2004 that used adjustable rate mortgages, assuming that their rates have been adjusted on an on-going basis.



So, considering the increase in the adjustable rates by approximately 1.32% between these two time periods, those homeowners whose rate adjusted, on the average, would have +16.5% higher monthly payments as compared to their monthly payment during the 2002-2004 time period. As mentioned above, homeowners may have their rates fixed for a number of years, and in such cases, the adjustments to current market rates may not have yet occurred.

SECTION II:

COMPARISON OF MORTGAGE LOAN CHARACTERISTICS: DELINQUENT VS. NON-DELINQUENT HOMEOWNERS

This section performs an analysis of the mortgage loan characteristics of the property owners by two categories: delinquent and non-delinquent, with regards to the payment of their Special Taxes; accordingly their characteristics are described below.

Delinquent Homeowners: This group represents homeowners that were reported to have been delinquent in the payment of their Special Taxes for any of the 2003-2004 through 2007-2008 fiscal years; such delinquencies include missing at least one tax payment, either the first and/or the second installment.

The special tax delinquencies referred to herein include any delinquencies for either the 1st or 2nd installment; the amount of such delinquencies during a fiscal year is higher than the delinquencies typically reported at the end of a fiscal year, since the latter excludes some that were cured.

For the homeowners in this group, the information on their mortgage characteristics reflect the loan amounts, loan types and interest rates that existed at the time of the delinquency. However, it is worthwhile to note that some of these properties were resold thereafter, and so their mortgage characteristics have changed, based upon the mortgage loan characteristics of the new homeowners.

Furthermore, the three homes that were closed after the time of the most recent delinquency report are excluded, since these are new homeowners.

The City of San Diego has information that it obtained from the San Diego County Assessors Office that shows the number of parcels that currently have outstanding delinquencies. The current number of delinquencies is significantly below the number of delinquencies reported herein, since most of the prior delinquencies have been cured.

Non-Delinquent Homeowners: This group represents homeowners that were reported to have made all of their Special Tax payments for the 2003-2004 through 2007-2008 fiscal years in a timely manner.

Accordingly, the mortgage loan characteristics of the homeowners in these two groups are now discussed.

The number of parcels/homes analyzed in this section amounts to 291 of the total of 304 parcels/homes.

Number of Homes with Sufficient Data for Analysis

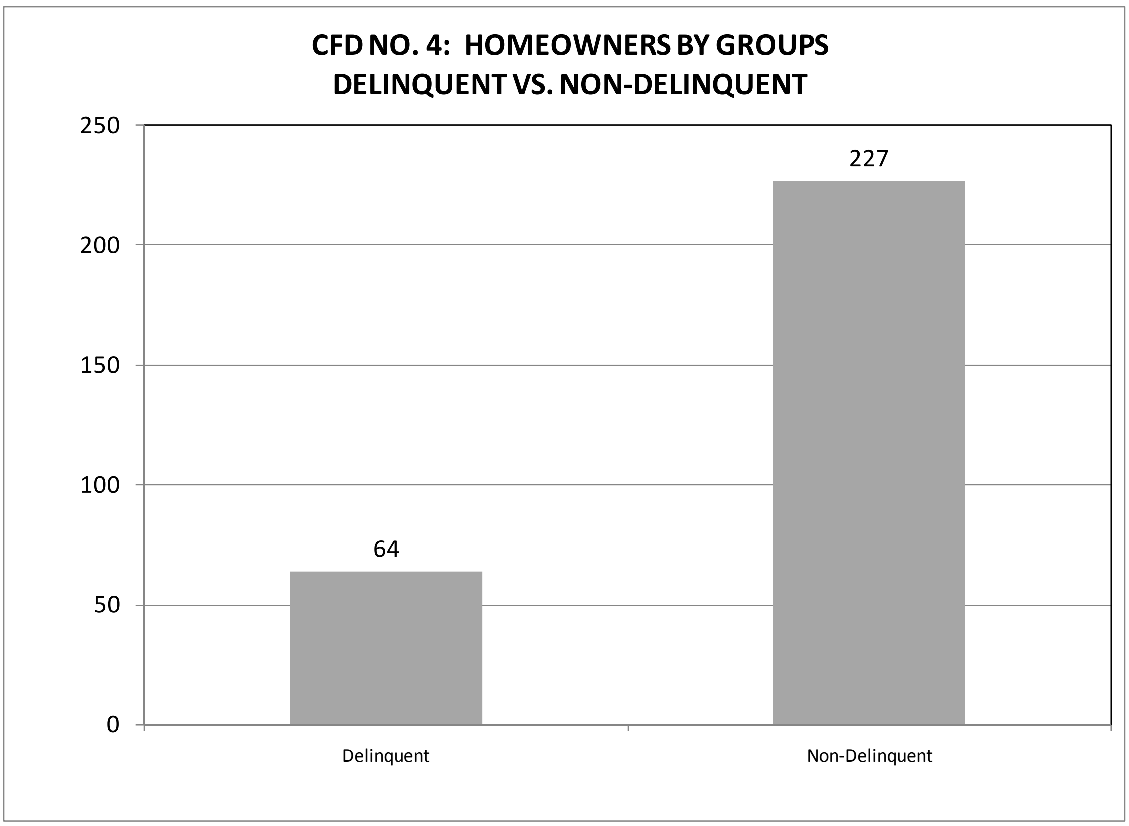
With regards to selecting specific homes for the mortgage analysis, Empire's primary criteria was whether there was sufficient information to calculate the Mortgage Loan to Sales Price Ratio (ML-SP), which requires the sales price of the home as well as the amount of the mortgage loan(s). Within CFD No. 4, there are a total of 291 homeowners for which there are sufficient data to calculate their ML-SP, and so all these are utilized herein.

Additionally, for each of the homes, information was also compiled on the payments of their special taxes, where they were on time or, in some cases, delinquent.

So, for purposes of the following analysis, Empire calculates statistics for the following two groups:

Homeowners with no Tax Delinquencies: 227
(All payments made in a timely manner.)

Homeowners with Tax Delinquencies: 64
(One or more payments not made in a timely manner.)



For the remainder of this section, references to "non-delinquent" and "delinquent" homeowners refers to the 291 homeowners for which there are sufficient data to calculate their ML-SP.

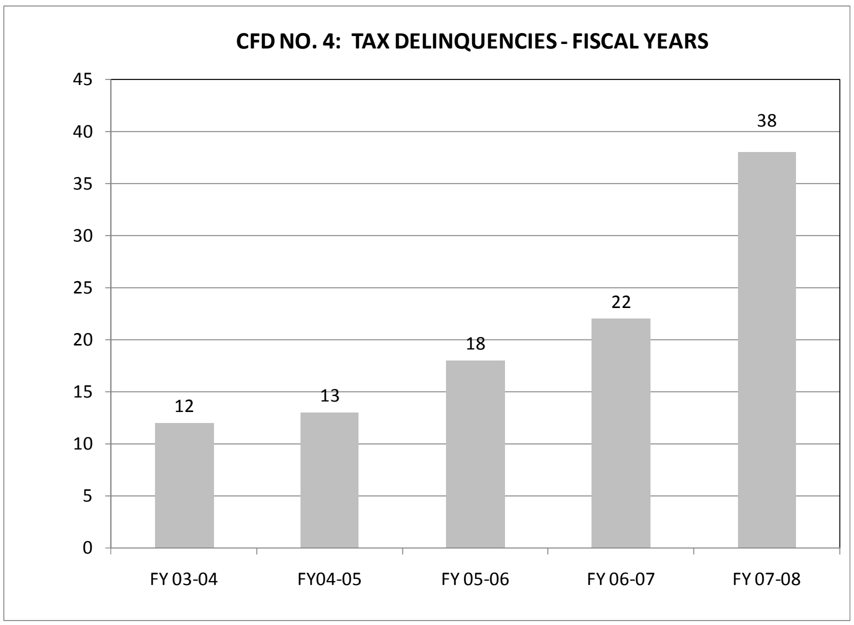
With regards to the South Village-Affordable Homes, only one of the 40 homeowners were in the delinquent group.

Number of Homeowners with Tax Delinquencies

With regards to the 64 homeowners in the delinquent group, they have had 103 occurrences of not paying their Special Taxes in a timely manner. Specifically, a delinquency occurs if a homeowner misses either the first or second installment, and this applies to all of the fiscal years.

- There was an increasing trend for Special Tax delinquencies, with occurrences rising from 12 for 2003-2004 FY to 22 for the 2006-2007 FY; **additionally, during this time period, there was a significant increase in the number of homeowners as well.**

- For the current 2007-2008 FY, delinquencies rose significantly, amounted to approximately 38, and this is for the first as well as the second installments.
  (Note: The San Diego County Assessor's Office reported all of the parcels that had special tax delinquencies for CFD No. 4 for the various Fiscal Years; however, some of these parcels were not use in the mortgage analysis herein since they did not have a sufficient amount of data.)



With regards to the number of Special Tax delinquencies, there were a total of 103 missed tax payments.

To estimate the aggregate number of payments that the homeowners have made, Empire considered the following factors:

- The potential number of special tax payments that could be made, this includes five complete fiscal years, with two payments per year.
- The mortgage analysis covers 291 of the 304 parcels, since there was not sufficient mortgage information available for the remaining parcels.
- Although parcels are levied as developed property once a building permit is issued, parcels are not ready for occupancy until the residences are constructed; Empire assumed that this process would take an additional twelve months.

Based upon a consideration of these factors, Empire has conservatively estimated that there were approximately 1,874 tax payments for occupied homeowners/parcels during the 2003-2004 FY to 2007-2008 FY of which 103 were not paid in a timely manner.

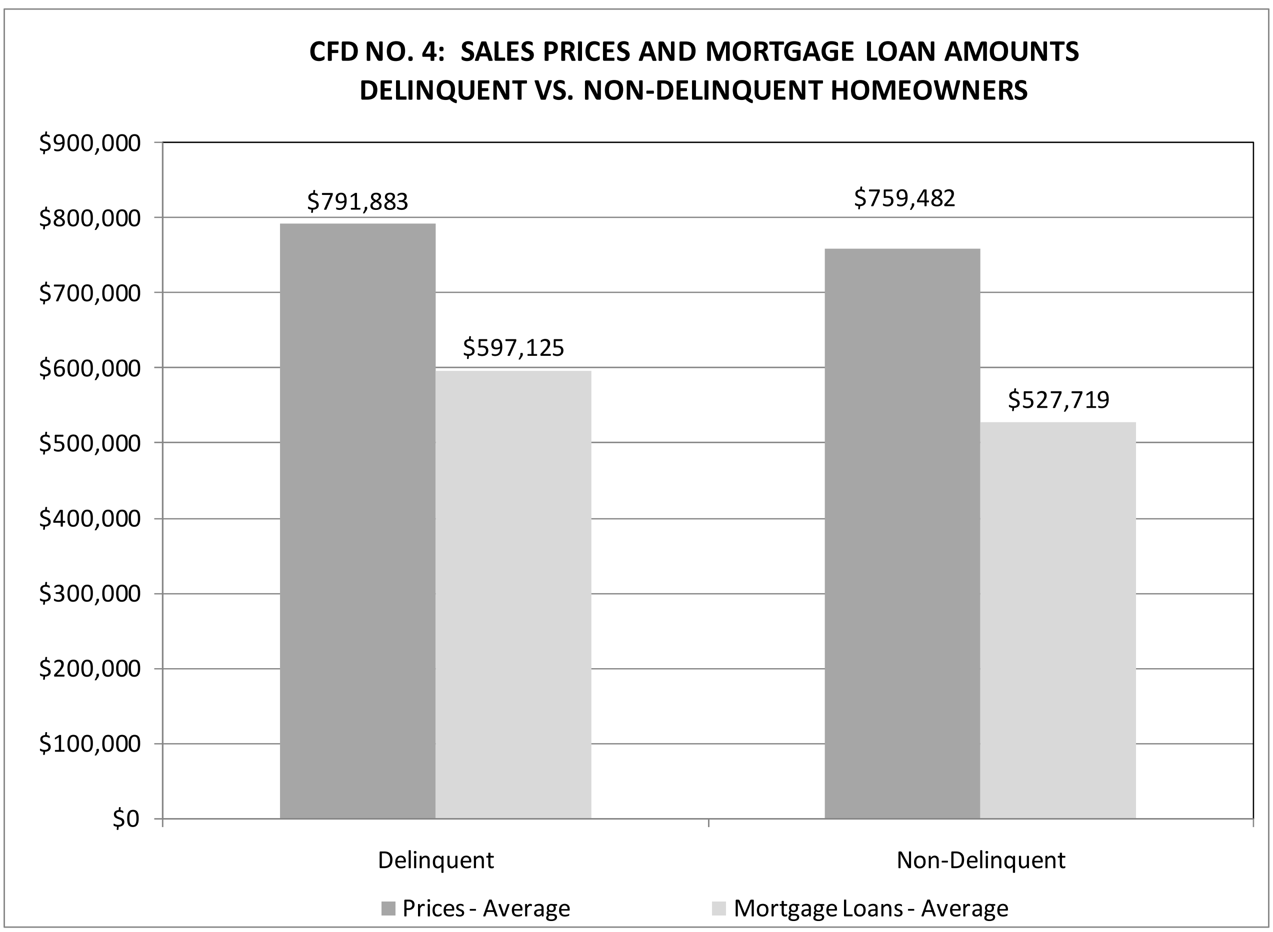
Housing Prices and Mortgage Loan Amounts

As a starting point for the analysis, it is useful to provide an overview of the components underlying the calculation of the ML-SP, the sales prices of the homes and mortgage loan amounts.

- The sales prices for the homeowners in the delinquent group amount to $791,883 while sales prices for the homeowners in the non-delinquent group amount to $759,482, on the average. So, sales prices for the homeowners in the delinquent group are slightly higher than the non-delinquent group, a difference of approximately +4.3%.

- The mortgage loans for the homeowners in the delinquent group amount to $597,125 while mortgage loans for the homeowners in the non-delinquent group amount to $527,719. So, mortgage loans for the homeowners in the delinquent group are substantially higher than for the homeowners in the non-delinquent group, by approximately +13.2%.

Although the sales prices were only slightly higher for the delinquent as compared to the non-delinquent homeowners, their mortgage amounts were substantially higher for the delinquent group as compared to the non-delinquent group.



Mortgage Loan to Sales Price Ratios for Homeowners

The Mortgage Loan to Sales Price Ratios (ML-SP) for the homeowners were calculated using the following formula:

First and Second Mortgage Loans

Sales Price

(Note: The data compiled from the various sources reports only the first and second loans on a parcel, and so additional loans are not included in this analysis; however, in general, such additional loans are not common occurrences.)

Accordingly, for each of the ML-SP categories, the proportions of homeowners in the various categories are as follows:
(Note: Percentages may not sum 10 100% due to rounding.)

100% ML-SP: 4.7% of delinquent homeowners
2.2% of non-delinquent homeowners

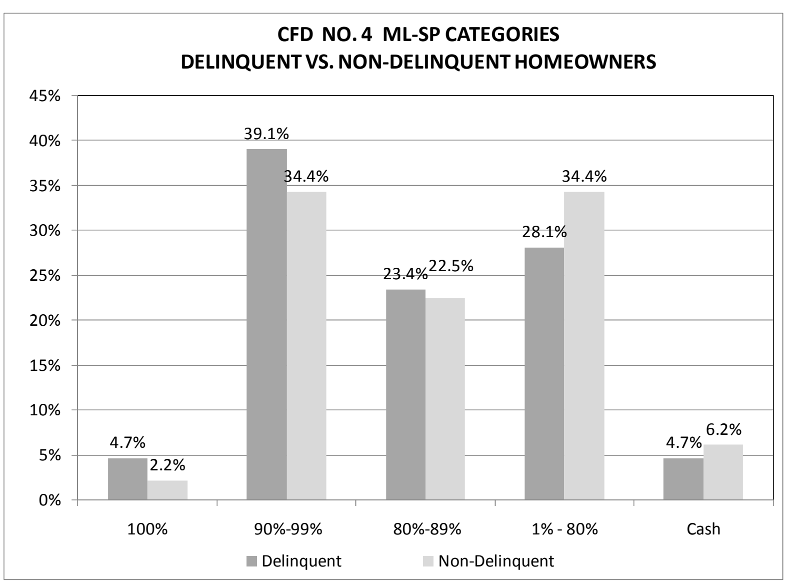
90-99% ML-SP: 39.1% of delinquent homeowners
34.4% of non-delinquent homeowners

80-89% ML-SP: 23.4% of delinquent homeowners
22.5% of non-delinquent homeowners

1%-80% ML-SP: 28.1% of delinquent homeowners
34.4% of non-delinquent homeowners

Cash: 4.7% of delinquent homeowners
6.2% of non-delinquent homeowners

So, for the homeowners that have been delinquent, they have a higher proportion of ML-SP in the higher groups (100% and 90%-99%), as compared to the non-delinquent homeowners. On the other hand, for the homeowners that have not been delinquent, they have a much higher proportion in the lower ML-SP groups (80%-89% and Below-80%) as compared to the delinquent homeowners.



Types of Loans for Homeowners: Adjustable vs. Fixed

The types of mortgage loans that the homeowners utilize can generally be classified as either fixed (level payment and fully amortized) or adjustable (payments vary according to changes in interest rates and also types of mortgage loan structures). Accordingly, these were compiled for the various groups of homeowners according to the ML-SP categories.

Although it would be desirable to further classify the adjustable mortgage loans by various categories, such as sub-prime, Teaser Rates, and Option ARMs, among others, the public records do not provide sufficient information to perform such classifications.

The shares of adjustable rate loans amounted to 59% (the balance of 41% were fixed-rate loans) for the non-delinquent group and a much higher 78% (the balance of 22% were fixed-rate loans) than for the delinquent group.

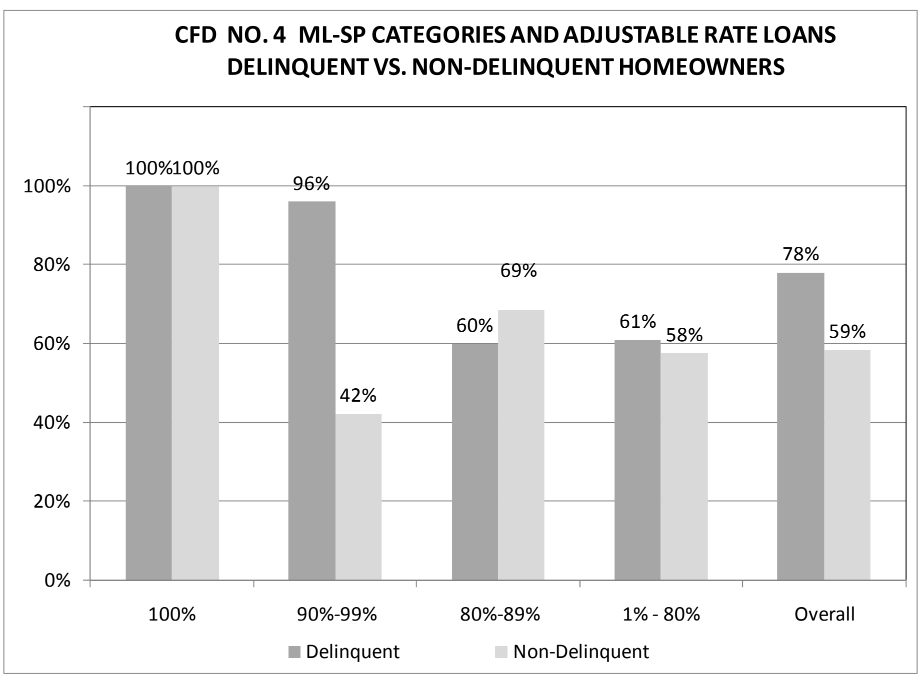
100% ML-SP: 100% of the delinquent homeowners have adjustable rates
100% of non-delinquent homeowners have adjustable rates

90-99% ML-SP: 96% of the delinquent homeowners
42% of non-delinquent homeowners

80-89% ML-SP: 60% of the delinquent homeowners
69% of non-delinquent homeowners

1-80% ML-SP: 61% of the delinquent homeowners
58% of non-delinquent homeowners

So, for the homeowners with the highest ML-SP, (a ratio of 100%), all of the homeowners had adjustable rate loans, both the delinquent as well as the non-delinquent groups. For homeowners in the 90-99% ML-SP category, the proportion with adjustable loans was significantly higher for the delinquent as compared to the non-delinquent group.



Current Non-Delinquent Households with High ML-SP

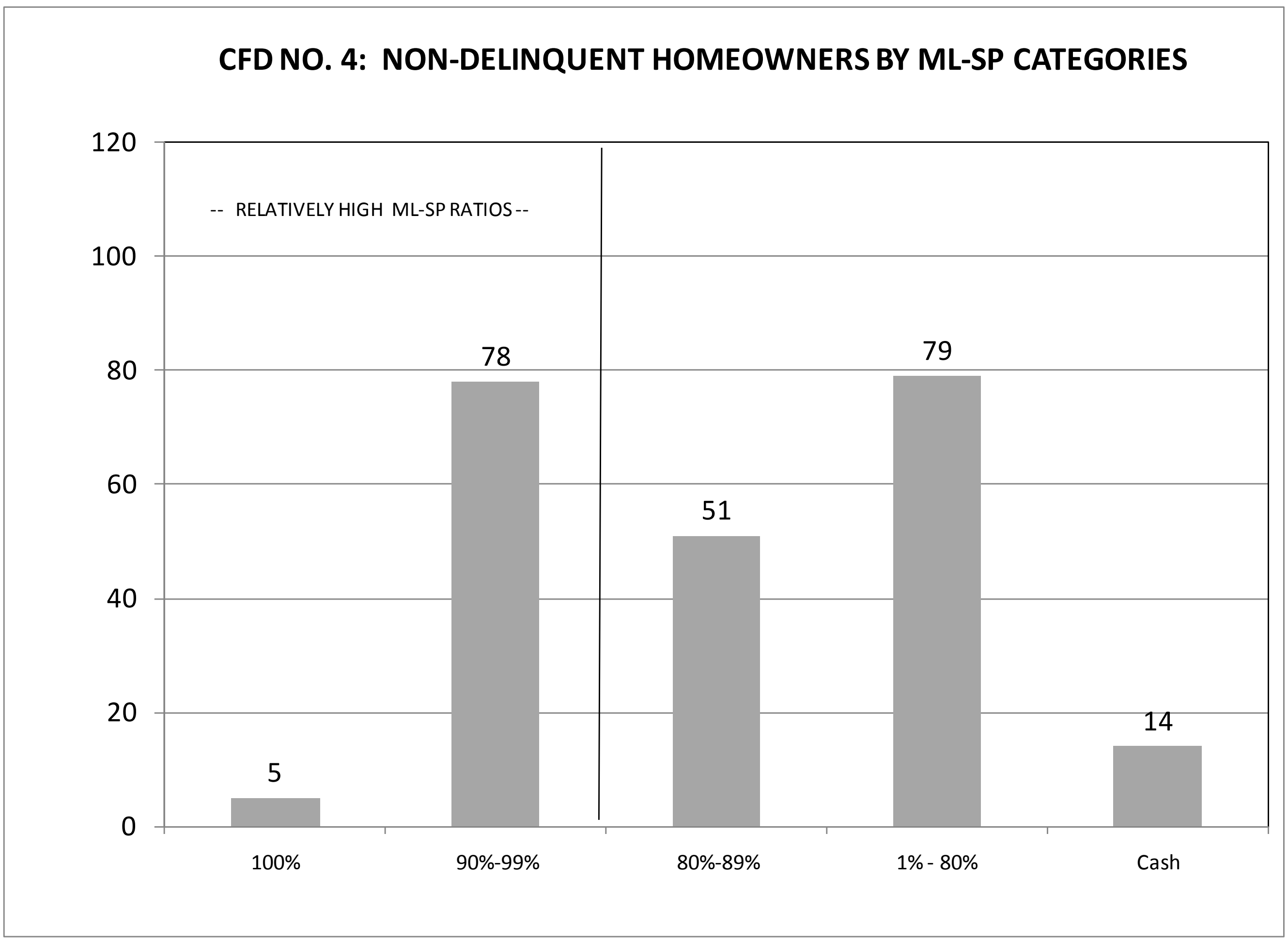
The above analysis has revealed that households that are delinquent on the payment of their Special Taxes typically have high ML-SP, due to their higher loan amounts as well as higher percentage of adjustable rate loans as compared to the mortgage loans of the non-delinquent group.

As mentioned above, the analysis performed herein does not attempt to arrive at a prediction of future special tax delinquencies for homeowners in CFD No. 4; its purpose is to describe the characteristics of the mortgage loans for the non-delinquent or delinquent homeowners.

Accordingly, out of the 294 homeowners, there were 227 that were NOT delinquent on the payment of any of their Special Taxes during the 2003-2004 FY through 2007-2008 FY. The number of non-delinquent homeowners that have relatively high ML-SP are as follows:

100% ML-SP: 5 homeowners

90-99% ML-SP: 78 homeowners



PART III

ASSUMPTIONS AND LIMITING CONDITIONS

The above analysis of the mortgage characteristics of homeowners is meant to serve as a starting point to better understand the potential relationship between mortgage structures and tax delinquencies.

With regards to potential future special tax delinquencies, in general, as well as for CFD No. 4, in particular, these will be determined by a complex set of financial and economic factors, with some of the most significant factors being as follows:

- **Future macroeconomic financial factors are difficult to predict**: For instance, significantly lower levels of mortgage rates could benefit homeowners, especially those with adjustable rate mortgages; however, higher rates would, of course, have an adverse impact.

- **The microeconomic financial resources of these homeowners can vary significantly**: For instance, homeowners that have investments in financial securities or other real estate could utilize these to assist with making their mortgage payments; however, homeowners without such alternative resources could be challenged in keeping pace with escalating mortgage payments.

The analysis performed herein does not attempt to arrive at a prediction of future special tax delinquencies for homeowners in CFD No. 4.