

*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 2011 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 2011 Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS — Tax Exemption" herein.*

**\$51,680,000**  
**COMMUNITY FACILITIES DISTRICT NO. 2**  
**(SANTALUZ)**  
**IMPROVEMENT AREA NO. 1**  
**SPECIAL TAX REFUNDING BONDS SERIES A OF 2011**

**Dated: Date of Delivery**

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

The Community Facilities District No. 2 (Santaluz) Improvement Area No. 1 Special Tax Refunding Bonds Series A of 2011 (the "2011 Bonds") are being issued and delivered by Community Facilities District No. 2 (Santaluz) (the "District") to refund all of the outstanding Improvement Area No. 1 Special Tax Bonds Series A of 2000 and the Improvement Area No. 1 Special Tax Bonds Series A of 2004. See "THE REFUNDING PLAN" herein. The District has been formed by and is located in the City of San Diego, California (the "City").

The 2011 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Bond Indenture, dated as of October 1, 2000, as amended and supplemented by the First Supplemental Bond Indenture dated as of February 1, 2004 and the Second Supplemental Bond Indenture dated as of December 1, 2011, each by and between the District and Union Bank, N.A. as trustee (the "Trustee") (together, the "Bond Indenture").

The 2011 Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of certain taxable land within Improvement Area No. 1 of 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 approved by the City Council of the City and the qualified electors within Improvement Area No. 1 of the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes." The City Council of the City is the legislative body of the District.

The 2011 Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof in book-entry form only. Purchasers of 2011 Bonds will not receive certificates representing their beneficial ownership of the 2011 Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2011 Bonds will be payable on March 1, 2012 and semiannually thereafter on each September 1 and March 1. Principal of and interest on the 2011 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 2011 Bonds. See "THE 2011 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 2011 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2011 Bonds. The 2011 Bonds are special tax obligations of the District payable solely from Special Taxes and certain other amounts held under the Bond Indenture as more fully described herein.*

The 2011 Bonds are subject to optional redemption and extraordinary mandatory redemption prior to maturity as set forth herein. See "THE 2011 BONDS — Redemption" herein.

**Certain events could affect the ability of the District to pay the principal of and interest on the 2011 Bonds when due. The purchase of the 2011 Bonds involves significant investment risks, and the 2011 Bonds may not be suitable investments for many investors. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2011 Bonds.**

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

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MATURITY SCHEDULE  
(See Inside Cover Page)

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The 2011 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the 2011 Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriters by Nossaman LLP, Irvine, California, as counsel to the Underwriters. It is anticipated that the 2011 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about December 20, 2011.

## MATURITY SCHEDULE

(Base CUSIP: 802808)<sup>†</sup>

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>†</sup></i>	<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>†</sup></i>
2012	\$2,580,000	2.000%	1.100%	CP8	2021	\$2,565,000	4.000%	4.130%	CY9
2013	2,000,000	3.000	1.720	CQ6	2022	2,665,000	4.000	4.290	CZ6
2014	2,060,000	3.000	2.210	CR4	2023	2,775,000	4.250	4.470	DA0
2015	2,115,000	3.000	2.600	CS2	2024	2,890,000	4.375	4.640	DB8
2016	2,180,000	3.000	2.870	CT0	2025	3,025,000	4.500	4.780	DC6
2017	2,250,000	3.000	3.150	CU7	2026	3,145,000	5.250	4.720 <sup>c</sup>	DD4
2018	2,315,000	3.125	3.400	CV5	2027	3,315,000	5.250	4.820 <sup>c</sup>	DE2
2019	2,380,000	3.375	3.660	CW3	2028	3,490,000	5.000	5.000	DF9
2020	1,455,000	3.750	3.940	CX1	2029	3,645,000	5.000	5.030	DG7
2020	1,000,000	5.000	3.940	DJ1	2030	3,830,000	5.100	5.100	DH5

<sup>†</sup> Copyright 2011, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The District takes no responsibility for the accuracy of such data.

<sup>c</sup> Yield to first optional call date of September 1, 2021, at par.

**COMMUNITY FACILITIES DISTRICT NO. 2**

**CITY COUNCIL**

**Serving as the Legislative Body of Community Facilities District No. 2**

Sherri S. Lightner (*District 1*)

Kevin Faulconer (*District 2*)

Todd Gloria (*District 3*)

Tony Young (*District 4*)

Carl DeMaio (*District 5*)

Lorie Zapf (*District 6*)

Marti Emerald (*District 7*)

David Alvarez (*District 8*)

**BOND COUNSEL AND DISCLOSURE COUNSEL**

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

**FINANCIAL ADVISOR**

Fieldman, Rolapp & Associates  
Irvine, California

**SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.  
Newport Beach, California

**TRUSTEE**

Union Bank, N.A.  
Los Angeles, California

**VERIFICATION AGENT**

BondResource Partners, LP

No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriters to give any information or to make any representations in connection with the offer or sale of the 2011 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District, the Trustee or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2011 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Beneficial Owners of the 2011 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board, or a nationally recognized municipal securities depository.

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

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

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

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

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

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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as set forth in the Continuing Disclosure Certificate, a form of which is attached as Exhibit D, 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 2011 Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of such bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2011 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof, and such public offering prices may be changed from time to time by the Underwriters.**

**The 2011 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The 2011 Bonds have not been registered or qualified under the securities laws of any state.**

# IMPROVEMENT AREA NO. 1 LOCATION MAP



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**\$51,680,000**  
**COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ)**  
**IMPROVEMENT AREA NO. 1**  
**SPECIAL TAX REFUNDING BONDS SERIES A OF 2011**

**INTRODUCTION**

**General**

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of 2011 Bonds (defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX C — “SUMMARY OF BOND INDENTURE — Definitions” herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance of the \$51,680,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 1 Special Tax Refunding Bonds Series A of 2011 (the “2011 Bonds”). The proceeds of the 2011 Bonds will be used to refund all of the Improvement Area No. 1 Special Tax Bonds Series A of 2000 (the “2000 Bonds”), originally issued in the aggregate principal amount of \$56,020,000 and now outstanding in the principal amount of \$47,180,000, and all of the District’s Improvement Area No. 1 Special Tax Bonds Series A of 2004, originally issued in the aggregate principal amount of \$5,000,000 and now outstanding in the principal amount of \$3,970,000 (the “2004 Bonds” and, together with the 2000 Bonds, the “Refunded Bonds”). A portion of the 2011 Bonds will be used to fund a deposit to the Reserve Account and to pay costs of issuance of the 2011 Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

In addition to Improvement Area No. 1 of the District (“Improvement Area No. 1”), Community Facilities District No. 2 (Santaluz) (the “District”) also includes Improvement Area No. 2, Improvement Area No. 3 and Improvement Area No. 4, which are authorized to issue bonds secured by special taxes levied on property within those improvement areas. None of the special taxes from Improvement Area Nos. 3 and 4 is pledged or available to repay the 2011 Bonds. No special taxes will be levied in Improvement Area No. 2 where the right to levy special taxes has terminated.

The 2011 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California) (the “Act”), and a Bond Indenture dated as of October 1, 2000, as amended and supplemented by the First Supplemental Bond Indenture, dated as of February 1, 2004 and by the Second Supplemental Bond Indenture, dated as of December 1, 2011 (together the “Bond Indenture”) each by and between the District and Union Bank, N.A. (the “Trustee”). Upon their issuance, the 2011 Bonds will be the only outstanding bonds of Improvement Area No. 1 and will be secured under the Bond Indenture by a pledge of and lien upon Special Taxes (as defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Bond Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS” herein.

**The District and Improvement Area No. 1**

*Formation Proceedings.* The District was formed by the City of San Diego (the “City”) pursuant to the Act.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners within such district and compliance with the other provisions of the Act, a legislative body of a local agency 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 and Improvement Area No. 1, to authorize the levy of Special Taxes on taxable property within the boundaries of Improvement Area No. 1, and to have the District incur bonded indebtedness on behalf of Improvement Area No. 1. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and Improvement Area No. 1 and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of Improvement Area No. 1. On March 14, 2000, at an election held pursuant to the Act, the landowners who comprised the qualified voters of Improvement Area No. 1, authorized the District to incur bonded indebtedness on behalf of Improvement Area No. 1 in an aggregate principal amount not to exceed \$62,200,000 and approved the rate and method of apportionment of the Special Taxes for Improvement Area No. 1 to pay the principal of and interest on the bonds of Improvement Area No. 1. On January 28, 2002, the landowners of Improvement Area No. 1 elected to amend the list of facilities eligible to be financed in Improvement Area No. 1 and amend the then existing rate and method of apportionment. The Amended and Restated Rate and Method of Apportionment of Special Taxes (the "Rate and Method") is set forth in APPENDIX A hereto. The City Council of the City acts as the legislative body of the District.

*Development Status.* Improvement Area No. 1 consists of approximately 2,546 gross acres. Improvement Area No. 1 is located in the City in the north coastal area of San Diego County, north of State Highway Route 56, roughly halfway between Interstate 5 and Interstate 15, approximately 20 miles northeast of downtown San Diego, and approximately 6 miles north of the La Jolla/Golden Triangle Area. All public infrastructure related to development in Improvement Area No. 1 is complete, as is the privately owned golf course within Improvement Area No. 1. The land use entitlements for the land within Improvement Area No. 1 provide for a total of 1,121 residential units, 308 of which are to be built as custom homes on individual lots. As of March 1, 2011, with the exception of 127 custom lots, substantially all of the planned residential development within Improvement Area No. 1 has been completed. See "IMPROVEMENT AREA NO. 1" herein.

As of January 1, 2011, the assessed value of the property within the District subject to the levy of the Special Tax was just under \$1.1 billion resulting in an assessed value to lien ratio of 15.89 to 1 for the property subject to the Special Tax levy in Fiscal Year 2011-12 based on the principal amount of the 2011 Bonds, other overlapping debt secured by *ad valorem* taxes, special taxes and assessments on such property. See "IMPROVEMENT AREA NO. 1-Estimated Assessed Value-to-Lien Ratios" herein.

### **Security and Sources of Payment for the 2011 Bonds**

*General.* The 2011 Bonds are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the 2011 Bonds are payable solely from the Special Taxes to be levied annually against the property in Improvement Area No. 1, or, to the extent necessary, from the moneys on deposit in the Improvement Area No. 1 Reserve Account (as defined herein). As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of San Diego County. Although the Special Taxes will constitute a lien on the property subject to taxation in Improvement Area No. 1, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

**Limited Obligations.** Except for the Special Taxes, no other taxes are pledged to the payment of the 2011 Bonds. The 2011 Bonds are not general or special obligations of the City nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Bond Indenture as more fully described herein.

*Special Taxes.* As used in this Official Statement, the term “Special Tax” is that tax which has been authorized pursuant to the Act to be levied against certain land within Improvement Area No. 1 pursuant to the Act and in accordance with the Rate and Method. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes” and APPENDIX A — “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Bond Indenture, the District has pledged to repay the 2011 Bonds and any future Parity Bonds on a parity basis from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and from 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 2011 Bonds and any future Parity 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 2011 Bonds and any future Parity Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Reserve Account of the Special Tax Fund.”

*Special Tax Appeals and Refund Requests.* Property owners have the right under the Rate and Method to file an appeal of a Special Tax levy if they believe there was an error made in the levy. Under State law, property owners may also file an action seeking a refund of Special Taxes paid within four years prior to the filing. An appeal has recently been filed by the owners of six parcels in the District seeking a refund of \$356,376, and the District has been notified by a prior owner of certain parcels of its intent to seek a refund. It is possible that other appeals could be filed in the future. The District believes that, even if refunds are due to some or all of these parcels, it will not adversely affect the ability of the District to pay the principal of and interest on the 2011 Bonds when due. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS—Special Taxes—*Special Tax Appeals and Refund Requests.*”

*Foreclosure Proceeds.* The District has covenanted for the benefit of the Beneficial Owners of the 2011 Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor’s Parcels (as defined in the Rate and Method) with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all Assessor’s Parcels with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. As of December 7, 2011, there was one delinquent parcel within Improvement Area No. 1 in the foreclosure process. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” and Table 6 herein. There is no assurance that the property within Improvement Area No. 1 can be sold for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the 2011 Bonds in the event of a default in payment of Special Taxes by the current or future landowners within Improvement Area No. 1. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” herein.

### **Description of the 2011 Bonds**

The 2011 Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the 2011 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 2011 Bonds. In the event that the book-entry only system described herein is no longer used with respect to the 2011 Bonds, the 2011 Bonds will be registered and transferred in accordance with the Bond Indenture. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

Principal of, premium, if any, and interest on the 2011 Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the 2011 Bonds, the Beneficial Owners will become the registered owners of the 2011 Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

The 2011 Bonds are subject to optional redemption and extraordinary mandatory redemption as described herein. For a more complete description of the 2011 Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE 2011 BONDS” and APPENDIX C — “SUMMARY OF BOND INDENTURE” herein.

### **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2011 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It is the further opinion of Bond Counsel that interest (and original issue discount) on the 2011 Bonds is exempt from State of California personal income tax. See “LEGAL MATTERS — Tax Exemption” herein.

### **Professionals Involved in the Offering**

Union Bank, N.A. will act as Trustee under the Bond Indenture and as the escrow agent under the Escrow Agreement relating to the defeasance of the Refunded Bonds. Piper Jaffray & Co. and Southwest Securities, Inc. are the Underwriters of the 2011 Bonds. Certain proceedings in connection with the issuance and delivery of the 2011 Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. See APPENDIX E — “FORM OF OPINION OF BOND COUNSEL.” Fieldman, Rolapp & Associates is acting as Financial Advisor to the City in connection with the 2011 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the Underwriters by Nossaman LLP, Irvine, California, as Underwriters’ Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, and BondResource Partners, LP, as the Verification Agent.

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 2011 Bonds, see “LEGAL MATTERS — Financial Interests” herein.

### **Continuing Disclosure**

The District has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data. The District has further agreed to provide notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5). See “FORM OF CONTINUING DISCLOSURE” herein and APPENDIX D hereto for a description of the specific nature of the annual reports to be filed by the District and notices of material events to be provided by the District. Within the last five

years, the District and the City failed to timely comply with certain of their prior continuing disclosure obligations under Rule 15c2-12(b)(5) as described herein; however, the District and the City are now current on all required filings. See “CONTINUING DISCLOSURE.”

### **Bond Owners’ Risks**

Certain events could affect the timely repayment of the principal of and interest on the 2011 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 2011 Bonds. *The purchase of the 2011 Bonds involves significant investment risks, and the 2011 Bonds may not be suitable investments for many investors.* See “SPECIAL RISK FACTORS” herein.

### **Other Information**

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

Brief descriptions of the 2011 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 2011 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 2011 Bonds, by reference to the Bond Indenture.

Copies of the Bond Indenture, the Continuing Disclosure Certificate and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the Trustee at Union Bank, 120 S. San Pedro Street, Suite 400, Los Angeles, California 90012, Attention: Corporate Trust.

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## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of 2011 Bond proceeds and prior funds:

### Sources of Funds

Principal Amount of 2011 Bonds	\$ 51,680,000.00
Original Issue Premium	18,150.20
Prior Funds <sup>(1)</sup>	<u>5,697,157.34</u>
 TOTAL SOURCES	 <u>\$ 57,395,307.54</u>

### Uses of Funds

Escrow Fund	\$ 52,867,130.63
Reserve Account	4,056,311.26
Cost of Issuance Account <sup>(2)</sup>	281,941.65
Underwriters' Discount	<u>189,924.00</u>
 TOTAL USES	 <u>\$ 57,395,307.54</u>

<sup>(1)</sup> Funds transferred from Special Tax Fund, including the Reserve Account, Interest Account, Principal Account and Redemption Account therein, and the Surplus Fund.

<sup>(2)</sup> Includes legal fees, financial advisor fees, Trustee and Escrow Agent fees and expenses, rating agency fees and other miscellaneous costs.

## THE REFUNDING PLAN

### General

A portion of the proceeds from the sale of the 2011 Bonds will be used along with other funds held by the District to defease the Refunded Bonds. The District will enter into an Escrow Agreement with regard to the Refunded Bonds (the "Escrow Agreement"), dated as of December 1, 2011, by and between the District and Union Bank, N.A. (the "Escrow Agent"). An irrevocable escrow fund will be established under the Escrow Agreement (the "Escrow Fund"). The moneys deposited with the Escrow Agent will be sufficient to defease the Refunded Bonds and redeem the Refunded Bonds on March 1, 2012. Moneys on deposit in the Escrow Fund will be held uninvested in cash. The amounts in the Escrow Fund will be held by the Escrow Agent and for the benefit of the owners of the Refunded Bonds and will be applied to redeem the Refunded Bonds which remain outstanding, in whole, on March 1, 2012. Upon the establishment of the Escrow Fund as described above, the Refunded Bonds will be discharged under the Bond Indenture and the owners of the Refunded Bonds will have no rights thereunder except to be paid the principal and interest due on the Refunded Bonds from amounts in the Escrow Fund.

### Verification of Mathematical Computations

Upon delivery of the 2011 Bonds, BondResource Partners, LP will deliver a report verifying the mathematical accuracy of certain computations concerning the adequacy of the amounts deposited in the Escrow Fund to pay the redemption price and accrued interest on the Refunded Bonds on March 1, 2012.

## THE 2011 BONDS

### General Provisions

The 2011 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, 2012 (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 2011 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the 2011 Bonds are held in book-entry form, principal and interest on the 2011 Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM.”

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any 2011 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2011 Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the date of the 2011 Bonds; provided, however, that if at the time of authentication of a 2011 Bond, interest is in default, interest on that 2011 Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

### Authority for Issuance

The 2011 Bonds are issued pursuant to the Act and the Bond Indenture. As required by the Act, the City Council of the City has taken the following actions with respect to establishing the District and the 2011 Bonds:

*Resolutions of Intention:* On February 8, 2000, the City Council of the City adopted a resolution stating its intention to establish the District and Improvement Area No. 1 within the District and to authorize the levy of a special tax, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed \$62,200,000 within Improvement Area No. 1.

*Resolutions of Formation:* Immediately following a noticed public hearing opened on March 14, 2000, the City Council of the City, adopted resolutions which established the District and Improvement Area No. 1, authorized the levy of a special tax within Improvement Area No. 1, and declared the necessity to incur bonded indebtedness within Improvement Area No. 1.

*Resolution Calling Election:* The resolutions adopted by the City Council of the City on March 14, 2000 also called for an election by the landowners in Improvement Area No. 1 for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness in Improvement Area No. 1, and the establishment of an appropriations limit.

*Landowner Election and Declaration of Results:* On March 14, 2000, an election was held at which the landowner within Improvement Area No. 1 approved a ballot proposition authorizing the issuance of up to \$62,200,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for Improvement Area No. 1. On March 14, 2000, the City Council adopted a resolution approving the canvass of the votes and declaring Improvement Area No. 1 to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

*Special Tax Lien and Levy:* A Notice of Special Tax Lien for the District was recorded in the real property records of the County on March 24, 2000, as a continuing lien against the property in Improvement Area No. 1.

*Ordinance Levying Special Taxes:* On April 10, 2000, the City Council adopted Ordinance No. 0-18788 levying the Special Tax within Improvement Area No. 1.

*Change Proceedings:* On January 8, 2002, an election was held at which the landowners within Improvement Area No. 1 approved a ballot proposition amending the list of facilities eligible to be financed in Improvement Area No. 1 and amending the then existing rate and method of apportionment of Special Taxes for property within Improvement Area No. 1. On January 28, 2002, the City Council of the City adopted a resolution certifying the election results amending the then existing rate and method of apportionment of Special Taxes and amending the list of eligible facilities within Improvement Area No. 1. On February 12, 2002, an Amended Notice of Special Tax lien for the District was recorded in the real property records of the County as a continuing lien against property in Improvement Area No. 1. On August 5, 2002, the City Council adopted Ordinance No. 0-19085 amending Ordinance No. 0-18788 to authorize the levy of Special Tax within Improvement Area No. 1 pursuant to the Amended and Restated Rate and Method of Apportionment of Special Taxes.

*Resolution Authorizing Issuance of the 2011 Bonds:* On November 15, 2011, the City Council adopted a resolution approving issuance of the 2011 Bonds.

### Debt Service Schedule

The following table presents the annual debt service on the 2011 Bonds (including sinking fund redemptions), assuming there are no optional or extraordinary redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part and the Bond Indenture permits redemption of 2011 Bonds from the proceeds of any prepayments of Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes” and “THE 2011 BONDS — Redemption.”

<i>Period ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 2,580,000	\$ 1,469,682.58	\$ 4,049,682.58
2013	2,000,000	2,056,311.26	4,056,311.26
2014	2,060,000	1,996,311.26	4,056,311.26
2015	2,115,000	1,934,511.26	4,049,511.26
2016	2,180,000	1,871,061.26	4,051,061.26
2017	2,250,000	1,805,661.26	4,055,661.26
2018	2,315,000	1,738,161.26	4,053,161.26
2019	2,380,000	1,665,817.50	4,045,817.50
2020	2,455,000	1,585,492.52	4,040,492.52
2021	2,565,000	1,480,930.02	4,045,930.02
2022	2,665,000	1,378,330.02	4,043,330.02
2023	2,775,000	1,271,730.02	4,046,730.02
2024	2,890,000	1,153,792.52	4,043,792.52
2025	3,025,000	1,027,355.00	4,052,355.00
2026	3,145,000	891,230.00	4,036,230.00
2027	3,315,000	726,117.50	4,041,117.50
2028	3,490,000	552,080.00	4,042,080.00
2029	3,645,000	377,580.00	4,022,580.00
2030	3,830,000	195,330.00	4,025,330.00
Total	<u>\$ 51,680,000</u>	<u>\$ 25,177,485.24</u>	<u>\$ 76,857,485.24</u>

Source: Underwriters.



## Redemption

*Optional Redemption.* The 2011 Bonds maturing on and after September 1, 2022 are subject to 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 September 1, 2021, in whole or in part, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

*Extraordinary Redemption from Special Tax Prepayments.* The 2011 Bonds are subject to extraordinary redemption as a whole, or in part, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Reserve Account of the Special Tax Fund”), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 2019	103%
September 1, 2019 and March 1, 2020	102
September 1, 2020 and March 1, 2021	101
September 1, 2021 and thereafter	100

Prepayments and amounts released from the Reserve Account in connection with Prepayments will be allocated to the redemption of the 2011 Bonds and any Parity Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the 2011 Bonds and any Parity Bonds then outstanding.

*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 2011 Bonds and the respective registered Beneficial Owners of the 2011 Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the 2011 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the 2011 Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the 2011 Bonds are to be redeemed; (v) in the case of 2011 Bonds to be redeemed only in part, state the portion of such 2011 Bond which is to be redeemed; (vi) state the date of issue of the 2011 Bonds as originally issued; (vii) state the rate of interest borne by each 2011 Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 2011 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 2011 Bond of notice of such redemption is not a condition precedent to redemption. Neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of such 2011 Bonds or the cessation of interest on the date fixed for redemption.

Any redemption notice for an optional redemption of the 2011 Bonds delivered may be conditional, and, if any condition stated in the redemption notice shall not have been satisfied on or prior to the redemption date: (i) the redemption notice shall be of no force and effect, (ii) the District shall not be required to redeem such 2011 Bonds, (iii) the redemption shall not be made, and (iv) the Trustee shall within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

*Effect of Redemption.* When notice of redemption has been given, and when the amount necessary for the redemption of the 2011 Bonds called for redemption is set aside for that purpose in the Redemption Account, the 2011 Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the 2011 Bonds at the place specified in the notice of

redemption, and no interest will accrue on the 2011 Bonds called for redemption from and after the redemption date, and the Beneficial Owners of the redeemed 2011 Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such 2011 Bonds or portions of 2011 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 2011 Bonds. The ownership of the 2011 Bonds will be established by the bond registration books held by the Trustee.

*Transfer or Exchange.* Whenever any 2011 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new 2011 Bond or 2011 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) 2011 Bonds for a period of 15 days next preceding the date of any selection of the 2011 Bonds to be redeemed, or (ii) any 2011 Bonds chosen for redemption.

### **Issuance of Parity Bonds for Refunding Purposes Only**

Under the terms of the Bond Indenture, the District may not issue any indebtedness secured by a lien on the Special Taxes that is senior to the lien established under the Bond Indenture. Subject to the limitations set forth in the Bond Indenture, the District may issue Parity Bonds secured by the Special Taxes on a parity with the 2011 Bonds, but only for the purpose of refunding all or a portion of the 2011 Bonds or any Parity Bonds issued in the future. The Bond Indenture provides that Parity Bonds may be issued only if the annual debt service on the 2011 Bonds and the Parity Bonds following the issuance of such Parity Bonds will not exceed the annual debt service payable under the Bond Indenture prior to such issuance. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Conditions for the Issuance of Parity Bonds” herein.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS**

### **Covenants and Warranties**

The District has covenanted in the Bond Indenture to comply with the covenants and warranties therein, which continue in full force and effect with the issuance of the 2011 Bonds. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Covenants and Warranty.”

### **Limited Obligations**

The 2011 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 2011 Bonds. Under the Bond Indenture, the District has pledged to repay the 2011 Bonds and any future 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). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof, the net proceeds of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien and penalties and interest thereon.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the 2011 Bonds and any future Parity Bonds are amounts held by the

Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Beneficial Owners of the 2011 Bonds and any future 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 2011 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2011 Bonds. The 2011 Bonds are not general or special obligations of the City but are special, limited obligations of the District payable solely from the Special Taxes and other amounts pledged under the Bond Indenture as more fully described herein.**

## **Special Taxes**

*Authorization and Pledge.* In accordance with the provisions of the Act, the City Council established the District and Improvement Area Nos. 1, 2 and 3 within the District on March 14, 2000 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on March 14, 2000, the owners of the property within Improvement Area No. 1 authorized the District to incur indebtedness in an amount not to exceed \$62,200,000, and approved a rate and method of apportionment of Special Taxes authorizing the Special Tax to be levied to repay indebtedness with respect to Improvement Area No. 1, including the 2011 Bonds. At a special election on January 8, 2002, the landowners within Improvement Area No. 1 approved an amended and restated rate and method of apportionment of Special Taxes (herein referred to as the “Rate and Method”).

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 2011 Bonds and Parity Bonds, to replenish the Reserve Account 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 OF SPECIAL TAXES” hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the 2011 Bonds when due. See “SPECIAL RISK FACTORS — Insufficiency of Special Taxes” herein.

*Rate and Method of Apportionment of Special Taxes.* All capitalized terms used in this section shall have the meaning in the Rate and Method, the text of which is set forth in full in APPENDIX A.

Under the Rate and Method, all Taxable Property in Improvement Area No. 1 will be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property, and will be subject to a Special Tax levy at the maximum rates described in Sections C, D and E of the Rate and Method.

A parcel will be classified as Developed Property if it is Custom Lot Property, Golf Course Property or Taxable Property (other than Taxable Property Owner Association Property and Taxable Public Property) for which a building permit for new construction or renovations was issued after January 1, 1999, but prior to March 1 of the fiscal year preceding the Special Tax levy. Developed Property will be further assigned to land use classes for Residential Property, Non-Residential Property, Golf Course Property, and Institutional Property. The Maximum Annual Special Tax for Developed Property will be the sum of the Assigned Special Tax and any Backup Special Tax.

The Assigned Special Tax rates set forth in Table 1 of the Rate and Method escalated annually by 2% of the rate in effect for the previous year beginning on July 1, 2001 through July 1, 2010. The Rate and Method provides that the Assigned Special Taxes may be increased on July 1, 2011 and July 1, 2012 by up to 2% of the amount in effect for the previous Fiscal Year if the increase is needed to meet the Special Tax Requirement. The maximum Special Tax rates do not increase after Fiscal Year 2012-13. No increase in the maximum Special Tax rates was needed for Fiscal Year 2011-12. Therefore, the Fiscal Year 2011-12 Assigned Special Tax rates are equal to the rates established for Fiscal Year 2010-11.

The Backup Special Tax is calculated pursuant to Section D of the Rate and Method. Section D requires the CFD Administrator to calculate, as of the end of each quarter until Improvement Area No. 1 reaches build-out, whether a Backup Special Tax is due. Based on the latest analysis prepared by the CFD Administrator for the quarter ending June 30, 2011, no Backup Special Tax is currently required and none has ever been required in the past. Given that the Backup Special Tax is not expected to apply to any parcels, the tables herein reference the Assigned Special Taxes only.

Set forth in Table 1 below are the Fiscal Year 2011-12 Assigned Special Tax rates for each land use category and the Fiscal Year 2011-12 actual Special Tax rates for each land use category.

**TABLE 1**

**FISCAL YEAR 2011-12 ASSIGNED AND ACTUAL SPECIAL TAXES  
CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2  
IMPROVEMENT AREA NO. 1**

<i>Land Use Class</i>	<i>Description</i>	<i>Floor Area</i>	<i>Fiscal Year 2011-12 Assigned/Maximum Special Tax<sup>(1)</sup></i>	<i>Fiscal Year 2011-12 Actual Special Tax</i>
1	Residential	< 1,750 sq. ft.	\$ 2,139.35	\$ 1,588.20
2	Residential	1,750 - 2,249 sq. ft.	2,786.53	2,068.66
3	Residential	2,250 - 2,749 sq. ft.	3,369.48	2,501.44
4	Residential	2,750 - 3,149 sq. ft.	4,219.86	3,132.74
5	Residential	3,150 - 3,749 sq. ft.	5,000.74	3,712.46
6	Residential	3,750 - 4,049 sq. ft.	5,915.29	4,391.40
7	Residential	4,050 - 4,499 sq. ft.	6,070.41	4,506.56
8	Residential	4,500 - 4,999 sq. ft.	7,027.76	5,217.28
9	Residential	5,000 - 5,499 sq. ft.	8,765.98	6,507.70
10	Residential	5,500 - 5,999 sq. ft.	9,605.67	7,131.06
11	Residential	6,000 - 6,499 sq. ft.	10,440.04	0.00 <sup>(2)</sup>
12	Residential	>= 6,500 sq. ft.	10,830.46	0.00 <sup>(2)</sup>
13	Residential	Custom	10,830.46	8,040.34
14	Residential	Affordable	124.33	92.30
15	Non-Residential	NA	6,176.10	0.00 <sup>(2)</sup>
16	Golf Course	NA	610.34	453.10
17	Institutional	NA	124.33	92.30
N/A	Undeveloped	NA	22,969.11	0.00 <sup>(3)</sup>

<sup>(1)</sup> Assigned and maximum Special Taxes for Land Use Classes 1 through 17. Maximum Special Tax for Undeveloped Property.

<sup>(2)</sup> There were no units/acres in these land use classes in Fiscal Year 2011-12.

<sup>(3)</sup> Undeveloped Property was not taxed in Fiscal Year 2011-12.

Source: David Taussig & Associates, Inc.

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

*Prepayment of Special Taxes.* There are certain events that will result in a required prepayment of Special Taxes. In addition, under the Rate and Method, the owner of a parcel for which a building permit has been issued may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any required or voluntary prepayment of Special Taxes will result in an extraordinary redemption of 2011 Bonds and any Parity Bonds. See “THE 2011 BONDS — Redemption — *Extraordinary Redemption from Special Tax Prepayments.*” As of December 7, 2011, prepayments of Special Taxes had been made for 13 parcels in the amount of \$1,088,511. Twelve of these parcels are single family residential parcels and one parcel includes 119 multifamily units.

A prepayment of Special Taxes will be required at or prior to the close of escrow when a Proposed Custom Lot for which a building permit has been issued is sold by a Custom Lot Merchant Builder to the first private residential owner to the extent necessary to reduce the Total Tax and Assessment Obligation on a parcel to an amount which is less than or equal to two percent (2%) of the sales price of the parcel. No prepayment is required if the Total Tax and Assessment Obligation is less than or equal to two percent (2%) or such parcel is sold prior to the issuance of a building permit. To date, no prepayment of Special Taxes has been required for the Custom Lot Property under the foregoing provision, and, although possible, it is not expected that a prepayment will be required under this provision in the future.

*Permitted Amendments of Rate and Method.* Under the Bond Indenture, the District is permitted to amend the Rate and Method without Bondowner consent so long as the Trustee receives a certificate of an Independent Financial Consultant stating that (i) based on the existing classification of parcels under the Rate and Method, such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year on the 2011 Bonds and Parity Bonds Outstanding as of the date of such amendment; and (ii) based on the current development plan for parcels within the District, such changes will not reduce the maximum Special Taxes expected to be levied on Developed Property in each year following the buildout of such parcels to an amount which is less than 110% of the principal and interest due in each corresponding Bond Year on the 2011 Bonds and Parity Bonds Outstanding as of the date of such amendment.

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

The District has made certain covenants in the Bond Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner

that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the 2011 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 not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes below the levels described under the caption "*— Permitted Amendments of Rate and Method*" above. See "SPECIAL RISK FACTORS — Proposition 218." Second, the District has covenanted not to permit the tender of 2011 Bonds or 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 2011 Bonds and any Parity Bonds that remain Outstanding following such tender. See "SPECIAL RISK FACTORS — Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on taxed parcels within Improvement Area No. 1, they do not constitute a personal indebtedness of the owners of property within Improvement Area No. 1. In addition to the obligation to pay Special Taxes, properties in Improvement Area No. 1 are subject to other assessments and special taxes as set forth under Table 3 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners in Improvement Area No. 1. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments" herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

Under the terms of the Bond Indenture, all Special Tax revenues received by the District, other than Prepayments and Backup Special Taxes, are to be deposited in the Special Tax Fund. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund. Special Tax revenues deposited in the Special Tax Fund are to be applied by the Trustee under the Bond Indenture in the following order of priority: (i) to deposit up to an amount equal to the Administrative Expenses Cap of \$93,253 to the Administrative Expense Fund to pay Administrative Expenses; (ii) to pay the principal of and interest on the 2011 Bonds and any Parity Bonds when due; (iii) to replenish the Reserve Account to the Reserve Requirement; (iv) to make any required transfers to the Rebate Fund; (v) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX C — "SUMMARY OF BOND INDENTURE."

*Special Tax Appeals and Refund Requests.* Section G of the Rate and Method provides property owners with the right to file a written appeal of any Special Tax levied and to seek a refund of Special Taxes if erroneously levied. State law provides taxpayers with a right to seek a refund for taxes paid within the period that is four years prior to the date that a proper refund request is filed. On September 19, 2011, a property owner in Improvement Area No. 1 filed an appeal with the District regarding the Special Tax levy on six parcels that had been classified as Custom Lot Property under the Rate and Method (the "Appeal Property"). The six parcels had been classified as Custom Lot Property based on a determination by the CFD Administrator that they were purchased by buyers who were not in the regular course of business of building homes for resale, thereby triggering their classification as Custom Lot Property. The appeal alleges that the owners of the six parcels are in the regular course of business of building homes and, thus, the parcels are not Custom Lot Property under the Rate and Method. The appeal seeks a refund of Special Taxes in the amount of \$356,376 for fiscal years 2004-05 through 2010-11. An additional \$48,242 has been levied on these parcels in fiscal year 2011-12. The CFD Administrator has denied the appeal. Under the Rate and Method, the taxpayer may file a second appeal with the City Clerk or may file a court action seeking a refund.

The District is now reviewing whether other parcels classified as Custom Lot Property at some point during the last four years should have been so classified or whether they should have been classified as Undeveloped Property because they were owned by property owners who are in the regular course of business of building homes for resale. After commencing its review, the District was notified by a prior owner of

several other parcels classified as Custom Lot Property that it intends to file a request for a refund of certain prior Special Taxes paid on these parcels. During the last four years, a total of \$239,461 has been levied on these parcels. The District believes that, even if there are parcels that should not have been classified as Custom Lot Property and refunds are due to some or all of these parcels, it will not adversely affect the ability of the District to pay the principal of and interest on the 2011 Bonds when due. Should any of the Custom Lot Property be reclassified as Undeveloped Property, then the Special Tax levy on the remaining parcels of Developed Property will be increased, if needed, up to the maximum amount of the Assigned Special Tax.

Based on the District's review to date of the levies on Custom Lot Property and on the appeal filed on the Appeal Property and on appeals expected to be filed, for purposes of the tables and analysis herein, fourteen parcels previously classified as Custom Lot Property are being treated as Undeveloped Property. Even treating these fourteen parcels as Undeveloped Property, the Special Taxes levied in Fiscal Year 2011-12 on other Developed Property and the Special Taxes that may be levied on other parcels of Developed Property in future fiscal years is sufficient in amount to pay the District's expected Administrative Expenses and debt service on the 2011 Bonds. See "—Estimated Debt Service Coverage from Special Taxes" below and "IMPROVEMENT AREA NO. 1" herein.

*Proceeds of Foreclosure Sales.* The net proceeds received following a judicial foreclosure sale of land within Improvement Area No. 1 resulting from a landowner's failure to pay the Special Taxes when due are included within the Special Tax revenues pledged to the payment of principal and interest on the 2011 Bonds and any Parity Bonds under the Bond Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the Beneficial Owners of the 2011 Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C — "SUMMARY OF BOND INDENTURE — Other Covenants of the District" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the 2011 Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for ad valorem taxes.

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

Special Taxes are levied each year in an amount equal to the Special Tax Requirement determined in accordance with the Rate and Method. The Special Tax Requirement is calculated in a manner which, after taking into account anticipated delinquent Special Taxes based on delinquencies in the prior year, is to produce an amount sufficient to pay Administrative Expenses and the debt service due on the 2011 Bonds.

The Special Taxes levied in Fiscal Year 2011-12 totaled \$4,603,953 (which excludes all amounts levied on fourteen parcels classified as Custom Lot Property as described above and the Special Taxes levied on two parcels that have since prepaid), with \$104,341 of this amount budgeted to pay Administrative Expenses. This leaves estimated Net Taxes available to pay debt service on the 2011 Bonds for the year ending September 1, 2012 of \$4,499,612. The estimated Net Taxes for this period are approximately 111% of the debt service due on the 2011 Bonds to and including September 1, 2012.

Based on the land use classifications made under the Rate and Method as of March 1, 2011, if Special Taxes could be levied on Developed Property at 100% of the Assigned Special Tax rate set forth in the Rate and Method, the projected Net Taxes would be approximately 150% of the debt service due on the 2011 Bonds in each Bond Year assuming annual Administrative Expenses of \$104,341. However, because of the provisions of Section 53321(d) of the Act and the provisions of the Rate and Method requiring that the Assigned Special Tax be levied proportionately on all parcels of Developed Property, investors in the 2011 Bonds should assume that the maximum amount of Special Taxes that could be levied in each Bond Year would result in Net Taxes of not more than 110% of debt service on the 2011 Bonds in each Bond Year. Section 53321(d) of the Government Code provides that the special tax levied against any assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other assessor's parcel by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults.

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

In order to secure further the payment of principal of and interest on the 2011 Bonds, the District is required, upon delivery of the 2011 Bonds, to deposit in the Reserve Account an amount equal to the Reserve Requirement and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Bond Indenture provides that the amount in the Reserve Account shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the 2011 Bonds and any Parity Bonds; (ii) the maximum annual debt service on the 2011 Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the 2011 Bonds and any Parity Bonds. As of the date of issuance of the 2011 Bonds the Reserve Requirement will be fully funded in the amount of \$4,056,311.26.

Subject to the limits on the maximum annual Special Tax which may be levied within Improvement Area No. 1, 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 2011 Bonds and any Parity Bonds, to the extent other monies are not available therefor; (ii) redeem the 2011 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 a series of the 2011 Bonds and any 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 (the Reserve Account Credit) and be applied to redeem 2011 Bonds and any Parity Bonds. As described in the Rate and Method, the Reserve Account Credit will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Account Credit if the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C — “SUMMARY OF BOND INDENTURE — Reserve Account” herein.



## IMPROVEMENT AREA NO. 1

### General Description of Improvement Area No. 1

Improvement Area No. 1 consists of approximately 2,500 gross acres located in the northern portion of the City in northwestern San Diego County, north of State Highway Route 56, roughly halfway between Interstate 5 and Interstate 15, approximately 20 miles northeast of the City's downtown area and 6 miles north of the La Jolla/Golden Triangle Area.

A portion of the proceeds of the 2000 Bonds and the 2004 Bonds were used to acquire and construct various public facilities authorized to be acquired or constructed within Improvement Area No. 1. These proceeds have all been expended and the public improvements to be financed by the District are complete. The completed improvements which were funded in part with proceeds of the 2000 Bonds and 2004 Bonds include various roadways, onsite and offsite traffic signals, water and sewer facilities, a fire station and neighborhood park improvements.

Development within Improvement Area No. 1 consists of a completed golf course and residential and non-residential development as described in Table 2A below. With the exception of 127 residential parcels that remained unimproved as of March 1, 2011, substantially all of the other development within the District is complete. Four of these 127 parcels have prepaid their Special Taxes.

**TABLE 2A**

**DEVELOPMENT SUMMARY  
COMMUNITY FACILITIES DISTRICT NO. 2  
IMPROVEMENT AREA NO. 1**

<i>Land Use</i>	<i>Taxable Property</i>	<i>Prepaid Units</i>	<i>Total</i>
<b><u>Developed Property (as of 3/1/11)</u></b>			
Non-Custom Property (excluding Affordable Units)	621 Units	3	624 Units
Custom Lot Property <sup>(1)</sup>			
Lots with Improvement Value <sup>(2)</sup>	176 Lots	5	181 Lots
Lots without Improvement Value <sup>(2)</sup>	102 Lots	4	106 Lots
Affordable Units	70 Units	119	189 Units
Golf Course Property	282.001 Acres	0	282.001 Acres
Institutional Property	6.340 Acres	0	6.340 Acres
<b><u>Undeveloped Property</u></b>			
Future Custom Lot Property <sup>(3)</sup>	21 Lots	0	21 Lots
Future Institutional Property <sup>(4)</sup>	8.930 Acres	0	8.930 Acres
 Total Residential Units/Lots	 990 <sup>(5)</sup>	 131	 1,121

<sup>(1)</sup> Lots for which escrow has closed to a buyer who is not in the regular course of business of building homes for resale or a building permit for new construction was issued.

<sup>(2)</sup> Based on Fiscal Year 2011-12 County Assessor's Roll.

<sup>(3)</sup> For purposes of this table, fourteen parcels classified as Custom Lot Property without Improvement Value have been reclassified as Undeveloped Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Special Tax Appeals and Requests for Refund.*"

<sup>(4)</sup> Pursuant to the Rate and Method, up to a total of 11.9 acres may be classified as Institutional Property. Acreage exceeding this amount shall be classified as Non-Residential Property.

<sup>(5)</sup> Does not include 13 parcels which prepaid their Special Tax obligation for a total of 131 residential units.

Source: David Taussig & Associates, Inc.

Table 2B below provides a summary of the assessed values for the improved custom lots and the unimproved custom lots as of March 1, 2011, which is the annual date in the Rate and Method for classifying parcels by land use.

**TABLE 2B**

**SUMMARY OF ASSESSED VALUES FOR CUSTOM LOTS  
COMMUNITY FACILITIES DISTRICT NO. 2  
IMPROVEMENT AREA NO. 1**

<i>Custom Lot Status</i>	<i>No. of Lots<sup>(1)</sup></i>	<i>Land Value<sup>(2)</sup></i>	<i>Improvement Value<sup>(2)</sup></i>	<i>Average Land Value per Lot</i>	<i>Average Improvement Value per Lot</i>	<i>Total Average Value per Lot</i>
Developed Property (as of 3/1/11)						
Custom Lots with Improvement Value	176	\$ 154,781,989	\$ 248,908,704	\$ 879,443	\$ 1,414,254	\$ 2,293,697
Custom Lots without Improvement Value	<u>102</u>	<u>61,876,926</u>	<u>0</u>	<u>606,637</u>	<u>0</u>	<u>606,637</u>
Subtotal	278	216,658,915	248,908,704	779,349	895,355	1,674,704
Undeveloped Property (as of 3/1/11) <sup>(3)</sup>	21	<u>12,510,760</u>	<u>0</u>	<u>595,750</u>	<u>0</u>	<u>595,750</u>
Total Custom Lot Property	299	\$ 229,169,675	\$ 248,908,704	\$ 766,454	\$ 832,471	\$ 1,598,924

<sup>(1)</sup> Excludes nine parcels that have prepaid.

<sup>(2)</sup> Based on Fiscal Year 2011-12 Assessor's Roll.

<sup>(3)</sup> For purposes of this table, fourteen parcels classified as Custom Lot Property without Improvement Value have been reclassified as Undeveloped Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Special Tax Appeals and Requests for Refund.*"

Source: David Taussig & Associates, Inc.

**Estimated Direct and Overlapping Indebtedness**

Within the boundaries of Improvement Area No. 1 are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within Improvement Area No. 1 and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within Improvement Area No. 1. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within Improvement Area No. 1 for Fiscal Year 2011-12 is shown in Table 3 below (the "Debt Report").

**TABLE 3**

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

<i>Overlapping District</i>	<i>Fiscal Year 2011-12 Total Levy<sup>(1)</sup></i>	<i>Amount of Levy on Parcels in the District<sup>(2)</sup></i>	<i>Percent of Levy on Parcels in the District</i>	<i>Total Debt Outstanding</i>	<i>District Share of Total Debt Outstanding</i>
Poway Unified School District CFD No. 4	\$ 1,116,698	\$ 1,103,248	98.80%	\$ 11,837,000 <sup>(3)</sup>	\$ 11,694,426
Metropolitan Water District G.O. Bond <sup>(4)</sup>	94,810,471 <sup>(4)</sup>	42,583 <sup>(4)</sup>	0.04%	225,335,000	101,207
Palomar Pomerado Health Systems Series G.O. Bonds <sup>(5)</sup>	14,048,375	51,897	0.37%	414,946,525	1,532,870
Palomar Community College District Series 2006A <sup>(5)</sup>	8,418,887	105,165	1.25%	147,530,000	1,842,877
Palomar Community College District Series 2006B <sup>(5)</sup>	3,730,998	46,606	1.25%	173,498,901	<u>2,167,280</u>
				Estimated Share of Overlapping Debt Allocable to the District	17,338,659
				Plus CFD No. 2 IA No. 1 Refunding Bonds Series 2011	51,680,000
				Estimated Share of Direct and Overlapping Debt Allocable to the District	\$ 69,018,659

<sup>(1)</sup> Based on actual Fiscal Year 2011-12 levy.

<sup>(2)</sup> Does not include 13 parcels which prepaid their Special Tax obligation.

<sup>(3)</sup> The Poway Unified School District Community Facilities District No. 4 ("Poway CFD No. 4") is authorized to issue up to \$32,000,000 of bonds which, when issued, will be paid from special taxes levied on developed property within Improvement Area No. 1, of which \$11,837,000 are outstanding. The District has not been informed that Poway CFD No. 4 has any immediate plans to issue additional bonds, but it is likely that additional bonds will be issued as further development occurs in Poway CFD No. 4 and on property in other portions of the Poway Unified School District. Information concerning Poway CFD No. 4 provided by Dolinka Group.

<sup>(4)</sup> Information provided by Metropolitan Water District ("MWD"). Of the total levy shown, only a portion of such levy will be used to pay debt service on the MWD Bonds.

<sup>(5)</sup> Information provided by County of San Diego.

Source: David Taussig & Associates, Inc.

In addition to the bonded indebtedness set forth in Table 3, new community facilities districts or special assessment districts may be formed which include all or a portion of Improvement Area No. 1, and, upon approval of the registered voters or landowners in such districts, may issue more bonds and levy additional special taxes or other taxes and assessments. In addition to the Special Taxes, the property owners in Improvement Area No. 1 will be required to pay the general *ad valorem* property taxes for their parcels.

**Expected Tax Burden**

Tables 4A, 4B, 4C, 4D and 4E below set forth an estimated property tax bill for a Custom Lot with improvement value, a Custom Lot without improvement value, Class 2 units ranging in size from 1,750 square feet to 2,249 square feet, Class 5 units ranging in size from 3,150 square feet to 3,749 square feet and Class 10 units ranging in size from 5,500 square feet to 5,999 square feet. The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2011-12. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2011-12, the projected total effective tax rates for all categories other than a Custom Lot without improvement value are less than 1.6% of assessed value and the maximum amounts are less than 1.8% of assessed value. The estimated total effective tax rate for a Custom Lot without improvement value is 2.89% of assessed value with a maximum amount of 3.5% of assessed value. It is not expected that the maximum percentage will be reached.

**TABLE 4A**

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2011-12  
FOR TYPICAL CUSTOM LOT WITH IMPROVEMENT VALUE**

<b>Assessed Valuation and Property Taxes</b>	<b>Percent of Net AV</b>	<b>Expected Amount</b>	<b>Maximum Amount</b>
TOTAL ASSESSED VALUE <sup>(1)</sup>		\$2,236,739	
Average Unit Size for a Custom Lot w/ Improvement Value <sup>(2)</sup> :		6,238 Square Feet	
Average Lot Size for Custom Lot w/ Improvement Value <sup>(3)</sup> :		53,409 Square Feet	
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$22,367.39	
Metropolitan Water District G.O. Bonds	0.00370%	82.76	
Palomar Pomerado Health Systems G.O. Bonds	0.02350%	525.63	
Palomar Community Collect District Series 2006A	0.00959%	214.50	
Palomar Community Collect District Series 2006B	0.00425%	95.06	
<u>San Diego City Zoological Exhibits</u>	<u>0.00500%</u>	<u>111.84</u>	
Total General Property Taxes and Overrides	1.04604%	\$23,397.19	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
CWA Water Availability <sup>(5)</sup>		\$ 12.26	
MWD Water Standby Charge <sup>(6)</sup>		14.10	
Vector Disease Control <sup>(7)</sup>		5.86	
Mosquito Surveillance <sup>(8)</sup>		3.00	
Poway Unified School District CFD No. 4 <sup>(9)</sup>		3,116.26	\$ 4,055.16
<u>City of San Diego CFD No. 2, IA No. 1<sup>(10)</sup></u>	-	<u>8,040.34</u>	<u>10,830.46</u>
Total Assessments and Parcel Charges		\$11,191.82	\$14,920.84
<b><u>PROJECTED TOTAL PROPERTY TAXES</u></b>	-	<b><u>\$34,589.01</u></b>	<b><u>\$38,318.03</u></b>
-	-	-	-
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>1.54640%</b>	<b>1.71312%</b>

(1) Based on average assessed value for 76 custom lots with improvement value for which DTA has permit information as of January 1, 2011 provided by the San Diego County Assessor. Assessed value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for 76 custom lots with improvement value for which DTA has permit information.

(3) Based on the average lot size for 279 custom lots.

(4) Based on actual Fiscal Year 2011-12 ad valorem rates. Rate information provided by County of San Diego.

(5) Based on the Fiscal Year 2011-12 rate of \$10.00 per parcel or per acre, whichever is greater. Rate information provided by San Diego County Water Authority.

(6) Based on the Fiscal Year 2011-12 rate of \$11.50 per parcel or per acre, whichever is greater. Rate information provided by Metropolitan Water District.

(7) Based on the Fiscal Year 2011-12 rate of \$5.86 per single family equivalent. Rate information provided by SCI Consulting Group.

(8) Based on the Fiscal Year 2011-12 rate of \$3.00 per parcel. Rate information provided by SCI Consulting Group.

(9) Based on the Poway Unified School District CFD No. 4 Fiscal Year 2011-12 highest Special Tax Rate of \$3,116.26 per unit for Custom Lot Property with improvement value. Maximum Special Tax is the greater of the Fiscal Year 2011-12 Assigned Special Tax or Backup Special Tax. Backup Special Tax is \$3,307.38 per acre. Maximum Special Tax and Backup Special Tax escalate 2% per year. Rate information provided by Dolinka Group.

(10) Based on the Improvement Area No. 1 Fiscal Year 2011-12 actual Special Tax levy of \$8,040.34 per unit for Custom Lot Property. Maximum Special Tax is based on the Fiscal Year 2011-12 Assigned Special Tax of \$10,830.46.

Source: David Taussig & Associates, Inc.

**TABLE 4B**  
**SAMPLE PROPERTY TAX BILL**  
**PROJECTED FOR FISCAL YEAR 2011-12**  
**FOR TYPICAL CUSTOM LOT WITHOUT IMPROVEMENT VALUE**

Assessed Valuation and Property Taxes	Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE <sup>(1)</sup> <span style="float: right;">\$606,637</span>			
Average Unit Size for a Custom Lot w/o Improvement Value <sup>(2)</sup> : <span style="float: right;">0 Square Feet</span>			
Average Lot Size for Custom Lot w/o Improvement Value <sup>(3)</sup> : <span style="float: right;">53,409 Square Feet</span>			
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$6,066.37	
Metropolitan Water District G.O. Bonds	0.00370%	22.45	
Palomar Pomerado Health Systems G.O. Bonds	0.02350%	142.56	
Palomar Community Collect District Series 2006A	0.00959%	58.18	
Palomar Community Collect District Series 2006B	0.00425%	25.78	
<u>San Diego City Zoological Exhibits</u>	<u>0.00500%</u>	<u>30.33</u>	
Total General Property Taxes and Overrides	1.04604%	\$6,345.66	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
CWA Water Availability <sup>(5)</sup>		\$ 12.26	
MWD Water Standby Charge <sup>(6)</sup>		14.10	
Vector Disease Control <sup>(7)</sup>		5.86	
Mosquito Surveillance <sup>(8)</sup>		3.00	
Poway Unified School District CFD No. 4 <sup>(9)</sup>		3,116.26	\$ 4,055.16
<u>City of San Diego CFD No. 2, IA No. 1<sup>(10)</sup></u>	-	<u>8,040.34</u>	<u>10,830.46</u>
Total Assessments and Parcel Charges		\$11,191.82	\$14,920.84
<b><u>PROJECTED TOTAL PROPERTY TAXES</u></b>	-	<b><u>\$17,537.48</u></b>	<b><u>\$21,266.50</u></b>
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		-	-
		<b>2.89094%</b>	<b>3.50564%</b>

(1) Based on average assessed value for 102 custom lots without improvement value as of January 1, 2011 provided by the San Diego County Assessor. Assessed value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for 102 custom lots without improvement value.

(3) Based on the average lot size for 279 custom lots.

(4) Based on actual Fiscal Year 2011-12 ad valorem rates. Rate information provided by County of San Diego.

(5) Based on the Fiscal Year 2011-12 rate of \$10.00 per parcel or per acre, whichever is greater. Rate information provided by San Diego County Water Authority.

(6) Based on the Fiscal Year 2011-12 rate of \$11.50 per parcel or per acre, whichever is greater. Rate information provided by Metropolitan Water District.

(7) Based on the Fiscal Year 2011-12 rate of \$5.86 per single family equivalent. Rate information provided by SCI Consulting Group.

(8) Based on the Fiscal Year 2011-12 rate of \$3.00 per parcel. Rate information provided by SCI Consulting Group.

(9) Based on the Poway Unified School District CFD No. 4 Fiscal Year 2011-12 highest Special Tax Rate of \$3,116.26 per unit for Custom Lot Property. Maximum Special Tax is the greater of the Fiscal Year 2011-12 Assigned Special Tax or Backup Special Tax. Backup Special Tax is \$3,307.38 per acre. Maximum Special Tax and Backup Special Tax escalate 2% per year. The Poway CFD No. 4 special tax only applies to lots for which a building permit has been issued. Rate information provided by Dolinka Group.

(10) Based on the Improvement Area No. 1 Fiscal Year 2011-12 actual Special Tax levy of \$8,040.34 per unit for Custom Lot Property. Maximum Special Tax is based on the Fiscal Year 2011-12 Assigned Special Tax of \$10,830.46.

Source: David Taussig & Associates, Inc.

**TABLE 4C**

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2011-12  
AVERAGE TAX FOR CLASS 2 RESIDENTIAL PROPERTY – 1,750 SF TO 2,249 SF**

<b>Assessed Valuation and Property Taxes</b>	<b>Percent of Net AV</b>	<b>Expected Amount</b>	<b>Maximum Amount</b>
ASSESSSED VALUE <sup>(1)</sup> <span style="float:right">\$617,261</span>			
Average Tax Class 2 Unit Size <sup>(2)</sup> : <span style="float:right">2,087 Square Feet</span>			
Average Lot Size for Tax Class 2 Unit <sup>(3)</sup> : <span style="float:right">5,226 Square Feet</span>			
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$6,172.61	
Metropolitan Water District G.O. Bonds	0.00370%	22.84	
Palomar Pomerado Health Systems G.O. Bonds	0.02350%	145.06	
Palomar Community Collect District Series 2006A	0.00959%	59.20	
Palomar Community Collect District Series 2006B	0.00425%	26.23	
<u>San Diego City Zoological Exhibits</u>	<u>0.00500%</u>	<u>30.86</u>	
Total General Property Taxes and Overrides	1.04604%	6,456.80	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
CWA Water Availability <sup>(5)</sup>		\$ 10.00	
MWD Water Standby Charge <sup>(6)</sup>		11.50	
Vector Disease Control <sup>(7)</sup>		5.86	
Mosquito Surveillance <sup>(8)</sup>		3.00	
Poway Unified School District CFD No. 4 <sup>(9)</sup>		899.66	\$899.66
<u>City of San Diego CFD No. 2, IA No. 1<sup>(10)</sup></u>	-	<u>2,068.66</u>	<u>2,786.53</u>
Total Assessments and Parcel Charges	-	2,998.68	3,716.55
<b><u>PROJECTED TOTAL PROPERTY TAXES</u></b>	-	<b><u>\$9,455.48</u></b>	<b><u>\$10,173.35</u></b>
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>	-	<b>1.53184%</b>	<b>1.64814%</b>

(1) Based on average assessed value for Developed Property in Tax Class 2 as of January 1, 2011 provided by the San Diego County Assessor. Assessed value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for Developed Property in Tax Class 2.

(3) Based on the average lot size for Developed Property in Tax Class 2.

(4) Based on actual Fiscal Year 2011-12 ad valorem rates. Rate information provided by County of San Diego.

(5) Based on the Fiscal Year 2011-12 rate of \$10.00 per parcel or per acre, whichever is greater. Rate information provided by San Diego County Water Authority.

(6) Based on the Fiscal Year 2011-12 rate of \$11.50 per parcel or per acre, whichever is greater. Rate information provided by Metropolitan Water District.

(7) Based on the Fiscal Year 2011-12 rate of \$5.86 per single family equivalent. Rate information provided by SCI Consulting Group.

(8) Based on the Fiscal Year 2011-12 rate of \$3.00 per parcel. Rate information provided by SCI Consulting Group.

(9) Based on the Poway Unified School District CFD No. 4 Fiscal Year 2011-12 highest Special Tax Rate of \$899.66 per unit for Tax Class 2 property. Maximum Special Tax is the greater of the Fiscal Year 2011-12 Assigned Special Tax or Backup Special Tax. Backup Special Tax is \$3,307.38 per acre. Maximum Special Tax and Backup Special Tax escalate 2% per year. Rate information provided by Dolinka Group.

(10) Based on the Improvement Area No. 1 Fiscal Year 2011-12 actual Special Tax levy of \$2,068.66 per unit for Tax Class 2 property. Maximum Special Tax is based on the Fiscal Year 2011-12 Assigned Special Tax of \$2,786.53.

Source: David Taussig & Associates, Inc.

**TABLE 4D**

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2011-12  
AVERAGE TAX FOR CLASS 5 RESIDENTIAL PROPERTY – 3,150 SF TO 3,749 SF**

<b>Assessed Valuation and Property Taxes</b>	<b>Percent of Net AV</b>	<b>Expected Amount</b>	<b>Maximum Amount</b>
<b>ASSESSED VALUE<sup>(1)</sup></b> <span style="float:right">\$1,003,027</span> Average Tax Class 5 Unit Size <sup>(2)</sup> : <span style="float:right">3,417 Square Feet</span> Average Lot Size for Tax Class 5 Unit <sup>(3)</sup> : <span style="float:right">17,088 Square Feet</span>			
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$10,030.27	
Metropolitan Water District G.O. Bonds	0.00370%	37.11	
Palomar Pomerado Health Systems G.O. Bonds	0.02350%	235.71	
Palomar Community Collect District Series 2006A	0.00959%	96.19	
Palomar Community Collect District Series 2006B	0.00425%	42.63	
<u>San Diego City Zoological Exhibits</u>	<u>0.00500%</u>	<u>50.15</u>	
Total General Property Taxes and Overrides	1.04604%	10,492.06	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
CWA Water Availability <sup>(5)</sup>		10.00	
MWD Water Standby Charge <sup>(6)</sup>		11.50	
Vector Disease Control <sup>(7)</sup>		5.86	
Mosquito Surveillance <sup>(8)</sup>		3.00	
Poway Unified School District CFD No. 4 <sup>(9)</sup>		924.42	\$ 1,297.42
<u>City of San Diego CFD No. 2, IA No. 1<sup>(10)</sup></u>	-	<u>3,712.46</u>	<u>5,000.74</u>
Total Assessments and Parcel Charges	-	4,667.24	6,328.52
<b><u>PROJECTED TOTAL PROPERTY TAXES</u></b>	-	<b><u>\$15,159.30</u></b>	<b><u>\$16,820.58</u></b>
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>	-	<b>1.51136%</b>	<b>1.67698%</b>

(1) Based on average assessed value for Developed Property in Tax Class 5 as of January 1, 2011 provided by the San Diego County Assessor. Assessed value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for Developed Property in Tax Class 5.

(3) Based on the average lot size for Developed Property in Tax Class 5.

(4) Based on actual Fiscal Year 2011-12 ad valorem rates. Rate information provided by County of San Diego.

(5) Based on the Fiscal Year 2011-12 rate of \$10.00 per parcel or per acre, whichever is greater. Rate information provided by San Diego County Water Authority.

(6) Based on the Fiscal Year 2011-12 rate of \$11.50 per parcel or per acre, whichever is greater. Rate information provided by Metropolitan Water District.

(7) Based on the Fiscal Year 2011-12 rate of \$5.86 per single family equivalent. Rate information provided by SCI Consulting Group.

(8) Based on the Fiscal Year 2011-12 rate of \$3.00 per parcel. Rate information provided by SCI Consulting Group.

(9) Based on the Poway Unified School District CFD No. 4 Fiscal Year 2011-12 highest Special Tax Rate of \$924.42 per unit for Tax Class 5 property. Maximum Special Tax is the greater of the Fiscal Year 2011-12 Assigned Special Tax or Backup Special Tax. Backup Special Tax is \$3,307.38 per acre. Maximum Special Tax and Backup Special Tax escalate 2% per year. Rate information provided by Dolinka Group.

(10) Based on the Improvement Area No. 1 Fiscal Year 2011-12 actual Special Tax levy of \$3,712.46 per unit for Tax Class 5 property. Maximum Special Tax is based on the Fiscal Year 2011-12 Assigned Special Tax of \$5,000.74.

Source: David Taussig & Associates, Inc.

**TABLE 4E**

**SAMPLE PROPERTY TAX BILL  
PROJECTED FOR FISCAL YEAR 2011-12  
AVERAGE TAX FOR CLASS 10 RESIDENTIAL PROPERTY – 5,500 SF TO 5,999 SF**

<b>Assessed Valuation and Property Taxes</b>	<b>Percent of Net AV</b>	<b>Expected Amount</b>	<b>Maximum Amount</b>
TOTAL ASSESSED VALUE <sup>(1)</sup> <span style="float:right">\$1,874,426</span>			
Average Tax Class 10 Unit Size <sup>(2)</sup> : <span style="float:right">5,544 Square Feet</span>			
Average Lot Size for Tax Class 10 Unit <sup>(3)</sup> : <span style="float:right">59,406 Square Feet</span>			
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$18,744.26	
Metropolitan Water District G.O. Bonds	0.00370%	69.35	
Palomar Pomerado Health Systems G.O. Bonds	0.02350%	440.49	
Palomar Community Collect District Series 2006A	0.00959%	179.76	
Palomar Community Collect District Series 2006B	0.00425%	79.66	
<u>San Diego City Zoological Exhibits</u>	<u>0.00500%</u>	<u>93.72</u>	
Total General Property Taxes and Overrides	1.04604%	19,607.25	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
CWA Water Availability <sup>(5)</sup>		13.64	
MWD Water Standby Charge <sup>(6)</sup>		15.68	
Vector Disease Control <sup>(7)</sup>		5.86	
Mosquito Surveillance <sup>(8)</sup>		3.00	
Poway Unified School District CFD No. 4 <sup>(9)</sup>		1,848.80	4,510.51
<u>City of San Diego CFD No. 2, IA No. 1<sup>(10)</sup></u>	-	<u>7,131.06</u>	<u>9,605.67</u>
Total Assessments and Parcel Charges		9,018.04	14,154.37
<b><u>PROJECTED TOTAL PROPERTY TAXES</u></b>	-	<b><u>\$28,625.29</u></b>	<b><u>\$33,761.61</u></b>
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>1.52715%</b>	<b>1.80117%</b>

(1) Based on average assessed value for Developed Property in Tax Class 10 as of January 1, 2011 provided by the San Diego County Assessor. Assessed value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for Developed Property in Tax Class 10.

(3) Based on the average lot size for Developed Property in Tax Class 10.

(4) Based on actual Fiscal Year 2011-12 ad valorem rates. Rate information provided by County of San Diego.

(5) Based on the Fiscal Year 2011-12 rate of \$10.00 per parcel or per acre, whichever is greater. Rate information provided by San Diego County Water Authority.

(6) Based on the Fiscal Year 2011-12 rate of \$11.50 per parcel or per acre, whichever is greater. Rate information provided by Metropolitan Water District.

(7) Based on the Fiscal Year 2011-12 rate of \$5.86 per single family equivalent. Rate information provided by SCI Consulting Group.

(8) Based on the Fiscal Year 2011-12 rate of \$3.00 per parcel. Rate information provided by SCI Consulting Group.

(9) Based on the Poway Unified School District CFD No. 4 Fiscal Year 2011-12 highest Special Tax Rate of \$1,848.80 per unit for Tax Class 10 property. Maximum Special Tax is the greater of the Fiscal Year 2011-12 Assigned Special Tax or Backup Special Tax. Backup Special Tax is \$3,307.38 per acre. Maximum Special Tax and Backup Special Tax escalate 2% per year. Rate information provided by Dolinka Group.

(10) Based on Improvement Area No. 1 Fiscal Year 2011-12 actual Special Tax levy of \$7,131.06 per unit for Tax Class 10 property. Maximum Special Tax is based on the Fiscal Year 2011-12 Assigned Special Tax of \$9,605.67.

Source: David Taussig & Associates, Inc.



**No Principal Taxpayers**

No property tax owner in the District is responsible for more than 2.7% of the Special Tax levy in Fiscal Year 2011-12. A summary of the taxpayers by various categories is set forth in Table 5 below.

**TABLE 5  
COMMUNITY FACILITIES DISTRICT NO. 2  
IMPROVEMENT AREA NO. 1  
TAXPAYER SUMMARY  
FISCAL YEAR 2011-12<sup>(1)</sup>**

<b>Property Owner<sup>(2)</sup></b>	<b>Parcels Taxed</b>	<b>Fiscal Year 2011-2012 Special Tax Levied</b>	<b>Percentage of Total Levy</b>
Golf Course Property			
Santaluz Club	18	\$ 124,327	2.70%
Santaluz LLC	<u>1</u>	<u>3,448</u>	<u>0.08</u>
Subtotal	19	127,775	2.78
Institutional Property	2	585	0.01
Residential Property (Non-Custom Lots)			
Cabral John T	4	17,713	0.38
Sadeghi Hossein M & Golnar	2	10,899	0.24
Baha Family Trust 09-14-05	2	8,783	0.19
ING Bank	2	8,104	0.18
Wells Fargo Bank	2	8,104	0.18
Others	<u>679</u>	<u>2,186,776</u>	<u>47.50</u>
Subtotal	691	2,240,378	48.66
Residential Property (Custom Lots with Improvement Value)			
Cabral John T	2	16,081	0.35
Onewest Bank	2	16,081	0.35
Penner Henry & Debbra A	2	16,081	0.35
Tabrizi Behnam	2	16,081	0.35
Others	<u>168</u>	<u>1,350,777</u>	<u>29.34</u>
Subtotal	176	1,415,100	30.74
Residential Property (Custom Lots without Improvement Value) <sup>(3)</sup>			
National Bank of Arizona	4	32,161	0.70
Rubenstein Robert A Trust 02-26-91	3	24,121	0.52
Schmidt Arnold & Valerie Revocable 2005 Trust 12	3	24,121	0.52
Canyon Reserve Partners LP	2	16,081	0.35
Encendido 1 & 2 LLC	2	16,081	0.35
Highland Productions LLC	2	16,081	0.35
Santaluz Development LLC	2	16,081	0.35
Others	<u>84</u>	<u>675,389</u>	<u>14.67</u>
Subtotal	<u>102</u>	<u>820,115</u>	<u>17.81</u>
<b>GRAND TOTAL</b>	<u>990</u>	<u>\$ 4,603,953</u>	<u>100.00%</u>

<sup>(1)</sup> Ownership information shown for owners of two or more parcels owned. Certain totals may not add due to rounding.

<sup>(2)</sup> Reflects ownership as of January 1, 2011 provided by the San Diego County Assessor.

<sup>(3)</sup> For purposes of this table, fourteen parcels classified as Custom Lot Property without Improvement Value have been reclassified as Undeveloped Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Special Tax Appeals and Requests for Refund.*"

Source: David Taussig & Associates, Inc.

**Delinquency History**

Table 6 below summarizes the Special Tax delinquencies for property within the boundaries of Improvement Area No. 1 for the last five fiscal years. The District has authorized a foreclosure action against one parcel that is currently in process.

**TABLE 6  
COMMUNITY FACILITIES DISTRICT NO. 2  
IMPROVEMENT AREA NO. 1  
SPECIAL TAX DELINQUENCY HISTORY**

<i>Fiscal Year</i>	<i>Parcels Taxed</i>	<i>Total Levy</i>	<i>Delinquent Parcels at Fiscal Year End</i>	<i>Delinquent Installments at Fiscal Year End<sup>(1)</sup></i>	<i>Percent Delinquent in Fiscal Year of Levy</i>	<i>Parcels Remaining Delinquent</i>	<i>Amount Remaining Delinquent<sup>(2)</sup></i>	<i>Percent Remaining Delinquent</i>
2010-11	1,007	\$ 5,119,736	19	\$ 82,355	1.61%	12	\$ 53,505	1.05%
2009-10	1,009	5,126,092	40	219,870	4.29	3	11,486	0.22
2008-09	1,010	4,942,398	70	335,284	6.78	1	8,353	0.17
2007-08	1,010	4,582,649	55	238,177	5.20	0	-	0.00
2006-07	1,004	4,752,388	47	169,403	3.56	0	-	0.00
Total Amount Delinquent							<u>\$ 73,343</u>	

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

<sup>(2)</sup> As of December 7, 2011; does not include penalties and interest.

Source: City of San Diego.

The District does not participate in the County of San Diego Teeter Plan and, as a result, the District receives only the Special Taxes, penalties and interest actually collected.

**Estimated Assessed Value-to-Lien Ratios**

Table 7 below sets forth the estimated assessed value-to-lien ratios for property ownerships within Improvement Area No. 1 based upon ownership status as of January 1, 2011 and the assessed values included on the Fiscal Year 2011-12 Assessor’s roll. The assessed value of the taxable parcels within Improvement Area No. 1 for Fiscal Year 2011-12 is \$1,096,608,625. The estimated assessed value-to-lien ratio of the property within Improvement Area No. 1 based upon the principal amount of the 2011 Bonds, overlapping debt payable from other taxes and assessments levied on the property within Improvement Area No. 1, and the assessed values included on the 2011-12 Assessor’s roll is 15.89 to 1. Because a parcel’s assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel’s market value. No assurance can be given that any of the value-to-lien ratios in Table 7 will be maintained during the period of time that the 2011 Bonds are outstanding. The District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See “SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios.”

Table 8 below sets forth the estimated value-to-lien ratios for parcels within Improvement Area No. 1 by various ranges.

Table 9 below sets forth additional information for the two parcels within Improvement Area No. 1 with value-to-lien ratios of less than 3 to 1.

**TABLE 7**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**  
**BY LAND USE TYPE**

<i>Property Owner<sup>(1)</sup></i>	<i>Number of Parcels</i>	<i>Fiscal Year 2011-12 Special Tax</i>	<i>Percentage of FY 2011-12 Special Tax</i>	<i>CFD No. 2 IA No. 1 2011 Bonds Outstanding<sup>(2)</sup></i>	<i>Poway Unified School District CFD No. 4 Bonds Outstanding<sup>(2)</sup></i>	<i>Metropolitan Water District G.O. Bonds Outstanding<sup>(3)</sup></i>	<i>Palomar Pomerado Health 2005A Bonds Outstanding<sup>(3)</sup></i>	<i>Palomar Community College District 2006A Bonds Outstanding<sup>(3)</sup></i>	<i>Palomar Community College District 2006B Bonds Outstanding<sup>(3)</sup></i>	<i>Total Direct and Overlapping Debt</i>	<i>Net Assessed Values<sup>(4)</sup></i>	<i>Estimated Assessed Value-to-Lien Ratios<sup>(5)</sup></i>
<b>Developed Property<sup>(6)</sup></b>												
Residential Property (other than Custom Lots)	691	\$ 2,240,378	48.66%	\$ 25,148,554	\$ 6,221,167	\$ 52,457	\$ 812,560	\$ 992,578	\$ 1,167,302	\$ 34,394,618	\$ 590,635,583	17.17
Custom Lot Property with Improvement Value <sup>(7)</sup>	176	1,415,100	30.74	15,884,690	5,147,581	36,423	523,138	677,293	796,515	23,065,640	403,025,693	17.47
Custom Lot Property without Improvement Value <sup>(7)</sup>	102	820,115	17.81	9,205,900	294,864	6,918	103,389	103,986	122,291	9,837,348	61,876,926	6.29
Institutional Property	2	585	0.01	6,569	0	464	0	13,785	16,212	37,030	8,203,063	221.53
<i>Golf Course Property</i>												
Santaluz LLC	1	3,448	0.07	38,700	0	44	0	353	415	39,512	210,000	5.31
Santaluz Club	18	124,327	2.70	1,395,587	0	3,303	81,983	29,310	34,470	1,544,653	17,441,067	11.29
Subtotal Golf Course Property	19	127,775	2.78	1,434,287	0	3,347	81,983	29,663	34,885	1,584,165	17,651,067	11.14
<b>Subtotal all Developed Property</b>	<b>990</b>	<b>4,603,953</b>	<b>100.00</b>	<b>51,680,000</b>	<b>11,663,612</b>	<b>99,609</b>	<b>1,521,070</b>	<b>1,817,305</b>	<b>2,137,206</b>	<b>68,918,801</b>	<b>1,081,392,332</b>	<b>15.69</b>
<b>Undeveloped Property<sup>(8)</sup></b>												
Future Custom Lot Property <sup>(9)</sup>	21	0	0.00	0	30,814	1,361	11,800	21,025	24,727	89,727	12,510,760	139.43
Future Institutional Property	3	0	0.00	0	0	238	0	4,547	5,347	10,132	2,705,533	267.04
<b>Subtotal all Undeveloped Property</b>	<b>24</b>	<b>0</b>	<b>0.00</b>	<b>0</b>	<b>30,814</b>	<b>1,598</b>	<b>11,800</b>	<b>25,572</b>	<b>30,074</b>	<b>99,858</b>	<b>15,216,293</b>	<b>152.38</b>
<b>GRAND TOTAL</b>	<b>1,014</b>	<b>\$ 4,603,953</b>	<b>100.00%</b>	<b>\$ 51,680,000</b>	<b>\$ 11,694,426</b>	<b>\$ 101,207</b>	<b>\$ 1,532,870</b>	<b>\$ 1,842,877</b>	<b>\$ 2,167,280</b>	<b>\$ 69,018,659</b>	<b>\$ 1,096,608,625</b>	<b>15.89</b>

(1) Reflects ownership as of January 1, 2011 provided by the San Diego County Assessor.

(2) Based on principal amount of 2011 Bonds.

(3) As of September 2, 2011. Allocated based on Fiscal Year 2011-2012 levy.

(4) Fiscal Year 2011-2012 net assessed values as of January 1, 2011 provided by the San Diego County Assessor.

(5) Represents "Net Assessed Values" column divided by "Total Direct and Overlapping Debt" column

(6) As defined in the Rate and Method, Developed Property is all (i) Custom Lot Property, (ii) Golf Course Property, and (iii) other Taxable Property for which a building permit was issued prior to March 1, 2011. Custom Lot Property includes property (i) that is within a Final Map that was recorded prior to March 1, 2011; (ii) for which (a) escrow has closed prior to March 1, 2011 to a buyer who is not in the regular course of business of building homes for resale or (b) a building permit was issued prior to March 1, 2011; and (iii) that is a Proposed Custom Lot as defined in the Rate and Method.

(7) Fiscal Year 2011-2012 improvement values as of January 1, 2011 provided by the San Diego County Assessor.

(8) Includes property not classified as Developed Property pursuant to the Rate and Method.

(9) For purposes of this table, fourteen parcels classified as Custom Lot Property without Improvement Value have been reclassified as Undeveloped Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Special Tax Appeals and Requests for Refund.*"

Source: David Taussig & Associates, Inc.

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

<i>Estimated Assessed Value-to-Lien Ratio Range</i>	<i>Number of Parcels</i>	<i>Fiscal Year 2011-12 Special Tax</i>	<i>Percentage of FY 2011-12 Special Tax</i>	<i>CFD No. 2 IA No. 1 2011 Bonds Outstanding<sup>(1)</sup></i>	<i>Poway Unified School District CFD No. 4 Bonds Outstanding<sup>(1)</sup></i>	<i>Metropolitan Water District G.O. Bonds Outstanding<sup>(1)</sup></i>	<i>Palomar Pomerado Health 2005A Bonds Outstanding<sup>(1)</sup></i>	<i>Palomar Community College District 2006A Bonds Outstanding<sup>(1)</sup></i>	<i>Palomar Community College District 2006B Bonds Outstanding<sup>(1)</sup></i>	<i>Total Direct and Overlapping Debt</i>	<i>Net Assessed Values<sup>(2)</sup></i>	<i>Estimated Assessed Value-to-Lien Ratios<sup>(3)</sup></i>
0-2.99	2	\$ 16,081	0.35%	\$ 180,508	\$ 33,032	\$ 123	\$ 0	\$ 990	\$ 1,165	\$ 215,818	\$ 589,404	2.73
3.00-9.99	117	909,701	19.76	10,211,521	595,147	8,636	100,242	110,785	130,289	11,156,620	65,922,945	5.91
10.00-14.99	245	1,172,819	25.47	13,165,051	3,421,437	21,984	347,597	404,654	475,887	17,836,610	240,789,875	13.50
15.00-19.99	382	1,725,887	37.49	19,373,322	5,231,358	41,245	559,944	772,543	908,533	26,886,945	459,703,525	17.10
20.00-49.99	172	770,028	16.73	8,643,675	2,413,452	25,608	479,336	489,311	575,443	12,626,824	291,166,192	23.06
50.00 or Greater	96	9,436	0.20	105,924	0	3,611	45,750	64,594	75,963	295,842	38,436,684	129.92
<b>GRAND TOTAL</b>	<b>1,014</b>	<b>\$ 4,603,953</b>	<b>100.00%</b>	<b>\$ 51,680,000</b>	<b>\$ 11,694,426</b>	<b>\$ 101,207</b>	<b>\$ 1,532,870</b>	<b>\$ 1,842,877</b>	<b>\$ 2,167,280</b>	<b>\$ 69,018,659</b>	<b>\$ 1,096,608,625</b>	<b>15.89</b>

(1) As of September 2, 2011. Allocated based on Fiscal Year 2011-2012 levy.

(2) Fiscal Year 2011-12 net assessed values as of January 1, 2011 provided by the San Diego County Assessor.

(3) Represents "Net Assessed Values" column divided by "Total Direct and Overlapping Debt" column.

Source: David Taussig & Associates, Inc.

**TABLE 9**

**PARCELS WITH ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS LESS THAN 3 TO 1**

<i>Property Owner/Parcel Number<sup>(1)</sup></i>	<i>Number of Parcels</i>	<i>Fiscal Year 2011-12 Special Tax</i>	<i>Percentage of FY 2011-12 Special Tax</i>	<i>CFD No. 2 IA No. 1 2011 Bonds Outstanding<sup>(2)</sup></i>	<i>Poway Unified School District CFD No. 4 Bonds Outstanding<sup>(2)</sup></i>	<i>Metropolitan Water District G.O. Bonds Outstanding<sup>(2)</sup></i>	<i>Palomar Pomerado Health 2005A Bonds Outstanding<sup>(2)</sup></i>	<i>Palomar Community College District 2006A Bonds Outstanding<sup>(2)</sup></i>	<i>Palomar Community College District 2006B Bonds Outstanding<sup>(2)</sup></i>	<i>Total Direct and Overlapping Debt</i>	<i>Net Assessed Values<sup>(3)</sup></i>	<i>Estimated Assessed Value-to-Lien Ratios<sup>(4)</sup></i>
Platt Family Living Trust 269-210-05-00	1	\$ 8,040	0.17	\$ 90,254	\$ 33,032	\$ 83	\$ 0	\$ 542	\$ 637	\$ 125,547	\$ 322,409 <sup>(5)</sup>	2.59
Mojaver Family Trust <sup>(5)</sup> 269-280-31-00	1	8,040	0.17	90,254	0	40	0	449	528	91,270	266,995 <sup>(5)</sup>	2.93
GRAND TOTAL	<u>2</u>	<u>\$ 16,081</u>	<u>0.35%</u>	<u>\$ 180,508</u>	<u>\$ 33,032</u>	<u>\$ 123</u>	<u>\$ 0</u>	<u>\$ 990</u>	<u>\$ 1,165</u>	<u>\$ 215,818</u>	<u>\$ 589,404</u>	<u>2.73</u>

(1) Reflects ownership as of January 1, 2011 provided by the San Diego County Assessor.

(2) As of September 2, 2011. Allocated based on Fiscal Year 2011-2012 levy.

(3) Fiscal Year 2011-2012 net assessed values as of January 1, 2011 provided by the San Diego County Assessor.

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

(5) Parcels have a reduced Fiscal Year 2011-2012 net assessed value due to a reassessment at the time of ownership change.

Source: David Taussig & Associates, Inc.

## **SPECIAL RISK FACTORS**

The purchase of the 2011 Bonds involves significant investment risks and, therefore, the 2011 Bonds may not be suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the 2011 Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 1 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 2011 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area No. 1. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” and “— Limited Secondary Market” below.

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

The Owners of the 2011 Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

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

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

### **Economic Uncertainty**

The 2011 Bonds are being issued at a time of economic uncertainty and volatility. Unemployment rates are approximately 9.7% for the City as of October 2011 (not seasonally adjusted) as compared to approximately 10.5% for calendar year 2010 (not seasonally adjusted) and decreased to approximately 11.2% (not seasonally adjusted) for the State as of October 2011 as compared to approximately 12.4% for calendar year 2010 (not seasonally adjusted). The District cannot predict how long these conditions will last or whether to what extent they may affect the ability of homeowners to pay Special Taxes or the marketability of the 2011 Bonds.

## **Limited Obligations**

The 2011 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 2011 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no Owner of the 2011 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 2011 Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon any of the City's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Bond Indenture.

## **Insufficiency of Special Taxes**

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in Improvement Area No. 1 will generally be based on whether such parcel is categorized as Undeveloped Property or as Developed Property and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Rate and Method of Apportionment of Special Taxes.*”

The maximum Special Taxes that may be levied within Improvement Area No. 1 are at least 110% of Maximum Annual Debt Service on the 2011 Bonds. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the 2011 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 1,374.4 acres of property owned by public agencies and 339.5 acres owned by a property owners association. As of March 1, 2011, 1,335.82 acres of property owned by public agencies and 333.96 acres of property owned by a property owners association had been exempted. If for any reason more property within Improvement Area No. 1 becomes exempt from taxation than is specified in the Rate and Method, 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 Improvement Area No. 1. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

**Moreover, if a substantial portion of land within Improvement Area No. 1 became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within Improvement Area No. 1 might not be sufficient to pay principal of and interest on the 2011 Bonds when due and a default could occur with respect to the payment of such principal and interest.**

## **Depletion of Reserve Account**

The Reserve Account is maintained in an amount equal to the Reserve Requirement. See “Reserve Account of the Special Tax Fund.” Funds in a Reserve Account may be used to pay principal of and interest on the 2011 Bonds and any future Parity Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in Improvement Area No. 1 is not sufficient. If the Reserve Account is depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the 2011 Bonds and any Parity Bonds. However, no replenishment of the Reserve Account from the proceeds of the Special Taxes can occur as long as the proceeds that are collected from the levy of the Special Taxes at the maximum

tax rates, together with available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Account will be depleted and not replenished by the levy of the Special Taxes.

### **Natural Disasters**

Improvement Area No. 1, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity, wildfires and other natural disasters represents a potential risk for damage to buildings, roads, bridges and property within Improvement Area No. 1. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. Improvement Area No. 1 is located in San Diego County which was the locus of a major wildfire disaster in October 2003. The wildfires burned over 250,000 acres and destroyed more than 3,000 homes. The wildfire damage occurred approximately 5 miles from Improvement Area No. 1. In October 2007, there were more wildfires in San Diego County, which came close to the District and destroyed several hundred homes. 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.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Improvement Area No. 1. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area No. 1 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.

According to geotechnical reports completed as development began in Improvement Area No. 1 about 10 years ago, no active or potentially active faults are known to cross the land within Improvement Area No. 1; therefore, according to such reports, the potential for primary ground rupture due to faulting on-site is very low to negligible. The land within Improvement Area No. 1 is not within an Alquist-Priolo Earthquake Fault Zone. However, the land within Improvement Area No. 1 will likely be subject to seismic shaking at some time in the future. The nearest known active or potentially active fault, the Rose Canyon fault, is located 8 miles southwest of Improvement Area No. 1. According to geotechnical reports, an inactive unnamed fault is located within the southwest corner of the District.

### **Potential Impact of Soil Erosion**

In July 2011, the City sent a letter to the entity which developed the property within the District and to the community association responsible for maintenance providing notice of significant ongoing erosion on certain open space property owned by the City adjacent to the District. The City believes that the cause of the erosion is due to a storm water conveyance system installed to drain storm water from 9 residential lots within the District. The City letter states that the erosion has damaged the City property and, if actions are not taken to address the storm water, the erosion could progress toward the 9 residential lots. The City has not yet received a response to its letter. The entity which developed the property executed an Encroachment Maintenance and Removal Agreement (the "Encroachment Agreement") which provides that, if the property owners fail to repair any damage caused by the storm water conveyance system, the City may undertake the repairs and place a lien against the 9 residential lots and three other parcels in the District subject to the Encroachment Agreement. The City estimates that the cost of repair is between \$500,000 and \$1,000,000. Any lien placed on the affected parcels would be subordinate to the lien of the Special Taxes. To date, all erosion is on property outside of the District. The City does not believe that the current level of erosion presents any immediate threat to the habitability of the 9 residential lots; however, if the erosion is allowed to continue, it is possible that the soil stability of one or more of these 9 residential lots could be adversely affected.



## **Methane Gas**

There is a history of methane gas being detected in the District and adjacent areas as described below. For a period of time mitigation measures were required for certain homes built in the area. At present, the City does not intend to require any mitigation measures for methane gas as a condition to issuing building permits for the Custom Lots in Improvement Area No. 1 on which homes have not yet been constructed.

Beginning in 1999 the presence of subsurface methane gas was documented in areas approximately two miles northeast of the District. In response to these reports, the landowner developing the property in the District retained a geotechnical consultant to conduct a subsurface methane gas investigation in one of the neighborhoods in the District. The report confirmed that subsurface methane gas was present beneath some of the lots within the areas tested at concentrations in excess of 5,000 parts per million. As of January 5, 2004, 616 residential lots and one church site in the District had been tested for methane. Of the lots tested, 79 had methane levels in excess of 5,000 parts per million, including 49 lots with methane concentrations in excess of 10,000 parts per million. The City previously approved methane mitigation plans for one neighborhood in the District. These plans required mitigation for lots within 100 feet of a location where subsurface methane concentrations exceed 10,000 ppm. All of the lots within the project at which elevated concentrations were detected are in areas and at depths where fill materials had been placed during the grading of the project. The geotechnical consultant for the landowner concluded that the elevated methane levels were a result of the decomposition of organic materials introduced during the grading process, rather than as a result of the pre-existence of subsurface methane.

In August 2001, the County of San Diego enacted an ordinance requiring testing for methane gas levels in new developments in several unincorporated areas of the County, including areas adjacent to the District. In April 2005 the County adopted a second ordinance repealing the ordinance requiring methane gas testing. The 2005 ordinance states that the decision to repeal was based upon staff's analysis of field tests conducted on various subdivisions located throughout the County and the completion of a methane gas migration model, which determined that potentially hazardous concentrations of methane would not accumulate on the interior of a structure, even in the absence of methane mitigation.

The City of San Diego Municipal Code does not mandate specific investigation or mitigation of methane unless the design documents submitted by the developer for construction indicate that methane is an issue, and recommend mitigation. Not all of the lots in Improvement Area No. 1 have been tested and, as methane gas does migrate beneath ground under certain conditions, no assurance can be given that methane gas levels will not rise in the future to levels that require mitigation.

## **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.

A small area of the property, encompassing approximately 25 square feet, was subject to a fuel spill during the time period that the property was utilized for agricultural uses. The contaminated material has been removed and disposed of using approved regulatory agency methods and the site has been certified as being clean.

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

Property within Improvement Area No. 1 is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within Improvement Area No. 1. See “IMPROVEMENT AREA NO. 1 — Estimated Direct and Overlapping Indebtedness.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below.

**Neither the City nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, ad valorem taxes or assessments payable from all or a portion of the property within Improvement Area No. 1. In addition, the landowners within Improvement Area No. 1 may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within Improvement Area No. 1 described herein.**

### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax, even if the value of the parcel is sufficient, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused an Amended Notice of Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within Improvement Area No. 1 or lending of money thereon.

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

## **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2011 Bonds are derived, are customarily billed to the properties within Improvement Area No. 1 on the ad valorem property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Bond Indenture, in the event of delinquencies in the payment of Special Taxes. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessments and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

## **Non-Cash Payments of Special Taxes**

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a 2011 Bond or Parity Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A 2011 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 2011 Bonds or Parity Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a 2011 Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other 2011 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 2011 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 2011 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 2011 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 2011 Bonds and any Parity Bonds when due.

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

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

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

The value of the property within Improvement Area No. 1 is a critical factor in determining the investment quality of the 2011 Bonds. If a property owner is delinquent in the payment of Special Taxes, the District’s only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events may adversely impact the security underlying the Special Taxes. The recent downturn in the housing market in California and across the country has resulted in declining property values in Improvement Area No. 1 from a high of \$1,256,752,775 in Fiscal Year 2008-09 to \$1,096,608,625 in Fiscal Year 2011-12, a

decline of 14.4%. There is no assurance that assessed values will not decline further in the future. See “IMPROVEMENT AREA NO. 1 — Estimated Assessed Value-to-Lien Ratios” herein.

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

No assurance can be given that the estimated value-to-lien ratios as set forth in Table 7 will be maintained over time. As discussed herein, many factors which are beyond the control of the District could adversely affect the property values within Improvement Area No. 1. The District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in Improvement Area No. 1 or an increase in the indebtedness secured by taxes and amounts with parity liens on property in Improvement Area No. 1, or both, could result in a lowering of the value-to-lien ratio of the property in Improvement Area No. 1.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Tax — Proceeds of Foreclosure Sales.”

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

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

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

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

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an interest, although

prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution “this Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding.” In the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

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

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

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of Beneficial Owners of the 2011 Bonds in at least two ways. First, the payment of property owners’ taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*” In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

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

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.

The various legal opinions to be delivered concurrently with the delivery of the 2011 Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

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

### **No Acceleration Provision**

The 2011 Bonds do not contain a provision allowing for the acceleration of the 2011 Bonds in the event of a payment default or other default under the 2011 Bonds or the Bond Indenture.

### **Loss of Tax Exemption**

As discussed under the caption “LEGAL MATTERS — Tax Exemption,” the interest on the 2011 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2011 Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or a change in legislation. Should such an event of taxability occur, the 2011 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Bond Indenture.

### **Limitations on Remedies**

Remedies available to the Beneficial Owners of the 2011 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 2011 Bonds or to preserve the tax-exempt status of the 2011 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2011 Bonds and of the Bond Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Beneficial Owners of the 2011 Bonds.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2011 Bonds or, if a secondary market exists, that the 2011 Bonds can be sold at all or for any particular price. Although the District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Proposition 218**

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the 2011 Bonds and any Parity Bonds as described below.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2011 Bonds or any Parity Bonds.

It may be possible, however, for voters or the City Council acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2011 Bonds and any Parity 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 2011 Bonds and any Parity 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 Improvement Area No. 1 to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding 2011 Bonds and Parity Bonds in each future Bond Year. 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 2011 Bonds and Parity Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

### **Ballot Initiatives**

Articles XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations or on the ability of the landowners within Improvement Area No. 1 to complete the remaining proposed development. See “SPECIAL RISK FACTORS — Failure to Develop Properties” herein.

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate (the “Disclosure Certificate”), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning the District. The Annual Report to be filed by the District is to be filed not later than April 1 of each year, beginning April 1, 2012, and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the 2011 Bonds are secured by any resources or property of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS” and “SPECIAL RISK FACTORS — Limited Obligations.” The full text of the Disclosure Certificate is set forth in APPENDIX D — “FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT.”

Notwithstanding any provision of the Bond Indenture, failure of the District to comply with the Disclosure Certificate shall not be considered an event of default under the Bond Indenture. However, any holder of the 2011 Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the Disclosure Certificate.



During the last five years the District has failed to comply in all material respects with certain of its previous undertakings with regard to Rule 15c2-12. The District filed on time that portion of its annual report regarding the specified operating data. However, the reports filed for the Fiscal Years 2005-06, 2006-07 and 2009-10 were incomplete due to the unavailability of the City's audited financial statements as of the date that the District was required to file the annual reports. The District subsequently filed the audited financial statements of the City with EMMA upon their release by the City and the District is now in compliance with all previous undertakings.

In addition, the City is party to a number of continuing disclosure undertakings pursuant to Rule 15c2-12. The City, during the last five years, failed to provide when due annual reports for Fiscal Years 2005-06, 2006-07 and 2009-10. The audited financial statements for 2005-06 and 2006-07 were delayed in principal part due to restatements of prior financial statements that resulted in the auditors undertaking additional procedures. The delay in releasing the audited financial statements for Fiscal Year 2009-10 was principally due to the implementation of a new accounting reporting system for the City. All required annual reports were filed following the release of the audited financial statements for these fiscal years, and the City is now current in all of its required filings under Rule 15c2-12.

## **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 2011 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 2011 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 2011 Bond (the first price at which a substantial amount of the 2011 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2011 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2011 Bond. The amount of original issue discount that accrues to the Beneficial Owner of the 2011 Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2011 Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriters and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the 2011 Bonds to assure that interest on the 2011 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 2011 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 2011 Bonds. The District has covenanted to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable 2011 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an

earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable 2011 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a 2011 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2011 Bond to the Beneficial Owner. Purchasers of the 2011 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2011 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2011 Bonds might be affected as a result of such an audit of the 2011 Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2011 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2011 Bonds or their market value.

It is possible that, subsequent to the issuance of the 2011 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 2011 Bonds or the market value of the 2011 Bonds. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the 2011 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2011 Bonds. No assurance can be given that subsequent to the issuance of the 2011 Bonds such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2011 Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2011 Bonds.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Indenture and the Tax Certificate relating to the 2011 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2011 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2011 Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2011 Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the 2011 Bonds.

Should interest on the 2011 Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the 2011 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Bond Indenture.

The form of Bond Counsel's opinion with respect to the 2011 Bonds is attached as APPENDIX E.

## **Litigation**

No litigation is pending or threatened concerning the validity of the 2011 Bonds, the pledge of Special Taxes to repay the 2011 Bonds, the powers or authority of the District with respect to the 2011 Bonds, or seeking to restrain or enjoin development of the land within Improvement Area No. 1 and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the 2011 Bonds.

## **Legal Opinion**

The validity of the 2011 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 2011 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2011 Bonds and expressly disclaims any duty to advise the Beneficial Owners of the 2011 Bonds as to matters related to the Official Statement.

## **Rating**

Standard & Poor's Ratings Services ("S&P"), a Standard & Poor's Financial Services LLC business, has assigned its long-term rating of "BBB+" to the 2011 Bonds. Such rating reflects only the views of the rating agency, and any explanation of the significance of such rating must be obtained from the rating agency. There is no assurance that such rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by the rating agency if in the judgment of the rating agency circumstances so warrant. An explanation of the significance of such rating may be obtained from Standard & Poor's Corporation, 55 Water Street, 45th Floor, New York, New York 10041. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the 2011 Bonds. The District cannot predict the timing or impact of future actions by the rating agency.

## **Underwriting**

The 2011 Bonds are being purchased by Piper Jaffray & Co. and Southwest Securities Inc. (the "Underwriters"). The Underwriters have agreed to purchase the 2011 Bonds at a price of \$51,680,000 (being \$51,680,000 aggregate principal amount thereof, less Underwriters' discount of \$189,924.00 plus original issue premium of \$18,150.20). The purchase agreement relating to the 2011 Bonds provides that the Underwriters will purchase all of the 2011 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the 2011 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

## **Financial Interests**

The fees being paid to the Underwriters, Underwriters' Counsel and Bond Counsel are contingent upon the issuance and delivery of the 2011 Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the 2011 Bonds and Underwriters' Counsel represents the City on matters unrelated to the 2011 Bonds.

**Pending Legislation**

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2011 Bonds or the ability of the District to pay the principal of and interest on the 2011 Bonds when due.

**Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the 2011 Bonds. Quotations and summaries and explanations of the 2011 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

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

COMMUNITY FACILITIES DISTRICT NO. 2  
(SANTALUZ)

By: /s/ Mary Lewis  
Chief Financial Officer of the City of San Diego

## APPENDIX A

### AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2 (SANTALUZ) (IMPROVEMENT AREA NO. 1)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2 (Santaluz) - (Improvement Area No. 1) ("CFD No. 2 (IA No. 1)") and collected each Fiscal Year commencing in Fiscal Year 2000-01, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2 (IA No. 1), unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

#### A. DEFINITIONS

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.

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

**"Administrative Expenses"** means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2 (IA No. 1): 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 Bond Indenture; the costs to the City, CFD No. 2 (IA No. 1) or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2 (IA No. 1) or any designee thereof of complying with disclosure requirements of the City, CFD No. 2 (IA No. 1) 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, CFD No. 2 (IA No. 1) or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2 (IA No. 1) for any other administrative purposes of CFD No. 2 (IA No. 1), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

**"Affordable Unit(s)"** means, for each Fiscal Year, any dwelling unit(s) located on an Assessor's Parcel 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 prior to March 1 of the prior Fiscal Year. In order to insure that a dwelling unit is correctly classified as an Affordable Unit, the owner of such property shall provide the CFD Administrator with a copy of any applicable deed restrictions, resale restrictions, and/or regulatory agreements.

**"Affordable Companion Unit(s)"** means, for each Fiscal Year, Companion Units that are subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City providing for affordable housing prior to March 1 of the prior Fiscal Year. 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.

**"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 annual 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 that may be required to be paid as a result of changes in development, as determined in accordance with Section D below.

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

**"CFD No. 2"** means Community Facilities District No. 2 (Santaluz).

**"CFD No. 2 (IA No. 1)"** means CFD No. 2 (Improvement Area No. 1), as identified on the boundary map for CFD No. 2.

**"CFD No. 2 (IA No. 1) Bonds"** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2 for CFD No. 2 (IA No. 1) 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. 2 (IA No. 1).

**"County"** means the County of San Diego.

**"Custom Lot Property"** means, for each Fiscal Year, any Assessor's Parcel of Taxable Property (i) that is within a Final Map that was recorded prior to March 1 of the prior Fiscal Year; (ii) for which (a) escrow has closed prior to March 1 of the prior Fiscal Year to a buyer who is not in the regular course of business of building homes for resale as determined by the CFD Administrator or (b) a building permit for new construction was issued prior to March 1 of the prior Fiscal Year; and (iii) that is a Proposed Custom Lot.

**"Developed Property"** means, for each Fiscal Year, all (i) Custom Lot Property, (ii) Golf Course Property, and (iii) all Taxable Property, exclusive of Taxable Property Owner Association Property or Taxable Public Property, for which a building permit for new construction or renovations was issued after January 1, 1999, but prior to March 1 of the prior Fiscal Year.

**"Final Map"** means (i) a final map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) 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.

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

**“Golf Course Property”** means the land area consisting of up to 282.3 Acres to be utilized for golf course purposes including: fairways, greens, driving ranges, tennis facilities, club house, locker rooms, maintenance facilities, garages, pro shop, restaurant, or banquet facilities as geographically identified in the substantial conformance approval granted by the City on October 29, 1999, for Black Mountain Ranch Tentative Map No. VTM-0173, as amended from time-to time or modified pursuant to a final tract map or precise site plan for such golf course property, and listed in Exhibit A. Any Residential Property located within this area shall not be considered Golf Course Property. If the golf course Acreage exceeds the amount stated above, then the Acres exceeding such total shall not be considered Golf Course Property but shall be classified as Property Owner Association Property.

**“Bond Indenture”** means the Bond Indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2 (IA No. 1) Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**“Institutional Property”** means Assessor’s Parcels of Developed Property, including up to 11.9 Acres, for which the building permit was issued for the following institutional uses: day care center, recreation center, seniors center, private school or church. If the Acreage of institutional uses exceeds the amount stated above, then the Acres exceeding such total shall not be considered Institutional Property but shall be classified as Non-Residential Property.

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

**“Master Developer”** means Santaluz, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 2 (IA No. 1).

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

**“Non-Residential Property”** means all Assessor’s Parcels of Developed Property, excluding Golf Course Property and Institutional Property, for which a building permit(s) was issued for a non-residential use.

**“Outstanding Bonds”** means all CFD No. 2 (IA No. 1) Bonds which are deemed to be outstanding under the Bond Indenture.

**“Property Owner Association Property”** means any property within the boundaries of CFD No. 2 (IA No. 1) owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association.

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

**“Proposed Custom Lot”** means any property designated as a custom lot in the most current Updated Report, or if an Updated Report has yet not been provided, in the Original Report.

**“Public Property”** means any property within the boundaries of CFD No. 2 (IA No. 1) 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 (i) the Purchase and Financing Agreement by and between the City and Fairbanks Highlands LLC and Santaluz LLC that was approved by the Council on February 7, 2000, as it may be modified or supplemented from time to time and/or (ii) the Purchase and Financing Agreement by and between the City and Black Mountain Ranch LP that was approved by the Council on February 7, 2000, as it may be modified or supplemented from time to time.

**“RMA”** means this amended and restated Rate and Method of Apportionment.

**“Residential Property”** means (i) Custom Lot Property, and (ii) all Assessor’s Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

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

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

**“Special Tax Requirement”** means, for any Fiscal Year, the amount required after taking into account amounts held in funds and accounts under the Bond Indenture which are intended to be used to pay debt service on Outstanding Bonds in the calendar year beginning in such Fiscal Year, to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 2 (IA No. 1) Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 2 (IA No. 1) Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for any CFD No. 2 (IA No. 1) Bonds; (v) pay directly for authorized facilities in accordance with the Purchase and Financing Agreement; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

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

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of CFD No. 2 (IA No. 1) which are not exempt from the Special Tax pursuant to law or Section F below.

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

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

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

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



**B. ASSIGNMENT TO LAND USE CATEGORIES**

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

**C. MAXIMUM ANNUAL SPECIAL TAX**

**1. Developed Property**

Residential Property shall be assigned to Land Use Classes 1 through 14 as listed in the table below based upon the type of structure or the Residential Floor Area for each unit or units located on an Assessor's Parcel, or in the case of Custom Lot Property to Land Use Class 13. Non-Residential Property shall be assigned to Land Use Class 15. Golf Course Property shall be assigned to Land Use Class 16. Institutional Property shall be assigned to Land Use Class 17.

(a) Maximum Annual Special Tax

The Maximum Annual Special Tax for each Assessor's Parcel classified as Developed Property shall be equal to the sum of the Assigned Special Tax and any Backup Special Tax due on such Assessor's Parcel.

(b) Assigned Special Tax

The Fiscal Year 2000-01 Assigned Special Tax for each Land Use Class is shown in Table 1.

**TABLE 1**

**Fiscal Year 2000-01 Assigned Special Taxes for Developed Property  
CFD No. 2 (Improvement Area No. 1)**

<i>Land Use Class</i>	<i>Description</i>	<i>Residential Floor Area/Unit Type</i>	<i>Assigned Special Tax Per unit/Acre</i>
1	Residential Property	< 1,750 sq. ft	\$1,755.01 per unit
2	Residential Property	1,750 to 2,249 sq. ft	\$2,285.90 per unit
3	Residential Property	2,250 to 2,749 sq. ft.	\$2,764.14 per unit
4	Residential Property	2,750 to 3,149 sq. ft.	\$3,461.76 per unit
5	Residential Property	3,150 to 3,749 sq. ft.	\$4,102.34 per unit
6	Residential Property	3,750 to 4,049 sq. ft.	\$4,852.61 per unit
7	Residential Property	4,050 to 4,499 sq. ft.	\$4,979.85 per unit
8	Residential Property	4,500 to 4,999 sq. ft.	\$5,765.21 per unit
9	Residential Property	5,000 to 5,499 sq. ft.	\$7,191.16 per unit
10	Residential Property	5,500 to 5,999 sq. ft.	\$7,880.00 per unit
11	Residential Property	6,000 to 6,499 sq. ft.	\$8,564.46 per unit
12	Residential Property	> 6,500 sq. ft.	\$8,884.75 per unit
13	Residential Property	Custom Lots	\$8,884.75 per unit
14	Residential Property	Affordable Units	\$102.00 per unit
15	Non-Residential Property	Not Applicable	\$5,066.55 per Acre
16	Golf Course Property	Not Applicable	\$500.69 per Acre
17	Institutional Property	Not Applicable	\$102.00 per Acre

(c) Increase in the Assigned Special Tax

On each July 1, commencing July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1), the Assigned Special Tax for Developed Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2, the Assigned Special Tax for Developed Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Assigned Special Tax that may be levied after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1).

(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 Assigned Special Tax and any Backup Special Tax that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each land use as determined by reference to the site plan approved for such Assessor's Parcel.

In the event that Custom Lot Properties are combined, the Assigned Special Tax on an Assessor's Parcel of Custom Lot Property shall be the sum of the Assigned Special Taxes for all of the predecessor Custom Lot Properties. Should Custom Lot Properties be subdivided so that the total number of Custom Lot Properties is decreased, the CFD Administrator shall allocate the Assigned Special Taxes from the lost parcel(s) to the remaining Custom Lot Properties proportionately based on the additional acreage apportioned to each remaining Custom Lot Property.

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

(a) Maximum Annual Special Tax

The Fiscal Year 2000-01 Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property shall be \$18,842.67 per Acre.

(b) Increase in the Maximum Annual Special Tax

On each July 1, commencing July 1, 2001 and ending on July 1 of the tenth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1), the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property shall be increased by two percent (2%) of the amount in effect in the previous Fiscal Year. On July 1 of the eleventh and twelfth Fiscal Years in which Special Taxes are levied in CFD No. 2, the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property may be increased by up to two percent (2%) of the amount in effect in the previous Fiscal Year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the Maximum Annual Special Tax for Undeveloped Property, Taxable Property Owner Association Property and Taxable Public Property after the twelfth Fiscal Year in which Special Taxes are levied in CFD No. 2 (IA No. 1).

**D. BACKUP SPECIAL TAX**

The following definitions apply to this Section D:

**“Backup Special Tax Account”** means the fund or account (regardless of its name) identified in the Bond Indenture to hold payments of Backup Special Taxes received from property owners within CFD No. 2 (IA No. 1).

**“Backup Special Tax Requirement”** means the total amount of Backup Special Taxes necessary as calculated under Section D.7 below, as of the date of any Backup Special Tax calculation.

**“Builder”** means the merchant builder for each Assessor's Parcel.

**“Builder Certificate”** means a certificate from the Builder of a Development Product stating that such Development Product will generate at least the amount of Assigned Special Taxes that was projected in the Original Report or Updated Report that was relied upon by the CFD Administrator in issuing the most recent Letter of Compliance for such Development Product.

**“Buildout”** means, for any Development Product, that all Taxable Property is considered Developed Property or Update Property.

**“Built Out Development Product”** means a Development Product which has reached Buildout.

**“Certificate of Satisfaction of Backup Special Tax”** means a certificate from the CFD Administrator stating that the property described in such certificate has sufficiently met the Backup Special Tax Requirement for such property as calculated under Section D.7 below.

**“Development Product”** means a geographic area representing the expected construction phases planned to be developed by each merchant builder or sold to custom lot buyers. The Original Report will designate the geographic area included in each Development Product by tract and lot.

**“Letter of Compliance”** means a letter from the CFD Administrator stating that the property described in such letter will generate sufficient Assigned Special Taxes if developed as described the most current Updated Report, or if an Updated Report has yet not been provided, in the Original Report.

**“Update Property”** means an Assessor’s Parcel of Undeveloped Property for which a building permit has been issued and/or a Proposed Custom Lot for which escrow has closed to a buyer who is not in the regular course of business of building homes for resale, but which has not yet been classified as Developed Property because such events occurred after the March 1 cutoff for the current Fiscal Year. For purposes of all calculations in Section D, Update Property shall be taxed as if it were Developed Property.

**1. Original Report**

Concurrently with the approval of this RMA the Master Developer shall submit a report (the “Original Report”) to the CFD Administrator containing a lot-by-lot listing for each Development Product that identifies for each expected taxable lot the expected Builder, Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

At the request of the Master Developer, the CFD Administrator may amend the Original Report to reflect changes approved by the City, provided that changes in the Original Report shall not be permitted if the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) are reduced by such changes.

**2. Updated Report**

The Master Developer shall submit updated reports to the CFD Administrator quarterly (within 45 days after each March 31, June 30, September 30, and December 31) until CFD No. 2 (IA No. 1) reaches Buildout for all Development Products. Such report shall contain a lot-by-lot listing for each Development Product that lists for each expected taxable lot the expected or actual Builder, Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage, and compares such information to the information provided for such property in the Original Report. For Assessor’s Parcels of Developed Property and Update Property, the quarterly updated report will also include the date the building permit was issued, or the date that escrow closed to an end user of a Proposed Custom Lot. Upon approval by the CFD Administrator, such report shall constitute an Updated Report (the “Updated Report”).

In no case shall the Master Developer change the designation of a Proposed Custom Lot after the earlier of the following: (i) a building permit is issued for such lot; or (ii) escrow has closed to the end user of such lot.

**3. Initial Letters of Compliance**

If, based on the Original Report, the CFD Administrator determines that the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) at Buildout, less estimated annual

Administrative Expenses, will provide at least 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, the CFD Administrator shall, within 30 days of the submittal of the Original Report, issue a Letter of Compliance with respect to each Development Product. If the CFD Administrator cannot make this determination then no Letters of Compliance will be issued.

#### **4. Letters of Compliance Based on Updated Reports**

Upon the receipt of each Updated Report, the CFD Administrator shall make one of the determinations set forth in the following two paragraphs.

If, based on the Updated Report, the CFD Administrator determines that the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) at Buildout, less estimated annual Administrative Expenses, will provide at least 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, the CFD Administrator shall, within 30 days of the submittal of the Updated Report, issue a Letter of Compliance with respect to each Development Product.

If, based on the Updated Report, the CFD Administrator determines that the total Assigned Special Taxes for all of CFD No. 2 (IA No. 1) at Buildout, less estimated annual Administrative Expenses, will not provide at least 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, then the CFD Administrator shall:

- (a) Calculate the Assigned Special Taxes expected to be generated by each Development Product based on the Updated Report immediately preceding the current Updated Report; and
- (b) Calculate the Assigned Special Taxes expected to be generated by each Development Product according to the current Updated Report.

Any previously issued Letters of Compliance will be rescinded for all Development Products that (i) have not reached Buildout (as determined based on the Updated Report immediately preceding the current Updated Report) and (ii) for which the amount computed pursuant to 4.(b) above is less than the amount computed pursuant to 4.(a) above. The CFD Administrator shall, within 30 days of the submittal of an Updated Report, notify the Master Developer, Builder, and City Building Department that such Letters of Compliance have been rescinded. If building permits have already been issued or if escrows on Proposed Custom Lots have closed to end users in a Development Product for which the Letter of Compliance has been rescinded, then the CFD Administrator shall calculate and levy the Backup Special Tax pursuant to Section D.7 below for the Assessor's Parcels for which building permits have been issued or escrows have closed.

#### **5. Issuance of Building Permits for Parcels with a Letter of Compliance**

Each time a request for a building permit (or group of permits) is submitted to the City Building Department within a Development Product, the Builder shall provide a copy of the Letter of Compliance for the applicable property, along with either a Builder Certificate or a Certificate of Satisfaction of Backup Special Tax. No building permit shall be issued without (i) a Letter of Compliance and (ii) either a Builder Certificate or a Certificate of Satisfaction of Backup Special Tax.

**6. Builder Notification for Parcels without a Letter of Compliance and Builder Certificate**

At least 30 days prior to submitting a building permit application for property that does not have a valid Letter of Compliance, or for property that has received a Letter of Compliance but for which the Builder is unable to provide a Builder Certificate, the Builder shall notify the CFD Administrator of its intent to request building permits for particular lots within a Development Product. The Builder's notification ("Builder Notification") shall include for each Assessor's Parcel for which building permits are being requested the proposed Residential Floor Area, Land Use Class, Assigned Special Tax, and Acreage.

If the CFD Administrator determines based on the calculations in Section D.7 that no Backup Special Tax is required for the Assessor's Parcels included within the Builder Notification, then the CFD Administrator shall, within 30 days of the submittal of the Builder Notification, issue a Letter of Compliance and a Certificate of Satisfaction of Backup Special Tax with respect to such property.

**7. Calculation of Backup Special Tax**

Upon the receipt of a Builder Notification or determination under Section D.4 that a Backup Special Tax may be required, the CFD Administrator shall determine the Backup Special Tax to be applied to the property identified in the Builder Notification (or by the CFD Administrator) by undertaking the following steps:

- Step 1. Determine the total Special Tax revenues required in each Fiscal Year to generate 115% debt service coverage on all Outstanding Bonds plus estimated Administrative Expenses. For purposes of this calculation, the annual debt service shall be adjusted to reflect the future redemption of Outstanding Bonds with funds on deposit in the Backup Special Tax Account.
- Step 2. Subtract the total Assigned Special Taxes (based on the current Updated Report) for all of CFD No. 2 (IA No. 1) from the amount computed pursuant to step 1. The remainder is the shortfall amount to be allocated to all Development Products that have lost Special Tax revenue since the previous Updated Report and that have not yet reached Buildout (as determined based on the Updated Report immediately preceding the current Updated Report).
- Step 3. For each Development Product that has lost Special Tax revenue since the previous Updated Report and that has not yet reached Buildout (as determined based on the Updated Report immediately preceding the current Updated Report, subtract the Assigned Special Taxes for such Development Product based on the current Updated Report from the Assigned Special Taxes for such Development Product based on the Updated Report immediately preceding the current Updated Report.
- Step 4. Multiply the remainder amount from step 2 by a fraction, the numerator of which is the amount computed for such Development Product in step 3, and the denominator of which is the total amount computed for all Development Products in step 3. The result is the amount of the shortfall to be allocated to the Development Product in question.

- Step 5. Determine the amount of CFD No. 2 (IA No. 1) Bonds that can be supported by the shortfall amount computed under step 4, with 115% debt service coverage.
- Step 6. The Backup Special Tax Requirement will be calculated using the prepayment formula described in Section I.1, with the following exceptions: (i) the Bond Redemption Amount in Paragraph 3 of the prepayment formula described in Section I.1 shall equal the amount calculated pursuant to step 5; (ii) no Future Facilities Amount shall be required pursuant to Paragraphs 4 and 5 in Section I.1; (iii) in Paragraph 7 of the prepayment formula described in Section I.1, compute the amount needed to pay interest on the Bond Redemption Amount until the first redemption date that occurs after two years from the initial date of payment of Backup Special Taxes; (iv) no determination of amounts pursuant to Paragraphs 8, 9 and 14 in Section I.1 need be made; (v) any payments of the Backup Special Tax (less Administrative Fees and Expenses) shall be deposited into the Backup Special Tax Account and disbursed pursuant to the Bond Indenture; and (vi) the Maximum Special Taxes applicable to an Assessor's Parcel shall not be reduced or relieved as a result of payment of the Backup Special Tax.
- Step 7. The Backup Special Tax for each Assessor's Parcel included in the Builder Notification (or, if the calculation is required pursuant to Section D.4, for which building permits have been issued or escrow has closed) shall be calculated by multiplying the Backup Special Tax Requirement by the quotient of the Acreage of such Assessor's Parcel divided by the Acreage of all Assessor's Parcels of Taxable Property within the Development Product(s) for which the Backup Special Tax is being calculated.

The Backup Special Taxes computed under step 7 shall be billed directly to the owner of each Assessor's Parcel and shall be due within 30 days of the billing date. If Backup Special Taxes are not paid within 45 days of the billing date, a delinquent penalty of 10 percent shall be added to the Backup Special Taxes, and no additional building permits shall be issued for any property owned by the Builder or Master Developer, as applicable, until payment is received. Upon receipt of the Backup Special Tax payment, the CFD Administrator shall issue a Letter of Compliance (if one has not been issued for such Assessor's Parcels) and a Certificate of Satisfaction of Backup Special Tax for the subject property.

## **8. Use/Release of Backup Special Tax Payments**

When CFD No. 2 (IA No. 1) reaches Buildout, the CFD Administrator shall calculate the actual Assigned Special Taxes that will be generated from each Development Product. If the actual Assigned Special Taxes, less estimated annual Administrative Expenses, will provide 115% debt service coverage on all Outstanding Bonds in the current and each future Fiscal Year, the balance in the Backup Special Tax Account shall be returned to the payer as established under the Bond Indenture. If Backup Special Taxes have been paid by more than one entity, the amount of Backup Special Taxes returned to each payer shall be in proportion to the amount paid by each entity. If based on such calculation at Buildout, the actual Assigned Special Taxes do not generate sufficient coverage, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 1) Bonds on the next available redemption date. If CFD No. 2 (IA No. 1) has not reached Buildout within two years after the first payment of Backup Special Taxes, then the balance in the Backup Special Tax Account shall be used to redeem CFD No. 2 (IA No. 1) Bonds on the next available redemption date.

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

Commencing with Fiscal Year 2000-01 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the 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 Annual Special Tax for Taxable Property Owner Association Property or Taxable Public Property.

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

**F. EXEMPTIONS**

No Special Tax shall be levied on up to 339.5 Acres of Property Owner Association Property and 1,374.4 Acres of Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property, its tax-exempt status will be revoked and such Assessor's Parcel will be assigned to a Land Use Class if it is Developed Property or as Undeveloped Property, as appropriate.

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

**G. 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.

#### **H. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 2 (IA No. 1) 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.

#### **I. PREPAYMENT OF SPECIAL TAX**

##### **1. Payment in Full**

The following definitions apply to this Section I:

**"Certificate of Occupancy"** means a certificate of occupancy issued by the City Building Department.

**"Construction Fund"** means the account (regardless of its name) identified in the Bond 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.

**"Custom Lot Merchant Builder"** means a buyer who (i) is in the regular course of business of building homes for resale as determined by the CFD Administrator, and (ii) owns four or more Proposed Custom Lots.

**"Future Facilities Costs"** means the CFD No. 2 (IA No. 1) Public Facilities minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance public facilities costs.

**"CFD No. 2 (IA No. 1) Public Facilities"** means either \$42,337,474 in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2 (IA No. 1) under the authorized Mello-Roos financing program for CFD No. 2 (IA No. 1), or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2 (IA No. 1) Bonds to be supported by Special Taxes.

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

**"Previously Issued Bonds"** means all CFD No. 2 (IA No. 1) Bonds that have been issued by CFD No. 2 (IA No. 1) prior to the date of prepayment.

**“Total Tax and Assessment Obligation”** means for an Assessor’s Parcel or portion of an Assessor’s Parcel, the sum of the *ad valorem* taxes and any special assessments or taxes which may be included on the annual property tax bill, including but not limited to: CFD No. 2, general obligation debt of the City or any other public agency, improvement district charges, vector control charges, and standby charges projected by the CFD Administrator to be applicable to the Assessor’s Parcel in the Fiscal Year following the issuance of a Certificate of Occupancy as discussed in Section I.3 below.

**“Value”** means the sales price as established in the escrow documents for the sale to the first private residential owner. If the sales price only reflects the sale of the lot, then Value shall also include the anticipated value of any house to be constructed thereon.

Only an Assessor’s Parcel of Developed 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 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. 2 (IA No. 1) 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	Future Facilities Amount
	plus	Redemption Premium
	plus	Defeasance Amount
	plus	Administrative Fees and Expenses
	less	Reserve Fund Credit
	<u>less</u>	<u>Capitalized Interest Credit</u>
Total:	equals	Prepayment Amount

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

Paragraph No.:

1. For Assessor’s Parcels of Developed Property, compute the Assigned Special Tax for the Assessor’s Parcel to be prepaid. For Assessor’s Parcels of Undeveloped Property for which building permits have already been issued, compute the Assigned Special Tax for the Assessor’s Parcel to be prepaid as though it were already designated as Developed Property, based upon the building permit which has been issued for that Assessor’s Parcel.
2. Divide the Assigned Special Tax computed pursuant to paragraph 1 by the estimated Assigned Special Taxes for the entire CFD No. 2 (IA No. 1) based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of the entire CFD No. 2 (IA No. 1), excluding any Assessor’s Parcels which have been prepaid.

3. Multiply the quotient computed pursuant to paragraph 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "*Bond Redemption Amount*").
4. Compute the current Future Facilities Costs.
5. Multiply the quotient computed pursuant to paragraph 2 by the amount determined pursuant to paragraph 4 to compute the amount of Future Facilities Costs to be prepaid (the "*Future Facilities Amount*").
6. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium*").
7. Compute the amount needed to pay interest on the Bond Redemption Amount to be redeemed until the earliest redemption date for the Outstanding Bonds, less any amounts collected in such Fiscal Year to pay all or a portion of such interest.
8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
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 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 7 and 9 and subtract the amount computed pursuant to paragraph 10.
12. Compute the net present value of the amount computed pursuant to paragraph 11, using as a discount rate the rate of return assumed by the CFD Administrator in paragraph 10 (the "*Defeasance Amount*").
13. The administrative fees and expenses of CFD No. 2 (IA No. 1) are as calculated by the CFD Administrator and include the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2 (IA No. 1) Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "*Administrative Fees and Expenses*").
14. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Bond Indenture) on the prepayment date, the reserve fund credit shall equal the expected reduction in the reserve requirement, if any, associated with the redemption of Outstanding Bonds as a result of the prepayment (the "*Reserve Fund Credit*"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
15. If any capitalized interest for the Outstanding Bonds will not have been expended as of the first bond interest and/or principal payment date following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the quotient computed pursuant to paragraph 2 by the expected balance in the capitalized interest

fund after such first interest and/or principal payment (the “*Capitalized Interest Credit*”).

16. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 5, 6, 12, and 13, less the amounts computed pursuant to paragraphs 14 and 15 (the “*Prepayment Amount*”).

From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 6, and 12 less the amounts computed pursuant to paragraphs 14 and 15 shall be deposited into the appropriate fund as established under the Bond Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 5 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 13 shall be retained by CFD No. 2 (IA No. 1).

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 2 (IA No. 1) Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Bond Indenture to be used with the next prepayment of CFD No. 2 (IA No. 1) Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year’s Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year’s Special Tax levy for such Assessor’s Parcel from the County tax rolls. With respect to any Assessor’s Parcel that is prepaid in full in accordance with this Section I.1., the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor’s Parcel, and the obligation of such Assessor’s Parcel to pay the Special Tax (including any Backup 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. 2 (IA No. 1) after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

## **2. Prepayment in Part**

The Special Tax on an Assessor’s Parcel of Developed Property or an Assessor’s Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section I.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

PP = the partial prepayment

P<sub>E</sub> = the Prepayment Amount calculated according to Section I.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 I.1, and (ii) indicate in the records of CFD No. 2 (IA No. 1) 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 E.

### **3. Mandatory Partial Prepayment for Custom Lots**

If an Assessor's Parcel identified as a Proposed Custom Lot is sold by a Custom Lot Merchant Builder after the issuance of a building permit for such Assessor's Parcel, the Special Tax for such Assessor's Parcel shall be prepaid, at or prior to the close of escrow to the first private residential owner for such Assessor's Parcel, using the partial prepayment methodologies described in Section I.2, such that the resulting Total Tax and Assessment Obligation after the partial prepayment is less than or equal to 2.00 percent of the Value. No mandatory partial prepayment is required if (i) the Total Tax and Assessment Obligation is less than or equal to 2.00 percent or (ii) the Assessor's Parcel is sold prior to the issuance of a building permit.

## **J. TERM OF SPECIAL TAX**

The Special Tax shall be levied for a period not to exceed fifty years commencing with Fiscal Year 2000-01, provided however that Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2 (IA No. 1) 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**

**LIST OF GOLF COURSE LOTS WITHIN IA No. 1**

Lots 258 through 266 of Map No. 14064
Lot 132 of Map No. 14065
Lots 103 through 106 of Map No. 14223
Lots 133 and 134 of Map No. 14276
Lot 52 of Unit 5 (Portion of Golf Course Lot 1, Unit 17 of the substantial conformance approval granted by the City on October 29, 1999, for Black Mountain Ranch Tentative Map No. VTM-0173)

## **APPENDIX B**

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

*Set forth below is certain demographic information regarding the City of San Diego (the "City") and the County of San Diego (the "County"). This information is provided for informational purposes only and general background. The information set forth herein has been obtained from third party sources believed to be reliable, but such information is not guaranteed by the District as to accuracy or completeness. Neither the delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in any information contained in this Appendix B since the date of the Official Statement. The 2011 Bonds are not a debt of the City, the County, the State, or any of its political subdivisions, and none of the City, the County, the State nor any of its political subdivisions is liable thereon. The information and data within this Appendix B is the latest data available; however, the current state of the economy at City, County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the District.*

### **INTRODUCTION**

The City, with a total population of approximately 1,376,173 as of January 1, 2010 and a land area of approximately 324 square miles, is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City's diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. In 2010, former Governor Schwarzenegger's Office of Economic Development designated San Diego as an iHub Innovation Center for collaboration potentially between wireless and life sciences, citing the area's wireless business, pharmaceutical research and start-ups for medical devices and diagnostics.

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**Population**

The following Table B-1 sets forth annual population figures for the City, the County and the State for calendar years 2001 through 2011. Between 2001 and 2010, the City’s population increased by approximately 10%, and the population of the County and the State increased by approximately 10% between 2001 and 2011.

**TABLE B-1  
POPULATION GROWTH  
Calendar Years 2001 through 2011**

<i>Calendar Year<sup>(1)</sup></i>	<i>City of San Diego</i>	<i>Annual Growth Rate</i>	<i>County of San Diego</i>	<i>Annual Growth Rate</i>	<i>State of California</i>	<i>Annual Growth Rate</i>
2001	1,250,700	0.41%	2,849,238	1.26%	34,256,789	1.13%
2002	1,255,742	0.40	2,890,256	1.44	34,725,516	1.37
2003	1,275,112	1.54	2,927,216	1.28	35,163,609	1.26
2004	1,294,000	1.48	2,953,703	0.90	35,570,847	1.16
2005	1,306,000	0.93	2,966,783	0.44	35,869,173	0.84
2006	1,311,162	0.04	2,976,492	0.33	36,116,202	0.69
2007	1,316,837	0.43	2,998,477	0.74	36,399,676	0.78
2008	1,336,865	1.52	3,032,689	1.14	36,704,375	0.84
2009	1,353,993	1.28	3,064,436	1.05	36,966,713	0.71
2010	1,376,173	1.64	3,091,579	0.89	37,223,900	0.70
2011	N/A <sup>(2)</sup>	--	3,095,313	0.12	37,253,956	0.08

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

<sup>(2)</sup> Not Available.

Source: For the column heading “City of San Diego,” the Comprehensive Annual Financial Report, Comptroller’s Office, City of San Diego, for Fiscal Year 2010. For the column headings “County of San Diego” and “State of California,” State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts. Sacramento, California, September 2011.



## Employment

The following Table B-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City for calendar years 2006 through 2010, and for October 2011 (Preliminary).

**TABLE B-2**  
**LABOR FORCE ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE<sup>(1)</sup>**  
**Calendar Years 2006 through 2010, and October 2011**  
**(Not Seasonally Adjusted)**

	<i>Calendar Year</i>					
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>October 2011<sup>(2)</sup></i>
<b>Civilian Labor Force</b>						
City of San Diego <sup>(1)</sup>						
Employed	643,000	647,100	649,600	627,000	622,200	637,100
Unemployed	26,500	30,700	41,200	66,800	73,300	68,000
<b>Unemployment Rates</b>						
City <sup>(1)</sup>	4.0%	4.5%	6.0%	9.6%	10.5%	9.7%
County <sup>(1)</sup>	4.0	4.5	6.0	9.6	10.5	9.7
California <sup>(1)</sup>	4.9	5.3	7.2	11.3	12.4	11.2
United States <sup>(3)</sup>	4.6	4.6	5.8	9.3	9.6	9.0

<sup>(1)</sup> Revised labor force data and Unemployment Rates are based on a March 2010 benchmark.

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

<sup>(3)</sup> The United States unemployment rates for calendar year 2006-2010 were generated as of November 4, 2011.

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

The State of California Employment Development Department, Labor Market Information Division (the "EDD"), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in October of 2011 was 705,100, of which approximately 68,000 persons were unemployed. Based on preliminary estimates of the EDD as of November 18, 2011, the City's unemployment rate in October of 2011 of 9.7%, on a seasonally unadjusted basis, was equal to that of the County and below that of the State at 11.2%. However, the City's unemployment rate exceeded that of the United States, which was 9.0%.

The following Table B-3 sets forth the industry employment and the labor force estimates for the years 2006 through 2010 for the San Diego-Carlsbad-San Marcos MSA. Annual industry employment information is not compiled by sector for the City.

**TABLE B-3  
SAN DIEGO COUNTY (SAN DIEGO-CARLSBAD-SAN MARCOS MSA)  
INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE**

**Calendar Years 2006 through 2010**

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Civilian Labor Force	1,499,900	1,518,300	1,547,300	1,554,100	1,558,200
Civilian Employment	1,440,400	1,449,500	1,455,100	1,404,500	1,393,900
Civilian Unemployment	59,400	68,900	92,300	149,600	164,300
Civilian Unemployment Rate	4.0%	4.5%	6.0%	9.6%	10.5%
Total Farm	10,900	10,900	10,500	9,500	9,700
Total Nonfarm	1,301,600	1,308,800	1,298,700	1,231,400	1,220,200
Total Private	1,083,600	1,086,500	1,073,600	1,006,900	994,100
Goods Producing	197,100	189,800	179,200	156,800	148,300
Mining and Logging	500	400	400	400	400
Construction	92,700	87,000	76,100	61,100	55,500
Manufacturing	103,900	102,500	102,800	95,300	92,400
Service Providing	1,104,500	1,119,000	1,119,500	1,074,600	1,071,900
Trade, Transportation and Utilities	222,000	222,300	215,900	199,600	196,700
Wholesale Trade	45,100	45,500	44,900	40,600	39,200
Retail Trade	148,300	148,100	142,000	131,600	130,000
Transportation, Warehousing and Utilities	28,700	28,800	29,000	27,400	27,500
Information	31,700	31,300	31,400	28,200	25,200
Financial Activities	83,700	80,300	75,200	69,800	67,100
Professional and Business Services	219,200	223,200	222,300	206,800	208,000
Educational and Health Services	125,100	129,500	137,300	144,300	147,100
Leisure and Hospitality	156,500	161,800	164,000	154,800	154,600
Other Services	48,400	48,300	48,400	46,800	47,200
Government	<u>217,900</u>	<u>222,400</u>	<u>225,100</u>	<u>224,500</u>	<u>226,000</u>
Total, All Industries	<u>1,312,500</u>	<u>1,319,700</u>	<u>1,309,300</u>	<u>1,240,900</u>	<u>1,229,800</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found in this Appendix C.

Source: State of California, Employment Development Department, *San Diego-Carlsbad-San Marcos MSA Industry Employment & Labor Force - by Annual Average, March 2010 Benchmark*.

## Taxable Sales

The following Table B-4-1 sets forth taxable transactions in the City for calendar years 2005 through 2009 and through the second quarter of 2010 and the following Table B-4-2 sets forth taxable transactions in the County for calendar years 2005 through 2009 and through the second quarter of 2010.

**TABLE B-4-1**  
**CITY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**Calendar Years 2005 through 2009 and through Second Quarter of 2010**  
**(In Thousands)**

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2005	38,446	\$19,491,746
2006	38,742	20,059,267
2007	36,159	20,056,106
2008	36,638	19,414,259
2009	34,327	17,163,965
2010 <sup>(1)</sup>	35,480	8,520,019

<sup>(1)</sup> Through Second Quarter of 2010. Total taxable transactions in the City (in thousands) through the second quarter of calendar year 2009 for all outlets was \$8,248,355.

**TABLE B-4-2**  
**COUNTY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**2005-2009 and through Second Quarter of 2010**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2005	90,620	\$46,679,471
2006	91,251	47,835,514
2007	85,341	47,485,988
2008	87,050	45,329,136
2009	80,595	39,728,657
2010 <sup>(1)</sup>	83,194	19,883,212

<sup>(1)</sup> Through Second Quarter of 2010. Total taxable transactions in the County (in thousands) through the second quarter of calendar year 2009 for all outlets was \$19,063,039.

Source: California State Board of Equalization, Research and Statistics Division.

## Tourism

The tourism industry is the County's third largest industry in terms of business revenue generation, following manufacturing and the military. The following Table B-5 sets forth total visitor spending in the County for the calendar years 2005 through 2010, and as of June 2011.

**TABLE B-5**  
**COUNTY OF SAN DIEGO**  
**TOTAL VISITOR SPENDING<sup>(1)</sup>**  
**Calendar Years 2005 through 2010 and through June of 2011**  
**(In Millions)**

<i>Calendar Year</i>	<i>Amount</i>
2005	\$7,224
2006	7,719
2007	7,899
2008	7,916
2009	6,958
2010	7,080
2011	3,583 <sup>(2)</sup>

<sup>(1)</sup> Visitor spending is an estimate of total direct and indirect visitor expenditures as derived from the Visitor Activity Model/Visitor Profile Study prepared by CIC Research, Inc. for the San Diego Convention and Visitors Bureau.

<sup>(2)</sup> Through the second quarter of 2011. For the period through June 2010, total visitor spending was \$3,434 (in millions).  
Source: San Diego Convention and Visitors Bureau.

The following Table B-6 sets forth the City's transient occupancy tax revenues for Fiscal Years 2006 through 2010.

**TABLE B-6**  
**CITY OF SAN DIEGO**  
**TRANSIENT OCCUPANCY TAX<sup>(1)</sup>**  
**Fiscal Years 2006 through 2010**  
**(in thousands)**

<i>Fiscal Year</i>	<i>Amount</i>
2006	\$136,803
2007	154,810
2008	159,348
2009	140,657
2010	123,332

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

Source: Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego for Fiscal Years 2006 through 2010.

The City is the focal point for tourism in the County. Based on the San Diego County Visitor Industry Summary produced by San Diego Convention and Visitors Bureau, in calendar year 2010 an average of 68.5% of the County's hotel and motel rooms rented were located in the City. In addition, most of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National

Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, Balboa Park and a host of other cultural and recreational activities.

Based on the San Diego County Visitor Industry Summary, in calendar year 2010, there were 8,433,446 airport arrivals and 669,071 Amtrak arrivals in the County; City average hotel occupancy was 68.5%. As of June 2011, the City average hotel occupancy rate was 70.9%, which represents a 2.0% increase from the same period of the prior year.

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

The San Diego Convention Center has 2.6 million total gross square feet of buildings. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated over \$18.3 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

### **Military**

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

The following Table B-7 sets forth the military and related defense expenditures and personnel in the City for the federal fiscal years ended September 30, 2008 and September 30, 2009.

**TABLE B-7**  
**CITY OF SAN DIEGO<sup>(1)</sup>**  
**TOTAL DEFENSE EXPENDITURE AND PERSONNEL**  
**Federal Fiscal Years ended September 30, 2008 and September 30, 2009**

<i>Fiscal Year</i>	<i>Expenditures (In Thousands)</i>		<i>Military &amp; Civilian Personnel<sup>(2)</sup></i>		
	<i>Grants/ Contracts<sup>(3)</sup></i>	<i>Payroll Outlays<sup>(2)</sup></i>	<i>Active Duty Military</i>	<i>Civilian<sup>(4)</sup></i>	<i>Total</i>
2008	\$ 9,080,575	\$ 5,543,618	64,605	25,232	89,837
2009	\$ 10,754,006	\$ 5,778,806	67,432	24,965	92,397

<sup>(1)</sup> Data includes activity and expenditures which may occur outside the City or in adjacent counties related to County-based sites.

<sup>(2)</sup> Computation for Personnel & Payroll Data includes Active Duty Marines and all Commands in the following Navy Installations: Naval Base San Diego, the Broadway Complex, Naval Base Point Loma, Naval Base Coronado, Marine Corps Air Station Miramar, Marine Corps Recruit Depot Miramar, and Naval Medical Center.

<sup>(3)</sup> Procurement data includes Contracts for Dept of Defense only in Congressional Districts CA-49, CA-50, CA-51, CA-52 and CA-53.

<sup>(4)</sup> Includes Appropriated and Non-appropriated Funds Civilians Navy employees, Defense Commissary Agency employees, Navy Exchange employees and Marine Corps Exchange employees.

Source: Defense Manpower Data Center and Total Workforce Management System, Commander Navy Region Southwest, Regional Business Office.

**International Trade**

The following Table B-8 sets forth the valuation of exports originating in the San Diego Customs District for the calendar years 2005 through 2009.

**TABLE B-8**  
**VALUATION OF EXPORTS**  
**ORIGINATING IN SAN DIEGO CUSTOMS DISTRICT<sup>(1)</sup>**  
**Calendar Years 2005 through 2009**  
**(In Millions)**

<i>Calendar Year</i>	<i>Amount</i>
2005	\$14,990
2006	15,980
2007	16,002
2008	16,607
2009	14,007

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

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

**Top Ten Principal Employers**

The following Table B-9 sets forth the top 10 principal employers in the City of San Diego as of June 30, 2010.

**TABLE B-9  
CITY OF SAN DIEGO  
TOP TEN PRINCIPAL EMPLOYERS  
Fiscal Year 2010  
(unaudited)**

<i>Employer</i>	<i>Number of Employees</i>	<i>Percentage of Total Employment<sup>(1)</sup></i>
United States Navy <sup>(2)</sup>	54,415	7.83%
University of California San Diego	20,408	2.94
San Diego Unified School District <sup>(3)</sup>	17,024	2.45
San Diego County <sup>(4)</sup>	15,164	2.18
Sharp Memorial Hospital	14,700	2.11
City of San Diego <sup>(5)</sup>	10,499	1.50
Kaiser Permanente	7,028	1.01
Qualcomm, Inc. <sup>(6)</sup>	6,000	0.86
UC San Diego Medical Center	5,549	0.80
San Diego Gas & Electric Co	<u>5,075</u>	<u>0.73</u>
Total Top Employers	155,862	22.42%

<sup>(1)</sup> Percentage based on total employment of 695,200 provided by the EDD Labor Force Data.

<sup>(2)</sup> Employee count includes only U.S. Navy branch civilian and military personnel.

<sup>(3)</sup> Employee count is district-wide; school district boundaries do not coincide with City of San Diego boundaries.

<sup>(4)</sup> Employee count is county-wide and represented in staff years.

<sup>(5)</sup> Employee count is provided by the City of San Diego, Office of the Comptroller, report dated September 20, 2010.

<sup>(6)</sup> Based on Fiscal Year 2008 employee count. Fiscal Year 2010 employee count was not yet available.

Source: Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego, for Fiscal Year 2010.

***Personal Income***

The following Table B-10 sets forth the per capita personal income in the City, the County and the State for calendar years 2005 through 2010.

**TABLE B-10**  
**CITY OF SAN DIEGO, COUNTY OF SAN DIEGO AND STATE OF CALIFORNIA**  
**PER CAPITA PERSONAL INCOME<sup>(1)</sup>**  
**Calendar Years 2005 through 2010**

<i>Calendar Year</i>	<i>City of San Diego</i>	<i>County of San Diego</i>	<i>State of California</i>
2005	\$29,497	\$41,482	\$38,767
2006	28,791	43,968	41,567
2007	29,846	45,769	43,240
2008	31,924	47,021	43,853
2009	31,652	45,706	42,395
2010 <sup>(2)</sup>	31,625	--	--

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

<sup>(2)</sup> County of San Diego and State of California Per Capita Personal Income for Calendar Year 2010 not yet available as of the date of this Official Statement.

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

### Property Value and Construction

The following Table B-11 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2007 through 2011.

Although residential construction activity declined from Fiscal Year 2007 through Fiscal Year 2009, dwelling units under construction and the total assessed value of units under construction increased in Fiscal Year 2010 and Fiscal Year 2011. Non-residential construction activity declined from Fiscal Year 2007 through Fiscal Year 2010, but increased in Fiscal Year 2011.

**TABLE B-11**  
**CITY OF SAN DIEGO**  
**ASSESSED VALUE AND CONSTRUCTION PERMIT VALUATION**  
**Fiscal Years 2007 through 2011**  
**(\$ in thousands)**

<i>Fiscal Year</i>	<i>Residential<sup>(1)</sup></i>		<i>Non-Residential<sup>(2)</sup></i>		<i>Total Permit Assessed Value Estimate<sup>(3)</sup></i>
	<i>Dwelling Units</i>	<i>Assessed Value<sup>(3)</sup></i>	<i>Permits</i>	<i>Assessed Value<sup>(3)</sup></i>	
2007	3,540	\$587,520	217	\$1,035,183	\$1,622,703
2008	2,228	437,934	175	931,648	1,369,582
2009	1,117	202,268	138	576,879	779,147
2010	1,147	234,868	76	368,098	602,966
2011	2,024	342,598	98	818,627	1,161,225

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

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

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

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



According to the San Diego County Recorder's Office, there has been a decrease in the number of notices of loan defaults recorded in the County in calendar year 2010 compared to calendar year 2009; In addition, foreclosures have dropped during this time frame as well. There were 38,308 notices of default recorded in 2009 in the County of San Diego, which decreased to 24,835 notices recorded in 2010. Furthermore, foreclosures in the County were 15,487 in 2009, which decreased to 13,467 foreclosures in 2010. The following Table B-12 sets forth foreclosure activity in the County for the calendar years 2006 through 2010, and through November 2011.

**TABLE B-12**  
**COUNTY OF SAN DIEGO**  
**FORECLOSURE ACTIVITY**  
**Calendar Years 2006 through 2010 and through November 2011**

<i>Calendar Year</i>	<i>Foreclosures</i>	<i>Total number of Housing Units<sup>(1)</sup></i>	<i>% of Total Housing Units</i>
2006	2,065	1,118,283	0.18%
2007	8,417	1,131,749	0.74
2008	19,577	1,140,654	1.72
2009	15,487	1,145,548	1.35
2010	13,467	1,149,426	1.17
2011	11,327 <sup>(2)(3)</sup>	Not available	--

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

<sup>(2)</sup> Through November 2011.

<sup>(3)</sup> Total foreclosures in the County of San Diego during the first 11 months of calendar year 2011 declined by approximately 10%, compared to the same period of the prior year.

Source: County of San Diego, Assessor's Records; and SANDAG.

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## APPENDIX C

### SUMMARY OF BOND INDENTURE

*The following is a summary of certain definitions and provisions of the Bond Indenture, as supplemented by the First Supplemental Bond Indenture and the Second Supplemental Bond Indenture (together, the "Indenture") which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Bond Indenture for a full and complete statement of their provisions.*

### DEFINITIONS

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

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

"Acquisition Agreement" means that certain Purchase and Financing Agreement dated as of February 8, 2000 by and among the City, Fairbanks Highlands LLC and Santaluz LLC.

"Acquisition and Construction Fund" means the fund by that name established 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 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 \$75,000 per Bond Year, increased on July 1 of each year, commencing July 1, 2001, through July 1, 2011 by two percent (2%) of the amount in effect for the prior Fiscal Year.

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

"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:

(1) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"); (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith

and credit of the United States of America; or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above 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 government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

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

- Federal Home Loan Mortgage Corporation (FHLMC)  
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)  
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)  
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)  
Senior debt obligations  
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)  
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)  
Debt obligations
- Resolution Funding Corporation (REFCORP)  
Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(7) Money market funds rated "AAm" or "AAm-G" by Standard & Poor's, or better (including those of the Trustee or its affiliates).

(8) "State Obligations," which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better,

or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated “A-1+” by Standard & Poor’s and “Prime-1” by Moody’s.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated “AA” or better by Standard & Poor’s and “Aa” or better by Moody’s.

(9) Pre-refunded municipal obligations rated “AAA” by S & P and “Aaa” by Moody’s meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by Standard & Poor’s and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by Standard & Poor’s and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by Standard & Poor’s and Moody’s, provided that:

(a) the market value of the collateral is maintained at levels equal to 104% of the amount of cash transferred by the Trustee to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;

(b) the Trustee or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(c) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or Standard & Poor’s is withdrawn or suspended or falls below “A-“ by Standard & Poor’s or “A3” by Moody’s, as appropriate, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by Standard & Poor’s and Moody’s, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Acquisition and Construction Fund, construction draws) on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(C) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors; and

(D) the District and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the District;

(E) the investment agreement shall provide that if during its term:

(1) the provider’s rating by either Standard & Poor’s or Moody’s falls below “AA-“ or “Aa3,” respectively, the provider shall, at its option, within 10 days of

receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(2) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3," respectively, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee; and

(F) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(G) the investment agreement must provide that if during its term:

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate; and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep monies available for the purposes of the Bond Indenture.

"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.

"Backup Special Tax Subaccount" means the subaccount by that name created and established in the Redemption Account of the Special Tax Fund pursuant to the Bond Indenture.

“Backup Special Taxes” means any amounts paid by the District to the Trustee and designated by the District as Backup Special Taxes collected pursuant to the RMA.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Register” means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

“Bondowner” or “Owner” means the person or persons in whose name or names any Bond or Parity Bond is registered.

“Bonds” means the District’s Improvement Area No. 1 Special Tax Refunding Bonds, Series A of 2011 issued on December 20, 2011 in the aggregate principal amount of \$51,680,000.

“Bond Year” means (i) for purposes of Annual Debt Service and Maximum Annual Debt Service, the twelve-month period ending on September 1 of each year; provided, however, that the first Bond Year shall begin on the Closing Date and end on September 1, 2012; and (ii) for federal income tax purposes; the one year period beginning on March 1 in any year and ending on the last day of the next succeeding February, both dates inclusive, except that for such purposes the first Bond Year shall begin on the Closing Date and end on February 28, 2012.

“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.

“Continuing Disclosure Certificate” together, means that certain Continuing Disclosure Certificate dated as of December 1, 2011, executed and delivered by the District, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

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



“Depository” shall mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under the Bond Indenture.

“Developed Property” means real property within the District for which a building permit has been issued.

“District” means Community Facilities District No. 2 (Santaluz) established pursuant to the Act and the Resolution of Formation.

“Federal Securities” means any of the following: (a) non-callable direct obligations of the United States of America (“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).

“First Supplement” means that certain First Supplemental Bond Indenture, dated as of February 1, 2004, executed in connection with the issuance of the Series A of 2004 Bonds.

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

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

“Improvement Area No. 1” means Improvement Area No. 1 of the District as designated by the legislative body of the District in the Resolution of Formation.

“Indenture” means the Bond Indenture, together with the First Supplement and any Supplemental Indenture approved pursuant to the Bond Indenture.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

- (1) is in fact independent and not under the domination of the District;
- (2) does not have any substantial interest, direct or indirect, in the District; and
- (3) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

“Interest Account” means the account by that name created and established in the Special Tax Fund pursuant to the Bond Indenture.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2001; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (11) of the definition of Authorized Investments.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

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

“Moody’s” means Moody’s Investors Service, its successors and assigns.

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

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

“Ordinance” means Ordinance No. O-18788 adopted by the legislative body of the District on April 10, 2000, providing for the levying of the Special Tax as amended by Ordinance No. O-19085 adopted by the legislative body of the District on August 5, 2002.

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

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

(2) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture or any applicable Supplemental Indenture for Parity Bonds; and

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

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the 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 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 RMA.

“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 indentures 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.

“Rating Agency” means Moody’s and Standard & Poor’s, or both, 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 the Blanket Letter of Representations from the District and the Paying Agent to the Depository as described in the Bond Indenture.

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

“Resolution of Change” means Resolution No. R-296009 adopted by the City Council of the City on January 28, 2002.

“Resolution of Formation” means Resolution No. R-292868 adopted by the City Council of the City on March 14, 2000, pursuant to which the City formed the District.

“RMA” means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at the March 14, 2000 election, as amended from time to time.

“Second Supplement” means that certain Second Supplemental Bond Indenture, dated as of December 1, 2011, executed in connection with the issuance of the Series A of 2011 Bonds.

“Series A of 2004 Bonds” means the District’s Improvement Area No. 1 Special Tax Refunding Bonds, Series A of 2004 issued on February 25, 2004 in the aggregate principal amount of \$5,000,000.

“Sinking Fund Payment” means the annual payment to be deposited in the Redemption Account to retire any Parity Bonds which are designated as Term Bonds.

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

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

“Special Taxes” means the taxes authorized to be levied by the District on property within Improvement Area No. 1 in accordance with the Ordinance, the Resolution of Formation, the Resolution of Change, the Act and the voter approvals obtained at the March 14, 2000 and January 8, 2002 elections in the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien, and penalties and interest thereon.

“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 any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Trustee” means Union Bank, N.A. a national banking association duly organized and existing under the laws of the United States, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Bond Indenture and any successor thereto.

“Underwriters” means Piper Jaffray & Co. and Southwest Securities, Inc. with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

“Verification” shall have the meaning contained in the definition of Authorized Investments.

## **BOND TERMS**

**Type and Nature of Bonds and Parity Bonds.** Neither the faith and credit nor the taxing power of the City, the State of California, or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described therein. 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 hereby set aside for the payment of the Bonds and any Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the 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.

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

**Transfers Outside Book-Entry System.** In the event (i) the Depository determines not to continue to act as securities depository for the Bonds, or (ii) the District determines that the Depository shall no longer so act, then the District will discontinue the book-entry system with the Depository. If the District fails to identify another qualified securities depository to replace the Depository then the Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but shall be registered in whatever name or names Persons transferring or exchanging Bonds shall designate, in accordance with the provisions of the 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.

**Conditions to Issuance of Bonds.** The Bonds shall not be issued unless and until the conditions for the issuance of the Bonds as Parity Bonds pursuant to the Bond Indenture shall have been satisfied.

## **CREATION OF FUNDS AND APPLICATION OF PROCEEDS**

### **Creation of Funds; Application of Proceeds.**

(a) The Trustee has established the following funds and accounts:

(1) The Improvement Area No. 1 Community Facilities District No. 2 Special Tax Fund (the "Special Tax Fund") in which there shall be established and created an Interest Account (in which there shall be established the Capitalized Interest Subaccount), a Principal Account, a Redemption Account (in which there shall be established the Backup Special Tax Subaccount), a Reserve Account and an Administrative Expense Account.

(2) The Improvement Area No. 1 Community Facilities District No. 2 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(3) The Improvement Area No. 1 Community Facilities District No. 2 Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a 2011 Costs of Issuance Account and a Project Account).

(4) The Improvement Area No. 1 Community Facilities District No. 2 Surplus Fund (the "Surplus Fund").

(b) In connection with the issuance of the Bonds, the Trustee has established the 2011 Subaccount of the Reserve Account of the Special Tax 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 District, 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.

(c) The proceeds of the sale of the Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as set forth in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

**Deposits to and Disbursements from Special Tax Fund.**

(a) Except for Prepayments which shall be deposited to the Redemption Account and the Project Account of the Acquisition and Construction Fund as specified in a Certificate of an Authorized Representative and Backup Special Taxes which shall be deposited in the Backup Special Tax Subaccount as specified in a Certificate of an Authorized Representative, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) the Administrative Expense Account of the Special Tax Fund;
- (2) the Interest Account of the Special Tax Fund;
- (3) the Principal Account of the Special Tax Fund;
- (4) the Redemption Account of the Special Tax Fund;
- (5) the Reserve Account of the Special Tax Fund;
- (6) the Rebate Fund; and
- (7) the Surplus Fund.

(b) At maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee and the Bond Insurer 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 Water District and shall be disbursed as directed in a Certificate of an Authorized Representative.

**Interest Account and Principal Account of the Special Tax Fund.** The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the 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 or any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

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

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2001, 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 preceding two paragraphs, 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 Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Bond Indenture. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Parity Bonds designated as Term Bonds in accordance with the Sinking Fund Payment schedule set forth 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.

(d) Amounts deposited to the Backup Special Tax Subaccount of the Redemption Account shall remain therein until the Trustee receives a Certificate of Authorized Representative specifying whether all or a portion of such amount shall be applied as a Prepayment to redeem Bonds or be returned to the District. If the Trustee receives a Certificate of Authorized Representative specifying that all or a portion of the amount in the Backup Special Tax Subaccount is to be applied to redeem Bonds, then such portion shall be treated for purposes of the Bond Indenture as a Prepayment and be applied to redeem Bonds pursuant to Section 4.1(d) on the next available redemption date. In the event that the Trustee has not received a Certificate of Authorized Representative within two years following a deposit of Backup Special Taxes specifying how such Backup Special Taxes are to be disbursed, then such amount shall be treated for purposes of the Bond Indenture as a Prepayment and be applied to redeem Bonds pursuant to the Bond Indenture on the next available redemption date. If the Trustee receives a Certificate of Authorized Representative specifying that all or a portion of the amount in the Backup Special Tax Account is to be disbursed to the District, then the Trustee shall remit such amount to the District.

(e) Except for Backup Special Taxes to be disbursed to the District pursuant to the Bond Indenture, moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account, other than Prepayments, may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the next sentence. Purchases of Outstanding Bonds 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, 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. If funded, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expense Account, the Interest Account, the Principal Account and the Redemption Account, the Trustee shall transfer to the Reserve Account from available moneys in the Special

Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with an optional or extraordinary redemption of Bonds or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the 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 this section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and transferred to the Fees Account and the Project Account of the Acquisition and Construction Fund in the percentages specified in the Bond Indenture until all amounts have been disbursed from the Acquisition and Construction Fund and thereafter to the Interest Account of the Special Tax Fund.

**Rebate Fund.** 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 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. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve

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

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

**Acquisition and Construction Fund.** The moneys in the Costs of Issuance Account shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District, and any balance therein shall be transferred by the Trustee to the Project Account as directed in writing by an Authorized Representative of the District.

**Investments.** Moneys held in any of the Funds, Accounts and Subaccounts under the Bond Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds and Accounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be applied as set forth in the 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 Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the 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 date of issuance of such issue of Parity Bonds shall be invested by the District only in Authorized Investments the interest on which is excluded from gross income under the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

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

(c) Monies in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the 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 (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government or in Authorized Investments of the type described in clause (7) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (7) of the definition thereof.

#### **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 instruct the Treasurer to deposit all Special Taxes with the Trustee immediately upon 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 2001-02 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 in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available for such purpose, to pay (i) the principal of and interest on the Bonds and any Parity Bonds when due; (ii) the Administrative Expenses; and (iii) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the "Special Tax Requirement"). The District has also covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

Commence Foreclosure Proceedings. The District has covenanted for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid.

The District has covenanted that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account as set forth in the Bond Indenture), 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. Absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which

would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code.

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

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

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated in the Bond Indenture and incorporated by reference in the Bond Indenture.

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis.

(8) Subsequent Opinions. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation (“SYCR”), where such opinion is required in connection with a change or amendment to the Bond Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.

Reduction of Maximum Special Taxes. The District has covenanted, that it shall not initiate proceedings to reduce any of the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) based on the current development plan for parcels within the District, do not reduce the maximum Special Taxes expected to be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; or (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 covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the minimum or the maximum Special Tax below the levels specified in the 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 the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

### AMENDMENTS TO INDENTURE

**Supplemental 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 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 hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued under the 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 RMA in any manner, including increasing the number of parcels to be taxed as custom lots, so long as the Trustee receives a certificate of an Independent Financial Consultant stating that (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; and (ii) based on the current development plan for parcels within Improvement Area No. 1, do not reduce the maximum Special Taxes expected to be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; 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 preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture; provided, however, that nothing in the Bond Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the 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, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of this section, the 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.

#### **TRUSTEE**

**Trustee.** Union Bank has been appointed the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Bond Indenture. The Trustee represents that it has a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000. The District may, at any time, appoint a successor Trustee satisfying certain requirements under the 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.

**Removal of Trustee.** The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

**Resignation of Trustee.** The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in the 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.

#### **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 his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the 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 such 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 hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

**Application of Revenues and Other Funds After Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the 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 in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

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

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

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

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Bond Indenture, whether upon its own discretion or upon the request of the Owners of 25% in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; 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 such appointment shall confer.

**Non-Waiver.** Nothing in the Bond Indenture or in any other provision of 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.

**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 in the Bond Indenture before granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the 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.

**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. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Bond Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the 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 or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with this Section, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Bond Indenture and any applicable Supplemental Indenture.

**Conditions for the Issuance of Parity Bonds.** 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 for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

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

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

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

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an September 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

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

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

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

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

(8) the form of such Parity Bonds; and

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

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

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

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (i) the District has the right and power under the Act to adopt the 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); (ii) 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 (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Bond Indenture and all Supplemental Indentures thereto and 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;

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

(5) 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 the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

(6) such further documents, money and securities as are required by the provisions of the 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.

**Unclaimed Moneys.** Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the written request of the District or the Trustee shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after

the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

**Provisions Constitute Contract.** The provisions of the Bond Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Bond Indenture shall be irrevocable, 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 hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

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## APPENDIX D

### CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of December 1, 2011 (the “Disclosure Certificate”) is executed and delivered by Community Facilities District No. 2 (Santaluz) (the “Issuer”) in connection with the issuance and delivery by the Issuer of its \$51,680,000 Improvement Area No. 1 Special Tax Refunding Bonds Series A of 2011 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of October 1, 2000 by and between the Issuer and Union Bank, N.A. as Trustee thereto, as amended and supplemented by the First Supplemental Bond Indenture dated as of February 1, 2004 and the Second Supplemental Bond Indenture dated as of December 1, 2011 (together, the “Indenture”). The Issuer covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

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

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

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

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

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

“District” shall mean Improvement Area No. 1 of Community Facilities District No. 2 (Santaluz) established by the City of San Diego.

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

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

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

“Official Statement” means the Official Statement for the Bonds dated December 7, 2011.

“Participating Underwriters” shall mean Piper Jaffray & Co. and Southwest Securities, Inc.

“Rate and Method of Apportionment” means together, the Rate and Method of Apportionment of Special Taxes for the Issuer as described in City of San Diego Ordinance No. O-18788, dated April 10, 2000, as amended by the Amended and Restated Rate and Method of Apportionment of Special Taxes as described in the City of San Diego Ordinance No. O-19085, as may be amended from time to time.

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

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

### SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than the April 1 after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2011, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the 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 the Repository of a change in the fiscal year dates.

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

(c) If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository, in the form required by the Repository.

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

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

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

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

SECTION 4. Content of Annual Reports.

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

(b) Financial and Operating Data. The first Annual Report shall consist of a copy of the Official Statement and the financial statements described in Section 3(a) above. Thereafter, in addition to the financial statements, the Annual Report shall contain or incorporate by reference the following information:

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

(ii) the balance in each fund under the 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) an update of Table 6 of the Official Statement including a list of all taxpayers within the District which own property in the District upon which 5% or more of the total Special Taxes for the current fiscal year have been levied, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;

(v) an update to Table 7 of the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report;

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

(vii) the date of issuance and the principal amount of any Parity Bonds; and

(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 the Repository. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

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

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

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

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

3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

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

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

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

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

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

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

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

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

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

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

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Certificate. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.



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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

\_\_\_\_\_, 2011

Community Facilities District No. 2 (Santaluz)  
San Diego, California

**Re: \$51,680,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 1  
Special Tax Refunding Bonds Series A of 2011**

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of San Diego taken in connection with the formation of Community Facilities District No. 2 (Santaluz) (the “District”) and the authorization and issuance of the District’s Improvement Area No. 1 Special Tax Refunding Bonds Series A of 2011 in the aggregate principal amount of \$51,680,000 (the “2011 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 2011 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2011 Bonds have been issued pursuant to the Mello Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of October 1, 2000 (the “Indenture”) between the District and Union Bank, N.A., as Trustee, as amended and supplemented by the First Supplemental Bond Indenture dated as of February 1, 2004 and the Second Supplemental Indenture dated as of December 1, 2011 (together with the Indenture, the “Bond Indenture”). All capitalized terms not defined herein shall have the meaning set forth in the Bond Indenture.

The 2011 Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Bond Indenture. The 2011 Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2012, at the rates per annum set forth in the Bond Indenture. The 2011 Bonds are registered 2011 Bonds in the form set forth in the Bond Indenture, redeemable in the amounts, at the times and in the manner provided for in the Bond Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The 2011 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 2011 Bonds are limited obligations of the District but are not a debt of the City of San Diego, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the City of San Diego, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Bond Indenture has been duly authorized by the District, and the Bond Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Bond Indenture to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Bond Indenture creates a valid pledge of that which the Bond Indenture purports to pledge, subject to the provisions of the Bond Indenture, except to the extent that enforceability of the Bond Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2011 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 2011 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a 2011 Bond (the first price at which a substantial amount of the 2011 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2011 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable 2011 Bond. Original issue discount that accrues for the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

(7) The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable 2011 Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2011 Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable 2011 Bond premium reduces the Bondowner's basis in the applicable 2011 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 2011 Bond premium may result in a Bondowner realizing a taxable gain when a 2011 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2011 Bond to the owner.

The opinion expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2011 Bonds is subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2011 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 2011 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2011 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 2011 Bonds.

Certain requirements and procedures contained or referred to in the Bond Indenture may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Bond Indenture, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the 2011 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 2011 Bonds and expressly disclaim any duty to advise the owners of the 2011 Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to [www.dtcc.com](http://www.dtcc.com) is presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries

made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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