

*In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest 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, such interest is exempt from California personal income taxes. See “CONCLUDING INFORMATION — Tax Exemption” herein.*

**\$8,995,000**

**POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY  
2009 REVENUE BONDS**

**Dated: Date of Delivery**

**Due: September 15, as shown below**

The Poway Unified School District Public Financing Authority 2009 Revenue Bonds (the “Bonds”) are being issued pursuant to an Indenture of Trust (the “Authority Indenture”), dated as of June 1, 2009, by and between Poway Unified School District Public Financing Authority (the “Authority”) and Zions First National Bank, as trustee (the “Trustee”) (i) to purchase the Zone 2 2009 Special Tax Bonds and the Zone 3 2009 Special Tax Bonds (each a “Series of Special Tax Bonds” or, collectively, with any parity special tax bonds, the “Special Tax Bonds,” as more specifically defined herein), (ii) to fund the Reserve Fund for the Bonds in an amount equal to the Reserve Requirement, (iii) to pay a portion of the interest on the Bonds through July 2, 2011, and (iv) to pay costs of issuance of the Bonds and the Special Tax Bonds. Proceeds of the Special Tax Bonds will be used (i) to acquire and construct certain school facilities, and (ii) to pay a portion of the interest on the Special Tax Bonds through July 2, 2011, and through such payment a portion of the interest on the Bonds through September 15, 2011.

The Bonds will be issued in the denominations of \$5,000 or any integral multiple thereof. Interest is payable semiannually thereafter on March 15 and September 15 of each year, commencing March 15, 2010. The Bonds will be initially issued only in book-entry form and registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository of the Bonds. Principal and interest (and premium, if any) on the Bonds is payable by the Trustee, as registrar, paying agent and trustee for the Bonds to DTC, which remits such payments to its Participants for subsequent distribution to the registered owners as shown on the Trustee’s books as of the fifteenth day of the calendar month immediately preceding each interest payment date. See “THE BONDS” herein and APPENDIX G — “BOOK-ENTRY-ONLY PROVISIONS.”

*The Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from proceeds of redemption of Special Tax Bonds as a result of prepayment of Special Taxes (as defined herein) as described herein.*

The Bonds are limited obligations of the Authority. The Bonds are payable solely from Revenues (as defined herein) of the Authority and from certain other amounts on deposit in the funds and accounts under the Authority Indenture, other than the Program Fund, the Authority School Facilities Fund or the Rebate Fund. Revenues consist generally of the amounts received by the Trustee as the payment of both Series of Special Tax Bonds, which payments are to be derived from Special Taxes received by Community Facilities District No. 11 (StoneBridge Estates) (the “Community Facilities District”) for Zone 2 and Zone 3, as more fully described herein. The payments on both Series of Special Tax Bonds are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due, assuming that the payments on the Special Tax Bonds are made when due. A default in the payment of one Series of Special Tax Bonds does not constitute a default under the other Series of Special Tax Bonds, and each Series of the Special Tax Bonds is secured by a different source of revenues. An event of default under either Series of Special Tax Bonds may result in insufficient Revenues to pay the principal of and interest on the Bonds. See “SOURCES OF PAYMENT FOR THE BONDS” herein.

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, POWAY UNIFIED SCHOOL DISTRICT (THE “SCHOOL DISTRICT”), THE COUNTY OF SAN DIEGO (THE “COUNTY”), THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT NOR GENERAL OBLIGATIONS OF THE AUTHORITY, BUT ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN REVENUES AND CERTAIN AMOUNTS DEPOSITED BY THE AUTHORITY IN THE REVENUE FUND, BOND FUND, REDEMPTION FUND AND RESERVE FUND AS MORE FULLY DESCRIBED HEREIN.**

This cover page contains certain information for general reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the Bonds involves risks which may not be appropriate for some investors. See “**BONDOWNERS’ RISKS**” herein for a discussion of the risk factors that should be considered in evaluating the investment quality of the Bonds.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel. In addition, certain legal matters will be passed upon for the Authority, the Community Facilities District and the School District by Best Best & Krieger LLP, San Diego, California, as the general counsel for said entities. Certain matters will be passed upon for the Authority and the Community Facilities District by McFarlin & Anderson LLP, Lake Forest, California, Disclosure Counsel. It is anticipated that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about July 2, 2009.

**STONE & YOUNGBERG**

**\$8,995,000**  
**POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY**  
**2009 REVENUE BONDS**

**MATURITY SCHEDULE**  
**\$2,225,000 SERIAL BONDS**  
Base CUSIP® No. 73885N<sup>†</sup>

<u>Maturity</u> <u>(September 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP®</u> <u>No.†</u>	<u>Maturity</u> <u>(September 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP®</u> <u>No.†</u>
2016	\$15,000	5.500%	5.500%	CA2	2023	\$155,000	6.750%	6.850%	CH7
2017	35,000	5.750	5.750	CB0	2024	180,000	7.000	7.000	CJ3
2018	50,000	6.000	6.000	CC8	2025	210,000	7.000	7.100	CK0
2019	70,000	6.250	6.250	CD6	2026	245,000	7.125	7.200	CL8
2020	85,000	6.375	6.500	CE4	2027	280,000	7.125	7.300	CM6
2021	105,000	6.500	6.650	CF1	2028	315,000	7.250	7.350	CN4
2022	130,000	6.750	6.750	CG9	2029	350,000	7.375	7.400	CP9

\$1,340,000 7.500% Term Bonds Due September 15, 2032 Yield 7.700% CUSIP® No. 73885NCQ7<sup>†</sup>  
\$5,430,000 7.875% Term Bonds Due September 15, 2039 Yield 7.875% CUSIP® No. 73885NCR5<sup>†</sup>

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<sup>†</sup>CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2009 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Authority nor the Underwriter takes any responsibility for the accuracy of such numbers.

**POWAY UNIFIED SCHOOL DISTRICT  
AND POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY**

**BOARD OF EDUCATION  
AND AUTHORITY BOARD OF DIRECTORS**

Andy Patapow, President/Chairperson  
Todd Gutschow, Vice President/Vice Chairperson  
Penny Ranftle, Clerk/Secretary  
Jeff Mangum, Member/Director  
Linda Vanderveen, Member/Director

**SCHOOL DISTRICT AND AUTHORITY CHIEF ADMINISTRATION**

Donald A. Phillips, Ed.D., District Superintendent/Authority Executive Director  
John P. Collins, Ed.D., District Deputy Superintendent/Authority Auditor and Treasurer  
Malliga Tholandi, District Chief Financial Officer

**SPECIAL SERVICES**

**BOND COUNSEL AND GENERAL COUNSEL TO THE  
AUTHORITY, THE COMMUNITY FACILITIES DISTRICT AND THE SCHOOL DISTRICT**

Best Best & Krieger LLP  
San Diego, California

**DISCLOSURE COUNSEL**

McFarlin & Anderson LLP  
Lake Forest, California

**APPRAISER**

Stephen G. White, MAI  
Fullerton, California

**INDEPENDENT FINANCIAL CONSULTANT & ADMINISTRATOR**

Dolinka Group, LLC  
Irvine, California

**TRUSTEE AND FISCAL AGENT**

Zions First National Bank  
Los Angeles, California

## GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Authority or the Community Facilities District, in any press release and in any oral statement made with the approval of an authorized officer of the Authority or the Community Facilities District or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend,” and similar expressions identify “forward-looking statements” within the meaning of the 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 subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results and those differences may be material. 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, give rise to any implication that there has been no change in the affairs of the Authority or the Community Facilities District or any other entity described or referenced herein since the date hereof. The Authority or the Community Facilities District do not plan to issue any updates or revision to the forward-looking statements set forth in this Official Statement.

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

**Involvement of Underwriter.** The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither 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 Authority, the School District or the Community Facilities District or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement 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.

**Stabilization of Prices.** In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the 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 Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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

**TABLE OF CONTENTS**

	<u>Page</u>
INTRODUCTION .....	1
General .....	1
The Authority .....	1
Purpose of Issue .....	1
The Community Facilities District .....	2
Authority for Issuance .....	4
The School District .....	5
Security for the Bonds .....	5
Appraisal .....	6
Assessed Values .....	7
Reserve Fund .....	7
Sources of Payment for the Special Tax Bonds .....	8
Additional Bonds; Additional Special Tax Bonds .....	9
Description of the Bonds .....	9
Tax Exemption .....	10
Risk Factors Associated with Purchasing the Bonds .....	10
Forward Looking Statements .....	10
Professionals Involved in the Offering .....	10
Continuing Disclosure .....	11
Other Information .....	11
THE FINANCING PLAN .....	12
APPLICATION OF BOND PROCEEDS; ESTIMATED SOURCES AND USES OF FUNDS .....	13
THE BONDS .....	14
Authority for Issuance .....	14
General Provisions .....	14
Redemption .....	15
Transfer and Exchange of Bonds .....	18
The Trustee .....	18
Book-Entry and DTC .....	18
Estimated Debt Service Schedule .....	19
SOURCES OF PAYMENT FOR THE BONDS .....	20
General .....	20
Revenue Fund .....	20
Reserve Fund .....	22
Surplus Fund .....	22
Ownership of Special Tax Bonds .....	23
The Special Tax Bonds .....	24
Covenant for Superior Court Foreclosure .....	28
No Direct Cross-Collateralization Among Special Tax Bonds .....	30
Authorized Investments .....	30
Additional Special Tax Bonds .....	30
No Acceleration .....	32
Sale of Special Tax Bonds .....	32
Estimated Scheduled Special Tax Bonds Debt Service .....	32
Levy of Special Taxes to Applicable Maximum Rates .....	37

THE COMMUNITY FACILITIES DISTRICT .....	37
General .....	37
Location and Description .....	39
Appraised Property Values .....	41
Assessed Property Values .....	43
Estimated Appraised Value-to-Lien Ratios .....	43
Direct and Overlapping Debt .....	47
Overlapping Assessment and Maintenance Districts .....	51
Rates and Methods of Apportionment of Special Tax .....	53
Special Tax Delinquency .....	60
Special Taxes Are Not Within Teeter Plan .....	62
Tender for Bonds .....	63
 BONDOWNERS' RISKS .....	 63
The Bonds .....	63
The Special Tax Bonds .....	65
 THE AUTHORITY .....	 74
 CONCLUDING INFORMATION .....	 75
Tax Exemption .....	75
Absence of Litigation .....	76
No General Obligation of Authority, School District or Community Facilities District .....	76
Legal Opinion .....	76
No Ratings .....	77
Underwriting .....	77
Professional Fees .....	77
Additional Information .....	77
 APPENDIX A – GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT .....	  A-1
APPENDIX B – RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX .....	B-1
APPENDIX C – SUMMARY APPRAISAL REPORT .....	C-1
APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS ...	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT .....	E-1
APPENDIX F – PROPOSED FORM OF OPINION OF BOND COUNSEL .....	F-1
APPENDIX G – BOOK-ENTRY-ONLY PROVISIONS .....	G-1



# ***Poway Unified School District*** **(San Diego County, California)**

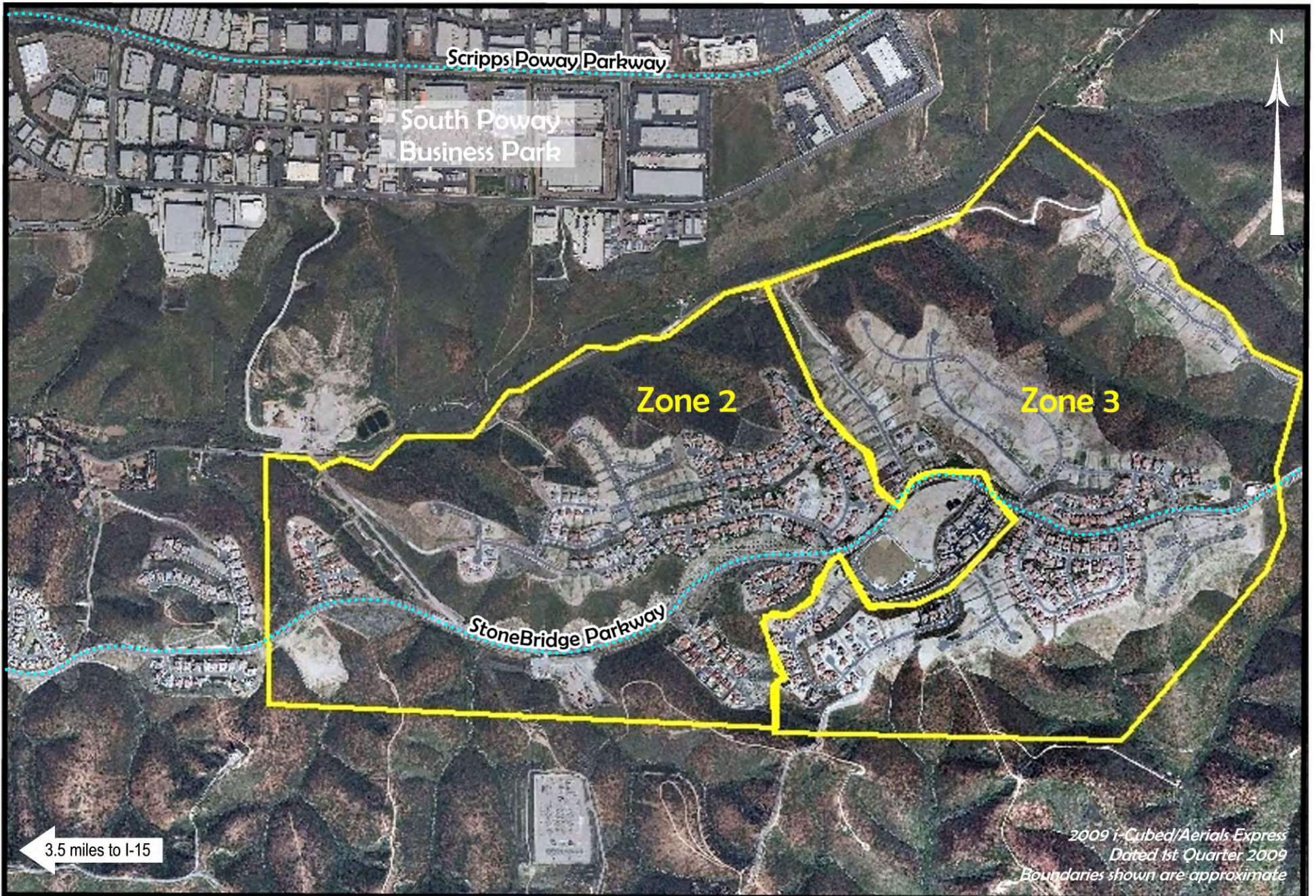
## **Regional Location Map**



# POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY

2009 Revenue Bonds

Community Facilities District No. 11 (Zones 2 & 3)





## OFFICIAL STATEMENT

**\$8,995,000**

### **POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY 2009 REVENUE BONDS**

#### **INTRODUCTION**

*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 cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

#### **General**

The purpose of this Official Statement, which includes the cover page and Appendices hereto (the “Official Statement”), is to provide certain information concerning the sale and issuance of the Poway Unified School District Public Financing Authority 2009 Revenue Bonds (the “Bonds”).

The Bonds are being issued pursuant to an Indenture of Trust (the “Authority Indenture”), dated as of June 1, 2009, by and between the Poway Unified School District Public Financing Authority (the “Authority”) and Zions First National Bank, as the trustee (the “Trustee”). See “THE BONDS – Authority for Issuance” herein.

#### **The Authority**

The Authority is a joint exercise of powers agency organized under the joint exercise of powers act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Joint Powers Act”). It is composed of the Poway Unified School District (the “School District”) and Community Facilities District No. 1 of the Poway Unified School District (“CFD No. 1”). Pursuant to the Act, the Authority is authorized to issue revenue bonds to be repaid from the proceeds of public obligations and to provide financing and refinancing for public capital improvements, including for Community Facilities District No. 11 (StoneBridge Estates) (the “Community Facilities District.”).

#### **Purpose of Issue**

Proceeds of the Bonds will be used as follows: (i) to finance the acquisition by the Authority of Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates) Zone 2 2009 Special Tax Bonds (the “Zone 2 2009 Special Tax Bonds”) and Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates) Zone 3 2009 Special Tax Bonds (the “Zone 3 2009 Special Tax Bonds”) (each a “Series of Special Tax Bonds” or collectively, with any parity special tax bonds, the “Special Tax Bonds”); (ii) to fund the Reserve Fund for the Bonds in an amount equal to the Reserve Requirement (as such terms are defined below); (iii) to pay a portion of the interest on the Bonds through July 2, 2011; and (iv) to pay costs of issuance of the Bonds and the Special Tax Bonds. The Bonds shall constitute special obligations of the Authority. Proceeds of the Special Tax Bonds will be used (i) to acquire and construct certain school facilities, all as further described under “APPLICATION OF BOND PROCEEDS; ESTIMATED SOURCES AND USES OF FUNDS;” and (ii) to pay a portion of the interest on the Special Tax Bonds through July 2, 2011, and through such payment a portion of the interest on the Bonds through September 15, 2011.

## **The Community Facilities District**

The Community Facilities District was formed and established by the School District on January 20, 2004, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, the “Act”), following a public hearing and a landowner election at which the qualified electors of the Community Facilities District authorized the Community Facilities District to incur bonded indebtedness and approved the levy of special taxes. Upon its formation, the Community Facilities District contained four zones, which encompass separate parcels and are each separately subject to the levy of Special Taxes to finance the acquisition or construction of certain school facilities (the “School Facilities”).

The Community Facilities District was authorized to issue \$60 million aggregate principal amount of bonds, including bonds with respect to Zones 1 through 4 (“Zone 1,” “Zone 2,” “Zone 3” and “Zone 4,” respectively, and collectively, the “Zones”).

In addition, on January 20, 2004, pursuant to the Act, following a public hearing and landowner election, the electors of Improvement Area A (“Improvement Area A”), Improvement Area B (“Improvement Area B”) and Improvement Area C (“Improvement Area C”) authorized the Community Facilities District to incur bonded indebtedness and approved the levy of an additional special tax within each Improvement Area (“Improvement Area B Special Taxes” and “Improvement Area C Special Taxes,” respectively) to finance the acquisition and construction of public improvements to be owned, operated and maintained by the City of San Diego (the “City”), or to which the City may contribute revenue (collectively, the “City Facilities”) and the acquisition or construction of school facilities.

The Community Facilities District was authorized to issue \$13,500,000 aggregate principal amount of special tax bonds with respect to Improvement Area A, \$10,900,000 aggregate principal amount of special tax bonds with respect to Improvement Area B and \$17,400,000 aggregate principal amount of special tax bonds with respect to Improvement Area C.

On April 1, 2004, the Community Facilities District issued an aggregate principal amount of \$11,000,000 of Improvement Area A 2004 Special Tax Bonds (“Improvement Area A 2004 Special Tax Bonds”) and on April 1, 2004, the Community Facilities District issued an aggregate principal amount of \$9,000,000 of Zone 1 Special Tax Bonds (“Zone 1 Special Tax Bonds”). Taxable Property within Zone 1 and Improvement Area A is coterminous, and the Community Facilities District levied a separate special tax with respect to Zone 1 pursuant to the Community Facilities District Rate and Method of Apportionment of Special Tax (the “Community Facilities District Rate and Method”) and with respect to Improvement Area A pursuant to a separate Improvement Area A Rate and Method of Apportionment of Special Tax. On June 16, 2005, the Community Facilities District issued an aggregate principal amount of \$9,035,000 of Improvement Area B 2005 Special Tax Bonds. Taxable Property within Zone 2 and Improvement Area B is coterminous, and the Community Facilities District levied a separate special tax with respect to Zone 2 pursuant to the Community Facilities District Rate and Method and with respect to Improvement Area B pursuant to a separate Improvement Area B Rate and Method of Apportionment of Special Tax. On June 16, 2005, the Community Facilities District issued an aggregate principal amount of \$13,475,000 of Improvement Area C 2005 Special Tax Bonds. Taxable Property within Zone 3 and Improvement Area C is coterminous, and the Community Facilities District levied a separate special tax with respect to Zone 3 pursuant to the Community Facilities District Rate and Method and with respect to Improvement Area C pursuant to a separate Improvement Area C Rate and Method of Apportionment of Special Tax. As noted below, Zone 4 is owned by the City and is zoned as open space. No cross-collateralization exists between any Zone and any Improvement Area.

The Zone 2 Bonds and Zone 3 Bonds are being issued at this time and are separate from any bonds issued or authorized to be issued which are secured by the Improvement Area B Special Taxes or the Improvement Area C Special Taxes. The amount of Zone 2 2009 Bonds and Zone 3 2009 Bonds issued is based on providing 110% debt service coverage from estimated Special Taxes which may be levied on property categorized as “Developed Property” (as defined in the Community Facilities District Rate and Method) for Fiscal Year 2009-10 with respect to Zone 2 and Zone 3 in accordance with the Community Facilities District Rate and Method. In addition, for Fiscal Year 2009-10, there are approximately 12 acres of Undeveloped Property (as defined in the Community Facilities District Rate and Method) in Zone 2 and approximately 108 acres of Undeveloped Property in Zone 3. Under the Community Facilities District Rate and Method, such Undeveloped Property is currently estimated to be subject to an aggregate Special Tax of approximately \$64,000 in Zone 2 and approximately \$560,000 in Zone 3, but no Special Tax will be levied on such Undeveloped Property in Fiscal Year 2009-10 because it is estimated that such Special Tax will not be required for payment of debt service on the Special Tax Bonds or Administrative Expenses. If necessary in the future, the Special Tax may be levied on Undeveloped Property, however, there is no assurance that a Developer (as defined below) will pay any such Special Tax so levied. As development occurs and property is categorized as Developed Property rather than as Undeveloped Property, the amount of Special Taxes which may be levied will change.

The costs of the School Facilities financed with Special Taxes, together with proceeds of Community Facilities District bonds and Improvement Area bonds are expected to exceed the cost of the City Facilities financed with Special Taxes and proceeds of Improvement Area bonds. See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax.” The School District will use such special taxes and bond proceeds for the acquisition, construction, rehabilitation and improvement of the School Facilities and City Facilities, as applicable, and related administrative expenses. A portion of the Special Taxes on Developed Property within Zone 2 and Zone 3, as set forth in the Community Facilities District Rate and Method, will be used for the acquisition, construction, rehabilitation and improvement of the School Facilities and related expenses.

Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district or improvement area therein, as applicable, and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness, including interest thereon.

The Community Facilities District is contiguous and is generally located south of Beeler Canyon Road and east of Pomerado Road in the southernmost portion of the School District and in the northeast part of the City. The Community Facilities District is located about four miles east of the I-15 Freeway. The Community Facilities District, which encompasses all of the property in the Rancho Encantada Precise Planned Community, consists of approximately 2,658 gross acres. StoneBridge Estates is the current name of the entire project proposed to be developed in the Community Facilities District which is comprised of two sub-project areas known as Montecito and Sycamore Estates. The Montecito sub-project area encompasses approximately 278 gross acres in Zone 1/Improvement Area A and the Sycamore Estates sub-project area encompasses approximately 2,132 gross acres in Zone 2/Improvement Area B and Zone 3/Improvement Area C. The Community Facilities District also includes approximately 248 acres of open space owned by the City which is located within Zone 4. The residential portion of the StoneBridge Estates project has been and is proposed to continue to be developed by various merchant builder entities, including some related to the respective members of Sycamore Estates LLC, a Delaware limited liability company (“Sycamore Estates LLC”), the master developer of the property in the Community Facilities District.

The StoneBridge Estates development is proposed to include 7 neighborhoods aggregating approximately 828 market rate single-family residences, 106 affordable residential multi-family units, a school site and two park sites (including acreage originally planned for institutional use). 277 units are in Zone 1, 210 units plus the 106 affordable units are proposed for Zone 2 and 341 units are proposed for Zone 3. The remaining area, which is in Zone 4, is preserved as open space and known as “Mission Trails Regional Park North.” The property in Zone 1/Improvement Area A has been substantially developed with three single-family neighborhoods, in which approximately 271 detached single-family lots have been completed and sold to homeowners.

As of May 1, 2009, the major landowners in Zone 2 were as follows: 141 individual homeowners and two developers, Brookfield 8 LLC, a Delaware limited liability company (“Brookfield 8 LLC”), and Shea Homes Limited Partnership, a California limited partnership (“Shea Homes Limited Partnership”), with an aggregate of 19 residential units completed or under construction and 50 residential lots, resulting in an aggregate 160 residential units completed or under construction which are categorized as Developed Property in accordance with the Community Facilities District Rate and Method. In addition, there were 106 completed affordable units which are not subject to the levy of Special Taxes while such units are affordable units.

As of May 1, 2009, the major landowners in Zone 3 were as follows: 110 individual homeowners and five developers, Cornerstone at StoneBridge Estates LP, a California limited partnership (“Cornerstone at StoneBridge Estates LP”), Montoro at StoneBridge Estates LLC, a Delaware limited liability company, StoneBridge – San Diego LP, a California limited partnership (“StoneBridge – San Diego LP”), Warmington Scripps II Associates, L.P., a California limited partnership (“Warmington Scripps II Associates, L.P.”) and Brookfield 10 LLC, a Delaware limited liability company (“Brookfield 10 LLC”), with an aggregate of 26 residential units completed or under construction and 205 residential lots. Warmington Scripps II Associates, L.P. has a contract for a phased sale of its 19 residential lots, with the first 10 lots scheduled to close in the summer of 2009, resulting in an aggregate 136 residential units completed or under construction which are categorized as Developed Property in accordance with the Community Facilities District Rate and Method.

Brookfield 8 LLC, Shea Homes Limited Partnership, Cornerstone at StoneBridge Estates LP, Montoro at StoneBridge Estates, LLC, Cornerstone Homes StoneBridge – San Diego LP, Warmington Scripps II Associates, L.P. and Brookfield 10 LLC are sometimes referred to herein individually as a “Developer” and collectively, as the “Developers.” Brookfield Homes Corporation, a Delaware corporation, is the builder for Brookfield 8 LLC and Brookfield 10 LLC. Cornerstone Communities Corporation, a California corporation, is the builder for Cornerstone at StoneBridge Estates LP and Montoro at StoneBridge Estates LLC.

Detailed information about the location of and property ownership and land uses in the Community Facilities District is set forth in “THE COMMUNITY FACILITIES DISTRICT” herein.

### **Authority for Issuance**

The Bonds are authorized to be issued in accordance with the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the California Government Code and the Authority Indenture. The Authority Indenture permits the issuance of additional debt on a parity with the Bonds secured by additional Zone 2 Special Tax Bonds and/or Zone 3 Special Tax Bonds. The Community Facilities District may issue bonds on a parity with the Special Tax Bonds subject to compliance with the provisions of the Zone 2 Bond Indenture (the “Zone 2 Bond Indenture”) or the Zone 3 Bond Indenture (the “Zone 3 Bond Indenture”), as

applicable, each dated as of June 1, 2009, each by and between the Community Facilities District and Zions First National Bank, as Fiscal Agent for each Series of the Special Tax Bonds. See “Additional Bonds; Additional Special Tax Bonds” below.

### **The School District**

Poway Unified School District (the “School District”) is located in the central portion of the County. The School District was originally formed in 1962. The School District currently covers approximately 100 square miles. The School District includes the City of Poway and portions of the City of San Diego and the County, including the communities of Black Mountain Ranch, 4S Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and Del Sur. The School District currently operates twenty-five (25) elementary schools, six (6) middle schools, four (4) comprehensive high schools, one (1) continuation high school and one (1) adult school. A new high school (9-12) is scheduled to open in August, 2009 with 9<sup>th</sup> grade. A new grade level will be added in each of the next three years. The School District estimates it has approximately 33,306 students enrolled during Fiscal Year 2008-09. See APPENDIX A – “GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT.”

### **Security for the Bonds**

*The Bonds.* The Bonds are secured by the Revenues of the Authority and by any other amounts held in any fund or account established pursuant to the Authority Indenture, other than the Program Fund (including the Costs of Issuance Account therein), the Authority School Facilities Fund and the Rebate Fund (as such terms are defined in the Authority Indenture). Generally, “Revenues” are (i) all amounts derived by the Authority from the Special Tax Bonds; (ii) all moneys originally deposited with the Trustee for application for payment of principal or interest on the Bonds and all moneys held by the Trustee in the funds and accounts established herein for payment of the Bonds (excluding the Program Fund, the Authority School Facilities Fund and the Rebate Fund) and (iii) investment income with respect to the funds and accounts established under the Authority Indenture except for investment earnings on moneys held in the Program Fund, the Authority School Facilities Fund and the Rebate Fund. The Authority Indenture permits the issuance of additional Bonds secured by Revenues only to effect a refunding of Bonds in whole or in part under certain circumstances described in the Authority Indenture. The Community Facilities District may issue Bonds on a parity with the Special Tax Bonds subject to compliance with the provisions of the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. See “INTRODUCTION – Additional Bonds; Additional Special Tax Bonds” “SOURCES OF PAYMENT FOR THE BONDS – General,” and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

**See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.**

**Neither the faith and credit nor the taxing power of the School District, the Community Facilities District, the State of California (the “State”) or any political subdivision thereof is pledged to the payment of the Bonds. The Authority has no taxing power. The Bonds are not general or special obligations of the School District, general obligations of the Community Facilities District or general obligations of the Authority, but are limited obligations of the Authority payable solely from Revenues, certain amounts held under the Authority Indenture as more fully described herein.**

*The Special Tax Bonds.* The Special Tax Bonds are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the “Act”), to finance certain capital costs of the School District and to pay a portion of the interest on the Special Tax Bonds through July 2, 2011. The Special Tax Bonds are being issued by the Community Facilities District pursuant to the Act and under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

The Special Tax Bonds are limited obligations of the Community Facilities District, payable from the amount of Special Tax (the “Special Taxes” or the “Special Tax”) levied on real property within the respective boundaries of Zone 2 and Zone 3, as applicable, of the Community Facilities District minus amounts applied to pay the Administrative Expense Requirement. The Special Taxes are collected on the regular property tax bills sent to the owners of real property within Zone 2 and Zone 3 of the Community Facilities District. See “SOURCES OF PAYMENT FOR THE BONDS – The Special Tax Bonds.”

The amount of the Special Taxes to be levied annually on a parcel will depend on the parcel’s classification in accordance with the Community Facilities District Rate and Method. See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax” and APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.” The Community Facilities District has covenanted for the benefit of the Authority that, under certain circumstances described herein, the Community Facilities District will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the Community Facilities District and will diligently pursue such proceedings to completion. See “SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure.”

The Community Facilities District has covenanted in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to levy in each Fiscal Year the Special Taxes on parcels of land within Zone 2 or Zone 3, as applicable, of the Community Facilities District pledged to the repayment of the respective Special Tax Bonds in an amount sufficient to pay annual debt service on the respective Special Tax Bonds, and to pay the administrative expenses related to the Community Facilities District, subject to the limitation of the Maximum Annual Special Tax that may be levied on such land within the Community Facilities District. The Community Facilities District has also agreed to pay a portion of the administrative expenses of the Authority. See “THE COMMUNITY FACILITIES DISTRICT” for a description of the Community Facilities District and a description of the Special Tax within Zone 2 and Zone 3 of the Community Facilities District. See also “SOURCES OF PAYMENT FOR THE BONDS” and “BONDOWNERS’ RISKS” herein.

**The Special Tax Bonds are special obligations of the Community Facilities District with respect to Zone 2 or Zone 3, as applicable. The Special Tax Bonds do not constitute a debt or liability of the School District, the State or of any political subdivision thereof, other than the Community Facilities District with respect to Zone 2 or Zone 3, as applicable. The Community Facilities District shall only be obligated to pay the principal of the applicable Special Tax Bonds, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of the School District, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Special Tax Bonds. The Community Facilities District has no *ad valorem* taxing power. See “SOURCES OF PAYMENT FOR THE BONDS” and “BONDOWNERS’ RISKS” herein.**

## **Appraisal**

An MAI appraisal of the land and existing improvements for each development within Zone 2 and Zone 3 of the Community Facilities District, dated May 11, 2009 (the “Appraisal”), was prepared by

Stephen G. White, MAI of Fullerton, California (the “Appraiser”), in connection with issuance of the Bonds. The purpose of the Appraisal was to estimate the aggregate market value of the separate tracts/product types within Zone 2 and Zone 3 reflecting the “as-is” condition of the homes, homes under construction and/or vacant lots. The Appraisal reflects the Zone 2 and Zone 3 financings, as well as existing Community Facilities District financings with respect to Improvement Area B Special Taxes and Improvement Area C Special Taxes. The subject property in Zone 2 includes property proposed for development with 210 detached single-family residential units of which 153 are completed (141 are owned by individual homeowners). The 106 affordable residential multi-family units are not subject to the Special Tax while they constitute affordable units and the value has not been included in the Appraisal. The subject property in Zone 3 includes property proposed for development with 341 single-family residential units of which 122 are completed (110 are owned by individual homeowners). The Appraisal is based on certain assumptions set forth in APPENDIX C – “SUMMARY APPRAISAL REPORT” hereto.

Based on the investigation and analyses described in the Appraisal, and subject to all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the market value of the property subject to the levy of Special Taxes in Zone 2, as of May 1, 2009, to be \$167,450,000 and in Zone 3, as of May 1, 2009, to be \$167,900,000.

The market values of the property within Zone 2 and Zone 3 include the value of completed homes, homes under construction and infrastructure improvements, tract map approvals and the finished conditions of such property. The \$167,450,000 and \$167,900,000 aggregate market value reported in the Appraisal results in estimated value-to-lien ratios of 11.87 to 1 with respect to Zone 2 and of [ 9.73 to 1 with respect to Zone 3, calculated in each case with respect to all direct and overlapping tax and assessment debt as of the estimated closing date. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See “THE COMMUNITY FACILITIES DISTRICT – Appraised Property Values,” “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt” and “BONDOWNERS’ RISKS – The Special Tax Bonds – *Appraised Values*” herein and APPENDIX C – “SUMMARY APPRAISAL REPORT” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

### **Assessed Values**

The Fiscal Year 2008-09 assessed values of the property within Zone 2 and Zone 3 of the Community Facilities District (excluding Exempt Property (as defined in the Community Facilities District Rate and Method) and parcels for which Special Taxes have been prepaid) aggregated \$200,020,024 in Zone 2 and \$223,247,922 in Zone 3.

See “THE COMMUNITY FACILITIES DISTRICT – Assessed Property Values,” and “ – Direct and Overlapping Debt,” and “BONDOWNERS’ RISKS – The Special Tax Bonds – *Assessed Values*” herein and for further information on the assessed values and for assumptions and limiting conditions relating to the assessed values.

### **Reserve Fund**

Pursuant to the Authority Indenture, the Authority has established with the Trustee, the Reserve Fund. If the amounts in the Interest Account or the Principal Account of the Bond Fund (as such terms are defined herein), are insufficient to pay the principal of, including sinking fund payments, or interest on the Bonds when due, the Trustee will withdraw from the Reserve Fund moneys for deposit in the Interest Account and/or the Principal Account, as applicable, necessary for such purposes. The Reserve

Requirement as of any date of calculation, will be in an amount required by the Authority Indenture which provides that the Reserve Requirement means, as of the date of calculation, an amount equal to 10% of the initial principal amount of the Bonds. See “SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund” and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Indenture of Trust.”

### **Sources of Payment for the Special Tax Bonds**

The Special Tax Bonds will be secured by the applicable Net Special Tax Revenues received by the Community Facilities District and pledged to repay the outstanding Special Tax Bonds and by moneys in the applicable District Bond Service Fund, and the District Redemption Fund as established under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. “Net Special Tax Revenues” are comprised of Special Taxes levied and received on parcels of real property in Zone 2 or Zone 3, as applicable, of the Community Facilities District, including net amounts collected from the redemption of delinquent Special Taxes less the Administrative Expense Requirement (as defined in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture). The Special Taxes are included on the *ad valorem* property tax bills sent by the County each year to the owners of record of property within Zone 2 or Zone 3, as applicable, of the Community Facilities District.

The amount of Zone 2 2009 Bonds and Zone 3 2009 Bonds issued is based on providing 110% debt service coverage from estimated Special Taxes which may be levied on property categorized as “Developed Property” for Fiscal Year 2009-10 with respect to Zone 2 and Zone 3 in accordance with the Community Facilities District Rate and Method. In addition, for Fiscal Year 2009-10, there are approximately 12 acres of Undeveloped Property (as defined in the Community Facilities District Rate and Method) in Zone 2 and approximately 108 acres of Undeveloped Property in Zone 3. Under the Community Facilities District Rate and Method, such Undeveloped Property is currently estimated to be subject to an aggregate Special Tax of approximately \$64,000 in Zone 2 and approximately \$560,000 in Zone 3 but no Special Tax will be levied on such Undeveloped Property in Fiscal Year 2009-10 because it is estimated that such Special Tax will not be required for payment of debt service on the Special Tax Bonds or Administrative Expenses. If necessary in the future, the Special Tax may be levied on Undeveloped Property, however, there is no assurance that a Developer will pay any such Special Tax so levied. As development occurs and property is categorized as Developed Property rather than as Undeveloped Property, the amount of Special Taxes which may be levied will change.

The Community Facilities District has covenanted for the benefit of the Authority, as the owner of the Special Tax Bonds, that the Community Facilities District will take action with respect to delinquencies in the payment of Special Taxes, including commencing foreclosure action, all as set forth in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. See “SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure.”

**Neither the faith and credit nor the taxing power of the School District, the County, the State or any political subdivision thereof is pledged to the payment of the Special Tax Bonds. Except for the Net Special Tax Revenues, no other taxes are pledged to the payment of the Special Tax Bonds. The Special Tax Bonds are not general or special obligations of the School District nor general obligations of the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from certain amounts deposited by the Community Facilities District in the applicable Bond Service Fund and applicable Redemption Fund as more fully described herein.**



*No Direct Cross-Collateralization Among Special Tax Bonds.* The Special Taxes levied to pay debt service on one series of Special Tax Bonds are not available to pay debt service on any other series of Special Tax Bonds. See “SOURCES OF PAYMENT FOR THE BONDS – The Special Tax Bonds” and “ – No Direct Cross-Collateralization Among Special Tax Bonds” and “BONDOWNERS’ RISKS.” However, it is currently anticipated that annual Net Special Tax Revenues available for debt service on the Special Tax Bonds will exceed the debt service on the Special Tax Bonds. Any excess will be transferred as follows: (i) to the Authority Trustee, in an amount, if any, necessary to restore the Authority Reserve Fund to the Authority Reserve Requirement, to the extent that any draw on the Authority Reserve Fund was attributable to a deficiency in the amount of debt service received by the Authority on the applicable Special Tax Bonds; (ii) to the Authority Trustee, the Community Facilities District’s Proportionate Share of any Excess Authority Rebate Obligation (as such terms are defined in the Authority Indenture); (iii) to the Community Facilities District Fiscal Agent, for District Administrative Expenses; (iv) to the Authority Trustee, for the Community Facilities District’s Proportionate Share of the Authority Administrative Expenses; and (v) to the Authority Trustee, for deposit to the Authority Surplus Fund. See “SOURCES OF PAYMENT FOR THE BONDS – Surplus Fund” and “ – Estimated Scheduled Special Tax Bonds Debt Service.”

### **Additional Bonds; Additional Special Tax Bonds**

The Authority Indenture permits the issuance of additional debt on a parity with the Bonds secured by additional parity Zone 2 Special Tax Bonds and/or Zone 3 Special Tax Bonds to finance acquisition or construction of school facilities or for refunding purposes. The Community Facilities District may issue additional Special Tax Bonds on a parity with the Special Tax Bonds with respect to Zone 2 or Zone 3, subject to compliance with the provisions of the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. Such additional Special Tax Bonds may be issued pursuant to a supplemental Zone 2 Bond Indenture or a supplemental Zone 3 Bond Indenture, as applicable. See “SOURCES OF PAYMENT FOR THE BONDS – Additional Special Tax Bonds.”

### **Description of the Bonds**

*The Bonds.* The net proceeds of the Bonds will be used to acquire Special Tax Bonds of the Community Facilities District and to fund the Reserve Fund. See “SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT” herein.

*Payments.* Interest is payable semiannually on March 15 and September 15 of each year, commencing March 15, 2010. Principal of and premium, if any, on the Bonds shall be payable by the Trustee, as registrar, transfer agent and trustee. See “THE BONDS” and APPENDIX G – “BOOK-ENTRY-ONLY PROVISIONS” herein.

*Redemption.* The Bonds are subject to optional redemption, mandatory sinking fund redemption (as defined herein) and special mandatory redemption from proceeds of redemption of Special Tax Bonds as a result of prepayment of Special Taxes as described herein. See “THE BONDS – Redemption” herein.

*Registration, Transfers and Exchanges.* The Bonds will be issued as fully-registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) under the book-entry system maintained by DTC. See “THE BONDS” and APPENDIX G – “BOOK-ENTRY-ONLY PROVISIONS.”

## **Tax Exemption**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Bonds will not be includable in gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State personal income taxes. See “CONCLUDING INFORMATION – Tax Exemption” herein.

## **Risk Factors Associated with Purchasing the Bonds**

Investment in the Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other materials set forth herein, in considering the investment quality of the Bonds.

## **Forward Looking Statements**

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 a “plan,” “expect,” “estimate,” “project,” “budget,” “anticipate” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “THE COMMUNITY FACILITIES DISTRICT” therein.

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. THE AUTHORITY, THE COMMUNITY FACILITIES DISTRICT AND THE SCHOOL DISTRICT DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

## **Professionals Involved in the Offering**

Zions First National Bank, Los Angeles, California, will serve as the Trustee for the Bonds and as the Fiscal Agent for the Special Tax Bonds and will perform the functions required of it under the Authority Indenture and the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, for the payment of the principal of and interest and any premium on the Bonds and the Special Tax Bonds and all activities related to the redemption of the Bonds. Best Best & Krieger LLP, San Diego, California, is serving as Bond Counsel to the Authority and the Community Facilities District and general counsel to the School District. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the Bonds and McFarlin & Anderson LLP, Lake Forest, California, is acting as Disclosure Counsel.

The appraisal work was done by Stephen G. White, MAI of Fullerton, California. Dolinka Group, LLC, Irvine, California, is acting as Independent Financial Consultant, Administrator and Dissemination Agent to the Authority and the Community Facilities District.

*Except for the Appraisal fee and some Independent Financial Consultant fees paid from Special Taxes, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Underwriter, the Independent Financial Consultant, the Trustee and the Fiscal Agent is contingent upon the issuance of the Bonds.*

### **Continuing Disclosure**

The Authority and the Community Facilities District have covenanted in the Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT” (the “Continuing Disclosure Agreement”), for the benefit of Owners (as defined below) and Beneficial Owners of the Bonds, to provide certain financial and operating data relating to the Bonds, the Special Tax Bonds, the Authority, the School District and the Community Facilities District. The Annual Report will be delivered by not later than January 31, in each year, commencing with January 31, 2010 (the “Annual Report”), and will provide notices of the occurrence of certain enumerated events, if material.

The Annual Report will be filed by the Authority or the Community Facilities District, or Dolinka Group, LLC, as Dissemination Agent on behalf of the Authority and the Community Facilities District, with the Municipal Securities Rulemaking Bond (the “MSRB”) through the Electronic Municipal Market Access system (the “EMMA System”) in an electronic format and accompanied by identifying information as prescribed by the MSRB, with a copy to the Trustee, the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Authority or the Community Facilities District, or the Dissemination Agent on behalf of the Authority and the Community Facilities District, with the MSRB through the EMMA System. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the Continuing Disclosure Agreement. The covenants of the Authority and the Community Facilities District in the Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”); *provided, however*, a default under the Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Authority Indenture or the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Authority, the Community Facilities District or the Dissemination Agent to comply with the Continuing Disclosure Agreement will be an action to compel performance. The Authority, the School District and the Community Facilities District have not ever failed to comply, in any material respect, with an undertaking under the Rule.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the Bonds, certain sections of the Authority Indenture, the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, security for the Bonds, special risk factors, the Authority, the Community Facilities District, the School District, the development in the Community Facilities District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Authority Indenture, the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Authority Indenture, the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, such resolutions and other documents. All such

descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Office of the Clerk of the Board of Education (the "Board") of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3034.

## **THE FINANCING PLAN**

The Bonds are being issued for the purpose of providing funds to the Authority to purchase the Special Tax Bonds. The amount of Zone 2 2009 Bonds and Zone 3 2009 Bonds issued is based on providing 110% debt service coverage from estimated Special Taxes which may be levied on property categorized as "Developed Property" (as defined in the Community Facilities District Rate and Method) for Fiscal Year 2009-10 with respect to Zone 2 and Zone 3 in accordance with the Community Facilities District Rate and Method. In addition, for Fiscal Year 2009-10, there are approximately 12 acres of Undeveloped Property (as defined in the Community Facilities District Rate and Method) in Zone 2 and approximately 108 acres of Undeveloped Property in Zone 3. Under the Community Facilities District Rate and Method, such Undeveloped Property is currently estimated to be subject to an aggregate Special Tax of approximately \$64,000 in Zone 2 and approximately \$560,000 in Zone 3, but no Special Tax will be levied on such Undeveloped Property in Fiscal Year 2009-10 because it is estimated that such Special Tax will not be required for payment of debt service on the Special Tax Bonds or Administrative Expenses. If necessary in the future, the Special Tax may be levied on Undeveloped Property, however, there is no assurance that a Developer will pay any such Special Tax so levied. As development occurs and property is categorized as Developed Property rather than as Undeveloped Property, the amount of Special Taxes which may be levied will change.

The proceeds from the sale of the Special Tax Bonds to the Authority may be used, together with other available moneys, to finance school facilities, including classrooms, multi-purpose, administration and auxiliary space at a school or schools, central support and administrative facilities, interim housing, transportation and special education facilities, together with furniture, equipment and technology with a useful life of at least five years and related administrative expenses and, to the extent additional funds are available, other eligible school facilities. School Facilities Costs, as defined in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, include the cost of design, acquisition, construction and installation of the school facilities and all costs relating thereto.

**APPLICATION OF BOND PROCEEDS;  
ESTIMATED SOURCES AND USES OF FUNDS**

*The Bonds.* The estimated sources and uses of Bond proceeds and other amounts received by the Authority are as follows:

*Sources:*

Authority Bond Amount	\$8,995,000.00
Less: Net Original Issue Discount	(45,632.70)
Less: Underwriter's Discount	<u>(222,731.75)</u>
Total	\$8,726,635.55

*Uses:*

Acquisition of Zone 2 2009 Special Tax Bonds <sup>(1)</sup>	\$4,374,571.71
Acquisition of Zone 3 2009 Special Tax Bonds <sup>(1)</sup>	3,265,995.84
Reserve Fund <sup>(2)</sup>	899,500.00
Capitalized Interest <sup>(3)</sup>	26,568.00
Costs of Issuance <sup>(4)</sup>	<u>160,000.00</u>
Total	\$8,726,635.55

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- <sup>(1)</sup> A portion of the proceeds of all of the Special Tax Bonds will be deposited by the Community Facilities District in the Authority School Facilities Fund.
  - <sup>(2)</sup> See the description of the sources and uses of the Community Facilities District's Special Tax Bonds below for the contribution from the Community Facilities District with respect to Zone 2 and Zone 3.
  - <sup>(3)</sup> A portion of the interest payable on the Bonds on March 15, 2010, is capitalized. The balance of the interest payable on the Bonds on March 15, 2010, will be paid from interest on the Special Tax Bonds, a portion of which interest is capitalized as described below.
  - <sup>(4)</sup> A portion of the proceeds of the Bonds will be deposited in the Costs of Issuance Account within the Authority Program Fund. See the description of the sources and uses of the Community Facilities District's Special Tax Bonds below. Costs of Issuance will be paid by the Authority and include legal fees, Bond Counsel fees, the costs of the Independent Financial Consultant and Administrator fees, Appraiser fees, Trustee fees, Fiscal Agent fees, printing costs and other costs associated with issuance of the Bonds and the Special Tax Bonds.

The Community Facilities District will deposit moneys with the Fiscal Agent to pay a portion of the interest on the applicable Special Tax Bonds through July 2, 2011. Such payment will pay a portion of the interest on the Bonds through March 15, 2011. See the applicable description of the uses of Special Tax Bonds below. See "SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund."

*Special Tax Bonds.* The proceeds received from the Authority for the sale of the Special Tax Bonds, together with certain Special Taxes previously collected, are expected to be used for capital costs of school facilities, all as provided below:

	Zone 2	Zone 3	Total
<i>Sources:</i>			
Special Tax Bonds Principal Amount	\$5,150,000.00	\$3,845,000.00	\$8,995,000.00
Community Facilities District funds on deposit	32,904.76	21,811.54	54,716.30
Authority's Discount <sup>(1)</sup>	<u>(775,428.29)</u>	<u>(579,004.16)</u>	<u>(1,354,432.45)</u>
Total	\$4,407,476.47	\$3,287,807.38	\$7,695,283.85
<i>Uses:</i>			
Capitalized Interest <sup>(2)</sup>	\$122,798.66	\$89,976.31	\$212,774.97
School Facilities Fund	4,251,773.05	3,176,019.53	7,427,792.58
Community Facilities District funds on deposit	<u>32,904.76</u>	<u>21,811.54</u>	<u>54,716.30</u>
Total	\$4,407,476.47	\$3,287,807.38	\$7,695,283.85

<sup>(1)</sup> Represents the Community Facilities District's proportionate share of (i) the Costs of Issuance with respect to Zone 2 and Zone 3, (ii) the Reserve Fund Requirement of \$899,500.00, (iii) the Underwriter's discount with respect to the Authority Bonds, (iv) the original issue discount with respect to the Authority Bonds; and (v) the deposit to the Authority Capitalized Interest Fund.

<sup>(2)</sup> A portion of the interest on the Special Tax Bonds is capitalized through July 2, 2011.

## THE BONDS

### Authority for Issuance

The Bonds are issued pursuant to the Act, a Resolution of Issuance and the Authority Indenture. The Bonds are issued upon and primarily secured by certain Revenues derived from debt service payments on the Special Tax Bonds. The Special Tax Bonds are issued upon and primarily secured by certain Special Taxes levied against parcels of land within Zone 2 and Zone 3, respectively, of the Community Facilities District.

### General Provisions

The Bonds will be dated the date of delivery thereof, and will be issued in the aggregate principal amount set forth on the cover hereof. The Bonds will bear interest from their dated date at the rates per annum set forth on the inside cover page hereof, payable semiannually on March 15 and September 15, of each year, commencing March 15, 2010 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The Bonds will be issued in fully-registered form in denominations of \$5,000 each or any integral multiple thereof. When issued, the Bonds will be registered in the name of CEDE & CO., as nominee of The Depository Trust Company, New York, New York ("DTC"). See APPENDIX G – "BOOK-ENTRY-ONLY PROVISIONS." So long as the Bonds are in book-entry-only form, "Bondowners" or "Owners" means DTC and not the Beneficial Owners of the Bonds.

Principal and premium, if any, on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the principal corporate trust office of the Trustee. Interest on the Bonds (including the final interest payment upon maturity or early redemption) is payable by check of the Trustee mailed by first-class mail to the registered Owners as shown on the Trustee's books as of the

fifteenth day of the calendar month immediately preceding each interest payment date (whether or not such day is a business day).

## Redemption

### *Optional Redemption.*

*Optional Interest Payment Date Redemption for Bonds Maturity On or Prior to September 15, 2032.* The Bonds maturing on or prior to September 15, 2032, are subject to redemption in whole or in part, pro rata among maturities and by lot within a maturity, at the option of the Authority from any source of funds *on any Interest Payment Date*, at the redemption price thereof (computed upon the principal amount of the Bonds to be redeemed), plus accrued interest to the redemption date as specified below:

Redemption Date	Redemption Price
March 15, 2010 through March 15, 2017	103%
September 15, 2017 and March 15, 2018	102
September 15, 2018 and March 15, 2019	101
September 15, 2019 and any Interest Payment Date thereafter	100

*Optional Any Date Redemption for 2039 Term Bonds.* The Bonds maturing on September 15, 2039, are subject to redemption in whole or in part by lot at the option of the Authority from any source of funds *on any date*, on and after September 15, 2019, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

*Special Mandatory Redemption.* All Bonds are subject to special mandatory redemption prior to maturity from proceeds received by the Authority as a result of optional redemption of Special Tax Bonds or mandatory redemption of Special Tax Bonds caused by a prepayment of Special Taxes. The Bonds are subject to redemption in whole or in part, on any March 15 or September 15, upon payment of the redemption price thereof (computed upon the principal amount of the Bonds to be redeemed), plus accrued interest to the redemption date as specified below:

Redemption Date	Redemption Price
March 15, 2010 through March 15, 2017	103%
September 15, 2017 and March 15, 2018	102
September 15, 2018 and March 15, 2019	101
September 15, 2019 and any Interest Payment Date thereafter	100

*Mandatory Sinking Fund Redemption.* The Term Bonds maturing on September 15, 2032, are subject to mandatory sinking fund redemption in part by lot, on September 15 in each year, commencing September 15, 2030, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption in the aggregate respective principal amounts and in the years shown on the following redemption schedule, *provided, however*, that, if some but not all of the Term Bonds maturing on September 15, 2032, have been redeemed, the total amount of all future sinking account payments shall be reduced by the aggregate principal amount of the Term Bonds maturing on September 15, 2032, so redeemed and each annual sinking fund installment shall

be reduced as nearly as practicable on a pro rata basis (rounding to the nearest \$5,000); provided further, that notwithstanding the foregoing, the future sinking account payments shall be equal to the aggregate sinking fund payments for the outstanding Special Tax Bonds.

2032 TERM BONDS

Sinking Fund Redemption Date	Sinking Payments
2030	\$395,000
2031	445,000
2032 (maturity)	500,000

The Term Bonds maturing on September 15, 2039, are subject to mandatory sinking fund redemption in part by lot, on September 15 in each year, commencing September 15, 2033, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption in the aggregate respective principal amounts and in the years shown on the following redemption schedule, *provided, however*, that, if some but not all of the Term Bonds maturing on September 15, 2039, have been redeemed, the total amount of all future sinking account payments shall be reduced by the aggregate principal amount of the Term Bonds maturing on September 15, 2039, so redeemed and each annual sinking fund installment shall be reduced as nearly as practicable on a pro rata basis (rounding to the nearest \$5,000); provided further, that notwithstanding the foregoing, the future sinking account payments shall be equal to the aggregate sinking fund payments for the outstanding Special Tax Bonds.

2039 TERM BONDS

Sinking Fund Redemption Date	Sinking Payments
2033	\$560,000
2034	620,000
2035	690,000
2036	760,000
2037	840,000
2038	935,000
2039 (maturity)	1,025,000

The amounts in the foregoing table will be reduced in the manner specified in the Authority Indenture as a result of any partial optional or special mandatory redemption of the Bonds.

*Selection of Bonds for Redemption.* If less than all of the Bonds of a maturity are to be redeemed, the Trustee shall select the Bonds to be redeemed from all Bonds of such maturity not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. Upon surrender of Bonds redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the registered Owner, at the expense of the Authority, a new Bond or Bonds, of authorized denominations equal in aggregate principal amount and maturity to the unredeemed portion of the Bond or Bonds.



*Purchase of Bonds In Lieu of Redemption.* In lieu of the redemption of the Bonds, Revenues on deposit in the Revenue Fund, which are to be transferred to the Redemption Account or moneys on deposit in the Redemption Account may also be used and withdrawn by the Trustee at any time, upon the written request of the Authority, for the purchase of the Bonds at public or private sale as and when and at such prices (which, including brokerage and other charges, shall not be in excess of the principal amount thereof of the Bonds being purchased) as the Authority may in its discretion determine. The principal amount of the Bonds so purchased by the Authority in any twelve-month period ending on July 1 in any year shall be credited towards and shall reduce the principal amount of the Bonds required to be paid or redeemed pursuant to the mandatory sinking fund provisions described above on September 15 in such year; *provided* that evidence satisfactory to the Trustee of such purchase has been delivered to the Trustee by said July 1.

*Notice of Redemption.* So long as the Bonds are held in book-entry form, notice of redemption will be mailed by the Trustee only to DTC and not to the Beneficial Owners (as defined in Appendix G) of Bonds under the DTC book-entry-only system. Neither the Authority nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. Notice of redemption, containing the information required by the Authority Indenture will be mailed by first-class mail, postage prepaid, by the Trustee at least 30 days but not more than 60 days prior to the redemption date. The Trustee must also give notice of redemption to each of certain Securities Depositories and Information Services specified in the Authority Indenture. The notice of redemption shall state the redemption date, the place or places of redemption, the CUSIP® number(s) and certificate numbers of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective denominations of the principal amount thereof to be redeemed. Neither the failure of any Bondowner to receive such notice so mailed nor any defect in the notice so mailed will affect the sufficiency or the validity of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date.

*Conditional Notice.* Any notice of optional redemption of the Bonds delivered in accordance with the Authority Indenture may be conditional; and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds and the redemption shall not be made and the Authority Trustee shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

*Right to Rescind.* The Authority may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Redemption Account or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest and any premium due on the Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

*Effect of Notice of Redemption.* If, on the date of redemption, moneys for the redemption of the Bonds to be redeemed, together with interest to said date of redemption, shall be held by the Trustee so as to be available therefor on such date of redemption, and, if notice of redemption has been given and not canceled, then, from and after the date of redemption, interest represented by such Bonds shall cease to

accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds to be redeemed without liability for interest thereon. All liability of the Authority with respect of such Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee for their payment.

*Circumstances Leading to Redemption of Bonds Prior to Maturity.* Bond purchasers should be aware of the following circumstances, among others, that may lead to redemption of Bonds prior to maturity:

- (i) Prepayment of all or part of any Special Taxes within the Community Facilities District;
- (ii) Issuance of refunding bonds – pursuant to the Act, the Authority may issue refunding bonds for the purpose of redeeming the Bonds; and
- (iii) Accumulation of investment income in the Bond Service Fund.

### **Transfer and Exchange of Bonds**

Any Bond may be transferred upon the registration books by the Trustee upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Authority may charge a reasonable sum for each new bond issued upon any exchange, and the Trustee will require the Bondowner requesting a transfer or exchange to pay any tax or other governmental charge required to be paid with respect to a transfer. A new Bond or Bonds of like aggregate principal amount and maturity shall be delivered in exchange for any Bond or Bonds thus surrendered. The Trustee may decline to make such transfers or exchanges (i) during the period selected by the Trustee for the selection of Bonds for redemption or (ii) with respect to any Bond which has been selected for redemption.

### **The Trustee**

Zions First National Bank, Los Angeles, California, has been appointed as the Trustee for the Bonds under the Authority Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Indenture of Trust” hereto for a further description of the rights and obligations of the Trustee under the Authority Indenture.

### **Book-Entry and DTC**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for 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 Bond 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. See APPENDIX G – “BOOK-ENTRY-ONLY PROVISIONS.”

## Estimated Debt Service Schedule

The following table presents the debt service schedule for the Bonds, assuming no redemptions are made:

**Table 1**  
**Poway Unified School District Public Financing Authority**  
**2009 Revenue Bonds**  
**Annual Debt Service Schedule**

<b>Year Ending (September 15)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	–	\$821,692.67	\$821,692.67
2011	–	683,162.50	683,162.50
2012	–	683,162.50	683,162.50
2013	–	683,162.50	683,162.50
2014	–	683,162.50	683,162.50
2015	–	683,162.50	683,162.50
2016	\$15,000	683,162.50	698,162.50
2017	35,000	682,337.50	717,337.50
2018	50,000	680,325.00	730,325.00
2019	70,000	677,325.00	747,325.00
2020	85,000	672,950.00	757,950.00
2021	105,000	667,531.26	772,531.26
2022	130,000	660,706.26	790,706.26
2023	155,000	651,931.26	806,931.26
2024	180,000	641,468.76	821,468.76
2025	210,000	628,868.76	838,868.76
2026	245,000	614,168.76	859,168.76
2027	280,000	596,712.50	876,712.50
2028	315,000	576,762.50	891,762.50
2029	350,000	553,925.00	903,925.00
2030	395,000	528,112.50	923,112.50
2031	445,000	498,487.50	943,487.50
2032	500,000	465,112.50	965,112.50
2033	560,000	427,612.50	987,612.50
2034	620,000	383,512.50	1,003,512.50
2035	690,000	334,687.50	1,024,687.50
2036	760,000	280,350.00	1,040,350.00
2037	840,000	220,500.00	1,060,500.00
2038	935,000	154,350.00	1,089,350.00
2039	<u>1,025,000</u>	<u>80,718.76</u>	<u>1,105,718.76</u>
Total	\$8,995,000	\$16,599,123.99	\$25,594,123.99

## SOURCES OF PAYMENT FOR THE BONDS

### General

The Bonds are secured by the Revenues of the Authority and by any other amounts held in any fund or account established pursuant to the Authority Indenture, other than the Program Fund, the Authority School Facilities Fund or the Rebate Fund. Revenues will be obtained primarily from all payments received by the Authority pursuant to the Special Tax Bonds and all investment income with respect to moneys held by the Trustee in the funds and accounts established under the Authority Indenture with respect to the Bonds, other than the Program Fund, the Authority School Facilities Fund and the Rebate Fund.

The Special Tax Bonds are secured by a pledge of and lien on the Special Taxes of the Community Facilities District, all as further described herein.

Each Series of the Special Tax Bonds are independent obligations and the security for one obligation does not constitute security for the other. The payments due on each of the Special Tax Bonds are scheduled to be sufficient, in the aggregate, to pay the principal of, premium, if any, and interest on, the Bonds, as they become due. A default in the payment of any Series of Special Tax Bonds may result in insufficient Revenues with which to pay the principal of and interest on the Bonds when due.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES PLEDGED THEREFOR IN THE AUTHORITY INDENTURE, FROM AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS UNDER THE AUTHORITY INDENTURE, OTHER THAN THE PROGRAM FUND, THE AUTHORITY SCHOOL FACILITIES FUND, THE AUTHORITY ADMINISTRATIVE EXPENSE FUND AND THE REBATE FUND. THE BONDS ARE NOT A DEBT OF THE COMMUNITY FACILITIES DISTRICT, THE SCHOOL DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AUTHORITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT, THE SCHOOL DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE COMMUNITY FACILITIES DISTRICT, THE SCHOOL DISTRICT, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE FOR THE PAYMENT OF THE BONDS.

**OWNERSHIP OF THE BONDS IS SUBJECT TO RISK. POTENTIAL INVESTORS ARE ADVISED TO CAREFULLY READ THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "BONDOWNERS' RISKS."**

### Revenue Fund

*Flow of Funds.* Subject only to the provisions of the Authority Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues, and any other amounts held in any fund or account established pursuant to the Authority Indenture (excluding the Program Fund, the Authority School Facilities Fund, the Authority Administrative Expense Fund and the Rebate Fund), have been pledged by the Authority to secure the full and timely payment of the principal of and interest and premium, if any, of the Bonds in accordance with their terms and the provisions of the Authority Indenture. The Authority is to collect and receive, or cause to be collected and received by the Trustee, all such Revenues, and Revenues collected or received by the Authority, or collected and received by the Trustee on behalf of the Authority, shall be deemed to be held, and to have been collected or received, by the Authority, in trust, and shall be paid to the Trustee as set forth in the

Authority Indenture. All Revenues, other than Principal Repayment (which shall be directly deposited to the Redemption Account), shall be promptly transferred to the Trustee by the Authority and deposited by the Trustee upon receipt thereof in the Revenue Fund established under the Authority Indenture which the Trustee shall maintain and hold in trust. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Authority Indenture.

The Authority shall establish with the Trustee a special fund designated the “Bond Fund” which the Trustee shall maintain and hold in trust. Within the Bond Fund, the Trustee shall establish special accounts designated as the “Principal Account,” the “Interest Account” and within the Interest Account, the “Capitalized Interest Sub-Account,” and the “Redemption Account.” Such fund and accounts shall be held and maintained as separate and distinct funds and accounts. On each Interest Payment Date, the Trustee shall transfer Revenues then in the Revenue Fund into the following funds and accounts, in the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required transfer) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

- (a) The Trustee shall transfer in the Interest Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Interest Account, including the Capitalized Interest Sub-Account, to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date and any amounts of interest previously due and unpaid.
- (b) The Trustee shall, on September 15 of each year during the term of the Bonds, transfer to the Principal Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal and/or mandatory sinking account payment coming due and payable on the Bonds on such September 15 and any amount of principal previously due and unpaid.
- (c) On each Interest Payment Date on which the balance in the Reserve Fund is less than the Reserve Requirement, the Trustee shall transfer to the Reserve Fund an amount sufficient to increase the balance in the Reserve Fund to the Reserve Requirement.
- (d) On any Interest Payment Date the amount on deposit in the Revenue Fund is inadequate to make the transfers described in (a) and (b) above as a result of a default in the scheduled payment of principal of and/or interest on the Special Tax Bonds, the Trustee shall immediately notify the Deputy Superintendent of the amount of such payment default. In the event that the Trustee receives all or any portion of the principal of and/or interest on the Bonds, the payment of which is in default, the Trustee shall disburse or transfer such funds in the following order of priority: (i) for deposit in the Reserve Fund such amount as shall be necessary to replenish the amount of any transfers of cash from the Reserve Fund to the Interest Account or the Principal Account resulting from such payment default and (ii) for deposit in the Revenue Fund any amount remaining following the transfer required pursuant to (i).
- (e) The Trustee shall transfer into the Rebate Fund an amount, if any, to increase the amount on deposit in the Rebate Fund to the Rebate Requirement as the Authority may direct by Written Certificate.

- (f) The Trustee shall transfer in the Authority Administrative Expense Fund such amount as the Authority may direct by Written Certificate as necessary to pay Authority Administrative Costs.
- (g) On the Business Day following each Principal Payment Date, the Trustee shall transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund.

*Costs of Issuance.* Moneys in the Costs of Issuance Account in the Program Fund will be disbursed to pay costs of issuance of the Bonds and the Special Tax Bonds. Any amounts remaining in the Costs of Issuance Account upon the earlier of (i) payment in full of costs of issuance or (ii) six months after issuance of the Bonds will be transferred to the Authority School Facilities Fund.

*Authority Rebate Fund.* The Authority is required to calculate “Excess Investment Earnings” in accordance with the requirements set forth in the Authority Indenture. The Authority shall calculate and deposit the same into the Authority Rebate Fund to the extent funds are available from any revenues which are legally available for such purpose. The Trustee is then required to use such amounts to make any required rebate payments to the United States Treasury which are necessary for the Authority to comply with the requirements of Section 148(f) of the Code. Moneys in the Authority Rebate Fund are not pledged to the payment of the Bonds.

### **Reserve Fund**

The Authority Indenture provides that a Reserve Fund must be maintained in an amount equal to the Reserve Requirement as of such date. The Authority Indenture provides that the Reserve Requirement means, as of the date of calculation, an amount equal to the least of (i) Maximum Annual Debt Service for the Bonds; (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds; or (iii) ten percent (10%) of the original principal amount of the Bonds; *provided, however*, the Reserve Requirement shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Code. Initially, the Reserve Requirement is equal to \$899,500.

On the Closing Date there shall be deposited in the Reserve Fund proceeds of the Bonds representing the Reserve Requirement. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Indenture of Trust – Reserve Fund.”

Moneys in the Reserve Fund shall be used solely for the purposes of: (i) making transfers to the Bond Fund to pay the principal of, including mandatory sinking fund payments, and interest the Bonds when due, in the event that moneys in the Bond Fund are insufficient therefor or (ii) the defeasance of the Bonds. In addition, cash amounts, if any, in the Reserve Fund may be applied in connection with an optional redemption or a special mandatory redemption or a defeasance of the Bonds in whole or in part, or when the balance therein equals the principal and interest due on the Bonds to and including maturity, or to pay the principal of and interest due on the Bonds to maturity.

### **Surplus Fund**

Following the deposits pursuant to the Authority Indenture, moneys remaining in the Revenue Fund on each September 16 shall be deposited by the Trustee into the Surplus Fund.

Moneys deposited in the Surplus Fund may be used at any time for one or more of the following purposes and shall be transferred by the Trustee as follows:

- (a) to the Interest Account or the Principal Account of the Bond Fund to pay the principal of, including mandatory sinking fund payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Revenue Fund are insufficient to make any deposits to such Accounts required pursuant to the Authority Indenture;
- (b) to the Reserve Fund in order to replenish the Reserve Fund to the Reserve Requirement in the event that the moneys in the Revenue Fund are insufficient to make any deposit required to the Reserve Fund pursuant to the Authority Indenture;
- (c) to the Rebate Fund as the Authority may direct by Written Certificate to increase the amount on deposit therein to the Rebate Requirement if the moneys in the Revenue Fund are insufficient to make any deposit required pursuant to the Authority Indenture; and
- (d) on September 15 of any Bond Year following the scheduled payment of principal of and interest on the Bonds due and payable during such Bond Year, to the Administrative Expense Fund as the Authority may direct by Written Certificate if the moneys in the Revenue Fund are insufficient to make any deposit required pursuant to the Authority Indenture.

Moneys transferred to the Surplus Fund on September 16 of any Bond Year from the Revenue Fund pursuant to the Authority Indenture (such moneys shall be referred to as an “Annual Retained Surplus”) shall be retained in the Surplus Fund until March 16 of such Bond Year (the “Annual Retention Period”) and shall be used for the purposes described in the preceding paragraph. Annual Retained Surplus remaining on deposit in the Surplus Fund on March 16 of such Bond Year shall no longer be designated as either Annual Retained Surplus or Revenues, shall no longer be pledged to the payment of the Bonds and, upon the receipt of a written request of the Authority, shall be transferred for or on behalf of the Community Facilities District and used only for authorized purposes of the Community Facilities District.

### **Ownership of Special Tax Bonds**

Notwithstanding anything in the Authority Indenture to the contrary, the Authority may cause the Trustee to sell, from time to time, all or a portion of the Special Tax Bonds (as shall be designated by the Authority at the time) and use the proceeds of such sale to purchase or redeem Outstanding Bonds, *provided* that the Authority shall deliver to the Trustee:

- (1) a certificate from an Independent Accountant or Independent Financial Consultant to the effect that, following the disposition of such Special Tax Bonds, the Revenues to be paid to the Trustee (assuming the timely payment of the amounts due thereon with regard to any Special Tax Bonds not then in default), together with interest and principal due on any Permitted Investments identified in paragraph 1 of Permitted Investments pledged to the repayment of the Bonds or the Revenues then on deposit in the Funds and Accounts established thereunder (valuing any Permitted Investments held thereunder at the fair market value thereof), will be sufficient to pay the principal of and interest on the Bonds when due; and
- (2) an opinion of Bond Counsel to the effect that such sale of the Special Tax Bond(s) is authorized under the provisions of the Authority Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of State or federal income taxation.

Upon compliance with the foregoing conditions, the Trustee shall sell such designated Special Tax Bonds in accordance with the written request of the Authority and disburse the proceeds of such sale at the direction of the Authority to be applied to the redemption, purchase or defeasance of Bonds or upon the request of the Authority shall deposit such proceeds in the Revenue Fund or Redemption Fund to be applied to the redemption, purchase or defeasance of Bonds, as appropriate.

### **The Special Tax Bonds**

*General.* The Special Tax Bonds and the interest thereon are secured and payable primarily from the Special Taxes to be levied and collected on all the real property within the Community Facilities District subject to the Special Taxes, including certain net proceeds, if any, of any foreclosure actions brought following a delinquency in the payment of the Special Tax, less the Administrative Expense Requirement (“Net Special Tax Revenues”), and amounts held in certain funds pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

The amount of Zone 2 2009 Bonds and Zone 3 2009 Bonds issued is based on providing 110% debt service coverage from estimated Special Taxes which may be levied on property categorized as “Developed Property” (as defined in the Community Facilities District Rate and Method) for Fiscal Year 2009-10 with respect to Zone 2 and Zone 3 in accordance with the Community Facilities District Rate and Method. In addition, for Fiscal Year 2009-10, there are approximately 12 acres of Undeveloped Property (as defined in the Community Facilities District Rate and Method) in Zone 2 and approximately 108 acres of Undeveloped Property in Zone 3. Under the Community Facilities District Rate and Method, such Undeveloped Property is currently estimated to be subject to an aggregate Special Tax of approximately \$64,000 in Zone 2 and approximately \$560,000 in Zone 3, but no Special Tax will be levied on such Undeveloped Property in Fiscal Year 2009-10 because it is estimated that such Special Tax will not be required for payment of debt service on the Special Tax Bonds or Administrative Expenses. If necessary in the future, the Special Tax may be levied on Undeveloped Property, however, there is no assurance that a Developer will pay any such Special Tax so levied. As development occurs and property is categorized as Developed Property rather than as Undeveloped Property, the amount of Special Taxes which may be levied will change.

The amount of Special Taxes that the Community Facilities District may levy within the boundaries of Zone 2 and Zone 3 in any year is strictly limited by the maximum rates approved by the qualified electors within the Community Facilities District at the time of formation of the Community Facilities District. The Community Facilities District is legally authorized under the Act, and has covenanted in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to annually cause the levy of the Special Taxes in an amount determined according to the Community Facilities District Rate and Method. See “*Special Taxes*” below. The Community Facilities District Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in Zone 2 and Zone 3, as applicable, as more particularly described herein. See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax” and APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX” hereto.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, the Special Taxes of the Community Facilities District are exempt from the tax rate limitations of California Constitution Article XIII A pursuant to Section 4 thereof as “special tax” authorized by a two-thirds vote of the qualified electors of the Community Facilities District. Consequently, the Community Facilities District has the power and is obligated to cause the levy and collection of the Special Taxes in an amount determined according to a methodology which the Board and the qualified electors in the Community Facilities District have approved. See “Special Taxes” below. However, Article XIII C of the California Constitution may allow the voters in the Community Facilities District (or perhaps in the



School District), under certain conditions, to adopt an ordinance by initiative which would reduce or appeal the Special Taxes. See “BONDOWNERS’ RISKS – The Special Tax Bonds – *Right to Vote on Taxes Act*” and “BONDOWNERS’ RISKS – The Special Tax Bonds – *Ballot Initiatives and Legislative Measures*.” See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax.”

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SPECIAL TAX BONDS. EXCEPT FOR THE NET SPECIAL TAX REVENUES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE SPECIAL TAX BONDS. THE SPECIAL TAX BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT BUT ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE ZONE 2 BOND INDENTURE OR THE ZONE 3 BOND INDENTURE, AS APPLICABLE, AS MORE FULLY DESCRIBED HEREIN.**

*Special Taxes.* The levy of the Special Taxes was authorized by the landowners within the Community Facilities District, as the then qualified electors of the Community Facilities District, at a special election held on January 20, 2004. A Notice of Special Tax Lien was recorded on February 3, 2004, in the Official Records of the County as Document No. 2004-0086625.

The Special Tax Bonds are secured by, among other things, a pledge of Net Special Tax Revenues. Net Special Tax Revenues include the scheduled payments for the Special Tax Bonds and any prepayments of Special Taxes received by the Community Facilities District with respect to Zone 2 or Zone 3, as applicable, and net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of Special Taxes less the Administrative Expense Requirement of the Community Facilities District. Administrative Expenses include the cost of calculation and collection of the Special Taxes in each Fiscal Year and any other costs relating to the Special Tax Bonds and the Bonds, including the fees and costs of the Fiscal Agent and the Trustee.

The Community Facilities District has covenanted in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to levy the Special Taxes in each Fiscal Year that the applicable Series of Special Tax Bonds are outstanding. The Special Taxes with respect to Zone 2 and Zone 3, as applicable, are to be apportioned, levied and collected according to the Community Facilities District Rate and Method. The Special Taxes will be levied each year in accordance with the Community Facilities District Rate and Method, including amounts sufficient to cover debt service on the Special Tax Bonds and to pay Administrative Expenses. See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax.”

The levies of Special Taxes are subject to certain limitations. For example, certain properties are exempt from the Special Tax pursuant to law or the Community Facilities District Rate and Method. See “BONDOWNERS’ RISKS – The Special Tax Bonds – *Exempt Properties*.” The annual levy of Special Taxes on each parcel within Zone 2 and Zone 3 of the Community Facilities District is constrained by the maximum Special Tax rate applicable to such parcel. See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax” and “BONDOWNERS’ RISKS – The Special Tax Bonds – *Maximum Rates*” herein.

The amount of the Special Taxes that can be levied and collected in future years will be dependent upon, among other factors, then existing development, the Special Tax rates imposed and the level of delinquent Special Tax installments. See “BONDOWNERS’ RISKS” herein.

The Special Taxes imposed by the Community Facilities District are customarily billed with *ad valorem* property taxes and collected by the County. When received, such Special Taxes will be transferred by the Community Facilities District to the Fiscal Agent and deposited by such Fiscal Agent in the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to be held first for the payment of Administrative Expenses up to the Administrative Expense Requirement with respect to Zone 2 or Zone 3, as applicable, then for payment of debt service on the applicable Series of Special Tax Bonds, then to payment with respect to the Reserve Fund, then to payment with respect to a proportionate share of any rebate obligation, then to payment of any amount necessary to pay any Guaranty Agreement Reimbursements then due and owing by the District pursuant to the Funding Agreement (as such terms are defined in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable) and then to payment of any Administrative Expenses in excess of the Administrative Expense Requirement, in the order of priority and in the amounts set forth in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

Although the Special Tax, when levied, will constitute a lien on parcels subject to taxation within Zone 2 and Zone 3 of the Community Facilities District, it does not constitute a personal indebtedness of the owners of property within Zone 2 or Zone 3 of the Community Facilities District. There is no assurance that the owners of real property in the Community Facilities District will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. See “BONDOWNERS’ RISKS” herein.

*Special Tax Fund.* Net Special Tax Revenues include all scheduled payments and prepaid Special Taxes received by the Community Facilities District with respect to Zone 2 or Zone 3, as applicable, and the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of Special Taxes. As received, the Net Special Tax Revenues will be deposited in the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, held by the Fiscal Agent.

Not later than 10 Business Days after the Community Facilities District’s receipt of Special Taxes and in any event not later than February 15 and August 15 of each year, the Community Facilities District shall transfer them to the Fiscal Agent for deposit into the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, and (except Special Tax Revenues representing prepayment of Special Taxes) from the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, the Fiscal Agent shall transfer the amounts not to exceed the applicable Administrative Expense Requirement received first to the Administrative Expense Fund; next, to the Interest Account of the Bond Service Fund, an amount such that the balance in the Interest Account on each Interest Payment Date and date for redemption of the applicable Special Tax Bonds equals the amount of interest due or becoming due on such Interest Payment Date or to be paid on the Special Tax Bonds being redeemed on such date; next, to the Principal Account of the applicable Bond Service Fund, on each Interest Payment Date and redemption date on which the principal of the applicable Term Bonds shall be subject to mandatory sinking fund redemption pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, or if any Parity Bonds shall be subject to mandatory sinking fund redemption pursuant to the applicable Supplemental Indenture providing for the issuance of such Parity Bonds, an amount required to cause the aggregate amount on deposit in such Principal Account to equal the principal amount of, and premium (if any) on, the applicable Special Tax Bonds coming due and payable on such Interest Payment Date or are subject to mandatory sinking fund redemption pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, or the applicable Supplemental Indenture; next, to the Authority Trustee, the amount, if any, necessary to restore the Authority Reserve Fund to the Authority Reserve Requirement but only to the extent that any draw on the Authority Reserve Fund was attributable to the amount of debt service received by the Authority on the applicable Special Tax Bonds. On or after September 2 of each year after making the deposits and transfers described above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer

from the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to the Authority Trustee the Community Facilities District's proportionate share of any Excess Authority Rebate Obligation that is or will be due and payable during the Bond Year commencing on such September 2. On or after September 2 of each year after making the deposits and transfers required under the foregoing, the Fiscal Agent will transfer from the Special Tax Fund to the Administrative Expense Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, and to the Authority Administrative Expense Fund in the priority set forth in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, the amounts specified in such request to pay Administrative Expenses which the Community Facilities District and the Authority reasonably determine will become due and payable during such Bond Year or which have previously been incurred and paid by the Community Facilities District from funds other than the Administrative Expense Fund.

To the extent that there are prepaid Special Taxes with respect to Zone 2 or Zone 3, as applicable, the Community Facilities District shall determine the portion attributable to the Special Tax Bonds and such amounts shall be used to redeem the applicable Special Tax Bonds. Any Special Taxes remaining after the above transfers shall be held by the Fiscal Agent in the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. An Authorized Representative may provide written notice to the Fiscal Agent to transfer such moneys to or on behalf of the Community Facilities District and such funds shall be used only for lawful purposes of the Community Facilities District.

*Administrative Expense Fund.* The Fiscal Agent will receive the transfer of Special Taxes with respect to Zone 2 or Zone 3, as applicable, from the Community Facilities District from the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, and deposit in the applicable Administrative Expense Fund an amount equal to the Administrative Expense Requirement (i.e. that amount specified by the Community Facilities District with respect to Zone 2 2009 Special Tax Bonds or Zone 3 2009 Special Tax Bonds as necessary to meet Administrative Expenses until collection of Special Taxes in the next Fiscal Year). Such amounts include a proportionate share of the Authority's administrative expenses relating to the Bonds.

**Pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, moneys in an Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Authority as the Owners of the applicable Special Tax Bonds and will not be available for the payment of debt service on the applicable Special Tax Bonds.**

The initial annual Administrative Expense Requirement for Fiscal Year 2009-10 with respect to Zone 2 is \$22,081.62 under the Zone 2 Bond Indenture and with respect to Zone 3 is \$22,081.62 under the Zone 3 Bond Indenture.

Under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, the Administrative Expense Requirement may increase by 2% of the Administrative Expense Requirement in effect for the preceding fiscal year.

*Bond Service Fund.* The principal of and interest due on the Special Tax Bonds until maturity, including mandatory sinking fund redemption but excluding other redemptions of Special Tax Bonds, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the applicable Bond Service Fund, respectively. For the purpose of assuring that the payment of principal and interest on the applicable Series of Special Tax Bonds will be made when due, after making the transfer to the applicable Administrative Expense Fund, on each March 1 and September 1, commencing March 1, 2010, the Fiscal Agent will transfer amounts to pay a portion of the interest and principal of such Special Tax Bonds from the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, first to the applicable Interest Account and then to the applicable Principal Account.

*Redemption Fund.* The Fiscal Agent shall upon receipt of Special Tax Revenues representing Prepayments, together with written instructions of the Community Facilities District executed by an Authorized Representative, immediately transfer such Prepayment in the Interest Account of the applicable Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Special Tax Bonds to be redeemed pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. Following the redemption of any Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Special Tax Fund. Proceeds from the redemption of Special Tax Bonds will be used by the Authority to redeem the Bonds. See “THE BONDS – Redemption.”

*School Facilities Fund.* The Community Facilities District will transfer a portion of the proceeds of its Special Tax Bonds to the Authority to be deposited in the Authority School Facilities Fund to be used to pay School Facilities Costs. All investment earnings on amounts in the Authority School Facilities Fund (other than excess investment earnings) will be retained therein and applied exclusively to pay the Project Costs.

*Surplus Fund.* The Fiscal Agent shall from time to time, disburse moneys from the Surplus Fund to pay School Facilities Costs or to pay the principal of or interest on any other bonded indebtedness of the Community Facilities District incurred to finance the acquisition or construction of School Facilities. After the final payment or reimbursement of all School Facilities Costs as certified by an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess moneys, if any, on deposit in, or subsequently deposited in, the Surplus Fund to the Special Tax Fund and the Fiscal Agent shall apply the amounts so transferred in accordance with the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

*District Payment to Authority Rebate Fund.* On or after September 2 of each year, the Fiscal Agent will transfer from the Special Tax Fund under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to the Authority Trustee the Community Facilities District’s proportionate share of the Excess Authority Rebate Obligation that is or will be due and payable during the Bond Year commencing on such September 2.

### **Covenant for Superior Court Foreclosure**

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax, the Community Facilities District may order the institution of a superior court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory.

Under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, on or before June 1 of each Fiscal Year, the Community Facilities District will review the public records of the County, to determine the amount of Special Taxes actually collected in such Fiscal Year and proceed as follows:

*Individual Delinquencies.* If the Community Facilities District determines that (i) any single parcel subject to the Special Tax is delinquent in the payment of the Special Taxes in the aggregate amount of \$5,000 or more or (ii) any single parcel or parcels under common ownership subject to the Special Taxes is delinquent in the payment of the Special Taxes in the aggregate of \$10,000 or more, the Community Facilities District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The Community Facilities District shall cause judicial foreclosure proceedings to be commenced and filed in

the superior court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

*Aggregate Delinquencies.* If the Community Facilities District determines that it has collected less than 95% of the Special Taxes levied in such Fiscal Year, then the Community Facilities District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The Community Facilities District will cause judicial foreclosure proceedings to be commenced and filed in the superior court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

It should be noted that any foreclosure proceedings commenced as described above could be stayed by the commencement of bankruptcy proceedings by or against the owner of the delinquent property. See “BONDOWNERS’ RISKS – The Special Tax Bonds – *Bankruptcy and Foreclosure Delay.*”

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See “BONDOWNERS’ RISKS – The Special Tax Bonds – *Bankruptcy and Foreclosure Delay.*” If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of Special Tax Bonds Outstanding.

**No assurances can be given that the real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the School District or the Community Facilities District to purchase or otherwise acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as for *ad valorem* property taxes.**

If delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Authority on the applicable Series of Special Tax Bonds, which default or delay may result in a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Community Facilities District Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on property within Zone 2 or Zone 3 of the Community Facilities District, as applicable, in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the applicable Special Tax Bonds. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the applicable Special Tax Bonds pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

## **No Direct Cross-Collateralization Among Special Tax Bonds**

The Special Taxes levied to pay debt service on one series of Special Tax Bonds are not available to pay debt service on any other series of Special Tax Bonds. See “INTRODUCTION – Sources of Payment for the Special Tax Bonds – *No Direct Cross-Collateralization Among Special Tax Bonds*” and “BONDOWNERS’ RISKS.”

However, it is currently anticipated that annual Net Special Tax Revenues available for debt service on the Special Tax Bonds will exceed the debt service on the Special Tax Bonds. Any excess will be transferred as follows: (i) to the Authority Trustee in an amount, if any, necessary to restore the Authority Reserve Fund to the Authority Reserve Requirement, to the extent that any draw on the Authority Reserve Fund was attributable to a deficiency in the amount of debt service received by the Authority on the applicable Special Tax Bonds; (ii) to the Authority Trustee the Community Facilities District’s Proportionate Share of any Excess Authority Rebate Obligation; (iii) to the Community Facilities District Trustee for District Administrative Expenses; (iv) to the Authority Trustee for the Community Facilities District’s proportionate share of the Authority Administrative Expenses; and (v) to the Authority Trustee for deposit to the Authority Surplus Fund. See “THE BONDS – Estimated Debt Service Schedule” and “SOURCES OF PAYMENT FOR THE BONDS – Surplus Fund.”

## **Authorized Investments**

Funds and accounts established under the Authority Indenture and the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, are held by the Trustee or Fiscal Agent, as applicable. Moneys in any of the funds and accounts shall be invested at the direction of the Authority or the Community Facilities District in Permitted Investments (as applicable) which shall be deemed at all times to be a part of such funds and accounts. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” for a list of Permitted Investments.

Any income realized or loss resulting from such Permitted Investments shall be credited or charged to the fund from which such investment was made.

## **Additional Special Tax Bonds**

Subject to the satisfaction of the specific conditions set forth in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, the Community Facilities District may at any time after the issuance and delivery of the Special Tax Bonds issue Zone 2 Parity Bonds and/or Zone 3 Parity Bonds (as defined in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, and a series of such Parity Bonds being referred to generally hereafter as “Parity Bonds”) payable from Net Special Tax Revenues and other amounts deposited in the funds and accounts created under a supplemental Zone 2 Bond Indenture or a supplemental Zone 3 Bond Indenture, as applicable (other than in the Administrative Expense Fund and any rebate fund that may be established for any Series of Parity Bonds) 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 Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, or under a supplemental Zone 2 Bond Indenture or a supplemental Zone 3 Bond Indenture, as applicable; *provided, however*, that Parity Bonds may only be used for the purpose of financing additional authorized School Facilities Costs or refunding all or a portion of the Bonds or any Parity Bonds then Outstanding.

The issuance of any Series of Parity Bonds shall be subject to the certain additional specific conditions, which are conditions precedent to the issuance of such Parity Bonds, including, the following:

1. The aggregate principal amount of the applicable Special Tax Bonds, all Parity Bonds and all special tax bonds with respect to the other Zones of the Community Facilities District issued may not exceed the authorized aggregate principal amount of Special Tax Bonds of the Community Facilities District; *provided, however*, that, notwithstanding the foregoing, Parity Bonds may be issued at any time to refund Outstanding Bonds where the issuance of such Parity Bonds results in a reduction of Annual Debt Service on all Outstanding Special Tax Bonds with respect to Zone 2 or Zone 3, as applicable.
2. The Community Facilities District shall be in compliance with all covenants set forth in the Indenture and any supplemental Zone 2 Bond Indenture or supplemental Zone 3 Bond Indenture, as applicable, then in effect and a certificate of the Community Facilities District to that effect shall have been filed with the Fiscal Agent; *provided, however*, that Parity Bonds may be issued notwithstanding that the Community Facilities District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds, the Community Facilities District will be in compliance with all such covenants.
3. The amount, if any, to be deposited from the proceeds of such Parity Bonds in (a) the Authority Reserve Fund to increase the amount therein to equal the Proportionate Share of the Authority Reserve Requirement allocable to the Outstanding Special Tax Bonds with respect to Zone 2 or Zone 3, as applicable, including such Parity Bonds, on the delivery date of such Parity Bonds or (b) a separate reserve fund established pursuant to a supplemental Zone 2 Bond Indenture or a supplemental Zone 3 Bond Indenture, as applicable, providing for the issuance of such Parity Bonds to fund the amount equal to the reserve requirement for such Parity Bonds which shall, as of any date of calculation, equal to the least of: (i) 10% of the initial principal amount of such Parity Bonds; (ii) Maximum Annual Debt Service on such Parity Bonds; or (iii) 125% of average Annual Debt Service on such Parity Bonds; *provided, however*, the amount which is required to be maintained in any reserve fund which is established for such Parity Bonds shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Code.
4. The Community Facilities District has received a certificate from one or more Independent Financial Consultants which, when taken together, certify that:
  - (a) the amount of the maximum Special Taxes within Zone 2 or Zone 3, as applicable, that may be levied pursuant to the Community Facilities District Rate and Method in each remaining Bond Year based: (i) solely on the Developed Property located within Zone 2 or Zone 3, as applicable, existing as of the date of such certificate (but excluding all Developed Property on which the payment of the Special Taxes within Zone 2 or Zone 3, as applicable, are delinquent) shall be not less than 1.00 times Annual Debt Service for each remaining Bond Year on all Outstanding Zone 2 Bonds or Outstanding Zone 3 Bonds theretofore issued and the Zone 2 Parity Bonds or the Zone 3 Parity Bonds, as applicable, proposed to be issued; and (ii) on all Taxable Property located within Zone 2 or Zone 3 existing as of the date of such certificate (but excluding all Taxable Property on which the payment of the Zone 2 Special Taxes or Zone 3 Special Taxes are delinquent) shall be not less than 1.10 times Annual Debt Service for each remaining Bond Year on all Outstanding Bonds with respect to Zone 2 or Zone 3, as applicable, theretofore issued and the Parity Bonds proposed to be issued; *provided that*, for purposes of making the certifications required by the Zone 2

Bond Indenture or the Zone 3 Bond Indenture, as applicable, the Independent Financial Consultant may rely on reports or certificates of such other persons as may be acceptable to the Community Facilities District, Bond Counsel and the underwriter of the proposed Parity Bonds; and

- (b) the aggregate appraised or assessed value of all Taxable Property located within Zone 2 or Zone 3 as shown on the latest assessment roll maintained by the County Assessor of the County of San Diego (but excluding all such Taxable Property on which the payment of any Zone 2 Special Taxes or Zone 3 Special Taxes is delinquent) is not less than five (5) times the aggregate amount of Land Secured Debt allocable to such Taxable Property.

### **No Acceleration**

The principal of the Bonds will not be subject to acceleration under the provisions of the Authority Indenture. The principal of the Special Tax Bonds will not be subject to acceleration under the provisions of the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

### **Sale of Special Tax Bonds**

Upon satisfaction of certain conditions set forth in the Authority Indenture, the Trustee, at the direction of the Authority, may sell, from time to time, all or a portion of an issue of Special Tax Bonds and the proceeds of the sale of such Special Tax Bonds shall be disbursed to the Authority or, upon the request of the Authority, deposited in the Revenue Fund. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Indenture of Trust – Covenants of the Authority – Sale of Special Tax Bonds.”

### **Estimated Scheduled Special Tax Bonds Debt Service**

The following tables illustrate the estimated scheduled Special Tax Bonds debt service and the coverage for the debt service on the Bonds. Estimated coverage is based on receipt by the Authority of scheduled payments of principal of and interest on the Special Tax Bonds, as well as Annual Retained Surplus (as defined in the Authority Indenture) for each year, net of the applicable Administrative Expense Requirement. In the event of delinquencies in Special Tax payments received by the Community Facilities District, the estimated coverage ratios will not be achieved. See the tables entitled “Special Tax Delinquencies” under “THE COMMUNITY FACILITIES DISTRICT – Special Tax Delinquency” herein for information of historical Special Tax delinquencies in the Community Facilities District.



**Table 2**  
**Poway Unified School District Public Financing Authority**  
**Authority Debt Service Coverage from Scheduled Annual Debt Service on Special Tax Bonds**

Period Ending (September 1)	Zone 2 Special Tax Bonds Debt Service <sup>(1)</sup>	Zone 3 Special Tax Bonds Debt Service <sup>(1)</sup>	Aggregate Debt Service <sup>(1)</sup>	Authority Bonds Net Debt Service <sup>(2)</sup>	Debt Service Coverage
2010	\$455,131.48	\$339,993.77	\$795,125.25	\$795,124.67	100.00%
2011	391,043.76	292,118.76	683,162.52	683,162.50	100.00%
2012	391,043.76	292,118.76	683,162.52	683,162.50	100.00%
2013	391,043.76	292,118.76	683,162.52	683,162.50	100.00%
2014	391,043.76	292,118.76	683,162.52	683,162.50	100.00%
2015	391,043.76	292,118.76	683,162.52	683,162.50	100.00%
2016	401,043.76	297,118.76	698,162.52	698,162.50	100.00%
2017	410,493.76	306,843.76	717,337.52	717,337.50	100.00%
2018	419,343.76	310,981.26	730,325.02	730,325.00	100.00%
2019	427,543.76	319,781.26	747,325.02	747,325.00	100.00%
2020	435,043.76	322,906.26	757,950.02	757,950.00	100.00%
2021	441,856.26	330,675.00	772,531.26	772,531.26	100.00%
2022	452,956.26	337,750.00	790,706.26	790,706.26	100.00%
2023	462,893.76	344,037.50	806,931.26	806,931.26	100.00%
2024	471,818.76	349,650.00	821,468.76	821,468.76	100.00%
2025	479,468.76	359,400.00	838,868.76	838,868.76	100.00%
2026	491,068.76	368,100.00	859,168.76	859,168.76	100.00%
2027	501,093.76	375,618.76	876,712.52	876,712.50	100.00%
2028	509,693.76	382,068.76	891,762.52	891,762.50	100.00%
2029	516,643.76	387,281.26	903,925.02	903,925.00	100.00%
2030	526,893.76	396,218.76	923,112.52	923,112.50	100.00%
2031	540,018.76	403,468.76	943,487.52	943,487.50	100.00%
2032	550,893.76	414,218.76	965,112.52	965,112.50	100.00%
2033	564,518.76	423,093.76	987,612.52	987,612.50	100.00%
2034	574,318.76	429,193.76	1,003,512.52	1,003,512.50	100.00%
2035	586,362.50	438,325.00	1,024,687.50	1,024,687.50	100.00%
2036	595,256.26	445,093.76	1,040,350.02	1,040,350.00	100.00%
2037	606,000.00	454,500.00	1,060,500.00	1,060,500.00	100.00%
2038	623,200.00	466,150.00	1,089,350.00	1,089,350.00	100.00%
2039	<u>631,068.76</u>	<u>474,650.00</u>	<u>1,105,718.76</u>	<u>1,105,718.76</u>	100.00%
Total	\$14,629,844.24	\$10,937,712.71	\$25,567,556.95	\$25,567,555.99	

<sup>(1)</sup> Moneys have been set aside to pay for a portion of interest through July 2, 2011.

<sup>(2)</sup> Capitalized interest and other moneys have been set aside to pay a portion of interest through July 2, 2011, and through such payments, a portion of the interest on the Bonds through September 15, 2011, will be funded.

Table 3 below shows the expected coverage that scheduled Special Tax Bonds debt service, plus capitalized interest, plus estimated moneys in the respective Special Tax Fund, which are to be transferred to the Authority Trustee for deposit in the Authority Surplus Fund, will provide with respect to the scheduled debt service on the Bonds, assuming there are no prepayments of any Special Tax Bonds or Bonds or delinquencies in the payment of Special Taxes. As set forth in Tables 3 and 4 below, the expected debt service coverage from Developed Property on each Series of Special Tax Bonds will be equal to 110%, based on (i) debt service on the Special Tax Bonds, (ii) capitalized interest, and (iii) Net Special Tax Revenues from Developed Property expected to be available in Zone 2 or Zone 3 of the Community Facilities District on September 2 of each year (see “THE BONDS – Estimated Debt Service Schedule” and “SOURCES OF PAYMENT FOR THE BONDS – The Special Tax Bonds”). Tables 3 and 4 also show additional Special Tax Revenues from Undeveloped Property should a tax on Undeveloped Property become necessary due to delinquencies in Special Tax payments. Such tables assume no further development activity beyond the status reflected in the Appraisal and no further issuance of Parity Bonds and no delinquencies. The actual levy would be adjusted for the delinquencies and any issuance of Parity Bonds.

**Table 3**  
**Poway Unified School District Public Financing Authority**  
**Estimated Debt Service Coverage on Zone 2 2009 Special Tax Bonds**

Year Ending September 1	Estimated Developed Property Net Special Tax Revenues <sup>(1)(2)(4)</sup>	Zone 2 2009 Special Tax Bonds Debt Service	Initial Deposits at Closing <sup>(3)</sup>	Estimated Debt Service Coverage from Developed Property and Initial Deposits <sup>(2)</sup>	Maximum Special Tax On Undeveloped Property <sup>(2)(4)</sup>	Estimated Debt Service Coverage from Developed Property and Undeveloped Property and Initial Contribution <sup>(2)(4)</sup>
2010	\$393,917.94	\$455,131.48	\$97,024.26	110.00%	\$64,290.60	127.95%
2011	401,796.30	391,043.76	25,774.40	110.00%	65,576.41	127.95%
2012	409,832.23	391,043.76	18,469.01	110.00%	66,887.94	127.95%
2013	418,028.87	391,043.76	11,018.76	110.00%	68,225.70	127.95%
2014	426,389.45	391,043.76	3,416.99	110.00%	69,590.21	127.95%
2015	434,917.24	391,043.76	0.00	111.22%	70,982.02	129.37%
2016	443,615.58	401,043.76	0.00	110.62%	72,401.66	128.67%
2017	452,487.89	410,493.76	0.00	110.23%	73,849.69	128.22%
2018	461,537.65	419,343.76	0.00	110.06%	75,326.68	128.02%
2019	470,768.40	427,543.76	0.00	110.11%	76,833.22	128.08%
2020	480,183.77	435,043.76	0.00	110.38%	78,369.88	128.39%
2021	489,787.45	441,856.26	0.00	110.85%	79,937.28	128.94%
2022	499,583.20	452,956.26	0.00	110.29%	81,536.03	128.29%
2023	509,574.86	462,893.76	0.00	110.08%	83,166.75	128.05%
2024	519,766.36	471,818.76	0.00	110.16%	84,830.08	128.14%
2025	530,161.69	479,468.76	0.00	110.57%	86,526.68	128.62%
2026	540,764.92	491,068.76	0.00	110.12%	88,257.22	128.09%
2027	551,580.22	501,093.76	0.00	110.08%	90,022.36	128.04%
2028	562,611.82	509,693.76	0.00	110.38%	91,822.81	128.40%
2029	573,864.06	516,643.76	0.00	111.08%	93,659.26	129.20%
2030	585,341.34	526,893.76	0.00	111.09%	95,532.45	129.22%
2031	597,048.17	540,018.76	0.00	110.56%	97,443.10	128.61%
2032	608,989.13	550,893.76	0.00	110.55%	99,391.96	128.59%
2033	621,168.91	564,518.76	0.00	110.04%	101,379.80	127.99%
2034	633,592.29	574,318.76	0.00	110.32%	103,407.40	128.33%
2035	646,264.14	586,362.50	0.00	110.22%	105,475.54	128.20%
2036	659,189.42	595,256.26	0.00	110.74%	107,585.05	128.81%
2037	672,373.21	606,000.00	0.00	110.95%	109,736.76	129.06%
2038	685,820.67	623,200.00	0.00	110.05%	111,931.49	128.01%
2039	699,537.08	631,068.76	0.00	110.85%	114,170.12	128.94%
Total	\$15,980,494.26	\$14,629,844.24	\$155,703.42		\$2,608,146.15	

(1) Special Tax levy, net of the annual Administrative Expense Requirement.

(2) Assumes no further development activity beyond the 177 parcels in Zone 2 categorized as Developed Property as described in "THE COMMUNITY FACILITIES DISTRICT" below and no further issuance of Parity Bonds and no delinquencies. Actual levy would be adjusted for issuance if any Parity Bonds and any delinquencies in the payment of Special Taxes.

(3) Represents initial deposit by the Community Facilities District, plus capitalized interest.

(4) Amount shown is based on the maximum Special Tax which may be levied on Undeveloped Property as of Fiscal Year 2009-10. Special Taxes will not be levied on Undeveloped Property in Fiscal Year 2009-10. Any levy on Undeveloped Property in future fiscal years will depend on Special Tax collections and whether or not Parity Bonds are issued.

Source: Dolinka Group, LLC, with respect to Estimated Special Tax Revenues; and Underwriter, with respect to debt service on the Special Tax Bonds.

**Table 4**  
**Poway Unified School District Public Financing Authority**  
**Estimated Debt Service Coverage on Zone 3 2009 Special Tax Bonds**

Year Ending September 1	Estimated Developed Property Net Special Tax Revenues <sup>(1)(2)(4)</sup>	Zone 3 2009 Special Tax Bonds Debt Service	Initial Deposits at Closing <sup>(3)</sup>	Estimated Debt Service Coverage from Developed Property and Initial Deposits <sup>(2)</sup>	Maximum Special Tax On Undeveloped Property <sup>(2)(4)</sup>	Estimated Debt Service Coverage from Developed Property and Undeveloped Property and Initial Contribution <sup>(2)(4)</sup>
2010	\$295,222.70	\$339,993.77	\$71,609.50	110.00%	\$560,375.12	318.80%
2011	301,127.15	292,118.76	18,366.81	110.00%	571,582.62	318.80%
2012	307,149.69	292,118.76	12,891.77	110.00%	583,014.27	318.80%
2013	313,292.68	292,118.76	7,308.76	110.00%	594,674.56	318.80%
2014	319,558.53	292,118.76	1,611.01	110.00%	606,568.05	318.80%
2015	325,949.70	292,118.76	0.00	111.58%	618,699.41	323.38%
2016	332,468.69	297,118.76	0.00	111.90%	631,073.40	324.30%
2017	339,118.06	306,843.76	0.00	110.52%	643,694.87	320.30%
2018	345,900.42	310,981.26	0.00	111.23%	656,568.77	322.36%
2019	352,818.43	319,781.26	0.00	110.33%	669,700.14	319.76%
2020	359,874.80	322,906.26	0.00	111.45%	683,094.14	322.99%
2021	367,072.30	330,675.00	0.00	111.01%	696,756.03	321.71%
2022	374,413.75	337,750.00	0.00	110.86%	710,691.15	321.27%
2023	381,902.03	344,037.50	0.00	111.01%	724,904.97	321.71%
2024	389,540.07	349,650.00	0.00	111.41%	739,403.07	322.88%
2025	397,330.87	359,400.00	0.00	110.55%	754,191.13	320.40%
2026	405,277.49	368,100.00	0.00	110.10%	769,274.95	319.09%
2027	413,383.04	375,618.76	0.00	110.05%	784,660.45	318.95%
2028	421,650.70	382,068.76	0.00	110.36%	800,353.66	319.84%
2029	430,083.71	387,281.26	0.00	111.05%	816,360.74	321.84%
2030	438,685.38	396,218.76	0.00	110.72%	832,687.95	320.88%
2031	447,459.09	403,468.76	0.00	110.90%	849,341.71	321.41%
2032	456,408.27	414,218.76	0.00	110.19%	866,328.54	319.33%
2033	465,536.44	423,093.76	0.00	110.03%	883,655.11	318.89%
2034	474,847.17	429,193.76	0.00	110.64%	901,328.22	320.64%
2035	484,344.11	438,325.00	0.00	110.50%	919,354.78	320.24%
2036	494,030.99	445,093.76	0.00	110.99%	937,741.88	321.68%
2037	503,911.61	454,500.00	0.00	110.87%	956,496.71	321.32%
2038	513,989.84	466,150.00	0.00	110.26%	975,626.65	319.56%
2039	524,269.64	474,650.00	0.00	110.45%	995,139.18	320.11%
Total	\$11,976,617.35	\$10,937,712.71	\$111,787.85		\$22,733,342.25	

(1) Special Tax levy, net of the annual Administrative Expense Requirement.

(2) Assumes no further development activity beyond the 136 parcels in Zone 3 categorized as Developed Property as described in "THE COMMUNITY FACILITIES DISTRICT" below and no further issuance of Parity Bonds and no delinquencies. Actual levy would be adjusted for any Parity Bonds issued and any delinquencies in the payment of Special Taxes.

(3) Represents initial deposit by the Community Facilities District, plus capitalized interest.

(4) Amount shown is based on the maximum Special Tax which may be levied on Undeveloped Property as of Fiscal Year 2009-10. Special Taxes will not be levied on Undeveloped Property in Fiscal Year 2009-10. Any levy on Undeveloped Property in future fiscal years will depend on Special Tax collections and whether or not Parity Bonds are issued.

Source: Dolinka Group, LLC, with respect to Estimated Special Tax Revenues; and Underwriter, with respect to debt service on the Special Tax Bonds.

## **Levy of Special Taxes to Applicable Maximum Rates**

The ability of the Community Facilities District to make annual debt service payments on its Special Tax Bonds with respect to Zone 2 or Zone 3, as applicable, is strengthened by its ability to levy Special Taxes up to the applicable maximum rates in the event of delinquencies in Zone 2 or Zone 3, as applicable. Generally, the Community Facilities District levies Special Taxes at the Assigned Special Tax rate on Developed Property. In the event that delinquencies occur in the receipt of Special Taxes in any fiscal year, the Community Facilities District may increase the Special Tax levy with respect to Zone 2 or Zone 3, as applicable, up to the maximum rates in the following fiscal years if determined necessary to cure any delinquencies on the applicable Special Tax Bonds. There may be little or no difference between the Assigned Special Tax rate and the maximum rates where the property in Zone 2 or Zone 3, as applicable, within the Community Facilities District is all categorized as Developed Property. The Community Facilities District is only obligated to pay principal and interest on the Special Tax Bonds it issues. If the Community Facilities District does not receive Special Taxes with respect to Zone 2 or Zone 3, as applicable, in the requisite amount, the Special Tax rate may be escalated only with respect to Zone 2 or Zone 3, as applicable. Although the Special Tax levy may be increased where there is a difference between the Assigned Special Tax and the maximum Special Tax which may be levied, any such increase would not be available to cure any delinquencies for a period of one year or more. In addition, an increase in the Special Tax rates may affect the ability or willingness of property owners to pay their Special Taxes. See “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax” and Appendix B hereto for a description of the Community Facilities District’s procedures for increasing the amount of Special Tax and “BONDOWNERS’ RISKS – The Special Tax Bonds – *Insufficiency of Special Taxes.*” In the Community Facilities District, the Special Taxes are levied at the Assigned Special Tax rate, and there may be little or no increase on Special Tax rates. The amount of Zone 2 2009 Bonds and Zone 3 2009 Bonds issued is based on providing 110% debt service coverage from estimated Special Taxes which may be levied on property categorized as “Developed Property” (as defined in the Community Facilities District Rate and Method) for Fiscal Year 2009-10 with respect to Zone 2 and Zone 3 in accordance with the Community Facilities District Rate and Method. In addition, for Fiscal Year 2009-10, there are approximately 12 acres of Undeveloped Property (as defined in the Community Facilities District Rate and Method) in Zone 2 and approximately 108 acres of Undeveloped Property in Zone 3. Under the Community Facilities District Rate and Method, such Undeveloped Property is currently estimated to be subject to an aggregate Special Tax of approximately \$64,000 in Zone 2 and approximately \$560,000 in Zone 3, but no Special Tax will be levied on such Undeveloped Property in Fiscal Year 2009-10 because it is estimated that such Special Tax will not be required for payment of debt service on the Special Tax Bonds or Administrative Expenses. If necessary in the future, the Special Tax may be levied on Undeveloped Property, however, there is no assurance that a Developer will pay any such Special Tax so levied. As development occurs and property is categorized as Developed Property rather than as Undeveloped Property, the amount of Special Taxes which may be levied will change.

Any increase in Special Taxes up to the maximum Special Tax by the Community Facilities District to cure delinquencies in the Community Facilities District is not available to cure delinquencies in other community facilities districts.

## **THE COMMUNITY FACILITIES DISTRICT**

### **General**

The Act provides an alternative method of financing certain public capital facilities and services within defined boundaries. A community facilities district established pursuant to the Act is a legally constituted governmental entity. Upon approval by a two-thirds vote of qualified voters and compliance

with the provisions of the Act, a community facilities district may issue bonds and may levy and collect taxes to repay such bonded indebtedness.

Pursuant to the Act, the Board, acting on behalf of the Community Facilities District, adopted a Resolution stating its intent to establish the Community Facilities District, to authorize the levy of Special Taxes within the boundaries of the Community Facilities District (to pay principal of and interest on the Special Tax Bonds), to fund some of the facilities directly and to incur bonded indebtedness within the Community Facilities District.

Following a public hearing conducted pursuant to the provisions of the Act, the Board adopted a resolution establishing the Community Facilities District and determining the necessity to incur bonded indebtedness to acquire and construct facilities within the Community Facilities District and a resolution calling a special election to submit the levy of the Special Tax and incurring of the bonded indebtedness to the qualified voters of the Community Facilities District.

Under the Act, when less than twelve registered voters reside within the proposed boundaries of a community facilities district, each landowner of lands located within the boundaries of the proposed community facilities district is qualified to vote on the question of incurring such bonded indebtedness. A two-thirds favorable vote of the qualified voters voting on the question is necessary to authorize issuance of the bonds of a community facilities district.

The Bonds are issued pursuant to the Act and the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. In addition, as required by the Act, the Board of Education of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the Bonds:

*Resolutions of Intention:* On November 17, 2003, the Board of Education adopted Resolution No. 24-2004 stating its intention to establish the Community Facilities District and to authorize the levy of special taxes therein pursuant to the Community Facilities District Rate and Method for the Community Facilities District and a separate Rate and Method for each Improvement Area. On the same day the Board of Education adopted Resolution No. 25-2004 stating its intention to incur bonded indebtedness in an amount not to exceed \$60,000,000 with respect to the Community Facilities District, \$13,500,000 with respect to Improvement Area A, \$10,900,000 with respect to Improvement Area B and \$17,400,000 with respect to Improvement Area C. Community Facilities District No. 11 financed School Facilities. Improvement Area A financed City Facilities and School Facilities. See "THE FINANCING PLAN" herein.

*Resolution of Formation:* Immediately following a noticed public hearing on January 20, 2004, the Board of Education adopted Resolution No. 34-2004 (the "Resolution of Formation"), which established the Community Facilities District and designated each of the Improvement Areas therein, and authorized the levy of a separate special tax within the Community Facilities District, including each Zone therein, pursuant to the Community Facilities District Rate and Method and authorized the levy of a separate special tax within each Improvement Area pursuant to each Improvement Area Rate and Method.

*Resolution of Necessity:* On January 20, 2004, the Board of Education adopted Resolution No. 35-2004 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$60,000,000 with respect to the Community Facilities District. In addition, the Community Facilities District was authorized to issue \$13,500,000 aggregate principal amount of bonds with respect to Improvement Area A, \$10,900,000 aggregate principal amount of bonds with respect to Improvement Area B and \$17,400,000 aggregate principal amount of bonds with respect to Improvement Area C and submitted the proposition to the qualified electors of the Community Facilities District.

*Landowner Election and Declaration of Results:* On January 20, 2004, an election was held within the Community Facilities District, including within Zone 2 and Zone 3, Improvement Area A, Improvement Area B and Improvement Area C, in which the landowners eligible to vote, being the qualified electors within the Community Facilities District and each Improvement Area, each approved the applicable ballot propositions authorizing the issuance of up to \$60,000,000 of bonds for the Community Facilities District to finance the acquisition and construction of School Facilities and the landowners with respect to Improvement Area A approved a ballot proposition authorizing the issuance of up to \$13,500,000 of bonds for Improvement Area A, the landowners with respect to Improvement Area B approved a ballot proposition authorizing the issuance of up to \$10,900,000 of bonds for Improvement Area B and the landowners with respect to Improvement Area C approved a ballot proposition authorizing the issuance of up to \$17,400,000 of bonds for Improvement Area C to finance the acquisition and construction of City Facilities. The qualified electors within the Community Facilities District and each Improvement Area also approved the levy of a special tax in accordance with the applicable Rate and Method and the establishment of an appropriations limit for the Community Facilities District.

On January 20, 2004, the Board of Education adopted Resolution No. 36-2004 pursuant to which the Board of Education approved the canvass of the votes.

*Special Tax Lien and Levy:* Notices of Special Tax Lien, including one for the Community Facilities District, one for Improvement Area B and one for Improvement Area C, were recorded in the real property records of San Diego County on February 3, 2004.

*Ordinance Levying Special Taxes:* On February 9, 2004, the Board of Education adopted an Ordinance No. 2004-02 levying the Special Tax within the Community Facilities District.

*Resolutions Authorizing Issuance of the Bonds:* On May 18, 2009, the Board of Education adopted Resolution No. 57-2009 approving issuance of the Bonds.

*Formation and Authority for Issuance of Special Tax Bonds:* The Community Facilities District was formed, issued its original series of bonds and has authorized the issuance of its respective Series of Special Tax Bonds as described above.

Other indebtedness exists with respect to the Community Facilities District, including, in some cases, bonds which have been or may be issued by the Community Facilities District with respect to improvement areas therein. See “Direct and Overlapping Debt” below.

## **Location and Description**

The Community Facilities District is contiguous and is generally located south of Beeler Canyon Road and east of Pomerado Road in the southernmost portion of the School District and in the northeast part of the City. The Community Facilities District is located about four miles east of the I-15 Freeway. The Community Facilities District, which consists of approximately 2,658 gross acres, is located approximately 15 miles north of downtown San Diego and approximately 10 miles inland from the Pacific Ocean and the coastal community of La Jolla. StoneBridge Estates is the current name of the entire project proposed to be developed in the Community Facilities District which is comprised of two sub-project areas known as Montecito and Sycamore Estates. The Montecito sub-project area, which encompasses Zone 1 / Improvement Area A, is east of Pomerado Road, just north of Marine Corps Air Station Miramar, south of the City of Poway and adjacent to and west of the Sycamore Estates sub-project area. The Sycamore Estates sub-project area, which encompasses Improvement Area B / Zone 2 and Improvement Area C / Zone 3, lies within the former General Dynamics Sycamore Canyon property and is bounded by the City (Scripps Miramar Ranch North) to the west, the City of Poway to the north, an unincorporated area of the County of San Diego to the east and northeast, and the Marine Corps Air

Station Miramar to the south. The Community Facilities District also includes approximately 248 acres of open space owned by the City which is located within Zone 4.

Sycamore Estates LLC acquired the Montecito sub-project area property from eight separate landowners pursuant to an Option Agreement entered into between Institutional Housing Partners (“IHP”) and eight landowners. Since the 1960s, the Sycamore Estates’ portion of the StoneBridge Estates property was used by General Dynamics and defense companies for defense related manufacturing and testing services. Sycamore Estates LLC acquired the property from General Dynamics on December 18, 2001. General Dynamics and Lockheed Martin retained a lease to a six-acre portion of the property until the lease expired in March 2003.

The StoneBridge Estates property is in the Rancho Encantada Precise Plan. The Precise Plan, Planned Residential Development Permits, Vesting Tentative Maps and other permits were approved by the Planning Commission in July 2001 and by the City Council in August 2001. Mass grading operations for the Community Facilities District are complete.

Sycamore Estates LLC, a Delaware limited liability company, owned the property in Zone 2 with the right of first refusal to its members - (i) McMillin Companies, LLC, as to a portion of Neighborhood 4 (118 residential lots), which McMillin Companies, LLC sold to Shea Homes Limited Partnership (82 residential lots) and to Warmington Scripps II Associates, L.P. (36 residential lots) and (ii) Brookfield Sycamore LLC, a Delaware limited liability company, as to Neighborhood 3B (92 residential lots). Brookfield 8 LLC acquired the 92 residential lots comprising Neighborhood 3B as a continuation of its Calabria project. Sycamore Estates LLC owned the property in Improvement Area C with right of first refusal to its members: (i) McMillin Companies, LLC, as to Neighborhood 5 (81 residential lots) and Neighborhood 6 (109 residential lots) and (ii) Brookfield Sycamore LLC, as to Neighborhood 7 (151 residential lots). McMillin Companies, LLC sold its lots in Neighborhoods 5 and 6 to Cornerstone at StoneBridge Estates LLP and to Warmington Scripps II Associates, L.P. Brookfield Sycamore LLC formed Brookfield 10 LLC to acquire the residential lots in Neighborhood 7.

277 units are in Zone 1 (of which approximately 271 have been completed and sold to homeowners), 210 units plus the 106 affordable units are proposed for Zone 2 and 341 units are proposed for Zone 3. The remaining area, which is in Zone 4, is preserved as open space and known as “Mission Trails Regional Park North.” The property in Zone 1/Improvement Area A has been substantially developed with three single-family neighborhoods, totaling 277 detached single-family lots. The affordable residential multi-family units were included in Zone 2.

As of May 1, 2009, the major landowners in Zone 2 were 141 individual homeowners, Brookfield 8 LLC (12 residential units completed or under construction, 17 residential lots with building permits and 32 residential lots) and Shea Homes Limited Partnership (7 residential units completed or under construction and 1 residential lot). In addition, there were 106 completed affordable units. As of May 1, 2009, the major landowners in Zone 3 were 110 individual homeowners, Cornerstone at StoneBridge Estates LP (14 residential units completed or under construction, and 17 residential lots), Montoro at StoneBridge Estates LLC (10 residential units completed or under construction and 18 residential units), StoneBridge – San Diego LP (2 residential units completed), Warmington Scripps II Associates, L.P. (19 residential lots) and Brookfield 10 LLC (151 residential lots). Warmington Scripps II Associates, L.P. has a contract for a phased sale of the 19 residential lots, with the first 10 lots scheduled to close in the summer of 2009.

StoneBridge Estates is a master-planned community. It includes an approximately six-acre park, including lighted multi-purpose fields for soccer and little league, a parking lot, a turf area, restrooms/storage/concessions, a playground with equipment, picnic areas and path lighting. The six-acre park has not yet been constructed. A second park, approximately eight acres in size, has been substantially completed to include a multi-purpose field, and playground and picnic areas. In addition to



the two neighborhood parks, there are proposed to be approximately 11 miles of hiking trails. Approximately 80 percent of the community will remain as open space and is known as "Mission Trails Regional Park North." The regional open space park is located in the eastern portion of the Community Facilities District (Zone 4) and is proposed to connect with the existing Goodan Ranch and Sycamore Canyon County Open Space Preserve. Sycamore Estates LLC's obligation with respect to the regional park is to dedicate the land, demolish existing buildings, restore those disturbed lands and pay fees as permits are issued for home building.

### **Appraised Property Values**

The purpose of the Appraisal was to estimate the aggregate market value of the separate tracts/product types within Zone 2 and Zone 3 reflecting the "as-is" condition of the homes, homes under construction and/or vacant lots. The Appraisal reflects the Zone 2 and Zone 3 financings, as well as existing Community Facilities District financings with respect to Improvement Area B Special Taxes and Improvement Area C Special Taxes. The subject property in Zone 2 includes property proposed for development with 210 detached single-family residential units of which 153 are completed (of which 141 are owned by individual homeowners). The 106 affordable residential multi-family units are not subject to the Special Tax while such units are affordable units and their value has not been included in the Appraisal. The subject property in Zone 3 includes property proposed for development with 341 single-family residential units of which 122 are completed (of which 110 are owned by individual homeowners). The Appraisal is based on certain assumptions set forth in Appendix C hereto.

The Appraisal estimated the value of the property in Zone 2 and in Zone 3 as completed homes, homes under construction and "finished lots," that is, the lots have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot, street improvements completed, common area improvements/landscaping (associated with the tract) completed, resource agency permits (if necessary), and all development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map (which, as described, is not yet the condition of all of the property within the Community Facilities District), less the remaining cost to the Developers to achieve finished lots (based on the status of the development process as of May 1, 2009). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Community Facilities District special taxes and of the Improvement Area Special Taxes.

The Appraiser used a sales comparison approach, in which listings and sales of similar completed homes and bulk residential properties in the general area are analyzed in order to derive an indication of the most probable sales price of the property being appraised. The estimate of value for the property in Zone 2 and Zone 3 was achieved using the sales price of recent sales of comparable completed homes in the case of completed homes and homes under construction and recent sales of bulk residential property in the case of comparable bulk residential lots in the area that were listed or had sold within the prior two years. The analysis of the vacant lots is based on a sales comparison basis and on a static residual discounted cash flow analysis.

Based on the investigation and analyses described in the Appraisal, and subject to all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the market value of the taxable property in Zone 2 as of May 1, 2009, to be \$167,450,000 and in Zone 3 as of May 1, 2009, to be \$167,900,000. The market value includes the value of completed homes, homes under construction and extensive grading and infrastructure improvements in Zone 2 and Zone 3. Subject to these assumptions, the Appraiser estimated that the market value of the land within Zone 2 and Zone 3 (subject to the lien of the Special Taxes) as of May 1, 2009, was as follows:

**Table 5**  
**Community Facilities District No. 11 (StoneBridge Estates)**  
**of the Poway Unified School District**  
**Zone 2 and Zone 3**  
**Summary of Appraisal Estimated Market Values**

<u>Tract Name/Product Type</u>	<u>No. of Home- Owner Lots</u>	<u>Developed Completed- Sold</u>	<u>No. of Lots</u>	<u>Developed Builder- Owned</u>	<u>No. of Lots</u>	<u>Undeveloped Property</u>	<u>Total</u>
<b>Zone 2</b>							
The Warmington Collection (Warmington Scripps II Associates, L.P.)	36	\$37,800,000	0	\$0	0	\$0	\$37,800,000
Calabria (Brookfield 8 LLC)	18	17,100,000	4	3,420,000	0	0	20,520,000
Serenity (Brookfield 8 LLC)	13	11,050,000	25 <sup>(1)</sup>	8,206,000	32	6,824,000	26,080,000
Sanctuary (Shea Homes Limited Partnership)	<u>74</u>	<u>77,700,000</u>	<u>7</u>	<u>4,980,000</u>	<u>1</u>	<u>370,000</u>	<u>83,050,000</u>
Zone 2 Totals	141	\$143,650,000	36	\$16,606,000	33	\$7,194,000	\$167,450,000
<b>Zone 3</b>							
Montoro (Montoro at StoneBridge Estates LP)	0	\$0	10	\$340,000	18	\$3,400,000	\$8,040,000
Tiburon (Cornerstone at StoneBridge Estates LP)	22	20,900,000	14	4,200,000	17	4,200,000	35,750,000
Viscaya (Warmington Scripps II Associates, L.P.)	29	24,650,000	0	4,000,000	19	4,000,000	28,650,000
Scripps Preserve (StoneBridge - San Diego LP)	59	50,760,000	2 <sup>(2)</sup>	0	0	0	52,460,000
151 Vacant Lots (Brookfield 10 LLC)	<u>0</u>	<u>0</u>	<u>0</u>	<u>43,000,000</u>	<u>151</u>	<u>43,000,000</u>	<u>43,000,000</u>
Zone 3 Totals	110	\$96,290,000	26	\$17,010,000	205	\$54,600,000	\$167,900,000
<b>TOTAL</b>	251	\$239,940,000	62	\$33,616,000	238	\$61,794,000	\$335,350,000

<sup>(1)</sup> All 25 lots are categorized as Developed Property for purposes of the Community Facilities District Rate and Method, but as indicated in the Appraisal, 17 of the 25 lots are vacant lots in a near finished condition. See APPENDIX C – “SUMMARY APPRAISAL REPORT.” The District makes no representation as to when, or if, home construction will commence with regard to such lots.

<sup>(2)</sup> Subsequent to the Appraisal Date of Value, the two remaining homes under Developed Builder-Owned above are now closed to individual homeowners with recording dates of May 12, 2009 and May 15, 2009.

*Source: Appraisal.*

The market values of the property within Zone 2 and Zone 3 include the value of completed homes, homes under construction and infrastructure improvements, tract map approvals and the finished conditions of such property. The \$167,450,000 and \$167,900,000 aggregate market value (with respect to Zone 2 and Zone 3) reported in the Appraisal results in estimated value-to-lien ratio of 11.87 to 1 with respect to Zone 2 and of 9.73 with respect to Zone 3, calculated in each case with respect to all direct and overlapping tax and assessment debt as of the estimated closing date and excluding 106 affordable residential multi-family units of which up to 106 units may be affordable units which are not subject to the Special Tax. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt” and “BONDOWNERS’ RISKS – The Special Tax Bonds – Appraised Values” herein and APPENDIX C – “SUMMARY APPRAISAL REPORT” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

*The School District makes no representation as to the accuracy or completeness of the Appraisal. See Appendix C hereto for more information relating to the Appraisal.*

### **Assessed Property Values**

The Fiscal Year 2008-09 assessed values of the property within Zone 2 and Zone 3 of the Community Facilities District (excluding Exempt Property (as defined in the Community Facilities District Rate and Method) parcels for which Special Taxes have been prepaid) aggregated \$200,020,024 in Zone 2 and \$223,247,922 in Zone 3.

See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt” and “BONDOWNERS’ RISKS – The Special Tax Bonds – *Assessed Values*” herein for further information on the assessed values and for assumptions and limiting conditions relating to the assessed values.

### **Estimated Appraised Value-to-Lien Ratios**

The appraised values, direct and overlapping debt and total tax burden on individual parcels varies between Zone 2 and Zone 3 and also varies among parcels within Zone 2 and Zone 3. The value of individual parcels is significant because in the event of a delinquency in the payment of Special Taxes, the Community Facilities District may foreclose only against delinquent parcels. The table below sets forth the estimated appraised property values and the estimated direct and overlapping land secured debt and estimated value-to-lien ratio for Zone 2 and Zone 3 as a whole. All information in this section is based on the direct and overlapping debt outstanding as of January 1, 2009, as set forth in the tables below in the Section captioned “ – Direct and Overlapping Debt” below.

**Table 6**  
**Community Facilities District No. 11 (StoneBridge Estates)**  
**of the Poway Unified School District**  
**Zone 2 and Zone 3**  
**Value-to-Lien Analysis by Status of Development**  
**(As of May 1, 2009 Appraisal Date of Value)**

**Zone 2**

<b>Stage of Development<sup>(1)</sup></b>	<b>Number of Lots<sup>(1)</sup></b>	<b>Total Appraised Value<sup>(1)</sup></b>	<b>Estimated FY 2009-10 Zone 2 Special Tax</b>	<b>Zone 2 Special Tax Bonds<sup>(2)</sup></b>	<b>Estimated FY 2009-10 Imp. Area B Special Tax</b>	<b>Imp. Area B Bonds as of May 1, 2009<sup>(3)</sup></b>	<b>Total Lien</b>	<b>Value-to-Lien Ratio<sup>(4)</sup></b>
Completed owner-occupied homes	141	\$143,650,000	\$331,389	\$4,102,542	\$444,338	\$7,167,968	\$11,270,511	12.75:1
Developer owned homes completed or under construction <sup>(5)</sup>	36	16,606,000	84,610	1,047,458	107,254	1,730,195	2,777,653	5.98:1
Developer owned vacant finished lots	<u>33</u>	<u>7,194,000</u>	<u>0</u>	<u>0</u>	<u>3,523</u>	<u>56,837</u>	<u>56,837</u>	<u>126.57:1</u>
<b>Total</b>	<b>210</b>	<b>\$167,450,000</b>	<b>\$416,000</b>	<b>\$5,150,000</b>	<b>\$555,115</b>	<b>\$8,955,000</b>	<b>\$14,105,000</b>	<b>11.87:1</b>

**Zone 3**

<b>Stage of Development<sup>(1)</sup></b>	<b>Number of Lots<sup>(1)</sup></b>	<b>Total Appraised Value<sup>(1)</sup></b>	<b>Estimated FY 2009-10 Zone 3 Special Tax</b>	<b>Zone 3 Special Tax Bonds<sup>(2)</sup></b>	<b>Estimated FY 2009-10 Imp. Area C Special Tax</b>	<b>Imp. Area C Bonds As of May 1, 2009<sup>(3)</sup></b>	<b>Total Lien</b>	<b>Value-to-Lien Ratio<sup>(4)</sup></b>
Completed owner-occupied homes	110	\$96,290,000	\$256,643	\$3,109,926	\$322,093	\$5,446,234	\$8,556,160	11.25:1
Developer owned homes completed or under construction	26	17,010,000	60,661	735,074	77,488	1,310,233	2,045,307	8.32:1
Developer owned vacant finished lots	<u>205</u>	<u>54,600,000</u>	<u>0</u>	<u>0</u>	<u>393,493</u>	<u>6,653,533</u>	<u>6,653,533</u>	<u>8.21:1</u>
<b>Total</b>	<b>341</b>	<b>\$167,900,000</b>	<b>\$317,304</b>	<b>\$3,845,000</b>	<b>\$793,074</b>	<b>\$13,410,000</b>	<b>\$17,255,000</b>	<b>9.73:1</b>

<sup>(1)</sup> Source: Appraisal, dated May 11, 2009.

<sup>(2)</sup> Includes Zone 2 2009 Special Tax Bonds and Zone 3 2009 Special Tax Bonds, as applicable, to be issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt does not vary depending on size of unit. No Zone 2 2009 Special Tax Bonds have been allocated to Undeveloped Property because no Special Taxes are expected to be levied on the Undeveloped Property for Fiscal Year 2009-10.

<sup>(3)</sup> Includes Improvement Area B Special Tax Bonds or Improvement Area C Special Tax Bonds, as applicable, issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt will vary depending on size of unit.

<sup>(4)</sup> Actual value-to-lien per lot may vary.

<sup>(5)</sup> Of the 36 lots categorized as Developed Property for purposes of the Community Facilities District Rate and Method, as indicated in the Appraisal, 17 of the lots in the Serenity development are vacant lots in a near finished condition. See APPENDIX C – “SUMMARY APPRAISAL REPORT.” The District makes no representation as to when, or if, home construction will commence with regard to such lots.

Source: Dolinka Group, LLC.

Table 7 shows the estimated amount of the Special Tax for which individual homeowners and each Developer will be responsible and the percentage of the estimated total amount of the Special Tax for Fiscal Year 2009-10, if Special Taxes were to be levied based on current ownership. A portion of the interest on the Zone 2 2009 Special Tax Bonds and Zone 3 2009 Special Tax Bonds is capitalized to July 2, 2011.

**Table 7**  
**Community Facilities District No. 11 (StoneBridge Estates)**  
**of the Poway Unified School District**  
**Zone 2**  
**Value-to-Lien Analysis by Major Ownership Categories<sup>(1)</sup>**

<b>Owner/Merchant Builder</b>	<b>Lots<sup>(1)</sup></b>	<b>Appraised Value<sup>(1)</sup></b>	<b>Estimated FY 2009-10 Zone 2 Special Tax</b>	<b>Zone 2 Bonds Allocation<sup>(2)</sup></b>	<b>Estimated FY 2009-10 Imp. Area B Special Tax</b>	<b>Imp. Area B Bonds Allocation<sup>(3)</sup></b>	<b>Total Lien</b>	<b>Value-to-Lien<sup>(4)</sup></b>
<u>Developed Property</u>								
Individual Owners	141	\$143,650,000	\$331,389	\$4,102,542	\$444,338	\$7,167,968	\$11,270,511	12.75:1
Brookfield 8 LLC <sup>(5)</sup>	29	11,626,000	68,158	843,785	84,513	1,363,354	2,207,138	5.27:1
Shea Homes Limited Partnership	<u>7</u>	<u>4,980,000</u>	<u>16,452</u>	<u>203,673</u>	<u>22,740</u>	<u>366,841</u>	<u>570,514</u>	<u>8.73:1</u>
Subtotal Developed Property	177	\$160,256,000	\$416,000	\$5,150,000	\$551,591	\$8,898,163	\$14,048,163	11.41:1
<u>Undeveloped Property</u>								
Brookfield 8 LLC	32	\$6,824,000	\$ 0	\$ 0	\$3,375	\$54,441	\$54,441	125.35:1
Shea Homes Limited Partnership	<u>1</u>	<u>370,000</u>	<u>0</u>	<u>0</u>	<u>149</u>	<u>2,396</u>	<u>2,396</u>	<u>154.45:1</u>
Subtotal Undeveloped Property	<u>33</u>	<u>\$ 7,194,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,523</u>	<u>\$ 56,837</u>	<u>\$ 56,837</u>	<u>126.57:1</u>
Total <sup>(1)</sup>	210	\$167,450,000	\$416,000	\$5,150,000	\$555,115	\$8,955,000	\$14,105,000	11.87:1

<sup>(1)</sup> Source: Appraisal, dated May 11, 2009.

<sup>(2)</sup> Includes Zone 2 2009 Special Tax Bonds to be issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt does not vary depending on size of unit. No Zone 2 2009 Special Tax Bonds have been allocated to Undeveloped Property because no Special Taxes are expected to be levied on the Undeveloped Property for Fiscal Year 2009-10.

<sup>(3)</sup> Includes Improvement Area B Special Tax Bonds issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt will vary depending on size of unit.

<sup>(4)</sup> Actual value-to-lien per lot may vary.

<sup>(5)</sup> Of the 29 lots categorized as Developed Property for purposes of the Community Facilities District Rate and Method, as indicated in the Appraisal, 17 of the lots in the Serenity development are vacant lots in a near finished condition. See APPENDIX C – "SUMMARY APPRAISAL REPORT." The District makes no representation as to when, or if, home construction will commence with regard to such lots.

Source: Dolinka Group, LLC.

**Table 8**  
**Community Facilities District No. 11 (StoneBridge Estates)**  
**of the Poway Unified School District**  
**Zone 3**  
**Value-to-Lien Analysis by Major Ownership Categories<sup>(1)</sup>**

<u>Owner/Merchant Builder</u>	<u>Lots<sup>(1)</sup></u>	<u>Appraised Value<sup>(1)</sup></u>	<u>Estimated Zone 3 FY 2009-10 Special Tax</u>	<u>Zone 3 Bonds Allocation<sup>(2)</sup></u>	<u>Estimated Imp. Area C FY 2009-10 Special Tax</u>	<u>Imp. Area C Bonds Allocation<sup>(3)</sup></u>	<u>Total Lien</u>	<u>Value-to-Lien<sup>(4)</sup></u>
<u>Developed Property</u>								
Individual Owners	110	\$96,290,000	\$256,643	\$3,109,926	\$322,093	\$5,446,234	\$8,556,160	11.25:1
Cornerstone at StoneBridge Estates LP and Montoro at StoneBridge Estates LLC	24	15,290,000	55,995	678,530	71,494	1,208,887	1,887,417	8.10:1
StoneBridge – San Diego LP	<u>2</u>	<u>1,720,000</u>	<u>4,666</u>	<u>56,544</u>	<u>5,994</u>	<u>101,346</u>	<u>157,890</u>	<u>10.89:1</u>
Subtotal Developed Property	136	\$113,300,000	\$317,304	\$3,845,000	\$399,581	\$6,756,467	\$10,601,467	10.69:1
<u>Undeveloped Property</u>								
Brookfield 10 LLC	151	\$43,000,000	\$ 0	\$ 0	\$284,725	\$4,814,378	\$4,814,378	8.93:1
Cornerstone at StoneBridge Estates LP and Montoro at StoneBridge Estates LLC	35	7,600,000	0	0	71,744	1,213,110	1,213,110	6.26:1
Warmington Scripps II Associates, L.P.	<u>19</u>	<u>4,000,000</u>	<u>0</u>	<u>0</u>	<u>37,025</u>	<u>626,045</u>	<u>626,045</u>	<u>6.39:1</u>
Subtotal Undeveloped Property	<u>205</u>	<u>\$ 54,600,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$393,493</u>	<u>\$ 6,653,533</u>	<u>\$ 6,653,533</u>	<u>8.21:1</u>
Total <sup>(1)</sup>	341	\$167,900,000	\$317,304	\$3,845,000	\$793,074	\$13,410,000	\$17,255,000	9.73:1

<sup>(1)</sup> Source: Appraisal, dated May 11, 2009.

<sup>(2)</sup> Includes Zone 3 2009 Special Tax Bonds to be issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt does not vary depending on size of unit. No Zone 3 2009 Special Tax Bonds have been allocated to Undeveloped Property because no Special Taxes are expected to be levied on the Undeveloped Property for Fiscal Year 2009-10.

<sup>(3)</sup> Includes Improvement Area C Special Tax Bonds issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt will vary depending on size of unit.

<sup>(4)</sup> Actual value-to-lien per lot may vary.

Source: Dolinka Group, LLC.

## Direct and Overlapping Debt

Tables 9 and 10 below set forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District with respect to Zone 2 and Zone 3 prepared by National Tax Data and prepared in January, 2009 (each a “Debt Report”). Each Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, and the percentage values may change as assessed values of properties outside the Community Facilities District increase due to development. The Authority and the Community Facilities District believe the information is current as of its date, but make no representation as to its completeness or accuracy. Other public agencies, such as the County or the City may issue additional indebtedness at any time, without the consent or approval of the Authority, the School District or the Community Facilities District.

The Debt Reports generally include long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Zone 2 and Zone 3, as applicable, of the Community Facilities District in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in Zone 2 and Zone 3, as applicable, of the Community Facilities District. In many cases, long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the Authority, the School District, the City or other public agencies at any time.

Property in Zone 2 and Zone 3, as applicable, of the Community Facilities District is subject to special assessments, Special Taxes, and *ad valorem* property taxes. See “THE COMMUNITY FACILITIES DISTRICT – Overlapping Assessment and Maintenance District” below. Of the lien amounts reflected on the following table, only the Special Taxes and *ad valorem* property taxes are associated with any indebtedness.

The *ad valorem* tax rate for each parcel in the Community Facilities District is estimated to range from approximately 1.6% to 1.9% for Fiscal Year 2009-10. The tax rate in excess of the standard 1% general purpose *ad valorem* levy is attributable to various public agencies, including, Metropolitan Water District and San Diego County Water Authority. The portions of these outstanding general obligation bonds allocable to the Community Facilities District are shown in the tables below.

The Authority and the Community Facilities District have not undertaken to commission annual appraisals of the market value of property in the Community Facilities District for purposes of the Annual Reports pursuant to the Continuing Disclosure Agreement, and information regarding property values for purposes of a direct and overlapping debt analysis which may be contained in such reports will be based on assessed values as determined by the County Assessor. See Appendix E hereto for the form of the CONTINUING DISCLOSURE AGREEMENT.

**Table 9**  
**Community Facilities District No. 11 Zone 2**  
**Direct and Overlapping Debt Summary\***  
**Fiscal Year 2008-09 Secured Roll\***

**POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 11 ZONE 2**

**I. Assessed Value**

2008-09 Secured Roll Assessed Value **\$185,652,134<sup>(1)</sup>**

**II. Secured Property Taxes**

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy
Basic Levy	PROP13	957,523	\$3,813,203,012	0.04853%	210	\$1,850,501.34
Voter Approved Debt	VOTER	957,329	\$250,644,468	0.01742%	210	\$43,669.84
County of San Diego Vector Control, Zone B	VECTOR	358,847	\$748,016	0.06401%	210	\$478.80
County of San Diego Vector Disease Control	VECTOR	943,568	\$5,256,250	0.01613%	210	\$848.04
Metropolitan Water District of Southern California Standby Charge	STANDBY	353,385	\$4,356,825	0.05549%	210	\$2,417.42
Poway Unified School District CFD No. 11, Impv Area B	CFD	210	\$482,068	100.00000%	210	\$482,068.40
Poway Unified School District CFD No. 11, Zone 2	CFD	210	\$470,259	100.00000%	210	\$470,259.18
San Diego County Water Authority Standby Charge	STANDBY	361,328	\$3,834,233	0.05482%	210	\$2,102.10
<b>2008-2009 TOTAL PROPERTY TAX LIABILITY</b>						<b>\$2,852,345.12</b>

**TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2008-2009 ASSESSED VALUATION** **1.54%**

**III. Land Secured Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Poway Unified School District CFD No. 11, Impv Area B	CFD	\$9,035,000	\$8,955,000	100.00000%	210	\$8,955,000
Poway Unified School District CFD No. 11, Zone 2	CFD	\$0	\$0	100.00000%	210	\$0
<b>TOTAL LAND SECURED BOND INDEBTEDNESS <sup>(2)</sup></b>						<b>\$8,955,000</b>
<b>TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS <sup>(2)</sup></b>						<b>\$8,955,000</b>

**IV. General Obligation Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of San Diego GOB 1978 (Open Space Park Facilities District No. 1)	GOB	\$35,000,000	\$7,010,000	0.10609%	210	\$7,437
City of San Diego GOB 1990 (Public Safety Communication System)	GOB	\$25,500,000	\$6,315,000	0.10609%	210	\$6,699
Metropolitan Water District of Southern California GOB 1966	GOB	\$850,000,000	\$327,215,000	0.00875%	210	\$28,643
Palomar Community College District GOB 2006	GOB	\$160,000,000	\$158,000,000	0.19925%	210	\$314,812
<b>TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS <sup>(2)</sup></b>						<b>\$357,591</b>
<b>TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS <sup>(2)</sup></b>						<b>\$357,591</b>

**TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT** **\$9,312,590.99**

<sup>(1)</sup> Does not include assessed value of 106 affordable units which are not subject to the levy of Special Taxes so long as such units are affordable units.  
<sup>(2)</sup> Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.

Source: National Tax Data, Inc.

\* Does not include Zone 2 Bonds to be issued.



**Table 10**  
**Community Facilities District No. 11 Zone 3**  
**Direct and Overlapping Debt Summary\***  
**Fiscal Year 2008-09 Secured Roll\***

**POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 11 ZONE 3**

**I. Assessed Value**

2008-09 Secured Roll Assessed Value **\$223,102,746**

**II. Secured Property Taxes**

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy
Basic Levy	PROP13	957,523	\$3,813,203,012	0.05844%	341	\$2,228,507.46
Voter Approved Debt	VOTER	957,329	\$250,644,468	0.02098%	341	\$52,590.02
County of San Diego Vector Control, Zone B	VECTOR	358,847	\$748,016	0.10394%	341	\$777.48
County of San Diego Vector Disease Control	VECTOR	943,568	\$5,256,250	0.01678%	341	\$882.08
Metropolitan Water District of Southern California Standby Charge	STANDBY	353,385	\$4,356,825	0.09042%	341	\$3,939.34
Poway Unified School District CFD No. 11, Impv Area C	CFD	341	\$458,572	100.00000%	341	\$458,572.08
Poway Unified School District CFD No. 11, Zone 3	CFD	341	\$470,823	100.00000%	341	\$470,822.52
San Diego County Water Authority Standby Charge	STANDBY	361,328	\$3,834,233	0.08934%	341	\$3,425.50
<b>2008-2009 TOTAL PROPERTY TAX LIABILITY</b>						<b>\$3,219,516.48</b>
<b>TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2008-2009 ASSESSED VALUATION</b>						<b>1.44%</b>

**III. Land Secured Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Poway Unified School District CFD No. 11, Impv Area C	CFD	\$13,475,000	\$13,410,000	100.00000%	341	\$13,410,000
Poway Unified School District CFD No. 11, Zone 3	CFD	\$0	\$0	100.00000%	341	\$0
<b>TOTAL LAND SECURED BOND INDEBTEDNESS <sup>(1)</sup></b>						<b>\$13,410,000</b>
<b>TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS <sup>(1)</sup></b>						<b>\$13,410,000</b>

**IV. General Obligation Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of San Diego GOB 1978 (Open Space Park Facilities District No. 1)	GOB	\$35,000,000	\$7,010,000	0.12749%	341	\$8,937
City of San Diego GOB 1990 (Public Safety Communication System)	GOB	\$25,500,000	\$6,315,000	0.12749%	341	\$8,051
Metropolitan Water District of Southern California GOB 1966	GOB	\$850,000,000	\$327,215,000	0.01052%	341	\$34,421
Palomar Community College District GOB 2006	GOB	\$160,000,000	\$158,000,000	0.23944%	341	\$378,317
<b>TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS <sup>(1)</sup></b>						<b>\$429,726</b>
<b>TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS <sup>(1)</sup></b>						<b>\$429,726</b>

**TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT **\$13,839,725.91****

<sup>(1)</sup> Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.

Source: National Tax Data, Inc.

\*Does not include Zone 3 Bonds to be issued.

The tables below set forth estimated Fiscal Year 2008-09 overall tax rates projected to be applicable to a unit of the indicated square footage. The tables also set forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 11**  
**Community Facilities District No. 11 Zone 2**  
**of the Poway Unified School District**  
**Estimated Fiscal Year 2008-09 Tax Rates**  
**(Detached Unit 5,153 Sq. Ft.)**

**ASSESSED VALUATION AND PROPERTY TAXES**

Estimated Sales Price <sup>(1)</sup>	\$613,949
Homeowner's Exemption	<u>(\$7,000)</u>
Assessed Value <sup>(2)</sup>	\$606,949

	<b>Percent of Total AV</b>	<b>Projected Amount</b>
<b>AD VALOREM PROPERTY TAXES</b> <sup>(3)</sup>		
General Purposes	1.000000%	\$6,069.49
<i>Ad Valorem</i> Tax Overrides		
Palomar Community College District, GO Series 2006 A	0.013220%	\$80.24
San Diego City Open Space Park Facilities District No. 1	0.000000%	\$0.00
San Diego City Zoological Exhibits	0.005000%	\$30.35
San Diego City Public Safety Communication System	0.001080%	\$6.56
Municipal Water District of Southern California GOB 1966	<u>0.004300%</u>	<u>\$26.10</u>
Total <i>Ad Valorem</i> Property Taxes	1.023600%	\$6,212.73

**ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES**<sup>(4)(5)</sup>

Poway Unified School District CFD No. 11 (Zone 2)	\$2,304.22
Poway Unified School District CFD No. 11 (Improvement Area B)	\$3,241.73
San Diego County Vector Disease Control	\$2.28
San Diego County Vector Control	\$5.92
San Diego County Water Authority Standby Charge	\$10.00
Metropolitan Water District Standby Charge	<u>\$11.50</u>
<b>PROJECTED TOTAL PROPERTY TAXES</b>	<b>\$11,788.38</b>

**Projected Total Effective Tax Rate (as % of Sales Price) 1.92%**

- <sup>(1)</sup> Estimated assessed valuation for the single-family detached residential unit with the lowest assessed value, which contains 5,153 building square feet. This unit is in the Sanctuary development.
- <sup>(2)</sup> Assessment value reflects estimated total assessed value for the parcel net of homeowner's exemption.
- <sup>(3)</sup> Based on Fiscal Year 2008-09 *Ad Valorem* Property Taxes percentages.
- <sup>(4)</sup> Based on Fiscal Year 2008-09 Assessments and Special Taxes, unless otherwise noted.
- <sup>(5)</sup> All charges and special assessments are based on lot size of less than an acre.

Source: Dolinka Group, LLC.

**Table 12**  
**Community Facilities District No. 11 Zone 3**  
**of the Poway Unified School District**  
**Estimated Fiscal Year 2008-09 Tax Rates**  
**(Detached Unit 4,043 Sq. Ft.)**

**ASSESSED VALUATION AND PROPERTY TAXES**

Estimated Sales Price <sup>(1)</sup>	\$836,412
Homeowner's Exemption	(\$7,000)
Assessed Value <sup>(2)</sup>	\$829,412

	<b>Percent of Total AV</b>	<b>Projected Amount</b>
<b>AD VALOREM PROPERTY TAXES<sup>(3)</sup></b>		
General Purposes	1.000000%	\$8,294.12
<i>Ad Valorem Tax Overrides</i>		
Palomar Community College District, GO Series 2006 A	0.013220%	\$109.65
San Diego City Open Space Park Facilities District No. 1	0.000000%	\$0.00
San Diego City Zoological Exhibits	0.005000%	\$41.47
San Diego City Public Safety Communication System	0.001080%	\$8.96
Municipal Water District of Southern California GOB 1966	<u>0.004300%</u>	<u>\$35.66</u>
Total <i>Ad Valorem</i> Property Taxes	1.023600%	\$8,489.86

**ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES<sup>(4)(5)</sup>**

Poway Unified School District CFD No. 11 (Zone 3)	\$2,287.38
Poway Unified School District CFD No. 11 (Improvement Area C)	\$2,534.18
San Diego County Vector Disease Control	\$2.28
San Diego County Vector Control	\$5.92
San Diego County Water Authority Standby Charge	\$10.00
Metropolitan Water District Standby Charge	<u>\$11.50</u>
<b>PROJECTED TOTAL PROPERTY TAXES</b>	<b>\$13,341.12</b>

**Projected Total Effective Tax Rate (as % of Sales Price) 1.60%**

- <sup>(1)</sup> Estimated assessed valuation for an average single-family detached residential unit with the lowest assessed value, which contains 4,043 building square feet. This unit is in the Viscaya development.
- <sup>(2)</sup> Assessed value reflects estimated total assessed value for the parcel net of homeowner's exemption.
- <sup>(3)</sup> Based on Fiscal Year 2008-09 *Ad Valorem* Property Taxes percentages.
- <sup>(4)</sup> Based on Fiscal Year 2008-09 Assessments and Special Taxes, unless otherwise noted.
- <sup>(5)</sup> All charges and special assessments are based on lot size of less than an acre.

Source: Dolinka Group, LLC.

**Overlapping Assessment and Maintenance Districts**

As indicated in the tables above, properties within the Community Facilities District are subject to a variety of standby charges, direct assessments, maintenance assessments, special assessments and service charges. Most of these charges are in amounts less than \$500 per annum. These charges in Zone 2 and Zone 3 are further described below.

***San Diego County Vector Disease Control:*** Property within Zone 2 of The Community Facilities District is subject to a San Diego County Vector Disease Control charge. This assessment is imposed by the San Diego County Department of Environmental Health to fund mosquito and vector-borne disease surveillance and control services in all 18 incorporated cities and the unincorporated areas of San Diego County. Since 1989 funding for the San Diego County Vector Control Program was a service charge levied against all parcels in the San Diego County. When Proposition 218 was passed in 1996 it froze the service charge at \$3.00 for the coastal region and \$2.28 for the inland regions. For property within Zone 2 of The Community Facilities District, the assessment levied for Fiscal Year 2008-09 is \$2.28 per parcel.

***San Diego County Vector Control:*** Property within Zone 2 of The Community Facilities District is subject to a San Diego Vector Control assessment. This assessment is imposed by the San Diego County Department of Environmental Health to fund the monitoring of disease-carrying insects such as mosquitoes, ticks and other harmful pests such as flies and rats. Any change of this assessment is subject to a vote by the registered voters within the San Diego County. The maximum assessment rate of \$8.55 per single-family home was authorized by the 2005 ballot, subject to an increase each subsequent year by the San Diego Area Consumer Price Index not to exceed 5.00% per year. The rate has since been reduced each year to the current rate of \$5.92 per single-family home for Fiscal Year 2008-09.

***San Diego County Water Authority Standby Charge:*** Property within Zone 2 of The Community Facilities District is subject to a San Diego County Water Authority Standby Charge. This pay-as-you-go charge is used to fund capital facilities and improvements benefitting property within the territory of the San Diego County Water Authority and will continue to be levied for an indefinite period. The San Diego County Water Authority Water Standby Charge is considered a necessary means of assisting to provide a revenue source to help fund cash and debt service requirements to pay the cost of capital improvements necessary to continue meeting supplemental water needs. The assessment levied for Fiscal Year 2008-09 is at the rate of \$10.00 per acre, or \$10.00 per parcel for parcels one (1) acre or less.

***Metropolitan Water District Standby Charge:*** Property within Zone 2 of The Community Facilities District is subject to a Metropolitan Water District Standby Charge. This pay-as-you-go charge is used for capital improvements of the water distribution system and the construction and maintenance of reservoirs. This assessment was first levied in the 1992-93 tax year and will continue to be levied for an indefinite period. The Metropolitan Water District holds a public hearing, regarding this assessment, once a year. Parcels with their own well may be exempted from this charge. The assessment levied for Fiscal Year 2008-09 is at the rate of \$11.50 per acre, or \$11.50 per parcel for parcels one (1) acre or less.

The Community Facilities District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County, the City or any other governmental agency having jurisdiction over all or a portion of the property within the Community Facilities District. Furthermore, nothing prevents the owners of property within the Community Facilities District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes, will be secured by liens on the property within the Community Facilities District on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such

additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay the Special Taxes when due.

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of the property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See “BONDOWNERS’ RISKS – The Special Tax Bonds – *Assessed Value*.”

### **Rates and Methods of Apportionment of Special Tax**

The Board and the qualified electors of the Community Facilities District adopted and approved the Community Facilities District Rate and Method of Apportionment of Special Tax for determining and apportioning annual amounts of Special Taxes and maximum annual amounts of Special Taxes for the Community Facilities District with respect to Zone 2 and Zone 3. See APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.”

Pursuant to the Community Facilities District Rate and Method, the annual amount of Special Tax to be levied on each lot or parcel of land within the Community Facilities District is generally to be levied as follows: (i) to pay debt service on the indebtedness of the applicable zone of Community Facilities District; (ii) for the direct cost of authorized facilities; (iii) for the administrative expenses of the Community Facilities District incurred in administration of any bonded indebtedness of the Community Facilities District or the levy of the applicable Special Tax; (iv) to establish or replenish any reserve fund; (v) to pay lease payments for existing or future school facilities; and (vi) to pay any other payments permitted by law.

The following table sets forth, for Fiscal Year 2009-10, the largest taxpayers on an aggregate basis in the Community Facilities District.

**Table 13**  
**Community Facilities District No. 11 (StoneBridge Estates)**  
**of the Poway Unified School District**  
**Zone 2 / Zone 3**

**Largest Special Taxpayers**  
**Fiscal Year 2009-10**

<u>Person/Developer</u>	<u>Parcels</u>	<u>Estimated Fiscal Year 2009-10 Total Special Tax Amount</u>	<u>Fiscal Year 2009-10 Percent Share of Total Special Taxes<sup>(1)</sup></u>
<u>Zone 2</u>			
Individual Homeowners	141	\$331,389	45.19%
Brookfield 8 LLC	29	68,158	9.29%
Shea Homes Limited Partnership	<u>7</u>	<u>16,452</u>	<u>2.24%</u>
Zone 2 Total	177	\$416,000	56.72%
<u>Zone 3</u>			
Individual Homeowners	110	\$256,643	34.99%
Cornerstone at StoneBridge Estates LP and Montoro at StoneBridge Estates LLC	24	55,995	7.64%
StoneBridge – San Diego LP	<u>2</u>	<u>4,666</u>	<u>.64%</u>
Zone 3 Total	136	\$317,304	43.27%
Total	313	\$733,304	100.00%

<sup>(1)</sup> Assumes no change in ownership. Actual percentage share of Special Taxes will depend on sales of homes during Fiscal Year 2009-10.

*Source: Dolinka Group, LLC.*

*General.* In 2004, the Developers or their predecessors participated in the proceedings for formation of the Community Facilities District. Pursuant to such proceedings, a Special Tax may be levied and collected within each Zone of the Community Facilities District to finance School Facilities according to the Community Facilities District Rate and Method, a copy of which is set forth in APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.”

The Rate and Method has four Zones: Zone 1, Zone 2, Zone 3 and Zone 4. Zone 4 is required to be dedicated to the City, or the City’s designee, as open space and is not expected to be developed or subject to the levy of Special Taxes. The boundaries of Zone 1, Zone 2 and Zone 3 are co-terminus with the boundaries of Improvement Area A, Improvement Area B and Improvement Area C, respectively.

In addition, in 2003, the Developers or their predecessors and other applicants requested that the School District institute proceedings pursuant to the Act to (a) create a new community facilities district, (b) designate improvement areas within such community facilities district and (c) authorize the Community Facilities District to issue bonded indebtedness and to levy special taxes to fund School Facilities and City Facilities. Pursuant to such proceedings, a Special Tax may be levied and collected within Zone 2

(Improvement Area B) and Zone 3 (Improvement Area C) to finance City Facilities, School Facilities and other authorized facilities according to the proceedings establishing the Community Facilities District.

The qualified electors of the Community Facilities District and of each Improvement Area approved the Rate and Method on January 20, 2004. Capitalized terms used in the following paragraphs, but not defined herein, have the meanings given them in the Rate and Method.

**Community Facilities District Rate and Method - Zone 2.** The Community Facilities District Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Zone 1, Zone 2, Zone 3 and Zone 4 of the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. The Special Tax Bonds issued with respect to Zone 2, when issued, will fund School Facilities and will be secured by any Special Taxes levied pursuant to the Rate and Method in Zone 2 only, and will not be payable from Special Taxes levied in Zone 3.

The Community Facilities District Rate and Method with respect to Zone 2 provides that the Annual Special Tax shall be levied for a term of 30 Fiscal Years after the issuance of the last series of special tax bonds with respect to Zone 2 but in no event later than Fiscal Year 2050-51. See APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.”

*Annual Zone 2 Special Tax Requirement.* Annually, at the time of levying the Special Tax for Zone 2, the Board of Education will determine the amount of money to be collected from Taxable Property in Zone 2 (the “Annual Special Tax Requirement”), which will be the amount required in any Fiscal Year to pay the following:

- (i) Annual debt service on all outstanding Zone 2 Bonds;
- (ii) Administrative Expenses of the Community Facilities District applicable to property within Zone 2;
- (iii) Any costs associated with the release of funds from an escrow account established in association with Zone 2 Bonds (there is no escrow fund established with respect to Zone 2); and
- (iv) Any amount required to establish or replenish any reserve funds established in association with the Zone 2 Bonds; *less*
- (v) Any amounts on deposit in any funds or accounts which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture or trust agreement.

*Developed and Undeveloped Property; Exempt Property.* The Community Facilities District Rate and Method declares that for each Fiscal Year, all Assessor’s Parcels within Zone 2 shall be classified as Taxable Property or Exempt Property taking into consideration the minimum Net Taxable Acres and all Taxable Property shall be classified as Developed Property or Undeveloped Property and shall be subject to Special Taxes in accordance with the Community Facilities District Rate and Method with respect to Zone 2.

(i) “Developed Property” means all Assessor’s Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, *provided* that such Assessor’s Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor’s Parcel is associated with a lot, as determined reasonably by the Board.

(ii) “Undeveloped Property” means all Assessor’s Parcels of Taxable Property which are not classified as Developed Property.

(iii) “Taxable Property” means all Assessor’s Parcels which are not Exempt Property (as defined below) pursuant to law or the Community Facilities District Rate and Method with respect to Zone 2.

(iv) “Exempt Property” is defined to include the following:

(a) Assessor’s Parcels owned by or irrevocably offered to the State of California, federal or other local governments;

(b) Assessor’s Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization;

(c) Assessor’s Parcels for which Building Assessor’s Parcels used exclusively by a homeowner’s association;

(d) Assessor’s Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction; and

(e) other types of Assessor’s Parcels, at the reasonable discretion of the applicable Community Facilities District representative, *provided* that no such classification would reduce the acreage of all Taxable Property to less than 92.57 Net Taxable Acres in Zone 2 (as defined in the Rate and Method - Zone 2).

Assessor’s Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 92.57 Net Taxable Acres in Zone 2 will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

*Maximum Special Tax.* The Maximum Special Tax is defined in the Rate and Method as follows:

(i) Undeveloped Property: The amount determined by the application of the Assigned Annual Special Tax for Zone 2. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2009-10 is \$5,331.78 per acre of Acreage. On each July 1, commencing July 1, 2010, the Assigned Annual Special Tax applicable to an Assessor’s Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

(ii) Developed Property: The *greater* of (i) the application of the Assigned Annual Special Tax for Zone 2 or (ii) the application of the Backup Annual Special Tax for a given Final Subdivision Map.

The Assigned Annual Special Tax for Developed Property (whether detached or attached) in Fiscal Year 2009-10 is \$2,350.28 per Unit. Each July 1, commencing July 1, 2010, the Assigned Annual Special Tax for Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. See Zone 2 in APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX – Table 2” herein.

The “Backup Annual Special Tax” is based on the number of lots created by each Final Subdivision Map within Zone 2. There are currently three Final Subdivision Maps within Zone 2. The Backup Annual Special Tax for an Assessor’s Parcel of Developed Property in Fiscal Year 2009-10 is estimated to be between \$2,061.83 and \$3,418.85.

The minimum taxable acreage is 92.57 acres of Acreage for Zone 2.



*Method of Apportionment.* In Fiscal Year 2009-10 and for each subsequent Fiscal Year, the applicable Community Facilities District Representative shall determine the Annual Special Taxes to be collected in Zone 2 of the Community Facilities District in such Fiscal Year. The Annual Special Tax shall be levied as follows:

Step One: The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

Step Two: If the sum of the amounts levied on Assessor's Parcels in Step One is less than the Zone 2 Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 2 Annual Special Tax Requirement.

Step Three: If the sum of the amounts levied on Assessor's Parcels in Steps One and Two is less than the Zone 2 Annual Special Tax Requirement, then the Annual Special Tax shall on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 2 Annual Special Tax Requirement.

*Prepayment of Annual Special Taxes.* The Zone 2 Annual Special Tax obligation for an Assessor's Parcel of Developed Property or for an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full or in part, *provided* that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. See APPENDIX B – "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX – Section H" herein.

**Community Facilities District Rate and Method - Zone 3.** The Zone 3 2009 Special Tax Bonds, when issued, will fund School Facilities and will be secured by any Special Taxes levied pursuant to the Community Facilities District Rate and Method in Zone 3 only, and will not be payable from Special Taxes levied in Zone 2.

The Community Facilities District Rate and Method with respect to Zone 3 provides that the Annual Special Tax shall be levied for a term of 30 Fiscal Years after the issuance of the last series of special tax bonds with respect to Zone 3, but in no event later than Fiscal Year 2050-51. See APPENDIX B – "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX."

*Annual Zone 3 Special Tax Requirement.* Annually, at the time of levying the Special Tax for Zone 3, the Board of Education will determine the amount of money to be collected from Taxable Property in Zone 3 (the "Annual Special Tax Requirement"), which will be the amount required in any Fiscal Year to pay the following:

- (i) Annual debt service on all outstanding Zone 3 Bonds;
- (ii) Administrative Expenses of the Community Facilities District applicable to property within Zone 3;
- (iii) Any costs associated with the release of funds from an escrow account established in association with Zone 3 Bonds (there is no escrow fund established with respect to Zone 3); and

(iv) Any amount required to establish or replenish any reserve funds established in association with the Zone 3 Bonds; *less*

(v) Any amounts on deposit in any funds or accounts which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture or trust agreement.

*Developed and Undeveloped Property; Exempt Property.* The Community Facilities District Rate and Method declares that for each Fiscal Year, all Assessor's Parcels within Zone 3 shall be classified as Taxable Property or Exempt Property taking into consideration the minimum Net Taxable Acres and all Taxable Property shall be classified as Developed Property or Undeveloped Property and shall be subject to Special Taxes in accordance with the Community Facilities District Rate and Method with respect to Zone 3.

(i) "Developed Property" means all Assessor's Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, *provided* that such Assessor's Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a lot, as determined reasonably by the Board.

(ii) "Undeveloped Property" means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.

(iii) "Taxable Property" means all Assessor's Parcels which are not Exempt Property (as defined below) pursuant to law or the Community Facilities District Rate and Method with respect to Zone 3.

(iv) "Exempt Property" is defined to include the following:

(a) Assessor's Parcels owned by or irrevocably offered to the State of California, federal or other local governments;

(b) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization;

(c) Assessor's Parcels used exclusively by a homeowner's association;

(d) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction; and

(e) other types of Assessor's Parcels, at the reasonable discretion of the applicable Community Facilities District representative, *provided* that no such classification would reduce the acreage of all Taxable Property to less than 152.87 Net Taxable Acres in Zone 3 (as defined in the Rate and Method - Zone 3).

Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 152.87 Net Taxable Acres in Zone 3 will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

*Maximum Special Tax.* The Maximum Special Tax is defined in the Rate and Method as follows:

(i) Undeveloped Property: The amount determined by the application of the Assigned Annual Special Tax for Zone 3. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2009-10

is \$5,204.41 per acre of Acreage. On each July 1, commencing July 1, 2010, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

(ii) Developed Property: The *greater* of (i) the application of the Assigned Annual Special Tax for Zone 3 or (ii) the application of the Backup Annual Special Tax for a given Final Subdivision Map.

The Assigned Annual Special Tax for Developed Property (whether detached or attached) in Fiscal Year 2009-10 is \$2,333.12 per Unit. Each July 1, commencing July 1, 2010, the Assigned Annual Special Tax for Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. See Zone 3 in APPENDIX B – "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX – Table 2" herein.

The "Backup Annual Special Tax" is based on the number of lots created by each Final Subdivision Map within Zone 3. There are currently nine Final Subdivision Maps within Zone 3. The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2009-10 is estimated to be between \$2,163.90 and \$3,951.03.

The minimum taxable acreage is 152.87 acres of Acreage for Zone 3.

*Method of Apportionment.* In Fiscal Year 2009-10 and for each subsequent Fiscal Year, the applicable Community Facilities District Representative shall determine the Annual Special Taxes to be collected in Zone 3 of the Community Facilities District in such Fiscal Year. The Annual Special Tax shall be levied as follows:

Step One: The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

Step Two: If the sum of the amounts levied on Assessor's Parcels in Step One is less than the Zone 3 Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 3 Annual Special Tax Requirement.

Step Three: If the sum of the amounts levied on Assessor's Parcels in Steps One and Two is less than the Zone 3 Annual Special Tax Requirement, then the Annual Special Tax shall on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 3 Annual Special Tax Requirement.

*Prepayment of Annual Special Taxes.* The Zone 3 Annual Special Tax obligation for an Assessor's Parcel of Developed Property or for an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full or in part, *provided* that there are no delinquent Special Taxes, penalties or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. See APPENDIX B – "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX – Section H" herein.

**Rate and Method - Improvement Area B.** The Rate and Method - Improvement Area B provides the means by which the Board of Education may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. *The Special Tax Bonds do not include any funding for City Facilities, and the Special Tax Bonds are not secured by any*

*Special Taxes levied pursuant to the Improvement Area B Rate and Method.* The Improvement Area B Rate and Method generally provides the Annual Special Tax shall be levied for a term of 30 Fiscal Years after the last series of bonds have been issued, but in no event later than Fiscal Year 2050-51. Developed Property is subject to an Assigned Annual Special Tax ranging from \$1,499.56 to \$3,306.56 depending on the square footage of the attached or detached unit in Fiscal Year 2009-10 (escalated thereafter). Each of the foregoing special taxes represents the applicable Fiscal Year 2009-10 rate and is subject to escalation by 2% of the amount in effect in the prior Fiscal Year thereafter. See APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.”

**Rate and Method - Improvement Area C.** The Rate and Method - Improvement Area C provides the means by which the Board of Education may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. *The Special Tax Bonds do not include any funding for School Facilities, and the Special Tax Bonds are not secured by any Special Taxes levied pursuant to the Community Facilities District No. 11 Rate and Method for any of Zones 1 through 4.* The Improvement Area C Rate and Method generally provides the Annual Special Tax shall be levied for a term of 30 Fiscal Years after the last series of bonds have been issued for the applicable Zone, but in no event later than Fiscal Year 2050-51. Developed Property is subject to an Assigned Annual Special Tax ranging from \$1,474.32 to \$3,158.04 depending on the square footage of the attached or detached unit in Fiscal Year 2009-10 (escalated thereafter). Each of the foregoing special taxes represents the applicable Fiscal Year 2009-10 rate and is subject to escalation by 2% of the amount in effect in the prior Fiscal Year thereafter. See APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.”

### **Special Tax Delinquency**

According to the Special Tax collection data provided by the County, as of May 1, 2009, delinquencies in the payment of Fiscal Year 2008-09 special taxes and *ad valorem* taxes with respect to Developed Property were slightly lower than the reported delinquency levels for the prior fiscal year in Zone 2 and were higher than the reported delinquency levels for the prior fiscal year in Zone 3.

The School District is not aware of the causes for the increased delinquencies in the payment of property taxes for Fiscal Year 2008-09 in Zone 3; but to the extent an increase in delinquencies is indicative of a trend toward more significant property tax delinquencies, delinquencies in the payment of Special Taxes may continue at similar levels or increase in the near future.

Under Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, the Community Facilities District has the authority and the obligation to increase the levy of Special Taxes against non-delinquent property owners in Zone 2 or Zone 3, as applicable, if other owners in such Zone are delinquent. However, the Community Facilities District’s ability to increase Special Tax levies for this purpose is limited by two factors: (a) the maximum Special Tax rates set forth in the Community Facilities District Rate and Method and (b) the limitations on such increases set forth in the Mello-Roos Act, which provides that under no circumstances may the Special Tax levied against any parcel used for private residential purposes be increased as a consequence of delinquency or default by owner of any other parcel or parcels within the Community Facilities District by more than 10%. Thus the Community Facilities District may not be able to increase Special Tax levies in future Fiscal Years by enough to make up for delinquencies for prior Fiscal Years. This would result in defaults in the payment of principal and interest on the applicable Series of Special Tax Bonds, which in turn could result in draws on the Reserve Fund held by the Trustee for the Bonds.

Although the Community Facilities District with respect to Zone 2 and Zone 3 has covenanted under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, to commence and diligently pursue foreclosure under certain circumstances (see “SOURCES OF PAYMENT FOR THE BONDS – Covenant for

Superior Court Foreclose”), foreclosure delays may occur due to bankruptcy of delinquent property owners and other circumstances (see “BONDOWNERS’ RISKS”).

Delinquencies in the payment of property taxes and the Special Taxes may result from any of a number of factors, including the state of the local economy and the local real estate market, affecting individual property owners, which may or may not apply to the property owners in the Community Facilities District. See “BONDOWNERS’ RISKS” generally for discussion of certain potential causes of property tax delinquencies.

The following tables illustrate the historical delinquencies for Developed Property Special Taxes levied for Zone 2 and Zone 3 of the Community Facilities District from Fiscal Year 2006-07 to and including Fiscal Year 2008-09.

**Table 14**  
**Poway Unified School District**  
**Public Financing Authority**  
**Community Facilities District No. 11 Zone 2**  
**Developed Property Special Tax Delinquency History**

Fiscal Year	Parcels Levied	Aggregate Special Tax	Parcels Delinquent <sup>(1)(2)</sup>	Fiscal Year Amount Delinquent <sup>(1)(2)</sup>	Fiscal Year Delinquency Rate <sup>(1)(3)</sup>	Parcels Delinquent as of 6/1/09 <sup>(2)</sup>	Remaining Amount Delinquent as of 6/1/09 <sup>(2)</sup>	Remaining Delinquency Rate as of 6/1/09
2006-07	108	\$239,192	3	\$5,537	2.31%	1	\$1,107	0.46%
2007-08	127	286,898	12	23,720	8.27%	5	9,036	3.15%
2008-09 <sup>(3)</sup>	151	347,937	12	21,890	6.29%	12	21,890	6.29%

<sup>(1)</sup> Reflects fiscal year delinquencies on or about June 30<sup>th</sup> of the indicated fiscal year for Fiscal Year 2006-07 and Fiscal Year 2007-08, and as of June 1, 2009, for Fiscal Year 2008-09.

<sup>(2)</sup> Source: County Tax Collector.

<sup>(3)</sup> Reflects Fiscal Year 2008-09 delinquencies with respect to property levied as Developed Property in Fiscal Year 2008-09 on or about June 1, 2009.

Source: Dolinka Group, LLC.

**Table 15**  
**Poway Unified School District**  
**Public Financing Authority**  
**Community Facilities District No. 11 Zone 3**  
**Developed Property Special Tax Delinquency History**

Fiscal Year	Parcels Levied	Aggregate Special Tax	Parcels Delinquent <sup>(1)(2)</sup>	Fiscal Year Amount Delinquent <sup>(1)(2)</sup>	Fiscal Year Delinquency Rate <sup>(1)(3)</sup>	Parcels Delinquent as of 6/1/09 <sup>(2)</sup>	Remaining Amount Delinquent as of 6/1/09 <sup>(2)</sup>	Remaining Delinquency Rate as of 6/1/09
2007-08	68	\$152,491	1	\$1,121	0.74%	0	\$ 0	0.00%
2008-09 <sup>(3)</sup>	104	237,888	7	12,581	5.29%	7	12,581	5.29%

<sup>(1)</sup> Reflects fiscal year delinquencies on or about June 30<sup>th</sup> of the indicated fiscal year for Fiscal Year 2007-08, and as of June 1, 2009, for Fiscal Year 2008-09.

<sup>(2)</sup> Source: County Tax Collector.

<sup>(3)</sup> Reflects Fiscal Year 2008-09 delinquencies on or about June 1, 2009.

Source: Dolinka Group, LLC.

### **Special Taxes Are Not Within Teeter Plan**

The Special Taxes are not encompassed within the alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the California Revenue and Taxation Code (Section 4701 et seq.), commonly referred to as the “Teeter Plan.” The County has adopted a Teeter Plan under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies with the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include special taxes, assessments or reassessments in its Teeter Plan. The Special Taxes of the Community Facilities District are not included in the County’s Teeter Plan.

## **Tender for Bonds**

The Community Facilities District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting tender of the Special Tax Bonds in full payment or partial payment of any Zone 2 Special Taxes or Zone 3 Special Taxes unless it first receives a certificate of an Special Tax Consultant (as defined in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable) that accepting such tender will not result in the Community Facilities District having insufficient Special Tax Revenues to pay the principal of and interest on the applicable Special Tax Bonds when due.

## **BONDOWNERS' RISKS**

*In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the Bonds. The Authority and the Community Facilities District caution prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the applicable Special Tax Bonds which could result in the inability of the Authority to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.*

## **The Bonds**

The ability of the Authority to pay the principal of and interest on the Bonds depends upon the receipt by the Trustee of sufficient Revenues from repayment of the Special Tax Bonds, amounts on deposit in the Reserve Fund and interest earnings on amounts in the funds and accounts for the Bonds established by the Authority Indenture. A number of risks that could prevent the Community Facilities District from repaying the Special Tax Bonds are outlined below.

*Limited Liability of the Authority.* Except as expressly provided in the Authority Indenture, neither the Authority, nor the School District or Community Facilities District No. 1 in their respective capacities as members of the Authority, will have any obligation or liability of the Owners of the Bonds with respect to the payment when due of the debt service on the Special Tax Bonds by the Community Facilities District or with respect to the observance or performance by the Community Facilities District of other agreements, conditions, covenants and terms required to be observed or performed by the Community Facilities District, with respect to Zone 2 and Zone 3, under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, or with respect to the performance by the Authority Trustee of any obligation required to be performed by it under the Authority Indenture.

*Limited Secondary Market.* There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the Authority and the Community Facilities District have committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. 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 historic 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.

*Depletion of Reserve Fund.* The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund” herein). Funds in the Reserve Fund may be used to pay principal of and interest on the Bonds in the event the proceeds of the Special Tax Bonds debt service are insufficient due to delinquencies in Special Tax payments. If funds in the Reserve Fund for the Bonds are depleted, the funds can be replenished from the applicable Special Tax Bonds derived from the levy and collection of the Special Taxes that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Taxes against property within the Community Facilities District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the applicable Special Tax Bonds.

*Loss of Tax Exemption.* As discussed under the caption “CONCLUDING INFORMATION – Tax Exemption,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the Authority or the Community Facilities District to comply with certain provisions of the Code. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority has covenanted in the Authority Indenture and the Community Facilities District has covenanted in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the Authority or the Community Facilities District in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Authority Indenture.

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

*Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption.* Future legislative proposals, if enacted into law, clarification of the Internal Revenue Code of 1986, as amended, or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Internal Revenue Code of 1986, as amended, or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion.



*Limitations on Remedies.* Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. See “ – *No Acceleration Provisions*” below and “*BONDOWNERS’ RISKS – The Special Tax Bonds – Billing of Special Taxes*” herein.

*No Acceleration Provision.* The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Authority Indenture. Pursuant to the Authority Indenture, any Owner of any of the Bonds is given the right for the equal benefit and protection of all Owners similarly situated to pursue certain remedies. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

## **The Special Tax Bonds**

*Risks of Real Estate Secured Investments Generally.* The Bondowners 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 Community Facilities District, the supply of or demand for competitive properties in such area and the market value of property in the event of sale or foreclosure; (ii) changes in real estate tax rate and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, fire and floods), which may result in uninsured losses.

*Risks Related to Current Real Estate 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. In 2006, home developers, appraisers and market absorption consultants began to report weakening 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) a growing supply of new and existing homes available for purchase; (v) increase in competition for new homes orders, including from foreclosure sales of homes whose owners were delinquent in loan or property tax payments; (vi) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; and (vii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts.

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

The price of the homes is such that potential homeowners may not qualify for conforming loans, and, in addition, as a result of the tightening credit market, potential homeowners in the Community Facilities District may have difficulty finding financing and changing interest rates may price potential homeowners out of the market. This could result in a slow down in the resale of homes in the Community Facilities District, and a reduction in home sales prices.

*The Special Tax Bonds are Limited Obligations of the Community Facilities District.* The Community Facilities District has no obligation to pay principal of and interest on the Special Tax Bonds

in the event Special Tax collections are delinquent other than from funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Taxes are delinquent nor is the Community Facilities District obligated to advance funds to pay such debt service on the Special Tax Bonds.

*Special Taxes are Not Personal Obligations.* The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the owner under the laws by which the Special Tax has been levied and the Special Tax Bonds have been issued.

*Appraised Values.* The Appraisal summarized in Appendix C hereto estimates the fee simple interest market value of the residential property within Zone 2 and Zone 3. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The School District has not sought the present opinion of any other appraiser of the value of the Taxable Property. A different present opinion of such value might be rendered by a different appraiser.

The opinion of value relates to a sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell nor to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

In addition, the opinion is a present opinion. It is based upon present facts and circumstances. Differing facts and circumstances may lead to differing opinions of value. The appraised market value is not evidence of future value because future facts and circumstances may differ significantly from the present.

No assurance can be given that if any of the Taxable Property in Zone 2 or Zone 3 should become delinquent in the payment of Special Taxes, and be foreclosed upon, that such property could be sold for the amount of estimated market value thereof contained in the Appraisal.

*Assessed Value.* Prospective purchasers of the Bonds should not assume that the land within the Community Facilities District could be sold for the assessed amount described in this Official Statement at a foreclosure sale for delinquent Special Taxes. The assessed value summarized hereto estimates the fee simple interest assessed value of the property within Zone 2 or Zone 3 of the Community Facilities District. This value is merely the amount of the assessed value in the records maintained by the County Assessor. The Authority and the Community Facilities District have not sought the present opinion of any appraiser of the value of the Taxable Property.

The assessed value relates to a sale by a willing seller to a willing buyer at a point in time, as adjusted by State law. Consequently, the assessed value is of limited use in predicting the selling price at a foreclosure sale because the sale is forced and the buyer may not have the benefit of full information.

No assurance can be given that if any of the Taxable Property in Zone 2 or Zone 3 of the Community Facilities District should become delinquent in the payment of Special Taxes and be foreclosed upon, that such property could be sold for the assessed value. See “THE COMMUNITY FACILITIES DISTRICT – Assessed Property Values.”

*Value-to-Lien Ratios.* Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is

mathematically a fraction, the numerator of which is the value of the property (usually either the assessed value or a market value as determined by an appraiser) and the denominator of which is the “lien” of the assessments or special taxes. A value-to-lien ratio should not, however, be viewed as a guarantee of credit-worthiness. Land values are especially sensitive to economic cycles. A downturn of the economy may depress land values and hence the value-to-lien ratios. Further, the value-to-lien ratio cited for a bond issue is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a 1:1 ratio, the land is worth less than the debt on it.) Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete and the bankruptcy courts may impede the foreclosure action. Finally, local agencies may form overlapping community facilities districts or assessment districts. They typically do not coordinate their bond issuances. Debt issuance by another entity can dilute value-to-lien ratios. See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt.”

*Limited Obligation.* Neither the faith and credit nor the taxing power of the School District, the State or any political subdivision thereof, other than the Community Facilities District, is pledged to the payment of the Special Tax Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Special Tax Bonds. The Special Tax Bonds are not general or special obligations of the School District, the State or any political subdivision thereof nor general obligations of the Community Facilities District but are special obligations of the Community Facilities District, payable solely from Net Special Taxes and the other assets pledged therefor under Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

*Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property.* While the Special Taxes are secured by the Taxable Property, the security only extends to the value of such Taxable Property that is not subject to priority and parity liens and similar claims.

The tables in the section entitled “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt” state the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property and furthermore states the additional amount of general obligation bonds the tax for which, if and when issued, may become an obligation of one or more of the parcels of Taxable Property. The tables do not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Taxes securing the Bonds.

In general, as long as the Special Taxes are collected on the County tax roll, the Special Taxes and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the Bonds, the Special Taxes will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges and will share the proceeds of such foreclosure proceedings on a pro rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Taxes or not, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Taxes is a claim with regard to a hazardous substance. See “Hazardous Substances” below.

*Disclosure to Future Purchasers.* The Community Facilities District recorded a Notice of Special Tax Lien for the territory included in the Community Facilities District in the Office of the County Recorder as described in “THE COMMUNITY FACILITIES DISTRICT – General.” 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 commercial facility or residential units or the 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 Taxes when due.

*Special Tax Delinquencies.* In order to pay debt service on the Special Tax Bonds, it is necessary that the Special Taxes within Zone 2 or Zone 3, as applicable, of the Community Facilities District be paid in a timely manner. Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of and interest on the Special Tax Bonds are derived, are customarily billed to the properties within the Community Facilities District on the regular *ad valorem* property tax bills sent to owners of such properties. Such Special Tax installments are due and payable and bear the same penalties and interest for non-payment as do regular *ad valorem* property tax installments. The unwillingness or inability of a property owner to pay *ad valorem* property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. If a substantial number of homeowners fail to pay the Special Taxes when due, there could be significant special tax delinquencies.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Special Tax Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of such sales. Such a delay could adversely affect the Authority’s ability to pay principal of or interest on the Bonds.

See “SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure,” for a discussion of the provisions which apply and procedures which the Community Facilities District are obligated to follow under the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, in the event of delinquencies in the payment of Special Taxes. See “Bankruptcy and Foreclosure Delay” below, for a discussion of limitations on the Community Facilities District’s ability to foreclosure on the lien of the Special Taxes in certain circumstances.

*Bankruptcy and Foreclosure Delay.* The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of delinquent Special Taxes as discussed in the section herein entitled “SOURCES OF PAYMENT FOR THE BONDS” may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

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

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting superior court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments.

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. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor has 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 the Special Taxes levied after the filing of a petition in bankruptcy. *Glasply* is controlling precedent for bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Tax, the amount of Special Tax received from parcels whose owners declare bankruptcy could be reduced.

It should also be noted that on October 22, 1994, Congress enacted 11 U.S. C. Section 362(b)(18), which added a new exception to the automatic stay for *ad valorem* property taxes imposed by a political subdivision after the filing of a bankruptcy petition. Pursuant to this new provision of law, in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for *ad valorem* taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S. C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like *ad valorem* taxes for this purpose.

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond the control of the Community Facilities District or the School District. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes will take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the “minimum bid amount” which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys’ fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single “bulk” foreclosure sale. If any parcel fails to obtain a “minimum bid,” the Community Facilities District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such superior court approval requires the consent of the owners of 75% of the aggregate principal amount of the Outstanding Bonds.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service, if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

*Exempt Properties.* Certain parcels (primarily park sites and open space areas) are exempt from the Special Tax in accordance with the Community Facilities District Rate and Method and applicable provisions of the Act. The Act provides that properties or entities of the State, federal or local government are exempt from the Special Tax; *provided, however*, that property within the Community Facilities District acquired by a public entity through negotiated transactions, or by gift or devise, which is not otherwise exempt from the Special Tax will continue to be subject to the Special Tax. In addition, the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity, such as the federal government or another public agency, subject to the limitation of the maximum authorized rate of levy, the Special Tax may be reallocated to the remaining taxable properties within the Community Facilities District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax; however, the amount of Special Tax to be levied and collected from the property owner is subject to the Maximum Special Tax as set forth in the Community Facilities District Rate and Method. If a substantial portion of land within the Community Facilities District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Special Tax Bonds when due and a default will occur with respect to the payment of such principal and interest.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax. The Act would prohibit the Board from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the Board determined that the reduction or termination of the Special Tax “would not interfere with the timely retirement” of the Special Tax Bonds. See “ – *Right to Vote on Taxes Act*” below.

*Maximum Rates.* Within the limits of the Community Facilities District Rate and Method, the Community Facilities District may adjust the Special Tax levied on property within Zone 2 or Zone 3, as applicable, to provide an amount required to pay debt service on the applicable Series of Special Tax Bonds and other obligations of the Community Facilities District with respect to the applicable Zone, to pay its annual Administrative Expenses and make rebate payments to the United States of America government. However, the amount of the Special Tax that may be levied against particular categories of property within Zone 2 or Zone 3 of the Community Facilities District is subject to the maximum rates provided in the Community Facilities District Rate and Method. There is no assurance that the maximum rates will at all times be sufficient to pay the amounts required to be paid by the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable. See “SOURCES OF PAYMENT FOR THE BONDS – The Special Tax Bonds” and “THE COMMUNITY FACILITIES DISTRICT – Rates and Methods of Apportionment of Special Tax.”

*Insufficiency of Special Taxes.* Under the Community Facilities District Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the Community Facilities District will be based primarily on whether such parcel is developed or not and, for Developed Property, on the type of structure and square footage of buildings constructed. See APPENDIX B – “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX.”

*Community Facilities District Formation.* California voters, on June 6, 1978, approved an amendment (“Article XIII A”) to the California Constitution. Section 4 of Article XIII A, requires a vote of two-thirds of the qualified electorate to impose “special taxes,” or any additional *ad valorem*, sales or transaction taxes on real property. At an election held pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance the applicable project and approved the Rate and Method of Apportionment. The Supreme Court of the State of California has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIII A nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a “special tax” for purposes of Article XIII A.

Section 53341 of the Act requires that any action or proceeding to attack, review, set aside, void or annul the levy of a special tax or an increase in a special tax pursuant to the Act shall be commenced within 30 days after the special tax is approved by the voters. No such action has been filed with respect to the Special Tax.

*Billing of Special Taxes.* A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the district.

Under provisions of the Act, the Special Taxes are billed to the properties within Zone 2 or Zone 3, as applicable, which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See “SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure” for a

discussion of the provisions which apply and procedures which the Community Facilities District is obligated to follow in the event of delinquency in the payment of installments of Special Taxes.

*Collection of Special Tax.* In order to pay debt service on the Bonds, it is necessary that the Special Tax levied against land within Zone 2 and Zone 3 of the Community Facilities District be paid in a timely manner so that debt service on each applicable Series of the Special Tax Bonds is paid in a timely manner. The Community Facilities District has covenanted in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, under certain conditions to institute foreclosure proceedings against property with delinquent Special Taxes in order to obtain funds to pay debt service on the applicable Series of Special Tax Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the Authority, as the owner of the Special Tax Bonds, pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. 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. Although the Act authorizes the Board to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See “SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure.”

*Seismic Conditions.* The Community Facilities District is located in a seismically active region in Southern California. Active faults which could cause significant ground shaking over the Community Facilities District. Earthquakes of magnitude of 6 (Rose Canyon fault) to 8 (San Andreas fault) on the Richter scale are possible.

In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Community Facilities District. As a result, the property owners may be unable or unwilling to pay the Special Taxes when due, and the Reserve Fund may eventually become depleted. In addition, the value of land in the Community Facilities District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes. Development within the Community Facilities District has been built in accordance with applicable building codes, including requirements relating to seismic safety. No assurances can be given that any earthquake insurance will be obtained as to any of the improvements within the Community Facilities District.

*Hazardous Substances.* While government taxes, assessments and charges are a common claim against the value of a taxed parcel, other less common claims can occur. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Taxes is a claim with regard to hazardous substances. In general, the owners and operators of a parcel may be required by law to remedy conditions 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 “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) had anything to do with creating or handling the hazardous substance. The effect therefore, should any of the parcels be affected by a hazardous substance, would be to reduce the marketability and value 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 land within Zone 2 or Zone 3 of the Community Facilities District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or 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 adversely affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

*Right to Vote on Taxes Act.* An initiative measure commonly referred to as the “Right to Vote on Taxes Act” (the “Proposition 218”) was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Article XIIC (“Article XIIC”) and Article XIID (“Article XIID”) to the California Constitution. According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of Proposition 218 have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of Proposition 218.

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 signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

“Section 3 of Article XIIC 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 Proposition 218 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 Special Tax Bonds.

It may be possible, however, for voters or the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Special Tax Bonds but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. 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 Special Tax Bonds.

Like its antecedents, Proposition 218 is likely to undergo both judicial and legislative scrutiny before its impact on the Community Facilities District and its obligations can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law. The Community Facilities District is not able to predict the outcome of

any such examination. The Community Facilities District has covenanted in the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable, not to modify the maximum authorized Special Taxes in a manner which would prohibit the Community Facilities District from levying the Special Tax in any Fiscal Year at such a rate as could generate Special Taxes in each Fiscal Year at least equal to 110% of Annual Debt, plus the Administrative Expense Requirements.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Special Tax Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

*Ballot Initiatives and Legislative Measures.* Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process, and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the School District or local districts to increase revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

## **THE AUTHORITY**

The Authority is a joint powers authority established by the School District and CFD No. 1 and constitutes a public instrumentality of the State. The Authority was formed for the public purpose of assisting in financing public capital improvements of the School District. The debts of the Authority are not an obligation of either the School District or CFD No. 1. The Authority was formed pursuant to a joint powers agreement approved and executed by the School District and CFD No. 1, dated October 21, 2002. The Authority is governed by a five-member Board of Directors which consists of all members of the Board. The President of the Board has been appointed the President of the Authority. The School District Superintendent acts as the Secretary of the Authority.

The Joint Powers Act provides for the issuance of revenue bonds of joint powers authorities, such as the Authority, to be repaid solely from the revenues of certain public obligations, such as the Special Tax Bonds. The Authority has no taxing power. Pursuant to the Joint Powers Act, the Authority is authorized to issue its revenue bonds for the purpose of financing, among other things, public capital improvement projects or to refund outstanding obligations of local entities.

The Bonds are being sold to provide money to enable the Authority to purchase the Special Tax Bonds. On May 18, 2009, by the adoption of Resolution No. 56-2009, the Authority authorized the execution of the Authority Indenture and the purchase of the Special Tax Bonds.

**THE AUTHORITY IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS, EXCEPT FROM REVENUES RECEIVED BY THE AUTHORITY. THE SCHOOL DISTRICT HAS NO LIABILITY WITH RESPECT TO THE PAYMENT OF THE BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING**

POWER OF THE STATE OF CALIFORNIA OR THE SCHOOL DISTRICT IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Authority may issue obligations other than the Bonds, which other obligations are and will be secured by instruments and revenues separate and apart from the Authority Indenture and the Bonds. The holders of such obligations of the Authority have no claim on the security of the Bonds, and the owners of the Bonds will have no claim on the security of such other obligations issued by the Authority.

## CONCLUDING INFORMATION

### **Tax Exemption**

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Community Facilities District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the Community Facilities District have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross

income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

### **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the Bonds or the Special Tax Bonds. There is no action, suit or proceeding known by the Authority or the Community Facilities District to be pending at the present time restraining or enjoining the delivery of the Bonds or the Special Tax Bonds, or in any way contesting or affecting the validity of the Bonds or the Special Tax Bonds or any proceedings of the Authority or the Community Facilities District taken with respect to the execution thereof. No litigation certificates executed by the Authority and the Community Facilities District will be delivered to the Underwriter simultaneously with the delivery of the Bonds.

### **No General Obligation of Authority, School District or Community Facilities District**

The Bonds are not general obligations of the Authority, School District or the Community Facilities District but are limited obligations of the Authority payable from Revenues derived from the Special Tax Bonds. The Special Tax Bonds are not general obligations of the Community Facilities District but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Taxes and proceeds of the Special Tax Bonds, including amounts in the Special Tax Fund and Bond Service Fund and investment income on funds held pursuant to the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the Special Tax Bonds shall be limited to the Special Taxes to be collected within the Community Facilities District.

### **Legal Opinion**

All proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Best Best & Krieger LLP, San Diego, California, Bond Counsel for the Authority and the Community Facilities District, in connection with the Bonds and the Special Tax Bonds. The unqualified opinion of Bond Counsel approving the validity of the Bonds will be attached to each Bond, and the form of such opinion is attached hereto as Appendix F. Bond Counsel's employment is limited to a review of legal procedures required for the approval of the Bonds and the Special Tax Bonds and to rendering an opinion as to the validity of the Bonds and the Special Tax Bonds and the exemption of interest on the Bonds from income taxation. Certain legal matters will also be passed upon by McFarlin & Anderson LLP, Lake Forest, California, as Disclosure Counsel. Best Best & Krieger LLP will also pass upon certain legal matters for the Authority, the School District and the Community Facilities District as special counsel to these entities. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

## **No Ratings**

The Bonds have not been rated by any securities rating agency.

## **Underwriting**

The Bonds are being purchased by Stone & Youngberg LLC (the “Underwriter”) at a purchase price of \$8,726,635.55 (which represents the principal amount of the Bonds of \$8,995,000.00, less the Net Original Issue Discount of \$45,632.70 and less the Underwriter’s discount of \$222,731.75). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such Bond Purchase Agreement.

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

## **Professional Fees**

Fees payable to certain professionals, including the Underwriter, McFarlin & Anderson LLP, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, and Zions First National Bank, as the Trustee and as the Fiscal Agent, are contingent upon the issuance of the Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the Bonds. The fees of Dolinka Group, LLC, as Independent Financial Consultant, are in part contingent upon the issuance of the Bonds.

## **Additional Information**

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority, the Community Facilities District or the School District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority and the School District and on behalf of the Community Facilities District.

POWAY UNIFIED SCHOOL DISTRICT PUBLIC  
FINANCING AUTHORITY AND POWAY UNIFIED  
SCHOOL DISTRICT, ON BEHALF OF AND FOR  
POWAY UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 11  
(STONEBRIDGE ESTATES)

By: /s/ John P. Collins, Ed.D.  
John P. Collins, Ed.D., Deputy Superintendent  
of the Poway Unified School District, as Auditor  
and Treasurer of the Poway Unified School  
District Public Financing Authority and Poway  
Unified School District, on behalf of and for  
Community Facilities District No. 11  
(StoneBridge Estates)

## APPENDIX A

### GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT

*The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor the taxing power of the School District has been pledged to payment of the Bonds, and the Bonds will not be payable from any of the School District's revenues or assets.*

#### **Introduction**

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3034, Attention: Chief Financial Officer.

#### **General Information**

The Poway Unified School District (the "School District") is a school district organized under the laws of the State of California. The School District was established in 1962. The School District provides education instruction for grades K-12 within an approximately 100 square mile area of the County of San Diego (the "County"). The School District currently operates 25 (K-5) elementary schools, 6 (6-8) middle schools, 4 comprehensive high schools (9-12), one continuation high school and one (1) adult school. A new high school (9-12) is scheduled to open in August, 2009 with 9<sup>th</sup> grade. A new grade level will be added in each of the next three years. The School District includes the City of Poway, portions of the City of San Diego and unincorporated areas of the County. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2008-09 academic year is approximately 32,539 (estimate). As of January 1, 2009, the estimated population within the School District's boundaries was approximately 191,108 and 33,306 students attended schools in the School District on California Basic Education Data System ("CBEDS") (October 2008).

#### **Administration and Enrollment**

The School District is governed by the Board of Education. The five Board members are elected to four-year terms in alternate slates of three and two in elections held every two years. If a vacancy arises during any term, the vacancy is filled by an appointment by a majority vote of the remaining Board members and, if there is no majority, by a special election.

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs a Deputy Superintendent, a Chief Financial Officer, an Associate Superintendent and two Assistant Superintendents.

From Fiscal Year 2004-05 through Fiscal Year 2008-09 the School District's enrollment has been stable. Information concerning enrollment for these years is set forth below:

**Poway Unified School District  
Student Enrollment**

<b>Fiscal Year</b>	<b>CBEDS Enrollment</b>	<b>District Average Daily Attendance</b>	<b>District Base Revenue Limit</b>
2004-05	32,915	31,797	\$4,809.31
2005-06	32,645	31,590	5,125.00
2006-07	32,873	31,817	5,527.00
2007-08	33,283	32,075	5,780.00
2008-09	33,306	32,539	6,109.97

*Source: California Department of Education and the School District.*

**Labor Relations**

As of May 1, 2009, the School District employed approximately 1,919 certificated professionals and approximately 1,867 classified employees. The certificated professionals, except management and some part-time employees, are represented by the bargaining units as noted below:

**Poway Unified School District  
District Employees**

<b>Labor Organization</b>	<b>Approximate Number of Employees In Organization</b>	<b>Contract Expiration Date</b>
Poway Federation of Teachers (PFT), Local 2357	1,729	6/30/09
Service Employees International Union	474	6/30/10
California Schools Employees Association	1,295	6/30/09

*Source: The School District.*

**Retirement Programs**

The School District participates in the State of California Teachers Retirement System (“STRS”). This plan covers certificated employees. The School District’s contribution to STRS for Fiscal Year 2006-07 was \$10,869,404, in Fiscal Year 2007-08 was \$11,418,456, and in Fiscal Year 2008-09 was budgeted at \$11,192,021. The School District estimates that its contribution to STRS for Fiscal Year 2009-10 will be approximately \$11,300,040. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees Retirement System (“PERS”). This plan covers certified employees who elect and all classified personnel who are employed 1,000 or more hours per fiscal year. The School District’s contribution to PERS for Fiscal Year 2006-07 was \$4,430,814, in Fiscal Year 2007-08 was \$4,798,874, and in Fiscal Year 2008-09 was budgeted at \$5,078,343. The School District estimates that its contribution to PERS for Fiscal Year 2009-10 will be approximately \$5,133,761.



Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in retirement benefits. The contribution rates are based on statewide rates set by the STRS and PERS retirement boards. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the School District's share.

The School District offers post retirement benefits for employees up to age 65. The School District's contribution for these benefits for the Fiscal Year ending June 30, 2007, was \$942,340, for Fiscal Year ending June 30, 2008, was \$1,134,471, for Fiscal Year ending June 30, 2009 was budgeted at approximately \$1,158,386, and the School District estimates that its contribution for these benefits will be approximately \$1,239,754 for Fiscal Year 2009-10. The program is operated on a pay-as-you go basis and budgets the current costs each year with an increase based on actual health and welfare increases.

## **Insurance**

The School District maintains commercial insurance or self-insurance for property damage, general liability and workers' compensation in such amounts and with such retentions and other terms as the School District believes to be adequate based on actual risk exposures and as may be required by statute.

In 1998, the State of California authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. The School District responded by implementing such a plan on July 1, 1998. Effective July 1, 2005, the School District joined a fully insured workers' compensation Joint Powers Authority (JPA) known as the Protected Insurance Program for Schools ("PIPS"). The School District retains responsibility for all previous self-insured claims and will manage them until they close. Kennan & Associates is the claims administrator for both self-insured and PIPS claims.

The School District operates a self-insurance program to cover general liability claim losses up to a limit of \$50,000 per claim, and for property losses up to \$5,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through membership in a joint powers authority (the Southern California Regional Liability Excess Fund) ("SCR"). The joint powers authority provides general liability coverage up to \$25 million per occurrence (minus a \$50,000 retention) and property loss coverage up to \$250,000,000 per occurrence (minus a \$5,000 retention).

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**APPENDIX B**

**RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX**

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**RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 11  
OF THE POWAY UNIFIED SCHOOL DISTRICT**

A Special Tax shall be levied on and collected in Community Facilities District ("CFD") No. 11 of the Poway Unified School District ("School District") each Fiscal Year in an amount determined through the application of the rate and method of apportionment described below. All of the real property in CFD No. 11, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"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 Subdivision Map, other final map, parcel map, condominium plan, or other recorded parcel map at the County.

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

**"Administrative Expenses"** means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of CFD No. 11.

**"Annual Special Tax"** means the Special Tax levied each Fiscal Year on an Assessor's Parcel as set forth in Section G.

**"Assessor's Parcel"** means a Lot or parcel of land in CFD No. 11 which is designated on 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.

**"Assessor's Parcel Number"** means that number assigned to an Assessor's Parcel by the Assessor of the County for purposes of identification.

**"Assigned Annual Special Tax"** means the Special Tax of that name as set forth in Section D.

**"Assigned Unit"** means any of up to 106 Units assigned this classification in writing to the Associate Superintendent at the Developer's election at the time the applicable Building Permit is issued provided that each such Unit is an Attached Unit. Under no circumstance may the Developer assign more than 106 Units this classification.

**"Associate Superintendent"** means the Associate Superintendent of Business Support Services of the School District or his/her designee.

**"Attached Units"** means an Assessor's Parcel of Residential Property that consists of or shall consist of a building or buildings in which each of the individual Units have at least one common wall with another Unit.

**"Backup Annual Special Tax"** means the Special Tax of that name described in Section E below.

**"Board"** means the Board of Education of the School District or its designee.

**"Building Permit"** means a permit for the construction of one or more Units, issued by the City, or other public agency in the event the City no longer issues said permits for the construction of Units within CFD No. 11. For purposes of this definition, "Building Permits" shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, and utility improvements not intended for human habitation.

**"Calendar Year"** means any period beginning January 1 and ending December 31.

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

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

**"Detached Unit"** means a Unit that is not an Assigned Unit or an Attached Unit.

**"Developed Property"** means all Assessor's Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.

**"Developer"** means any "Owner" defined as such in the certain School Impact Mitigation and Public Facilities Funding Agreement by and among the School District, Sycamore Estates, LLC, a Delaware limited liability company, Sycamore Estates II, LLC, a Delaware limited liability company, McMillin Montecito 109, LLC, a Delaware limited liability company, Brookfield 6 LLC, a Delaware limited liability company, and Brookfield 8 LLC, a Delaware limited liability company.

**"Exempt Property"** means the property designated as Exempt Property in Section K.

**"Final Subdivision Map"** means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates individual Lots, recorded in the Office of the Recorder of the County.

**"Fiscal Year"** means the period commencing on July 1 of any year and ending the following June 30.

**"Gross Prepayment Amount"** means any amount determined by reference to Tables 6, 7, 8 and 9 and adjusted as set forth in Section H.

**"Indenture"** means the bond indenture, master trust agreement, fiscal agent agreement, or similar document regardless of title, pursuant to which Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds are issued and which establishes the terms and conditions for the payment of applicable bonds as modified, amended and/or supplemented from time to time in accordance with its terms.

**"Lot"** means an individual legal lot created by a Final Subdivision Map for which a Building Permit for a Unit has been or could be issued, provided that land for which one or more Building Permits have been or could be issued for the construction of one or more model Units shall not be construed as a Lot until such land has been subdivided by a Final Subdivision Map.

**"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C, which can be levied by CFD No. 11 on any Assessor's Parcel in any Fiscal Year.

**"Net Taxable Acres"** means the total Acreage of all Taxable Property expected to exist in a given Zone after all Final Subdivision Maps are recorded.

**"Partial Prepayment Amount"** means the amount required to prepay a portion of the Annual Special Tax obligation of any Assessor's Parcel determined pursuant to Section I.

**"Prepayment Amount"** means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, as determined pursuant to Sections H.

**"Prepayment Ratio"** means with respect to an Assessor's Parcel, for each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, the ratio of (i) the Annual Special Tax revenue or portion thereof applicable to the Assessor's Parcel at the time each such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds were issued and which were used in providing the minimum debt service coverage required to issue such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, as reasonably determined by the Board, to (ii) the sum of all Annual Special Tax revenue used in providing the minimum debt service coverage required to issue such series of applicable Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, as reasonably determined by the Board.

**"Proportionately"** means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor's Parcels.

**"Regularly Retired Principal"** means the principal amount of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds that have been paid as scheduled pursuant to the Indenture under which they were reserved, whether by virtue of maturing principal or regularly scheduled mandatory sinking fund redemptions.

**"Residential Property"** means all Assessor's Parcels of Developed Property for which a Building Permit was issued for the construction of a Unit.

**"Special Tax"** means any of the special taxes authorized to be levied in CFD No. 11 under the Act.

**"Taxable Property"** means all Assessor's Parcels which are not Exempt Property.

**"Undeveloped Property"** means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.

**"Unit"** means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

**"Zone"** means the areas identified as a Zone and illustrated in Section N.

**"Zone 1"** means all property located within the area identified as Zone 1 in Section N, subject to interpretation by the Board.

**"Zone 1 Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 1 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 1, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 1 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 1 Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

**"Zone 1 Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes within Zone 1 of CFD No. 11 are pledged.

**"Zone 2"** means all property located within the area identified as Zone 2 in Section N, subject to interpretation by the Board.

**"Zone 2 Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 2 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 2, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 2 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 2 Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

**"Zone 2 Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes within Zone 2 of CFD No. 11 are pledged.

**"Zone 3"** means all property located within the area identified as Zone 3 in Section N, subject to interpretation by the Board.

**"Zone 3 Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 3 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 3, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 3 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 3 Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.



**"Zone 3 Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes within Zone 3 of CFD No. 11 are pledged.

**"Zone 4"** means all property located within the area identified as Zone 4 in Section N, subject to interpretation by the Board.

**"Zone 4 Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 4 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 4, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 4 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 4 Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

**"Zone 4 Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes within Zone 4 of CFD No. 11 are pledged.

## **SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS**

For each Fiscal Year, beginning with Fiscal Year 2004-05, each Assessor's Parcel in CFD No. 11 shall be assigned to a Zone. Each Assessor's Parcel in a Zone shall be classified as Taxable Property or Exempt Property taking into consideration minimum Net Taxable Acreage as set forth in Section J. Each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and each Assessor's Parcel of Developed Property shall be classified according to Unit type.

## **SECTION C MAXIMUM SPECIAL TAX**

### **1. Developed Property**

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax for such Zone or (ii) the Backup Annual Special Tax for a given Final Subdivision Map.

### **2. Undeveloped Property**

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property within a particular Zone in any Fiscal Year shall be the Assigned Annual Special Tax for such Zone.

**SECTION D  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2004-05 shall be the amount determined by reference to Tables 1, 2, 3, or 4 according to the Zone in which the Assessor's Parcel is located and the Unit type.

**TABLE 1**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR DEVELOPED PROPERTY WITHIN ZONE 1  
FISCAL YEAR 2004-05**

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,019.35
Assigned Unit	\$0.00

**TABLE 2**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR DEVELOPED PROPERTY WITHIN ZONE 2  
FISCAL YEAR 2004-05**

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,128.74
Assigned Unit	\$0.00

**TABLE 3**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR DEVELOPED PROPERTY WITHIN ZONE 3  
FISCAL YEAR 2004-05**

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,113.19
Assigned Unit	\$0.00

**TABLE 4**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR DEVELOPED PROPERTY WITHIN ZONE 4  
FISCAL YEAR 2004-05**

<b>Unit Type</b>	<b>Assigned Annual Special Tax</b>
Attached Unit / Detached Unit	\$2,019.35
Assigned Unit	\$0.00

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property in each Zone shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**2. Undeveloped Property**

The Assigned Annual Special Tax per acre of Acreage for an Assessor's Parcel of Undeveloped Property within a particular Zone for Fiscal Year 2004-05 shall be determined by reference to Table 5.

**TABLE 5**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR UNDEVELOPED PROPERTY  
FISCAL YEAR 2004-05**

<b>Zone</b>	<b>Assigned Annual Special Tax</b>
1	\$9,947.69 per acre
2	\$4,829.16 per acre
3	\$4,713.79 per acre
4	\$9,947.69 per acre

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property in each Zone shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**SECTION F  
BACKUP ANNUAL SPECIAL TAX**

Each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax for Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z \times A) / L$$

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per Acre of Undeveloped Property for the applicable Zone for the applicable Fiscal Year
A	=	Acreage of Developed Property expected to exist in the applicable Final Subdivision Map at build-out, as determined by the Associate Superintendent pursuant to Section K
L	=	Lots in the Final Subdivision Map

Notwithstanding the foregoing, if all or any portion of the Final Subdivision Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Annual Special Tax for each Assessor's Parcel of Developed Property in such Final Subdivision Map area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, as reasonably determined by the Board.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

## SECTION G METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

### Zone 1

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 1 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

**First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

**Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 1 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 1 Annual Special Tax Requirement.

**Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 1 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 1 Annual Special Tax Requirement.

## **Zone 2**

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 2 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

**First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

**Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 2 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 2 Annual Special Tax Requirement.

**Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 2 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 2 Annual Special Tax Requirement.

## **Zone 3**

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 3 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

**First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

**Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 3 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 3 Annual Special Tax Requirement.

**Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 3 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 3 Annual Special Tax Requirement.

## **Zone 4**

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 4 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

- First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.
- Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 4 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 4 Annual Special Tax Requirement.
- Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 4 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 4 Annual Special Tax Requirement.

## **SECTION H PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of 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 prepaid. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 11 with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Board shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount.

### **1. Bond Proceeds Allocation**

Prior to the calculation of any Tax Prepayment Amount, a calculation shall be performed to determine the amount of Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds that are allocable to the Assessor's Parcel for which the Annual Special obligation is to be prepaid, if any. For purposes of this, calculation Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds shall equal the par amount of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds. For each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds proceeds of such series shall be allocated to each Assessor's Parcel in an amount equal to the Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds times the Prepayment Ratio applicable to such Assessor's Parcel for such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds. For each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds, an amount of Regularly Retired Principal shall also be allocated to each Assessor's Parcel to be calculated pursuant to Section H.3E. If, after such allocations, the amount of (i) Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds allocated to the Assessor's Parcel for which the Annual Special Tax obligation is to be prepaid less the amount of Regularly Retired Principal allocated to such Assessor's Parcel is less than (ii) the sum of all the Gross Prepayment Amounts applicable to

such Assessor's Parcel pursuant to Section H.2., then the Prepayment Amount for such Assessor's Parcel shall be calculated pursuant to Tables 6,7,8 or 9 of Section H.2. Otherwise, the Prepayment Amount shall be calculated pursuant to Section H.3.

2. **Prepayment Amount for Assessor's Parcel with Allocation of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds Less than Applicable Gross Prepayment Amounts**

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section H.2. shall be calculated by (i) counting all the Units of each Unit type applicable to such Assessor's Parcel, (ii) multiplying the sum of the Units for each Unit type for such Assessor's Parcel by the applicable Gross Prepayment Amount per Unit for the Zone in which such Assessor's Parcel is located as set forth in Table 6,7, 8 or 9, and (iii) adding all the products derived from the immediately preceding step. This sum is the Prepayment Amount for the Assessor's Parcel calculated pursuant to H.2. The Gross Prepayment Amounts shall be determined by reference to Tables 6, 7, 8 or 9.

**TABLE 6**

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05  
FOR PROPERTY WITHIN ZONE 1**

<b>Unit Type</b>	<b>Gross Prepayment Amount</b>
Attached Unit/Detached Unit	\$19,484.84 per Unit
Assigned Unit	\$0.00 per Unit

**TABLE 7**

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05  
FOR PROPERTY WITHIN ZONE 2**

<b>Unit Type</b>	<b>Gross Prepayment Amount</b>
Attached Unit/Detached Unit	\$21,106.97 per Unit
Assigned Unit	\$0.00 per Unit

**TABLE 8**

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05  
FOR PROPERTY WITHIN ZONE 3**

<b>Unit Type</b>	<b>Gross Prepayment Amount</b>
Attached Unit/Detached Unit	\$21,133.13 per Unit
Assigned Unit	\$0.00 per Unit

**TABLE 9**

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05  
FOR PROPERTY WITHIN ZONE 4**

<b>Unit Type</b>	<b>Gross Prepayment Amount</b>
Attached Unit/Detached Unit	\$19,484.84 per Unit
Assigned Unit	\$0.00 per Unit

**3. Prepayment Amount for Assessor's Parcel with Allocation of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds Equal to or Greater than Applicable Gross Prepayment Amounts**

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section H.3 shall be the amount calculated as shown below.

Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds allocated to Assessor's Parcel pursuant to Section H.1  
plus A. Redemption Premium  
plus B. Defeasance  
plus C. Prepayment Fees and Expenses  
less D. Reserve Fund Credit  
less E. Regularly Retired Principal  
less F. Partial Prepayment Credit  
equals Prepayment Amount

Detailed explanations of items A through F follows:

A. Redemption Premium

The Redemption Premium is calculated by multiplying (i) the principal amount of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds to be redeemed with the proceeds of the Prepayment Amount by (ii) the applicable redemption premium, if any, on the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds to be redeemed.

B. Defeasance

The Defeasance is the amount needed to pay interest on the portion of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds to be



redeemed with the proceeds of the Prepayment Amount until the earliest call date of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds to be redeemed, net of interest earnings to be derived from the reinvestment of the Prepayment Amount until the redemption date of the portion of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds to be redeemed with the Prepayment Amount. Such amount of interest earnings will be the amount reasonably estimated by the Board.

C. Prepayment Fees and Expenses

The Prepayment Fees and Expenses are the costs of the computation of the Prepayment Amount and an allocable portion of the costs of redeeming Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds and recording any notices to evidence the prepayment and the redemption, as calculated reasonably by the Board.

D. Reserve Fund Credit

The Reserve Fund credit, if any, shall be calculated as the sum of (i) the reduction in the applicable reserve fund requirement resulting from the redemption of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds with the Prepayment Amount, plus (ii) the reduction in the applicable reserve fund requirement attributable to the allocable portion of regularly scheduled retirement of principal that has occurred, as well as any other allocable portion of principal retired not related to Prepayment Amounts or Partial Prepayment Amounts. The allocable portion of regularly scheduled retirement of principal that has occurred means the total regularly scheduled retirement of principal that has occurred with respect to each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds times the applicable Prepayment Ratio for each such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds. The allocable portion of principal retired not related to Prepayment Amounts or Partial Prepayment Amounts means the total principal retired not related to Prepayment Amounts or Partial Prepayment Amounts with respect to each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds times the applicable Prepayment Ratio for each such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds.

E. Regularly Retired Principal

The Regularly Retired Principal of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds times the applicable Prepayment Ratio for each such series of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds.

F. Partial Prepayment Credit

Partial prepayments of the Annual Special Tax obligation occurring prior to the issuance of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds will be credited in full. Partial prepayments of the Annual Special Tax obligation occurring subsequent to the issuance of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds will be credited in an amount equal to the greatest amount of principal of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds that could have been redeemed with the Partial Prepayment Amount(s), taking into account Redemption Premium, Defeasance, Prepayment Fees and Expenses and Reserve Fund Credit, if any, but exclusive of restrictions limiting early redemption on the basis of dollar increments, i.e., the full amount of the Partial Prepayment Amount(s) will be taken into account in the calculation. The sum of all applicable partial prepayment credits is the Partial Prepayment Credit.

With respect to an Annual Special Tax obligation that has been prepaid, the Board shall reasonably indicate in the records of CFD No. 11 that there has been a prepayment of the Annual Special Tax and shall reasonably cause a suitable notice to be recorded in compliance with the Act within 30 days of receipt of such prepayment of Annual Special Taxes, to indicate reasonably the prepayment of Annual Special Taxes and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease. Notwithstanding the foregoing, no prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property within the Zone in which such Assessor's Parcel is located both prior to and after the proposed prepayment, net of an allocable portion of Administrative Expenses, is at least 1.1 times the annual debt service in each Fiscal Year on all outstanding Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds and such prepayment will not impair the security of all outstanding Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

**SECTION I**  
**PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES**

Prior to the issuance of the first Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all of the property within such Final Subdivision Map may elect to prepay any portion of the applicable Annual Special Tax obligation for all of the Assessor's Parcels within such Final Subdivision Map. The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Board of (i) such owner's intent to partially prepay the Annual Special Tax obligation and (ii) the percentage of the Annual Special Tax obligation to be prepaid. The partial prepayment of each Annual Special Tax obligation shall be collected at the issuance of each applicable Building Permit, provided that the Annual Special Tax obligation with respect to model Units for which Building Permits have already been issued must be partially prepaid at the time of the election. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F$$

These terms have the following meanings:

PP = the Partial Prepayment Amount

P<sub>G</sub> = the Prepayment Amount calculated according to Section H

F = the percentage of the Annual Special Tax obligation which the owner of the Assessor's Parcel is partially prepaying.

With respect to any Assessor's Parcel's Annual Special Tax obligation that is partially prepaid, the Board shall indicate in the records of CFD No. 11 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within 30 days of receipt of such partial prepayment, to indicate the partial prepayment of Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. Additionally, the notice shall indicate that the Assigned Annual Special Tax and the Backup Annual Special Tax and for the Assessor's Parcels has been reduced by an amount equal to the percentage, which was partially prepaid.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Tax that may be levied in CFD No. 11, net of an allocable portion of Administrative Expenses, is at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds.

## **SECTION J TERMINATION OF SPECIAL TAX**

Annual Special Taxes of CFD No. 11 shall be levied within Zone 1, Zone 2 and Zone 3 for a period of thirty (30) Fiscal Years after the last series of Bonds have been issued for the applicable Zone. Annual Special Taxes of CFD No. 11 shall be levied within Zone 4 for a period of thirty (30) Fiscal Years after the issuance of the last Building Permit for a Lot within Zone 4. Annual Special Taxes shall not be levied in any Zone after Fiscal Year 2050-51.

## **SECTION K EXEMPTIONS**

### **Zones 1, 2 and 3**

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' association, (iv) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and (v) other types of Assessor's Parcels, at the reasonable discretion of the Associate Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 56.23 Net Taxable Acres in Zone 1, 92.57 Net Taxable Acres in Zone 2, and 152.87 Net Taxable Acres in Zone 3. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 56.23 Net Taxable Acres in Zone 1, 92.57 Net Taxable Acres in Zone 2, and 152.87 Net

Taxable Acres in Zone 3 will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

#### **Zone 4**

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from ad valorem property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowner's association, (v) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and (iv) Assessor's Parcel for which a Final Subdivision Map has not been recorded.

### **SECTION L APPEALS**

Any owner of an Assessor's Parcel claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Associate Superintendent not later than one (1) Calendar Year after having paid the first installment of the Special Tax that is being disputed. The Associate Superintendent shall reasonably and promptly review the appeal, and if necessary, reasonably meet with the property owner, reasonably consider written and oral evidence regarding the amount of the Special Tax, and reasonably rule on the appeal. If the Associate Superintendent's decision reasonably requires that the Special Tax for an Assessor's Parcel be reasonably modified or reasonably changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

### **SECTION M MANNER OF COLLECTION**

The Annual 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. 11 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

### **SECTION N MAP OF ZONES**

(Under separate cover)

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**RATE AND METHOD OF APPORTIONMENT FOR  
IMPROVEMENT AREA B OF  
COMMUNITY FACILITIES DISTRICT NO. 11  
OF THE POWAY UNIFIED SCHOOL DISTRICT**

A Special Tax shall be levied on and collected in Improvement Area ("IA") B of Community Facilities District ("CFD") No. 11 of the Poway Unified School District ("School District") each Fiscal Year in an amount determined through the application of the rate and method of apportionment described below. All of the real property in IA B of CFD No. 11, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"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 Subdivision Map, other final map, parcel map, condominium plan, or other recorded parcel map at the County.

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

**"Administrative Expenses"** means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of IA B of CFD No. 11.

**"Annual Special Tax"** means the Special Tax levied each Fiscal Year on an Assessor's Parcel as set forth in Section F.

**"Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) annual debt service on all outstanding Bonds, (ii) Administrative Expenses of IA B of CFD No. 11, (iii) any costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

**"Assessor's Parcel"** means a Lot or parcel of land in IA B of CFD No. 11 which is designated on 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.

**"Assessor's Parcel Number"** means that number assigned to an Assessor's Parcel by the Assessor of the County for purposes of identification.

**"Assigned Annual Special Tax"** means the Special Tax of that name as set forth in Section D.

**"Assigned Unit"** means any unit classified as a Assigned Unit in accordance with the Rate and Method of Apportionment of CFD No. 11 of the School District.

**"Associate Superintendent"** means the Associate Superintendent of Business Support Services of the School District or his/her designee.

**"Backup Annual Special Tax"** means the Special Tax of that name described in Section E.

**"Board"** means the Board of Education of the School District or its designee.

**"Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes of IA B of CFD No. 11 are pledged.

**"Building Permit"** means a permit for the construction of one or more Units, issued by the City, or other public agency in the event the City no longer issues said permits for the construction of Units within IA B of CFD No. 11. For purposes of this definition, "Building Permits" shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, and utility improvements not intended for human habitation.

**"Building Square Footage"** or **"BSF"** means the square footage of internal living space of a Unit, exclusive of garages or other structures not used as living space, as determined by reference to the Building Permit application for such Unit or other applicable records of the City.

**"Calendar Year"** means any period beginning January 1 and ending December 31.

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

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

**"Developed Property"** means all Assessor's Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.

**"Exempt Property"** means the property designated as Exempt Property in Section J.

**"Final Subdivision Map"** means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates individual Lots, recorded in the Office of the Recorder of the County.

**"Fiscal Year"** means the period commencing on July 1 of any year and ending the following June 30.

**"Lot"** means an individual legal lot created by a Final Subdivision Map for which a Building Permit for a Unit has been or could be issued, provided that land for which one or more Building Permits have been or could be issued for the construction of one or more model Units shall not be construed as a Lot until such land has been subdivided by a Final Subdivision Map.

**"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C, which can be levied by IA B of CFD No. 11 on any Assessor's Parcel in any Fiscal Year.

**"Net Taxable Acres"** means the total Acreage of all Taxable Property expected to exist in IA A of CFD No. 11 after all Final Subdivision Maps are recorded.

**"Prepayment Amount"** means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel as determined pursuant to Sections G.

**"Proportionately"** means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor's Parcels.

**"Special Tax"** means any of the special taxes authorized to be levied in IA B of CFD No. 11 under the Act.

**"Taxable Property"** means all Assessor's Parcels which are not Exempt Property.

**"Undeveloped Property"** means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.

**"Unit"** means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

## **SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS**

For each Fiscal Year, beginning with Fiscal Year 2004-05, each Assessor's Parcel shall be classified as Taxable Property or Exempt Property taking into consideration the minimum Net Taxable Acres as set forth in Section J. Each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and each Assessor's Parcel of Developed Property shall be classified according to its Building Square Footage.

## **SECTION C MAXIMUM SPECIAL TAX**

### **1. Developed Property**

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax for a given Final Subdivision Map.

### **2. Undeveloped Property**

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Annual Special Tax.

**SECTION D  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2004-05 shall be the amount determined by reference to Table 1 according to the Building Square Footage of the Unit.

**TABLE 1**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR DEVELOPED PROPERTY  
FISCAL YEAR 2004-05**

Building Square Footage	Assigned Annual Special Tax
≤ 2,650	\$1,358.20
2,651 – 3,000	\$1,491.80
3,001 – 3,250	\$1,625.41
3,251 – 3,500	\$1,792.41
3,501 – 3,750	\$1,959.42
3,751 – 4,000	\$2,176.53
4,001 – 4,250	\$2,393.64
4,251 – 4,500	\$2,627.44
4,501 – 4,750	\$2,811.15
> 4,750	\$2,994.86
* Assigned Units are Exempt Property	

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**2. Undeveloped Property**

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2004-05 shall be \$5,668.59 per acre of Acreage.

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.



**SECTION E  
BACKUP ANNUAL SPECIAL TAX**

Each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax for Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z \times A) / L$$

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per Acre of Undeveloped Property for the applicable Fiscal Year
A	=	Acreage of Developed Property expected to exist in the applicable Final Subdivision Map at build-out, as determined by the Associate Superintendent pursuant to Section J
L	=	Lots in the Final Subdivision Map

Notwithstanding the foregoing, if all or any portion of the Final Subdivision Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Annual Special Tax for each Assessor's Parcel of Developed Property in such Final Subdivision Map area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, as reasonably determined by the Associate Superintendent.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

**SECTION F  
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX**

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in IA B of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

**First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

**Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

**Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Annual Special Tax Requirement.

## **SECTION G PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel, may be prepaid in full at the times and under the conditions set forth in this Section G.1, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid.

### **1. Prepayment Times and Conditions**

#### **a. Undeveloped Property**

Prior to the issuance of a Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect in writing to the Associate Superintendent to prepay the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map area in full, as calculated in Section G.2. below. The prepayment of the Annual Special Tax obligation for each such Assessor's Parcel shall be collected prior to the issuance of the Building Permit with respect to such Assessor's Parcel.

#### **b. Developed Property**

In any Fiscal Year following the first Fiscal Year in which such Assessor's Parcel was classified as Developed Property, the owner of such an Assessor's Parcel may prepay the Annual Special Tax obligation for such Assessor's Parcel, as calculated in Section G.2. below.

### **2. Prepayment Amount**

The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

#### **a. Prior to Issuance of Bonds**

The Prepayment Amount for each applicable Assessor's Parcel prior to the issuance of Bonds shall be determined by reference to Table 2.

**TABLE 2**

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05**

<b>Building Square Feet</b>	<b>Gross Prepayment Amount</b>
≤ 2,650	\$13,396.28
2,651 – 3,000	\$14,714.06
3,001 - 3,250	\$16,031.84
3,251 – 3,500	\$17,679.07
3,501 – 3,750	\$19,326.29
3,751 – 4,000	\$21,467.69
4,001 – 4,250	\$23,609.07
4,251 – 4,500	\$25,915.18
4,501 – 4,750	\$27,727.13
> 4,750	\$29,539.08

Each July 1, commencing July 1, 2005, the Gross Prepayment Amount applicable to an Assessor's Parcel shall be increased by 2.00% of the amount in effect the prior Fiscal Year.

**b. Subsequent to Issuance of Bonds**

Subsequent to the issuance of Bonds, the Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Defeasance
plus	Administrative Fee
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For Assessor's Parcels of Developed Property, compute the sum of the Assigned Annual Special Taxes and the Backup Annual Special Taxes applicable to the Assessor's Parcel. For Assessor's Parcels of Undeveloped Property, compute the sum of the Assigned Annual Special Taxes and the Backup Annual Special Taxes applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit issued or to be issued for that Assessor's Parcel.

2. For each Assessor's Parcel of Developed Property or Undeveloped Property to be prepaid, (a) divide the sum of the Assigned Annual Special Taxes computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Annual Special Taxes applicable to all Assessor's Parcels of Developed Property at build out, as reasonably determined by the Board, and (b) divide the sum of Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Annual Special Taxes applicable to all Assessor's Parcels of Developed Property at build out, as reasonably determined by the Board.
3. The amount determined pursuant to Section G.2.a. shall be (a) increased by the portion of the Bonds allocable to costs of issuance, reserve fund deposits, and capitalized interest with respect to the applicable Assessor's Parcel and (b) reduced by the amount of regularly retired principal which is allocable to the applicable Assessor's Parcel, as determined by the Board. The result is the "Outstanding Gross Prepayment Amount." In no event shall any Annual Special Taxes determined to have been used to make a regularly scheduled principal payment on the Bonds be adjusted for any increase in any cost index or other basis subsequent to the date of the applicable principal payment.
4. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Bonds. If the product is greater than the Outstanding Gross Prepayment Amount, then the product shall be the "Bond Redemption Amount." If the product is less than the Outstanding Gross Prepayment Amount, then the Outstanding Gross Prepayment Amount shall be the "Bond Redemption Amount."
5. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
6. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 10) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Bonds.
7. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest call date for the outstanding Bonds.
8. Subtract the amount computed pursuant to paragraph 7 from the amount computed pursuant to paragraph 6. This difference is the "Defeasance."
9. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."

10. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirement, if any, associated with the redemption of outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement in effect after the redemption of outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.
11. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid pursuant to this Section G, the Board shall indicate in the records of IA B of CFD No. 11 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Taxes shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year and such prepayment will not impair the security of all currently outstanding Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

## **SECTION H PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel, as calculated in Section H.2. below, may be partially prepaid at the times and under the conditions set forth in this section, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be partially prepaid.

### **1. Partial Prepayment Times and Conditions**

Prior to the issuance of the first Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect in writing to the Board to prepay a portion of the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map, as calculated in Section H.2. below. The partial prepayment of each Annual Special Tax obligation shall be collected prior to the issuance of the first Building Permit with respect to each Assessor's Parcel.

**2. Partial Prepayment Amount**

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount
- P<sub>G</sub> = the Prepayment Amount calculated according to Section G
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation

**3. Partial Prepayment Procedures and Limitations**

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of IA B of CFD No. 11 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the partial prepayment of the Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease.

Additionally, the notice shall indicate that the Assigned Annual Special Tax and Backup Annual Special Tax for the Assessor's Parcels has been reduced by an amount equal to the percentage which was partially prepaid.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year.

**SECTION I  
TERMINATION OF SPECIAL TAX**

Annual Special Taxes of IA B of CFD No. 11 shall be levied for a period of thirty (30) Fiscal Years after the last series of Bonds have been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2050-51.

**SECTION J  
EXEMPTIONS**

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels for which Building Permits were issued on or before May 1 of the prior Fiscal Year for the construction of Assigned Units, (iv) Assessor's Parcels used exclusively by a homeowners' association, (v) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and (vi) other types of Assessor's Parcels, at the reasonable discretion of the Associate Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 92.57 Net Taxable Acres. Assessor's Parcels

which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 92.57 Net Taxable Acres will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

## **SECTION K APPEALS**

Any owner of an Assessor's Parcel claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Associate Superintendent not later than one (1) Calendar Year after having paid the first installment of the Special Tax that is being disputed. The Associate Superintendent shall reasonably and promptly review the appeal, and if necessary, reasonably meet with the property owner, reasonably consider written and oral evidence regarding the amount of the Special Tax, and reasonably rule on the appeal. If the Associate Superintendent's decision reasonably requires that the Special Tax for an Assessor's Parcel be reasonably modified or reasonably changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

## **SECTION L MANNER OF COLLECTION**

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that IA B of CFD No. 11 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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**RATE AND METHOD OF APPORTIONMENT FOR  
IMPROVEMENT AREA C OF  
COMMUNITY FACILITIES DISTRICT NO. 11  
OF THE POWAY UNIFIED SCHOOL DISTRICT**

A Special Tax shall be levied on and collected in Improvement Area ("IA") C of Community Facilities District ("CFD") No. 11 of the Poway Unified School District ("School District") each Fiscal Year in an amount determined through the application of the rate and method of apportionment described below. All of the real property in IA C of CFD No. 11, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"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 Subdivision Map, other final map, parcel map, condominium plan, or other recorded parcel map at the County.

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

**"Administrative Expenses"** means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of IA C of CFD No. 11.

**"Annual Special Tax"** means the Special Tax levied each Fiscal Year on an Assessor's Parcel as set forth in Section F.

**"Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) annual debt service on all outstanding Bonds, (ii) Administrative Expenses of IA C of CFD No. 11, (iii) any costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

**"Assessor's Parcel"** means a Lot or parcel of land in IA C of CFD No. 11 which is designated on 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.

**"Assessor's Parcel Number"** means that number assigned to an Assessor's Parcel by the Assessor of the County for purposes of identification.

**"Assigned Annual Special Tax"** means the Special Tax of that name as set forth in Section D.

**"Assigned Unit"** means any unit classified as an Assigned Unit in accordance with the Rate and Method of Apportionment of CFD No. 11 of the School District.

**"Associate Superintendent"** means the Associate Superintendent of Business Support Services of the School District or his/her designee.

**"Backup Annual Special Tax"** means the Special Tax of that name described in Section E.

**"Board"** means the Board of Education of the School District or its designee.

**"Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes of IA C of CFD No. 11 are pledged.

**"Building Permit"** means a permit for the construction of one or more Units, issued by the City, or other public agency in the event the City no longer issues said permits for the construction of Units within IA C of CFD No. 11. For purposes of this definition, "Building Permits" shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, and utility improvements not intended for human habitation.

**"Building Square Footage"** or **"BSF"** means the square footage of internal living space of a Unit, exclusive of garages or other structures not used as living space, as determined by reference to the Building Permit application for such Unit or other applicable records of the City.

**"Calendar Year"** means any period beginning January 1 and ending December 31.

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

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

**"Developed Property"** means all Assessor's Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.

**"Exempt Property"** means the property designated as Exempt Property in Section J.

**"Final Subdivision Map"** means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates individual Lots, recorded in the Office of the Recorder of the County.

**"Fiscal Year"** means the period commencing on July 1 of any year and ending the following June 30.

**"Gross Prepayment Amount"** means any amount determined by reference to Table 2 and adjusted as set forth in Section G.

**"Lot"** means an individual legal lot created by a Final Subdivision Map for which a Building Permit for a Unit has been or could be issued, provided that land for which one or more Building Permits

have been or could be issued for the construction of one or more model Units shall not be construed as a Lot until such land has been subdivided by a Final Subdivision Map.

**"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C, which can be levied by IA C of CFD No. 11 on any Assessor's Parcel in any Fiscal Year.

**"Net Taxable Acres"** means the total Acreage of all Taxable Property expected to exist in IA C of CFD No. 11 after all Final Subdivision Maps are recorded.

**"Prepayment Amount"** means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel as determined pursuant to Sections G.

**"Proportionately"** means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor's Parcels.

**"Special Tax"** means any of the special taxes authorized to be levied in IA C of CFD No. 11 under the Act.

**"Taxable Property"** means all Assessor's Parcels which are not Exempt Property.

**"Undeveloped Property"** means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.

**"Unit"** means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

## **SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS**

For each Fiscal Year, beginning with Fiscal Year 2004-05, each Assessor's Parcel shall be classified as Taxable Property or Exempt Property taking into consideration the minimum Net Taxable Acres as set forth in Section J. Each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and each Assessor's Parcel of Developed Property shall be classified according to its Building Square Footage.

## **SECTION C MAXIMUM SPECIAL TAX**

### **1. Developed Property**

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax for a given Final Subdivision Map.

**2. Undeveloped Property**

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Annual Special Tax.

**SECTION D  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2004-05 shall be the amount determined by reference to Table 1 according to the Building Square Footage of the Unit.

**TABLE 1**

**ASSIGNED ANNUAL SPECIAL TAX  
FOR DEVELOPED PROPERTY  
FISCAL YEAR 2004-05**

<b>Building Square Footage</b>	<b>Assigned Annual Special Tax</b>
≤ 2,650	\$1,335.35
2,651 – 3,000	\$1,465.13
3,001 – 3,250	\$1,594.92
3,251 – 3,500	\$1,757.15
3,501 – 3,750	\$1,919.39
3,751 – 4,000	\$2,130.29
4,001 – 4,250	\$2,341.19
4,251 – 4,500	\$2,503.42
4,501 – 4,750	\$2,568.31
> 4,750	\$2,860.33
* Assigned Units are Exempt Property	

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**2. Undeveloped Property**

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2004-05 shall be \$5,370.74 per acre of Acreage.

Each July 1, commencing July 1, 2004, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

### **SECTION E BACKUP ANNUAL SPECIAL TAX**

Each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax for Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z \times A) / L$$

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per acre of Undeveloped Property for the applicable Fiscal Year
A	=	Acreage of Developed Property expected to exist in the applicable Final Subdivision Map at build-out, as determined by the Associate Superintendent pursuant to Section J
L	=	Lots in the Final Subdivision Map

Notwithstanding the foregoing, if all or any portion of the Final Subdivision Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Annual Special Tax for each Assessor's Parcel of Developed Property in such Final Subdivision Map area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, as reasonably determined by the Associate Superintendent.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

### **SECTION F METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX**

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in IA C of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

**First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

**Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

**Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Annual Special Tax Requirement.

## **SECTION G PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel, may be prepaid in full at the times and under the conditions set forth in this Section G.1, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid.

### **1. Prepayment Times and Conditions**

#### **a. Undeveloped Property**

Prior to the issuance of a Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect in writing to the Associate Superintendent to prepay the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map area in full, as calculated in Section G.2. below. The prepayment of the Annual Special Tax obligation for each such Assessor's Parcel shall be collected prior to the issuance of the Building Permit with respect to such Assessor's Parcel.

#### **b. Developed Property**

In any Fiscal Year following the first Fiscal Year in which such Assessor's Parcel was classified as Developed Property, the owner of such an Assessor's Parcel may prepay the Annual Special Tax obligation for such Assessor's Parcel, as calculated in Section G.2. below.

### **2. Prepayment Amount**

The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

**a. Prior to Issuance of Bonds**

The Prepayment Amount for each applicable Assessor's Parcel prior to the issuance of Bonds shall be determined by reference to Table 2.

**TABLE 2**

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05**

<b>Building Square Feet</b>	<b>Gross Prepayment Amount</b>
≤ 2,650	\$12,991.56
2,651 – 3,000	\$14,254.25
3,001 - 3,250	\$15,516.92
3,251 – 3,500	\$17,095.27
3,501 – 3,750	\$18,673.62
3,751 – 4,000	\$20,725.48
4,001 – 4,250	\$22,777.33
4,251 – 4,500	\$24,355.69
4,501 – 4,750	\$24,987.03
> 4,750	\$27,828.06

Each July 1, commencing July 1, 2005, the Gross Prepayment Amount applicable to an Assessor's Parcel shall be increased by 2.00% of the amount in effect the prior Fiscal Year.

**b. Subsequent to Issuance of Bonds**

Subsequent to the issuance of Bonds, the Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Defeasance
plus	Administrative Fee
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For Assessor's Parcels of Developed Property, compute the sum of the Assigned Annual Special Taxes and the Backup Annual Special Taxes applicable to the Assessor's Parcel. For Assessor's Parcels of Undeveloped Property, compute the sum of the Assigned Annual Special Taxes and the Backup Annual Special Taxes applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit issued or to be issued for that Assessor's Parcel.
2. For each Assessor's Parcel of Developed Property or Undeveloped Property to be prepaid, (a) divide the sum of the Assigned Annual Special Taxes computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Annual Special Taxes applicable to all Assessor's Parcels of Developed Property at build out, as reasonably determined by the Board, and (b) divide the sum of Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Annual Special Taxes applicable to all Assessor's Parcels of Developed Property at build out, as reasonably determined by the Board.
3. The amount determined pursuant to Section G.2.a. shall be (a) increased by the portion of the Bonds allocable to costs of issuance, reserve fund deposits, and capitalized interest with respect to the applicable Assessor's Parcel and (b) reduced by the amount of regularly retired principal which is allocable to the applicable Assessor's Parcel, as determined by the Board. The result is the "Outstanding Gross Prepayment Amount." In no event shall any Annual Special Taxes determined to have been used to make a regularly scheduled principal payment on the Bonds be adjusted for any increase in any cost index or other basis subsequent to the date of the applicable principal payment.
4. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Bonds. If the product is greater than the Outstanding Gross Prepayment Amount, then the product shall be the "Bond Redemption Amount." If the product is less than the Outstanding Gross Prepayment Amount, then the Outstanding Gross Prepayment Amount shall be the "Bond Redemption Amount."
5. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
6. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 10) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Bonds.
7. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest call date for the outstanding Bonds.



8. Subtract the amount computed pursuant to paragraph 7 from the amount computed pursuant to paragraph 6. This difference is the "Defeasance."
9. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
10. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirement, if any, associated with the redemption of outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement in effect after the redemption of outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.
11. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid pursuant to this Section G, the Board shall indicate in the records of IA C of CFD No. 11 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Taxes shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year and such prepayment will not impair the security of all currently outstanding Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

## **SECTION H PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel, as calculated in Section H.2. below, may be partially prepaid at the times and under the conditions set forth in this section, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be partially prepaid.

### **1. Partial Prepayment Times and Conditions**

Prior to the issuance of the first Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect in writing to the Board to prepay a portion of

the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map, as calculated in Section H.2. below. The partial prepayment of each Annual Special Tax obligation shall be collected prior to the issuance of the first Building Permit with respect to each Assessor's Parcel.

**2. Partial Prepayment Amount**

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount
- P<sub>G</sub> = the Prepayment Amount calculated according to Section G
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation

**3. Partial Prepayment Procedures and Limitations**

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of IA C of CFD No. 11 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the partial prepayment of the Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. Additionally, the notice shall indicate that the Assigned Annual Special Tax and Backup Annual Special Tax for the Assessor's Parcels has been reduced by an amount equal to the percentage which was partially prepaid.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year.

**SECTION I  
TERMINATION OF SPECIAL TAX**

Annual Special Taxes of IA C of CFD No. 11 shall be levied for a period of thirty (30) Fiscal Years after the last series of Bonds have been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2050-51.

**SECTION J  
EXEMPTIONS**

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels for which Building Permits were issued on or before May 1 of the prior Fiscal Year for the construction of Assigned Units, (iv)

Assessor's Parcels used exclusively by a homeowners' association, (v) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and (vi) other types of Assessor's Parcels, at the reasonable discretion of the Associate Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 152.87 Net Taxable Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 152.87 Net Taxable Acres will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

## **SECTION K APPEALS**

Any owner of an Assessor's Parcel claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Associate Superintendent not later than one (1) Calendar Year after having paid the first installment of the Special Tax that is being disputed. The Associate Superintendent shall reasonably and promptly review the appeal, and if necessary, reasonably meet with the property owner, reasonably consider written and oral evidence regarding the amount of the Special Tax, and reasonably rule on the appeal. If the Associate Superintendent's decision reasonably requires that the Special Tax for an Assessor's Parcel be reasonably modified or reasonably changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

## **SECTION L MANNER OF COLLECTION**

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that IA C of CFD No. 11 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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**APPENDIX C**

**SUMMARY APPRAISAL REPORT**

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SUMMARY APPRAISAL REPORT

COVERING

Poway Unified School District  
Community Facilities District No. 11 (StoneBridge Estates)  
Zones 2 and 3

DATE OF VALUE:

May 1, 2009

SUBMITTED TO:

Sandra G. Burgoyne  
Poway Unified School District  
13626 Twin Peaks Rd.  
Poway, CA 92064-3034

DATE OF REPORT:

May 11, 2009

SUBMITTED BY:

Stephen G. White, MAI  
1370 N. Brea Blvd., Suite 205  
Fullerton, CA 92835

# Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 205 · FULLERTON, CALIFORNIA 92835-4128  
(714) 738-1595 · FAX (714) 738-4371

May 11, 2009

Sandra G. Burgoyne  
Poway Unified School District  
13626 Twin Peaks Rd.  
Poway, CA 92064-3034

Re: Community Facilities District No. 11  
(StoneBridge Estates) Zones 2 and 3

Dear Ms. Burgoyne:

In accordance with your request, I have completed an appraisal of the taxable properties within Zones 2 and 3 of the above-referenced Community Facilities District (CFD). Zone 2 consists of a total of 210 single-family lots and Zone 3 consists of a total of 341 single-family lots that are allocated into the following tracts or product types:

- Zone 2: The Warmington Collection (36 lots) – 36 completed homes
  - Calabria (22 lots) – 22 completed homes
  - Serenity (70 lots) – 17 completed homes; 4 homes under construction; 49 vacant lots
  - Sanctuary (82 lots) – 78 completed homes; 3 homes under construction; 1 vacant lot
- Zone 3: Montoro (28 lots) – 2 completed homes; 8 homes under construction; 18 vacant lots
  - Tiburon (53 lots) – 30 completed homes; 6 homes under construction; 17 vacant lots
  - Viscaya (48 lots) – 29 completed homes; 19 vacant lots
  - Scripps Preserve (61 lots) – 61 completed homes
  - N/A (151 lots) – 151 vacant lots for future development

The purpose of this appraisal is to estimate the aggregate market value of the separate tracts/product types within Zones 2 and 3, reflecting the as is condition of the completed homes, homes under construction and/or vacant lots. This appraisal also reflects the existing and proposed public bond financing, as well as the overall tax rate of  $\pm 1.6\%$ - $1.8\%$ , including special taxes, to the existing and future homeowners. Based on the inspections of the properties and analysis of matters pertinent to value, the following conclusions of market value allocated to Developed (building permit as of May 1, 2009) and Undeveloped have been arrived at, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

<u>Zone</u>	<u>Tract Name/Product Type</u>	<u>Developed/ Completed-Sold</u>	<u>Developed/ Builder-Owned</u>	<u>Undeveloped</u>	<u>Total</u>
2	The Warmington Collection	\$37,800,000	\$0	\$0	\$37,800,000
2	Calabria	\$17,100,000	\$3,420,000	\$0	\$20,520,000
2	Serenity	\$11,050,000	\$8,206,000	\$6,824,000	\$26,080,000
2	Sanctuary	<u>\$77,700,000</u>	<u>\$4,980,000</u>	<u>\$370,000</u>	<u>\$83,050,000</u>
	<b>Zone 2 Totals:</b>	\$143,650,000	\$16,606,000	\$7,194,000	\$167,450,000
3	Montoro	\$0	\$4,640,000	\$3,400,000	\$8,040,000
3	Tiburon	\$20,900,000	\$10,650,000	\$4,200,000	\$35,750,000
3	Viscaya	\$24,650,000	\$0	\$4,000,000	\$28,650,000
3	Scripps Preserve	\$50,740,000	\$1,720,000	\$0	\$52,460,000
3	151 Vacant Lots	<u>\$0</u>	<u>\$0</u>	<u>\$43,000,000</u>	<u>\$43,000,000</u>
	<b>Zone 3 Totals:</b>	\$96,290,000	\$17,010,000	\$54,600,000	\$167,900,000

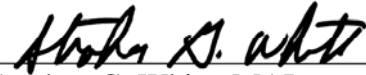


MS. SANDRA G. BURGOYNE  
MAY 11, 2009  
PAGE 2

It is noted that the category of Developed/Completed-Sold consists of all completed-sold homes (closed sales) owned by various homeowners; the category Developed/Builder-Owned consists of all completed-unsold homes, homes under construction and any vacant lots on which a building permit had been pulled as of May 1, 2009; and the category of Undeveloped consists of all vacant lots that are still builder-owned and on which a building permit had not been pulled as of May 1, 2009.

The following is the balance of this 74-page Summary Appraisal Report which includes the Certification, Assumptions and Limiting Conditions, definitions, property data, exhibits, valuation and market data from which the value conclusions were derived.

Sincerely,



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Stephen G. White, MAI  
(State Certified General Real Estate  
Appraiser No. AG 013311)

SGW:sw  
Ref: 09012

## TABLE OF CONTENTS

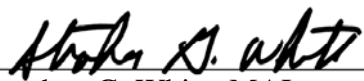
	<b>PAGES</b>
Certification.....	5
Assumptions and Limiting Conditions.....	6-7
Purpose and Use of the Appraisal, Scope of the Appraisal, Date of Value, Property Rights Appraised, Definitions.....	8-9
 <b>INTRODUCTION</b>	
General Location, Description of Surroundings, Overview of CFD No. 11, Description of StoneBridge Estates.....	10-16
<b>ZONE 2 – THE WARMINGTON COLLECTION.....</b>	<b>17-21</b>
<b>ZONE 2 – CALABRIA.....</b>	<b>22-26</b>
<b>ZONE 2 – SERENITY.....</b>	<b>27-35</b>
<b>ZONE 2 – SANCTUARY.....</b>	<b>36-41</b>
<b>ZONE 3 – MONTORO.....</b>	<b>42-47</b>
<b>ZONE 3 – TIBURON.....</b>	<b>48-54</b>
<b>ZONE 3 – VISCAYA.....</b>	<b>55-60</b>
<b>ZONE 3 – SCRIPPS PRESERVE.....</b>	<b>61-64</b>
<b>ZONE 3 – 151 VACANT LOTS.....</b>	<b>65-71</b>
 <b>ADDENDA</b>	
Qualifications of Appraiser.....	72-74

## CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the properties that are the subject of this report, and no personal interest with respect to the parties involved.
4. I have no bias with respect to the properties that are the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I have made a personal but general or cursory inspection of the properties that are the subject of this report.
9. No one provided significant professional assistance to the person signing this report, other than data research by my associate, Kirsten Patterson.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.

  
\_\_\_\_\_  
Stephen G. White, MAI  
(State Certified General Real Estate  
Appraiser No. AG013311)

## **ASSUMPTIONS AND LIMITING CONDITIONS**

This appraisal has been based upon the following assumptions and limiting conditions:

1. No responsibility is assumed for the legal descriptions provided or for matters pertaining to legal or title considerations. Title to the properties is assumed to be good and marketable unless otherwise stated.
2. The properties are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies, if applicable, are assumed to be correct. Any plot plans or other illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the properties, subsoil, or structures that render them more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the properties are in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the appraisal report.
8. It is assumed that the properties conform to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in the report are based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the properties described and that there are no encroachments or trespasses unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the properties, was not observed by the appraiser. However, the appraiser is not qualified to detect such substances. The presence of such substances may affect the value of the property, but the values estimated in this

**ASSUMPTIONS AND LIMITING CONDITIONS,** Continuing

appraisal are based on the assumption that there is no such material on or in the properties that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field, if desired.

12. Possession of this report, or a copy thereof, does not carry with it the right of publication, unless otherwise authorized. It is understood and agreed that this report will be utilized in the Official Statement, as required for the bond issuance.
13. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the properties in question unless arrangements have previously been made.
14. Estimates of the remaining costs to get the lots in the various subject tracts from as is condition to "finished lot" condition have been obtained where possible from the appropriate builders, and these figures have been assumed to be reasonably accurate and have been relied upon in this appraisal.
15. The valuation has assumed that the full amount of the net proceeds or project fund deposits from the proposed CFD bond issuance (estimated as ±\$3,645,000 from Zone 2 Bonds and ±\$2,410,000 from Zone 3 Bonds) will fund school facilities, and will not fund any of the remaining "costs to complete" to get the remaining vacant lots in Zones 2 and 3 to a finished condition.

**PURPOSE AND INTENDED USE/USER OF THE APPRAISAL**

The purpose of this appraisal is to estimate the aggregate market value by tract or product type of the as is condition of the taxable property located within Community Facilities District No. 11 (StoneBridge Estates) Zones 2 and 3 of the Poway Unified School District, reflecting the existing and proposed CFD bond financing described herein. It is intended that this Summary Appraisal Report is to be used by the client, the financing team and others as required in the CFD bond issuance.

**SCOPE OF THE APPRAISAL**

It is the intent of this appraisal that all appropriate data considered pertinent in the valuation of the subject properties be collected, confirmed and reported in a Summary Appraisal Report, in conformance with the Uniform Standards of Professional Appraisal Practice and the guidelines of the California Debt and Investment Advisory Commission. This has included a general or cursory inspection of the subject properties and their surroundings; obtaining of pertinent property data on the subject properties, including review of various maps, assessor data, brochures, Multiple Listing Service data and data from various other sources relating to the properties and the existing and planned subdivision and development; obtaining of comparable home sales and land sales from various sources; and analysis of all of the data to the value conclusions.

**DATE OF VALUE**

The date of value for this appraisal is May 1, 2009.

**PROPERTY RIGHTS APPRAISED**

This appraisal is of the fee simple interest in the subject properties, subject to the special tax and assessment liens.

**DEFINITION OF MARKET VALUE**

The most probable price, as of a specified date, in cash or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under undue duress (The Dictionary of Real Estate Appraisal).

**DEFINITION OF FINISHED LOT**

This term describes the condition of residential lots in a single-family subdivision for detached homes in which the lots are fully improved and ready for homes to be built. This reflects that the lots have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot, street improvements completed, common area improvements/landscaping

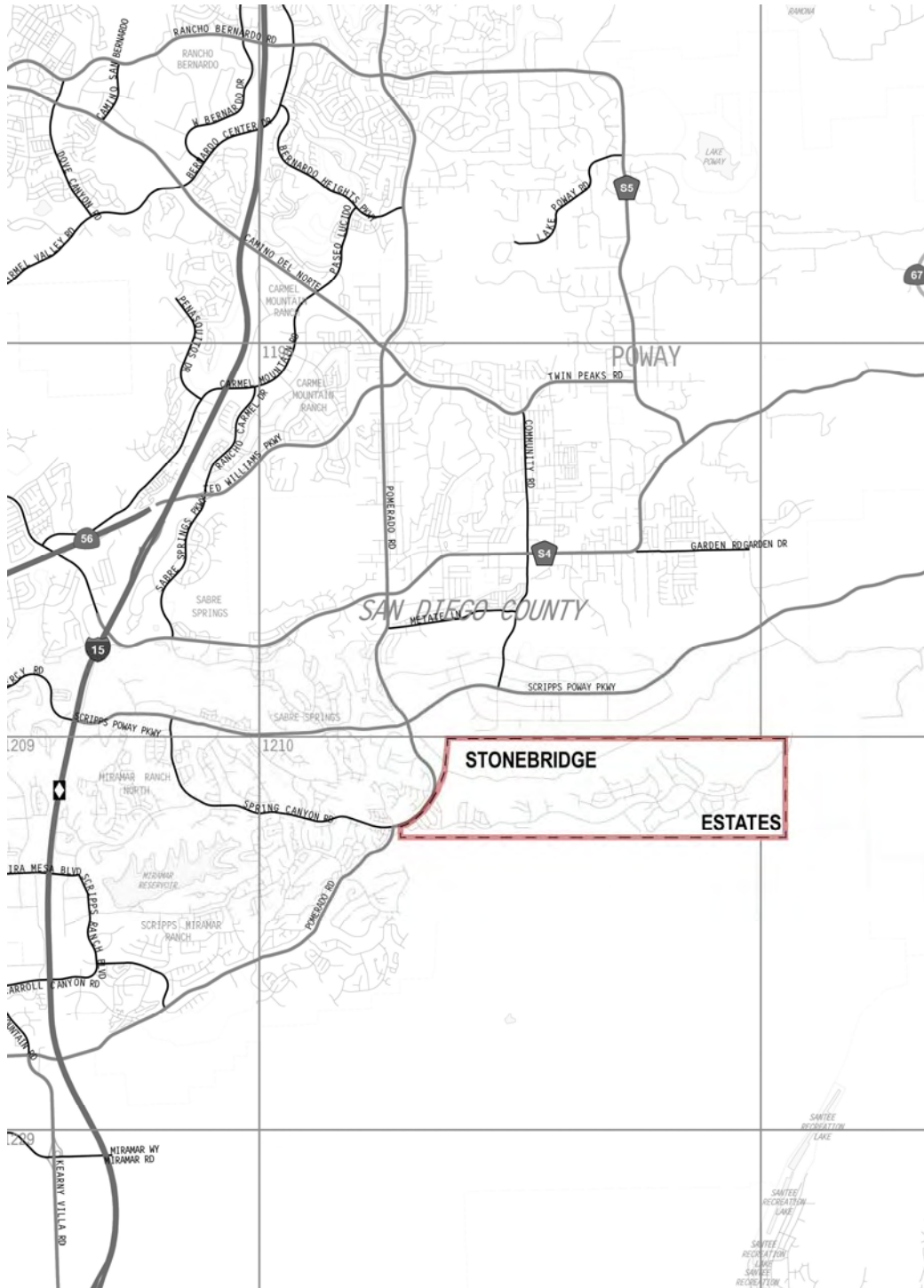
**DEFINITION OF FINISHED LOT, Continuing**

(associated with the tract) completed, resource agency permits (if necessary), and all development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map.

**DEFINITION OF DEVELOPED/UNDEVELOPED PROPERTY**

In this appraisal, Developed Property is defined as any single-family residential lot on which a building permit had been pulled as of May 1, 2009 and Undeveloped Property is defined as any single-family residential lot on which a building permit had not been pulled as of May 1, 2009.

# LOCATION MAP





## INTRODUCTION

### GENERAL LOCATION

The map on the previous page indicates the approximate location of the subject properties. The master-planned community of StoneBridge Estates lies along both sides of Stonebridge Pkwy., extending for  $\pm 2$  miles easterly from Pomerado Rd., in the City of San Diego. Zone 2 is located  $\pm 1\frac{1}{4}$  miles east of Pomerado Rd., and Zone 3 is located farther to the east.

The community of StoneBridge Estates is located in the far northeast part of the City of San Diego, about  $3\frac{1}{2}$  miles east of the I-15 Freeway. Within  $\frac{1}{4}$  mile to the north is the south end of the City of Poway, and nearly adjacent to the south is the U.S. Marine Corps Air Station Miramar. Nearby to the northeast is unincorporated County area, and just over 4 miles to the southeast is the City of Santee. The general area within San Diego to the west of StoneBridge Estates is known as Scripps Ranch, and farther west are the communities of Scripps Miramar Ranch and Miramar Ranch North.

### DESCRIPTION OF SURROUNDINGS

To the north of the subject property the land slopes down into Beeler Canyon. This canyon area is a sparsely developed rural residential area with various scattered homes on large lots, but is mostly undeveloped area as well as including a wildlife corridor that extends east and then northeast. Farther north the land slopes up to a higher mesa area, on which is the 700-acre South Poway Business Park including some retail uses, about  $\frac{1}{2}$  mile north and northwest of the subject. Scripps Poway Pkwy. extends east-west through the business park, and retail properties along this arterial include Kohl's, Staples, Costco and Home Depot. To the east of the business park is undeveloped and hilly land that extends for some distance. To the west of the business park is mostly undeveloped land that extends to Pomerado Rd.

To the west of the subject property is the west portion of StoneBridge Estates (not included in this appraisal) that is mostly built-out with three tracts of homes and is discussed later. Beyond Pomerado Rd. to the northwest, is a single-family residential area, part of which is the Scripps Ranch area within San Diego and part of which is within the City of Poway. The homes nearest the subject along Pomerado Rd., were built in the early to mid-1990's, and typically range in size from  $\pm 1,800$  s.f. to 3,000 s.f., with lot sizes of  $\pm 4,000$  s.f. minimum. Recent sale prices indicate the high \$500,000's to the low \$600,000's.

Farther west and northerly of Pomerado Rd./Spring Canyon Rd. is a tract of detached homes on  $\pm 2,500$  s.f. to 3,000 s.f. lots. These homes were built in the mid-1990's, typically ranging in size from  $\pm 1,200$  s.f. to 1,600 s.f., and recent sales indicate the mid \$400,000's.

## **DESCRIPTION OF SURROUNDINGS, Continuing**

Nearby to the southwest of the subject, at the southeast quadrant where Pomerado Rd. angles to the south/southwest, is a small tract of relatively newer homes on small lots, and one recent sale was priced at \$490,000. Farther to the southwest is a tract of homes on ±3,000 s.f. minimum lots that was built in the mid-1990's. The homes range in size from about 1,600 s.f. to 1,900 s.f., and the most recent sales indicate the wide range from the high \$300,000's to the low \$500,000's.

To the south of the subject property is the north end of the U.S. Marine Corps Air Station Miramar which extends for many miles to the south. The land adjacent to the subject property is mostly undeveloped and hilly, with some nearby communications and electrical facilities.

To the east of the subject property is a large area of undeveloped and hilly land. Nearby to the east is the Sycamore Canyon County Open Space Preserve, to the northeast is unincorporated County area, and to the southeast is part of the Miramar Air Station.








In summary, the subject property is located at the edge of a fairly new residential area in this northeast part of San Diego, with much surrounding undeveloped land that includes the Beeler Canyon area and the Miramar Air Station. There is also the nearby business park in Poway which includes the benefit to the subject community of some retail uses.

## **OVERVIEW OF CFD NO. 11**

Community Facilities District No. 11 comprises the entire planned community of StoneBridge Estates (formerly called Rancho Encantada), which consists of a total of approximately 2,658 gross acres. The community is planned to be developed with a total of 828 single family homes and 106 apartment units, and this reflects that over 80% of the land remains as natural open space.

The overall CFD is divided into Zone 1/Improvement Area A, Zone 2/Improvement Area B and Zone 3/Improvement Area C, and the proposed current financing involves the issuance of special tax bonds for only Zones 2 and 3. Thus, only the properties included in these two Zones are included in this appraisal.

# STONEBRIDGE *Estates*

-  Mill Creek  
By McMullin Homes
-  Astoria  
By Brookfield Homes
-  Calabria  
By Brookfield Homes
-  Sanctuary  
By Shea Homes
-  The Collection  
By Warrington Homes, California
-  Future Residential
-  Trail Systems

## Trails System

- Connections to:
- Goodan Ranch Preserve
  - Sycamore Canyon Preserve
  - City of Poway Trail System
  - Los Peñasquitos Canyon

## Community Node

- Riparian Educational Center

## Village Town Center

- HOA Open Space
- Community Meeting and Gathering Area

Mission Trails  
Regional Park  
West Sycamore  
Region (1,800 acres)

Future Rental Housing  
by Fairfield Development

Future Private School

Future 8-acre Park

Pomerado Rd.

StoneBridge Pkwy.

Tot Lot

6-acre Park



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HOMES**

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Subject to change. January, 2015

## DESCRIPTION OF STONEBRIDGE ESTATES

### Overview

StoneBridge Estates is a master planned community that contains a total of ±2,658 acres. Approximately 510 acres is planned to be developed with a total of 828 single family homes within various different neighborhoods and a 106-unit apartment complex for affordable housing, plus a school site and two park sites. The balance of over 80% of the gross acreage remains as open space, including 1,800 acres that is Mission Trails Regional Park North.

Thus far, in terms of the residential development there are 10 different tracts or product types of homes that have been built or still are under construction, the 106-unit Sagewood apartment complex has been completed, and four other tracts or small neighborhoods of vacant lots are not yet designated for a specific product type. The easterly 8-acre park site has been developed, the westerly 6-acre park site still consists of vacant and rough graded land, and the St. Gregory the Great Catholic School is currently under construction on the school site.

The residential development is fairly spread out with much open space of canyon and hill areas between and/or around the various neighborhoods. The main collector street into and through the community is meandering and tree-lined, with set-back sidewalks, split-rail fences and stone pilasters, and lush landscaping. In addition, the in-tract streets are curving and meandering, with many single-loaded streets and cul-de-sacs. There are also 11 miles of multi-use trails traversing the site, connecting to a countywide system. These factors create a rural setting and a country feel, though still within just 3½ miles of the I-15 Freeway.

The homes in the community range from just under 3,000 s.f. to near 6,000 s.f., and the lots range from ±5,000 s.f. minimum to about .75 acre in size. The smaller homes on smaller lots are in the first phase or west portion of the community, and the largest homes on the larger lots are in the central and easterly portions of the community. The home pricing has ranged from the \$800,000's to well over \$1,000,000.

The first phase of StoneBridge Estates (Zone 1/Improvement Area A) comprises 277 lots that are mostly built-out with homes within three separate neighborhoods that are located at the west end of the community, nearest Pomerado Rd. These three tracts are summarized as follows:

**Mill Creek (McMillin Homes):** 109 completed homes that range in size from 2,947 s.f. to 3,390 s.f., on ±5,000 s.f. minimum lots; limited recent sales activity indicate prices in the low to mid \$600,000's.

**Astoria (Brookfield Homes):** 121 completed homes that range in size from 3,110 s.f. to 3,750 s.f., ±6,000 s.f. minimum lots; recent sales have indicated the price range from the mid \$600,000's to the low \$700,000's.

## **DESCRIPTION OF STONEBRIDGE ESTATES, Continuing**

**Calabria/Serenity (Brookfield Homes):** to be a total of 47 homes of which there are 41 completed homes and 6 vacant lots of which 2 lots will be built with the Serenity product; the Calabria homes range in size from 3,780 s.f. to 5,050 s.f., on  $\pm$ 8,000 s.f. minimum lots; current pricing ranges from about \$1,000,000 to \$1,150,000.

The following phases of the community consist of the various tracts of homes within Zones 2 and 3 that are included in this appraisal and discussed in greater detail in following sections.

### **Streets and Access**

Access to StoneBridge Estates is by Stonebridge Pkwy. that extends easterly from Pomerado Rd. Pomerado Rd. is a four-lane roadway along the westerly side of the subject community and to the south, a two-lane roadway to the north but becoming a four-lane roadway nearer to Scripps Poway Pkwy. The intersection of Pomerado Rd. and Stonebridge Pkwy. is signalized.

Stonebridge Pkwy. is a two-lane roadway with various center turn lanes that extends easterly through the entire community and terminates at the easterly end of Zone 3. It is fully paved and improved, including landscaped medians and parkways. All of the tracts of homes in the community have primary access off of this street.

### **Utilities**

The utilities for the community are provided as follows:

Water & Sewer:	City of San Diego
Gas & Electric:	San Diego Gas & Electric
Telephone:	SBC
Cable:	Time Warner and Cox

### **Zoning/Approvals**

The overall community is covered by the Rancho Encantada Precise Plan, and together with Planned Residential Development Permits and Vesting Tentative Tract Maps were approved by the City in August 2001. The final tract maps covering Zone 2 recorded in 2004 and the final tract maps covering Zone 3 recorded in 2005.

### **Drainage/Flood Hazard**

Drainage is within master-planned facilities that have been constructed throughout the community. Per FEMA Flood Map Panel Nos. 060295 1362F, 1366F and 1367F, dated June 19, 1997, the subject properties are located in Zone X, consisting of areas determined to be outside of the 100-year floodplain.

## **DESCRIPTION OF STONEBRIDGE ESTATES, Continuing**

### **Soil/Seismic/Environmental Conditions**

Soils and environmental studies were completed by GEOCON, Inc. and P&D Environmental Services as part of the original development of this community, and essentially these studies concluded that there was no evidence of polluted soils or other adverse conditions in or on the land. It is also noted that the subject community is not located within an Alquist Priolo Earthquake Fault Zone.

This appraisal has assumed that, for all of the subject lots, all necessary grading and compacting has been properly completed by the master developer and builders; that there are no abnormal soil or geological conditions that would affect the development of the lots as completed and planned; that all necessary environmental permits and approvals have been obtained for the single family residential development as completed and planned; and that there are no other environmental conditions, including endangered species or habitat, watercourses or wetlands that would have a negative effect on the existing and planned development. Furthermore, it has been assumed that all required mitigation measures have taken place.

### **Title Reports**

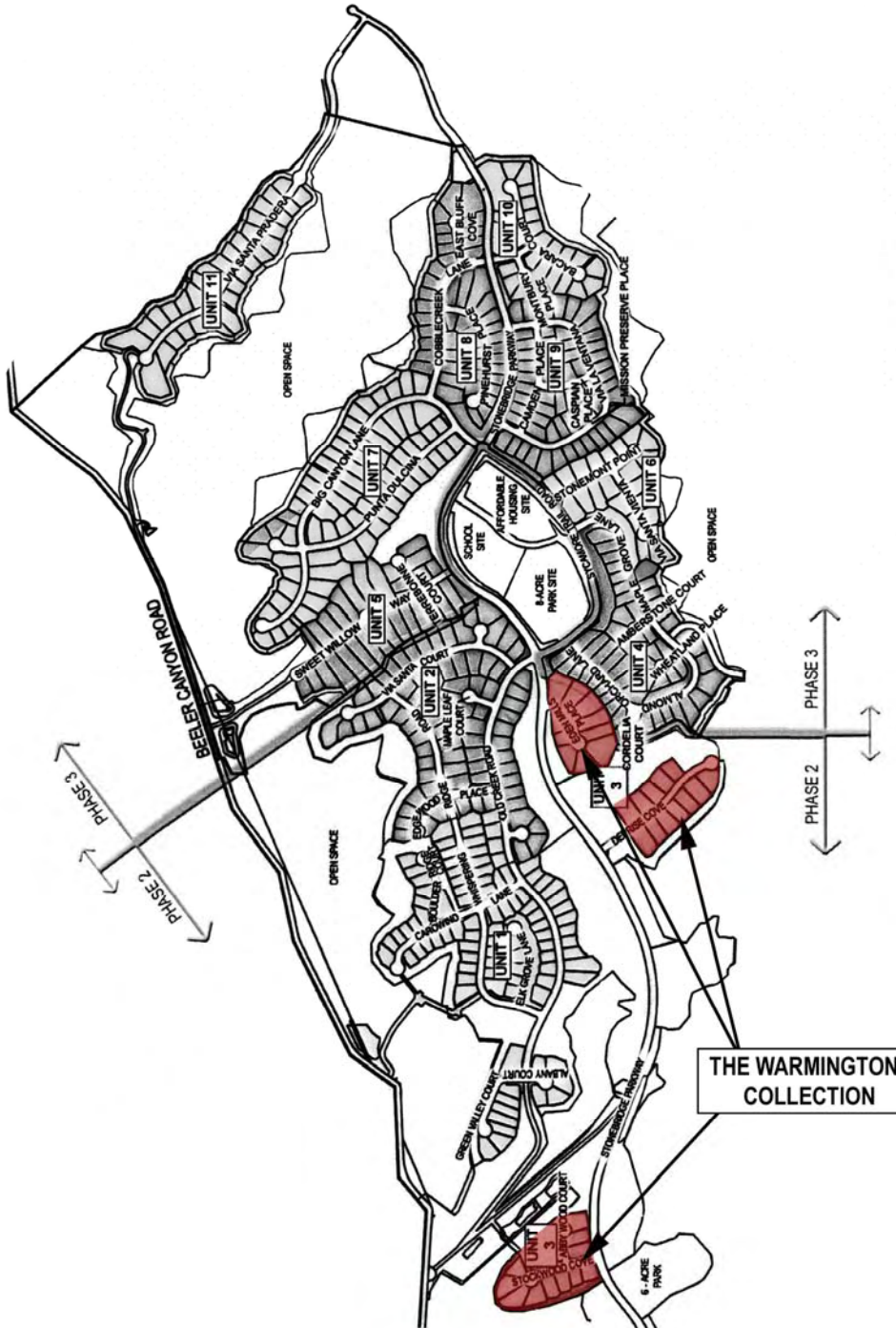
Preliminary title reports from 2004 and 2005 that covered all of the tracts comprising Zones 2 and 3 have been reviewed. These reports cited many exceptions to title that were mostly involved in the planning and mapping approvals for the overall community, and also included typical easements for utilities as well as the Poway Unified School District CFD No. 11. No pertinent exceptions were noted that would negatively impact the existing or planned development of homes on the subject lots.

### **Highest and Best Use**

The term “highest and best” use is defined as that use which is reasonable and probable, and supports the highest present value of the land or improvements. It is also described as the most profitable use which is legal, physically possible and financially feasible.

The highest and best use of the various subject tracts or product types in Zones 2 and 3 is concluded to be as improved for the completed homes, and as planned for the lots with homes under construction and for the vacant lots. These homes are legally possible due to the mapping and entitlements that were approved by the City, they are physically possible due to the land development and infrastructure work that was previously completed, and they are financially feasible as evidenced by the sales activity that has taken place thus far and by the current sales activity at the appropriate price points for new homes and resales, though at a relatively slower sales pace than in past years due to the current soft market conditions.

# THE WARMINGTON COLLECTION



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates

## **ZONE 2 – THE WARMINGTON COLLECTION (WARMINGTON HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is comprised of three small and separate neighborhood areas which are located to the north and south of Stonebridge Pkwy., at Stockwood Cove, Deprise Cove and Eden Mills Pl.

#### **Record Owner/Ownership History**

Warmington Scripps Associates, L.P., purchased these lots from McMillin Montecito 47, LLC, with 26 lots acquired by deed recorded in November 2004 and 10 lots acquired by deed recorded in February 2005. The sale was negotiated in August 2004 at a total price of \$18,990,000 or \$527,500 per lot, with the seller to deliver finished lots other than fees of \$8,754 per lot to be paid by the buyer.

Subsequently, all 36 of the homes were completed and sold by the builder (closed sales), with the sales from Warmington Homes to various homeowners having closed from December 2005 through August 2007 at prices ranging from \$1,075,000 to \$1,970,500. In addition, there have been various resales since that time.

#### **Legal Description**

This tract is described as Lots 175 through 210 of Sycamore Estates Unit 3, in the City of San Diego, County of San Diego, per Map No. 14895 recorded October 21, 2004.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-090-01 to 14 and 325-091-01 to 22. Current assessed values range from \$312,679 to \$624,240 for land and from \$635,294 to \$1,080,143 for improvements, or total assessed values of \$1,030,000 to \$1,704,383, and an average of \$1,282,040. The tax rate area is 08-122 with a base tax rate of 1.02360% excluding the CFD, and a total tax rate to existing homeowners of  $\pm 1.6-1.7\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 36 lots, with a minimum and typical pad size of  $\pm 100'$  x  $120'$  or  $\pm 12,000$  s.f. The actual lot sizes range from 16,254 s.f. to 76,528 s.f., or an average of 29,255 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.



## PROPERTY DATA, Continuing

### Streets and Access

Stonebridge Pkwy. provides the access to the three separate neighborhoods or segments of the tract. The west neighborhood has the in-tract streets of Stockwood Cove and Abby Wood Ct., the center neighborhood has the in-tract street of Deprise Cove, and the east neighborhood has the in-tract street of Eden Mills Pl. All of these streets are cul-de-sacs. In addition, all of these streets have been improved with paving, curbs and gutters.

### Topography/View

The west neighborhood has a gradual slope down from Stonebridge Parkway, with minor terracing between some of the lots. The 11 lots around the perimeter back to open space, with the 7 lots along the west and north sides having canyon and territorial views.

The center neighborhood has a gradual slope up from Stonebridge Parkway with terracing between the lots. All lots back to open space that slopes up from each lot, and there are no significant views.

The lots in the east neighborhood are level with each other, mostly above grade of Stonebridge Parkway, and well below grade of the homes to the south. Only a few of these lots have minor territorial views to the west.

### Existing Development

These lots have been developed by Warmington Homes with a tract of homes called The Warmington Collection. As of the May 1, 2009 date of value, the tract was built and sold-out, thus all 36 homes were completed-sold.

The three floor plans and the number of each plan are as follows:

**Plan 1 (10 homes):** 4,141 s.f., one story, with 4 bedrooms, 4½ baths, large central courtyard with fireplace, intimate second courtyard, covered rear loggia, and 4-space tandem garage; optional flex room in lieu of the tandem portion of the garage that adds ±154 s.f.; optional casita (per location) that adds ±393 s.f.

**Plan 2 (12 homes):** 4,613 s.f., two story, with 5 bedrooms, 5½ baths, covered central loggia with fireplace, rear porch, and an expanded 5-space tandem garage; optional rear loggia with fireplace in lieu of part of the tandem portion of the garage, optional porte cochere, and optional casita (per location) that adds 393 s.f.

**Plan 3 (14 homes):** 4,735 s.f., two story, with 5 bedrooms, library, 5½ baths, large central courtyard, covered outdoor media and entertaining area with wet bar and fireplace, and a 4-space tandem garage; optional casita (per location) that adds 393 s.f.

## VALUATION

### Method of Analysis

The analysis of the completed-sold homes is of the aggregate value and on a mass appraisal basis by means of the Sales Comparison Approach, considering recent resales from within the subject tract as well as recent sales from other tracts within the subject community.

### Analysis of Completed-Sold Homes

The original builder sales closed from December 2005 through August 2007 at indicated prices ranging from \$1,075,000 to \$1,970,500 or an indicated average of  $\pm$ \$1,378,000. It is not known what the specific incentive amounts were for these sales, but considering the current typical incentive amount of  $\pm$ \$50,000, the net indication is an average of \$1,328,000. Considering also that most of these sales closed in 2006, the average net indication of \$1,328,000 supports a far upper limit as an average value for the 36 completed homes at current date.

From September 2008 through April 2009 there have been three closed resales which are discussed as follows:

14033 Abby Wood Ct.: Closed 9/12/08 at \$979,900; 4,613 s.f. (Plan 2) home on a 25,265 s.f. lot; canyon/hills view; backs to Stonebridge Pkwy.; vacant; bank-owned sale; no front or rear yard landscaping or hardscape.

14022 Abby Wood Ct.: Closed 10/30/08 at \$1,305,000; 4,735 s.f. (Plan 3) home on a 23,522 s.f. lot; fully landscaped yards; loggia; canyon/hills and city lights view.

11224 Deprise Cove: Closed 2/26/09 at \$1,340,500; 4,141 s.f. (Plan 1) home on a 28,314 s.f. lot; well upgraded; pool with walk-in sand beach; canyon/hills view.

Initially, it is noted that these three sales indicate an average price of  $\pm$ \$1,208,000. The low end is skewed by being a bank-owned sale, and also a home with no landscaping/yard improvements and a less desirable location within the tract. However, there could also be a minor downward time adjustment since the sale date last September. In contrast, the upper end of the range is a well upgraded home that includes a pool, though it is also the smaller Plan 1 home. Lastly, at least a minor downward time adjustment is supportable to the sale price at \$1,305,000 due to the sale date last October. Overall, the indication at \$1,208,000 supports a closer but still firm upper limit as an average value for the 36 homes.

As discussed later, and considering the general home sizes, the relatively larger lot sizes of this subject tract as well as the view orientation, the pricing of the high \$700,000's to \$900,000 for the Montoro product supports a firm lower limit, the pricing of  $\pm$ \$900,000 to \$1,000,000 for Calabria and Serenity is a close indication to close lower limit, and the pricing of  $\pm$ \$1,000,000 to \$1,100,000 for Tiburon and Sanctuary is a close indication to close upper limit.

## VALUATION, Continuing

In summary, the indications of average value for the 36 subject homes support a far upper limit at \$1,328,000, a closer but firm upper limit at \$1,208,000, close indications to close upper limits at \$1,000,000 to \$1,100,000, close indications to close lower limits at \$900,000 to \$1,000,000, and a firm lower limit in the range from the high \$700,000's to \$900,000. The conclusion is an average value of \$1,050,000 for these 36 completed-sold homes.

### Conclusion of Value

Based on the foregoing, the value indication for the subject property in its as is condition is calculated as follows:

$$36 \text{ completed-sold homes @ } \$1,050,000 = \$37,800,000$$

Thus, as the result of this analysis, I have arrived at the following conclusion of aggregate market value for the as is condition of the subject The Warmington Collection tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$37,800,000**

**(THIRTY-SEVEN MILLION EIGHT HUNDRED THOUSAND DOLLARS)**

(Note: All of this value is allocated into the category of Developed/Completed-Sold.)

# CALABRIA



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates

## **ZONE 2 – CALABRIA (BROOKFIELD HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract or product type is located along Green Valley Ct. at Old Creek Rd. and also along both sides of Old Creek Rd. at and westerly from Carowind Ln.

#### **Record Owner/Ownership History**

Brookfield 8 LLC (known by the builder name of Brookfield Homes) purchased the lots for this and the Serenity product type from Sycamore Estates, LLC by deed recorded in December 2004 at a price of \$26,709,677 or \$290,323 per lot. This was for the lots in finished condition, other than fees of \$8,754 per lot to be paid by the buyer. However, it is noted that this price was set in August 2003, and that the buyer was one of the partners comprising the selling entity.

Subsequently, of the 22 completed homes, there have been 18 closed builder sales to various homeowners that closed from October 25, 2006 through January 29, 2009 at prices ranging from \$970,000 to \$1,378,500. There have been no closed resales since the original builder sales.

#### **Legal Description**

This tract or product type is described as Lots 8 to 21, 31 to 36, 91 & 92 of Sycamore Estates-Unit 1, in the City of San Diego, County of San Diego, per Map No. 14931, recorded December 17, 2004.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-080-08 to 13, 325-081-01 to 08 & 18 to 23, and 325-084-17 & 18. Current assessed values range from \$308,091 to \$469,200 for land and from \$0 to \$862,545 for improvements, or total assessed values of \$308,091 to \$1,264,800, and an average of \$1,055,789. The tax rate area is 08-122 with a base tax rate of 1.02360% excluding the CFD, and a total tax rate to existing and future homeowners of  $\pm 1.7-1.8\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract or product type comprises a total of 22 lots, with a minimum and typical pad size of  $\pm 80'$  x  $120'$  or  $\pm 9,600$  s.f. The actual lot sizes for the overall tract (including Serenity) range from 11,234 s.f. to 41,993 s.f., or an average of 17,599 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

## PROPERTY DATA, Continuing

### Streets and Access

Access to the tract is by Stonebridge Pkwy. to Old Creek Rd. The in-tract streets for the overall tract (including Serenity) include Old Creek Rd., Green Valley Ct., Whispering Ridge Rd., Elk Grove Ln., Carowind Ln. and Boulder Ridge Ct. All of these streets are completed, and all except for Old Creek Rd. are cul-de-sacs.

### Topography/View

The overall tract sits well above grade of Stonebridge Pkwy., and there is a gradual terracing of lots down to the north and west. Just over half of the lots back to open space and about one-fourth of the lots have territorial views to the north.

### Existing Development

These lots have been developed by Brookfield Homes with a tract or product type of homes called Calabria. As of the May 1, 2009 date of value, the tract was built-out with 22 completed homes, of which 18 were completed-sold (closed sales).

There are four floor plans that are described as follows:

**Plan 1:** 3,780 s.f., one story, with 4 bedrooms, 3½ baths, plus bonus room or library, central courtyard with optional fireplace, and a 3 to 4-car garage.

**Plan 2:** 4,340 s.f., two story, with 5 bedrooms, 4½ baths, library/office with extra bonus room, mostly enclosed front courtyard with optional fireplace, and a 3 to 4-car garage.

**Plan 3:** 4,804 s.f., two story, with 5 bedrooms, 4½ baths, bonus room and library, covered front porch, and a 2-car garage plus a separate compact garage.

**Plan 4:** 5,120 s.f., two story, with 5 bedrooms, 4½ baths, bonus room and library, central courtyard with optional fireplace, covered front porch, and a 2-car garage plus a separate compact garage.

Of the four completed-unsold homes, two are currently in escrow and due to close by the end of May, and two are still available at prices of \$1,065,000 (Plan 1) and \$1,029,000 (Plan 2). Incentives are typically ±\$50,000 and are primarily for items of options/upgrades, closing costs or interest rate buy-down.

## VALUATION

### Method of Analysis

For the completed-sold homes, the analysis is the same as for The Warmington Collection. For the completed-unsold homes, the analysis considers a discount due to the bulk ownership by the builder with the discount reflecting holding costs plus profit in order to sell off the homes.

## VALUATION, Continuing

### **Analysis of Completed-Sold Homes**

These are the 18 homes for which the sales closed from October 2006 through January 29, 2009 at indicated prices ranging from \$970,000 to \$1,378,500 or an average of  $\pm$ \$1,160,000. It is not known what the incentive amounts were for these sales, but considering the current incentive amount of at least \$50,000, the net average indication at \$1,110,000 supports a far upper limit for current date.

It is noted that 15 of these sales closed by the end of 2007. The most recent 3 sales closed in July 2008, November 2008 and January 2009 at prices of \$1,025,000, \$1,105,000 and \$1,030,000, which indicates an average of  $\pm$ \$1,053,000. Deducting  $\pm$ \$50,000 for probable incentives results in an average net indication of  $\pm$ \$1,003,000. However, it is noted that assessor data indicates at least two of these are Plan 1 homes. Thus, considering the dates of sale but also that the prices are weighted to the smaller floor plan, the indication at  $\pm$ \$1,003,000 supports a close indication as an average for the 18 completed-sold homes.

As previously indicated, there are two current escrows, a Plan 1 home that had an asking price of \$999,000 and a Plan 4 home that had an asking price of \$1,159,000, but the actual sale prices were not divulged. In addition, the two available homes are a Plan 1 home at \$1,065,000 and a Plan 2 home at \$1,029,000. Thus, the asking prices for these four homes indicate an average of \$1,063,000, or an average net price of \$1,013,000 after deducting  $\pm$ \$50,000 for probable incentives. Considering that sales prices would likely be lower than the asking prices, but also considering that two of the four homes are the smaller Plan 1, the indication at \$1,013,000 supports a close indication to close upper limit as an average value for the 18 completed-sold homes.

It is also noted that there are two current pending sales of Plan 1 homes in the Calabria tract to the west within Zone 1, in which the lots are smaller with typical pad sizes of 8,000 s.f. to 8,800 s.f. Both of these are short sales, one that has five offers ranging from \$765,000 to \$775,000 and the other which is at a price of just below the \$800,000 asking price. Since these are both Plan 1 homes, the indication in the high \$700,000's supports a far lower limit as an average for the 18 subject homes that includes a mix of all floor plans.

Lastly, considering the home sizes, lot sizes and view orientation of the other tracts in StoneBridge Estates, Montoro supports a lower limit at an average from the high \$700,000's to \$900,000, Serenity supports a close indication to close lower limit at an average of  $\pm$ \$850,000 to \$900,000, and The Warmington Collection, Tiburon and Sanctuary support upper limits at averages of  $\pm$ \$1,000,000 to \$1,100,000.

In summary, as an average value for the 18 completed-sold homes, the various indications provide firm upper limits at  $\pm$ \$1,100,000 and above, close indications to

## VALUATION, Continuing

close upper limits at ±\$1,003,000 and \$1,013,000, a close indication to close lower limit at \$850,000 to \$900,000, a firm lower limit from the high \$700,000's to \$900,000, and a far lower limit in the high \$700,000's. The conclusion is an average value of \$950,000 for these 18 completed-sold homes.

### Analysis of Completed-Unsold Homes

These 4 homes consist of two Plan 1 homes, a Plan 2 home and a Plan 4 home. As previously indicated, two of the homes are currently in escrow and due to close by the end of May, and two are still available. The initial value conclusion is based on the conclusion for the completed-sold homes, or an average of \$950,000. Then, a discount of 10% is applied to reflect the bulk ownership by the builder, and representing holding/sales costs. This results in a discounted average of \$855,000 for these 4 completed-unsold homes.

### Conclusion of Value

Based on the foregoing, the total value indication for the subject property in its as is condition is calculated as follows:

18 completed-sold homes @ \$950,000 =	\$17,100,000
4 completed-unsold homes @ \$855,000 =	<u>\$ 3,420,000</u>
Value Indication, As Is:	\$20,520,000

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Calabria tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

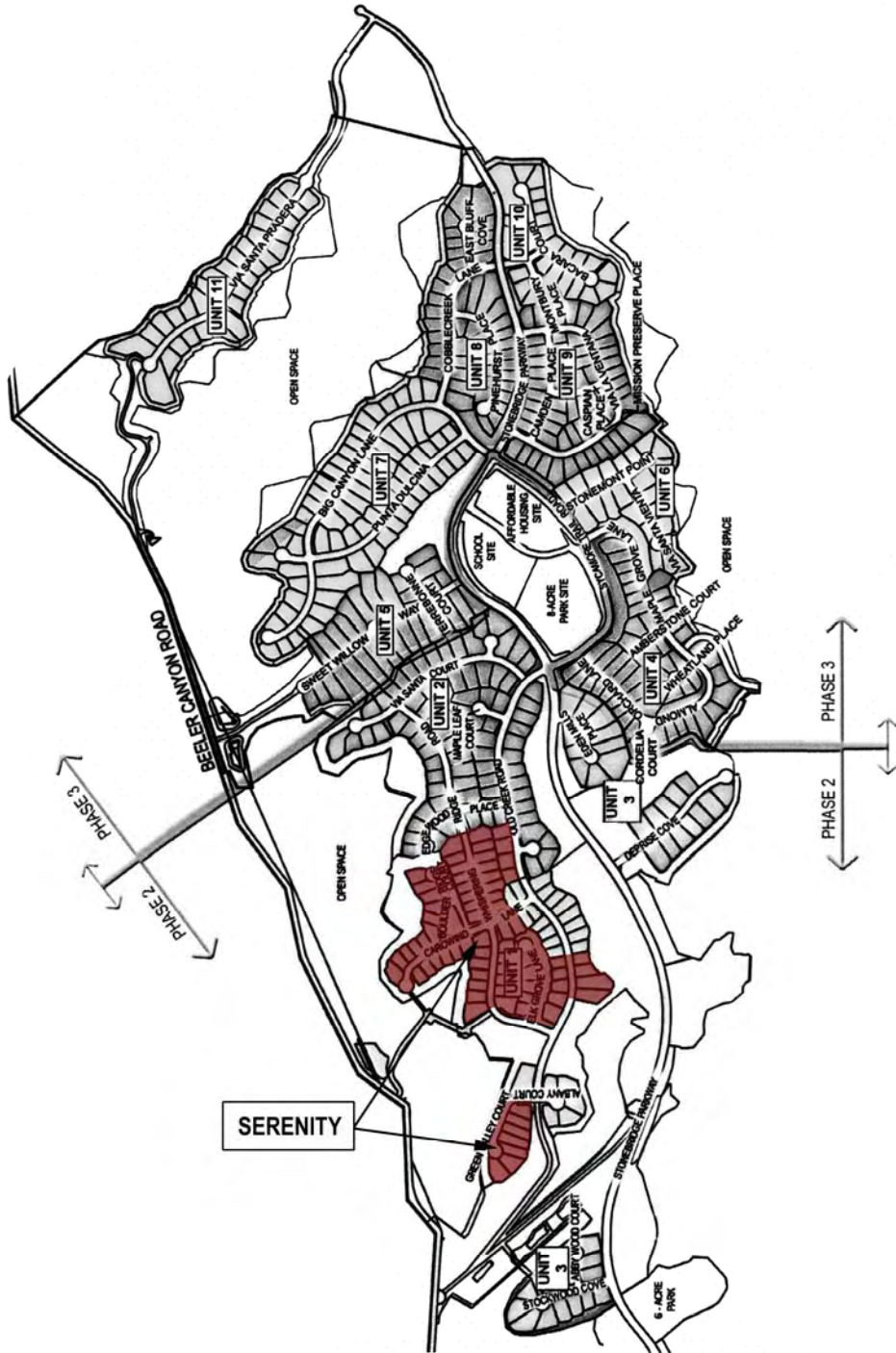
**\$20,520,000**

**(TWENTY MILLION FIVE HUNDRED TWENTY THOUSAND DOLLARS)**

(Note: This value is allocated as \$17,100,000 for Developed/Completed-Sold and \$3,420,000 for Developed/Builder-Owned.)



# SERENITY



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates

## **ZONE 2 – SERENITY (BROOKFIELD HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract or product type is located along both sides of Old Creek Rd. at Carowind Ln., Whispering Ridge Rd. and Green Valley Ct.,  $\pm\frac{1}{4}$  mile and beyond to the northwest of Stonebridge Pkwy.

#### **Record Owner/Ownership History**

The original purchase of the lots is the same as discussed for the previous Calabria tract or product type. Subsequently, there have been 13 closed sales of completed homes from the builder to various homeowners that closed from August 19, 2008 through February 27, 2009 at indicated prices ranging from \$876,000 to \$1,009,000. There have been no closed resales since the original builder sales.

#### **Legal Description**

This tract or product type is described as Lots 1 to 7, 22 to 30 and 37 to 90 of Sycamore Estates-Unit 1, in the City of San Diego, County of San Diego, per Map No. 14931, recorded December 17, 2004.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-080-01 to 07, 325-081-09 to 17, 325-082-01 to 20, 325-083-01 to 18 and 325-084-01 to 16. Current assessed values range from \$308,091 to \$318,091 for land and \$0 for improvements. The tax rate area is 08-122 with a base tax rate of 1.02360% excluding the CFD, and a total tax rate to existing and future homeowners of  $\pm 1.6-1.7\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract or product type comprises a total of 70 lots, with a minimum and typical pad size of  $\pm 80' \times 120'$  or  $\pm 9,600$  s.f. The actual lot sizes for the overall tract (including Calabria) range from 11,234 s.f. to 41,993 s.f., or an average of 17,599 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

#### **Streets and Access**

This is the same as for Calabria.

## PROPERTY DATA, Continuing

### Physical Condition/Topography/View

All of the vacant lots are in a mostly finished condition from a physical standpoint, other than minor items such as street improvements and some landscaping.

The overall tract sits well above grade of Stonebridge Pkwy., and there is a gradual terracing of lots down to the north and west. About half of the lots back to open space and/or have territorial views to the north, west or south.

### Existing Development/Status of Construction

These lots are being developed by Brookfield Homes with the tract or product type of homes called Serenity. As of the May 1, 2009 date of value, there were 13 completed-sold homes, 4 completed-unsold homes (including the 3 models), 4 homes under construction that were about 20-30% completed, and 49 vacant lots in a near finished condition on which building permits had been pulled on 17 of the lots as of May 1, 2009.

There are three floor plans that are described as follows:

**Plan 1:** 4,040 s.f., two story, with 5 bedrooms, 4½ baths, office, bonus room, master retreat, and an oversized 2-car garage.

**Plan 2:** 4,346 s.f., two story, with 5 bedrooms, 4½ baths, bonus room/expanded bonus room, master retreat, optional bedroom 6 in lieu of expanded bonus room, and an oversized 2-car garage.

**Plan 3:** 4,759 s.f., two story, with 5 bedrooms, 4½ baths, bonus room, master retreat, optional living suite in lieu of compact garage, optional bedroom 6 in lieu of master retreat, and an oversized/3-car garage.

The current pricing at the sales office is \$887,000 to \$907,000 for Plan 1, \$921,000 for Plan 2, and \$945,000 for Plan 3. The completed-unsold production home is in escrow and due to close by the end of May. In addition, 3 of the homes under construction are in escrow and due to close upon completion of construction in August, and one of the homes not yet under construction is sold and due to close upon completion of construction in October.

## VALUATION

### Method of Analysis

For the completed-sold and completed-unsold homes, this is the same as for Calabria. For the homes under construction, a simplified Cost Approach is used in which the value is based on an estimate of construction costs expended plus the estimated value of the vacant lot as if in finished condition.

## VALUATION, Continuing

The analysis of the vacant lots as if in finished condition is based on the Sales Comparison Approach and on a static residual/discounted cash flow analysis. The static residual/discounted cash flow analysis is first based on an estimate of average home value less an estimate of construction costs plus profit to arrive at the residual value to the land or vacant lot. Then, a discounted cash flow is used to reflect projected sales or takedowns of the lots over time, and the sales rate of the lots is based on a projected absorption or sales rate of homes. The resulting value indication is the discounted present value of the vacant lots as if in finished condition. Lastly, a deduction is made for remaining costs to get the vacant lots to a finished condition, including minor street improvements, landscaping and fees, resulting in a value indication reflecting the as is condition of the lots.

### **Analysis of Completed-Sold Homes**

These are the 13 homes (fairly even mix of floor plans) for which the sales closed from August 19, 2008 through February 27, 2009 at indicated prices ranging from \$876,000 to \$1,009,000 or an average of  $\pm$ \$946,000. It is not known what the incentive amounts were for these sales, but based on the currently offered incentive amount of  $\pm$ \$50,000, the net average indication would be  $\pm$ \$896,000. Considering at least a minor downward time adjustment since most of these sales took place in 2008, this indication would tend to support a close but firm upper limit as an average at current date.

As previously indicated, the current pricing at the sales office is \$887,000 to \$907,000 for Plan 1, \$921,000 for Plan 2, and \$945,000 for Plan 3, which indicates an average of  $\pm$ \$921,000. Then, deducting an incentive amount, the average net indication is \$871,000. It was indicated that the current escrows are at or close to this pricing, thus this average of \$871,000 is considered to be a close indication to close upper limit as an average for the 13 completed-sold homes.

In summary, as an average value for the 13 completed-sold homes, the indications provide a firm upper limit at \$896,000 and a close indication to close upper limit at \$871,000. In addition, the previous discussion for the Calabria product supports a lower limit in the high \$700,000's and the pricing as discussed later for the Montoro product supports a lower limit in the low to mid \$800,000's. The conclusion is an average value for the 13 completed-sold homes at \$850,000.

### **Analysis of Completed-Unsold Homes**

These 4 homes consist of a Plan 3 production home and the three models. As previously indicated, the production home is currently in escrow and due to close by the end of May. The initial value conclusion is based on the conclusion for the completed-sold homes, or an average of \$850,000. Then, the discount of 10% is applied to reflect the bulk ownership by the builder, but also reflecting that the

## VALUATION, Continuing

production home is in escrow and due to close soon, and the three models are highly upgraded. The resulting discounted average is \$765,000 for these 4 completed-unsold homes.

### **Analysis of Homes Under Construction**

For the 4 homes that were estimated to be 20-30% completed, I have considered an average cost amount of 25% of  $\pm$ \$65.00 per s.f. total direct costs (appraiser estimate) or \$16.25 per s.f. on the average home size of  $\pm$ 4,380 s.f., or an amount of  $\pm$ \$71,000 which is rounded down to \$70,000. This is added to the estimated finished lot value of \$310,000 which is discussed next for the vacant lots (static residual value) and is prior to the discount for time or absorption since the lots for these homes under construction would have already been reflected as a takedown and thus not be discounted for time, holding costs and profit. This results in a total of \$380,000 as an average for these 4 homes under construction.

### **Analysis of Vacant Lots**

As previously discussed, the analysis of the 49 vacant lots is based on the Sales Comparison Approach and also on a static residual/discounted cash flow analysis.

For the Sales Comparison Approach, a search was made in the general area for any recent sales, offers and listings of reasonably similar bulk single-family residential lots. The limited available data is discussed in the following paragraphs:

**Viscaya Tract, StoneBridge Estates:** As discussed later, there are 19 vacant lots remaining in this subject tract that are being marketed for sell-off by Warmington Homes. It is noted that the lots are in two groups at the northwest and southwest ends of the tract, plus one lot in the center of the tract, and about half of the lots back to open space and have territorial views of hills and city lights. There is a pending sale at a price reflecting  $\pm$ \$237,000 per finished lot, and the buyer will build homes similar to the Viscaya product though likely at a lower price point. Considering that the subject lots are fairly similar in size and view potential, though being developed with slightly larger homes, the indication at \$237,000 per finished lot supports a close but firm lower limit for the subject.

**Brookfield Homes/151 Vacant Lots, StoneBridge Estates:** Also as discussed later, Brookfield Homes owns the 151 vacant lots within four separate segments within Zone 3 of this CFD. One source indicated that they are looking at an average value of \$377,000 per finished lot for these lots. However, another source indicated that the lots are not actively being marketed though a sale would be considered if a good offer was received, and they consider the value to be between \$300,000 and \$400,000 per finished lot when considering the larger lot widths and sizes as well as the good views. These lots are considered to be superior to the subject due to the lot width/size and views, and the very general indication at \$300,000 to \$400,000 per finished lot supports a firm upper limit for the subject.

**Planning Areas 48 & 51, 4S Ranch:** Sales were negotiated in mid 2008 from the master developer to California West for 94 lots, 6,000 s.f. minimum, at a price of \$218,000 per finished lot and for 63 lots, 7,000 s.f. minimum, at a price of \$230,000 per finished lot. The

## VALUATION, Continuing

first takedowns of 30 lots for each product closed in October/November 2008. The builder plans 2,500 s.f. to 3,200 s.f. homes on the 6,000 s.f. lots and 2,900 s.f. to 3,400 s.f. homes on the 7,000 s.f. lots. In comparison to the subject, an upward adjustment to reflect that these are much smaller lots with the inferior potential for much smaller and lower-priced homes is only partially offset by a minor downward time adjustment since the deal was negotiated in mid 2008. Overall, the indications at \$218,000 and \$230,000 per finished lot support far lower limits for the subject.

In summary, on a finished lot basis and reflecting a bulk size of lots, this data supports far lower limits at \$218,000 and \$230,000 per lot, a closer but firm lower limit at \$237,000 per lot, and a firm to far upper limit in the range of \$300,000 to \$400,000. Then, a deduction is made to reflect the remaining costs to get the lots from as is condition to finished condition. Information provided by Brookfield Homes on the 151 vacant lots (discussed later in this report) indicate that the approximate costs to get those lots to finished condition are  $\pm$ \$30,000 per lot. Information provided by Warmington Homes on the remaining vacant lots in the Viscaya tract (discussed later) indicate a cost of  $\pm$ \$35,000 to \$40,000 per lot, but a different source indicates a remaining cost of  $\pm$ \$27,000 per lot. An estimated cost amount of \$35,000 per lot has been used in this analysis.

Considering a value of \$250,000 to \$260,000 per finished lot, less remaining costs of \$35,000 per lot, the residual value for the as is condition is \$215,000 to \$225,000 per lot, which results in the following:

49 vacant lots @ \$215,000 to \$225,000/lot = \$10,535,000 to \$11,025,000

For the static residual/discounted cash flow analysis, the starting point is the average home price of \$850,000 as concluded for the completed-sold homes. Next, a deduction is made for the items of construction costs of the homes, direct and indirect, plus a factor for profit. The appraiser estimate of direct costs is \$65.00 per s.f., and on the average home size of 4,380 s.f. this indicates an amount of \$285,000. Then, based on other cost information that I am aware of, indirect costs for items such as service/warranty, selling/marketing, legal, title, insurance, G&A, property taxes, financing and profit add an amount of approximately 30% of the home price or \$255,000.

The resulting total amount for direct and indirect costs plus profit is \$540,000. Lastly, an amount of \$35,000 is deducted to reflect the remaining costs to get the lot from as is condition to finished condition. The resulting indication is as follows:

Average Home Price:	\$850,000
Less Costs & Profit:	<u>- 540,000</u>
Residual to Vacant Lot, as if Finished Condition:	\$310,000
Less Costs to Complete:	<u>- 35,000</u>
Lot Value, As Is Condition:	\$275,000

## VALUATION, Continuing

Lastly, a discount is applied to the indicated retail lot value to reflect that the absorption or sell-off of homes on these lots will occur over a period of time. The discount is estimated by means of a discounted cash flow analysis which involves the discounting of the projected net proceeds from assumed sales or takedowns of the lots on a quarterly basis and over an appropriate period of time. The assumed land sales at \$275,000 per lot represent the gross proceeds or revenues. Then, a combined deduction of 8% of sales is made for general/administrative costs, holding costs and sales/closing costs as the land sales are projected to occur. Finally, the net cash flows are discounted to a present value indication by an appropriate discount rate that is inclusive of profit.

As to the timing of the lot sales, it is noted that the sales rate for the Serenity product thus far has been approximately 1.5 sales per month, though not reflecting the five current escrows. Other tracts in StoneBridge Estates have indicated recent sales rates ranging from less than one per month to about four per month but with the high end reflecting significantly discounted pricing. I have considered a sales rate of 2 per month for purposes of this analysis. Thus, the assumed sales or takedowns of vacant lots are projected to occur as 6 lots per quarter starting with the third quarter of 2009 and for the following 6 quarters, with the final 7 lots in the 7<sup>th</sup> quarter of the cash flow.

As to an appropriate discount rate, this rate is inclusive of developer's profit, and also reflects the factors of the time value of money, and the risk of the projected cash flows inherent in this type of overall project. This rate typically ranges from just under 15% to nearer 30%, depending on the size and status of the project, the length of the projected build-out (or in this case sell-out of lots), the location, the perceived risk, etc. The Korpacz Real Estate Investor Survey for the national development land market for the fourth quarter of 2008 indicates a range of rates from 12.0% to 25.0% or an average of 18.6%, inclusive of developer's profit. These figures are slightly higher than the range of 10.0% to 25.0% or an average of 17.5% as of the second quarter of 2008.

The subject property has the positive or desirable factors of being part of a master-planned community, being lots in near finished condition, and being part of an ongoing tract with homes already completed and sold. In addition, the remaining absorption time is relatively short at two years. In summary, I have concluded on a discount rate in the range of 17% to 18%.

Based on the foregoing, the following is the discounted cash flow analysis reflecting an 18% discount rate:

Quarterly		3Q-2009	4Q-2009	1Q-2010	2Q-2010	3Q-2010	4Q-2010
REVENUES (Lot Sales)							
	Lot Sales @ \$275,000/lot	\$1,650,000	\$1,650,000	\$1,650,000	\$1,650,000	\$1,650,000	\$1,650,000
PROJECT COSTS							
	G&A/Holding/Sales/Closing	8%	<u>\$132,000</u>	<u>\$132,000</u>	<u>\$132,000</u>	<u>\$132,000</u>	<u>\$132,000</u>
NET CASH FLOWS							
		\$1,518,000	\$1,518,000	\$1,518,000	\$1,518,000	\$1,518,000	\$1,518,000
DISCOUNT FACTOR							
	18%	<u>0.956938</u>	<u>0.917431</u>	<u>0.881057</u>	<u>0.847458</u>	<u>0.816327</u>	<u>0.787402</u>
PV OF CASH FLOWS							
		\$1,452,632	\$1,392,661	\$1,337,445	\$1,286,441	\$1,238,184	\$1,195,276

Quarterly		1Q-2011	2Q-2011	Total
REVENUES (Lot Sales)				
	Lot Sales @ \$275,000/lot	\$1,650,000	\$1,925,000	\$13,475,000
PROJECT COSTS				
	G&A/Holding/Sales/Closing	8%	<u>\$132,000</u>	<u>\$154,000</u>
				\$1,078,000
NET CASH FLOWS				
		\$1,518,000	\$1,771,000	\$12,397,000
DISCOUNT FACTOR				
	18%	<u>0.760456</u>	<u>0.735294</u>	
PV OF CASH FLOWS				
		\$1,154,373	\$1,302,206	
PRESENT VALUE				
		\$10,360,216		



## VALUATION, Continuing

As indicated, at a discount rate of 18% the present value is \$10,360,216 and it is noted that at a 17% discount rate the present value indication is \$10,452,075, with both indications being for the lots in as is condition. As previously indicated, the indication by the Sales Comparison Approach for the vacant lots in as is condition is \$10,535,000 to \$11,025,000.

Based on these analyses, the conclusion of value for the vacant lots is \$10,450,000.

### **Conclusion of Value**

Based on the foregoing, the total value indication for the subject property in its as is condition is calculated as follows:

13 completed-sold homes @ \$850,000 =	\$11,050,000
4 completed-unsold homes @ \$765,000 =	\$ 3,060,000
4 homes under construction @ \$380,000 =	\$ 1,520,000
49 vacant lots, as is condition =	<u>\$10,450,000</u>
Value Indication, As Is:	\$26,080,000

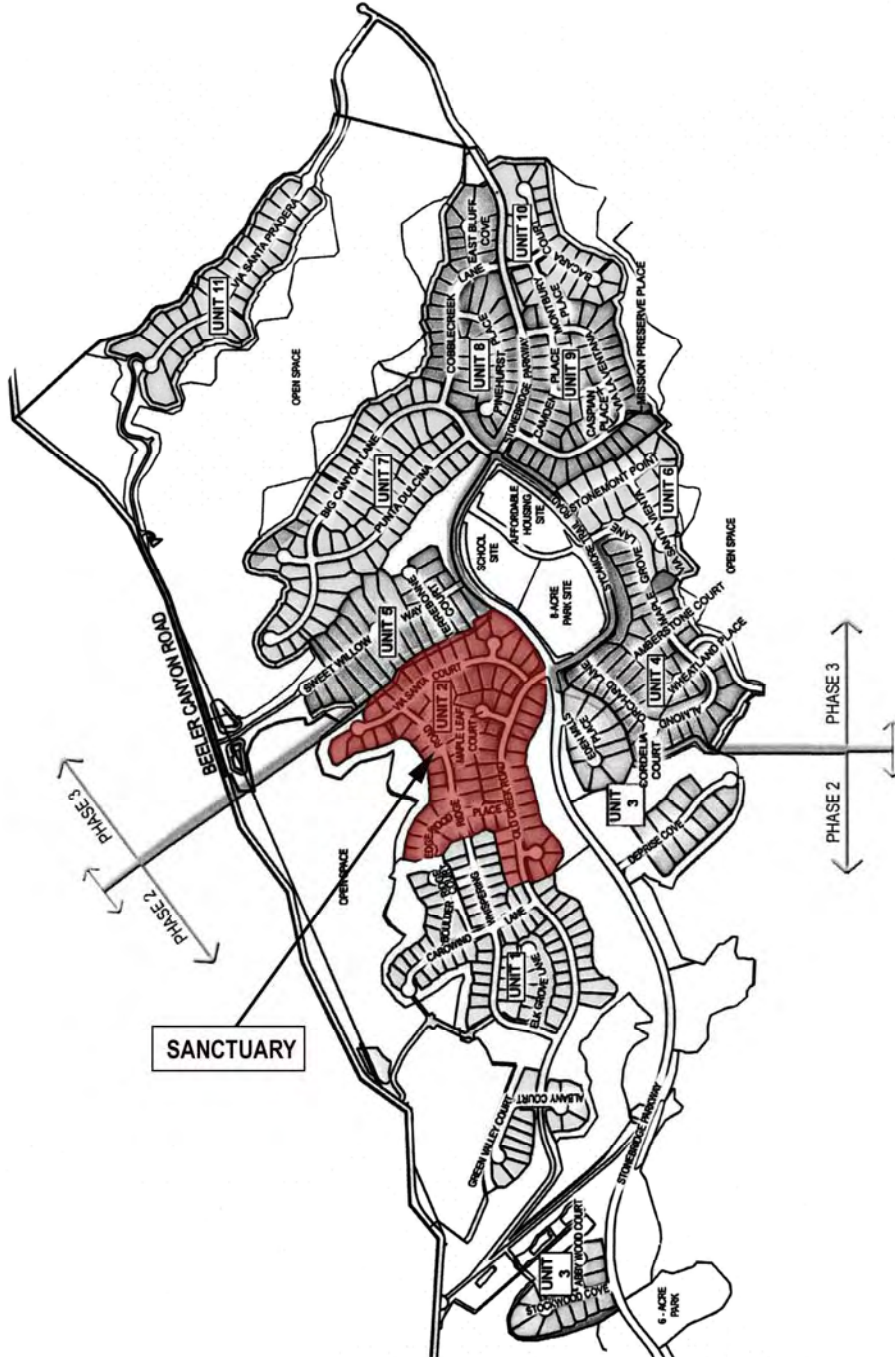
Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Serenity tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$26,080,000**

**(TWENTY-SIX MILLION EIGHTY THOUSAND DOLLARS)**

(Note: Reflecting that building permits had been pulled on 17 of the vacant lots as of May 1, 2009, this value is allocated as \$11,050,000 for Developed/Completed-Sold, \$8,206,000 for Developed/Builder-Owned and \$6,824,000 for Undeveloped.)

# SANCTUARY



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates

## **ZONE 2 – SANCTUARY (SHEA HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is located on the north side of Stonebridge Pkwy. at Old Creek Rd. and extending northerly and northwesterly.

#### **Record Owner/Ownership History**

Shea Homes Limited Partnership purchased these lots from McMillin Montecito 47, LLC by deed recorded in January 2005. The sale was negotiated in August 2004 at a total price of \$42,804,000 or \$522,000 per lot, with the seller to deliver finished lots other than fees of \$8,754 per lot to be paid by the buyer.

Subsequently, there have been 74 closed sales of completed homes from Shea Homes to various homeowners that closed from May 26, 2006 through April 30, 2009 at indicated prices ranging from \$1,000,000 to \$1,855,500.

#### **Legal Description**

This tract is described as Lots 93 through 174 of Sycamore Estates Unit 2, in the City of San Diego, County of San Diego, per Map No. 14932, recorded December 17, 2004.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-100-01 to 12, 325-101-01 to 07, 325-102-01 to 18, 325-103-01 to 23 & 325-104-01 to 22. Current assessed values range from \$303,224 to \$645,084 for land and from \$0 to \$1,302,863 for improvements, or total assessed values of \$553,949 to \$1,914,863. The tax rate area is 08-122 with a base tax rate of 1.02360% excluding the CFD, but the projected total tax rate to existing and future homeowners is  $\pm 1.6-1.7\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 82 lots, with a minimum and typical pad size of  $\pm 100'$  x  $120'$  or  $\pm 12,000$  s.f. The actual lot sizes range from 14,222 s.f. to 36,312 s.f., or an average of 22,052 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

## PROPERTY DATA, Continuing

### Streets and Access

Primary access to the tract is by Stonebridge Pkwy. to Old Creek Rd. The in-tract streets include Old Creek Rd., Via Santa Brisa, Maple Leaf Ct., Whispering Ridge Rd. and Edgewood Pl. All of these streets have been completed and five of the streets are cul-de-sacs.

### Physical Condition/Topography/View

All of the vacant lots are in a mostly finished condition from a physical standpoint, other than minor items such as street improvements and some landscaping.

The overall tract ranges from slightly to well above grade of Stonebridge Pkwy., and there is a gradual terracing of lots down to the north and west. About 35% of the lots back to open space and about half of the lots have territorial views to the north, south or east.

### Existing Development/Status of Construction

The 82 lots are being developed by Shea Homes with a tract of homes called Sanctuary. As of the May 1, 2009 date of value, there were 74 completed-sold homes, 4 completed-unsold homes (including the 3 models), 3 homes under construction that were  $\pm 10\%$  completed, and 1 vacant lot in near finished condition.

There are three floor plans that are described as follows:

**Plan 1:** 4,435 to 4,775 s.f., single story, with 5 bedrooms, 4½ baths, second floor retreat loft, parlor/library, breakfast nook, formal dining room, great room, central courtyard with covered entry loggia, and a 4-car tandem garage; options include a home office, bonus room, casita or studio above bedroom 5 and a detached cabana with ¾ bath.

**Plan 2:** 5,135 to 5,333 s.f., two-story, with 5-bedrooms, 5½ baths, master retreat, parlor, formal dining room, breakfast nook, family media room, great room, covered dining loggia/optional summer kitchen, and a 4-car split garage; options include a guest suite or media room at garage 4 and bedroom 5.

**Plan 3:** 5,599 s.f., two-story, with 5 bedrooms, 5½ baths, master retreat, game room, parlor, formal dining room with lounge, morning room, great room, central courtyard, and a 4-car split garage.

The current pricing at the sales office is \$1,333,760 for Plan 1, \$1,198,000 (special) for Plan 2 and \$1,311,155 for Plan 3. Current incentives are about \$100,000 and can be applied toward upgrades, financing costs or lowering of the price. As of the May 1, 2009 date of value, there were 2 homes in escrow that are due to close in November 2009 and 3 homes still available. The models have not yet been released for sale.

## VALUATION

### Method of Analysis

This is similar to previous analyses.

### Analysis of Completed-Sold Homes

These are the 74 homes (24 @ Plan 1, 24 @ Plan 2 & 26 @ Plan 3) for which the sales closed from May 26, 2006 through April 30, 2009 at indicated prices ranging from \$1,000,000 to \$1,855,500 or an average of  $\pm$ \$1,357,000. It is not known what the specific incentive amounts were for these sales, but based on the current amount of  $\pm$ \$100,000 the net average indication would be  $\pm$ \$1,257,000. Considering that most of these sales took place in 2006 and 2007, the indication at \$1,257,000 supports a firm upper limit as an average value at current date.

The 18 closed sales in 2008 and 2009 (7 @ Plan 1, 6 @ Plan 2, 5 @ Plan 3) indicated the price range of \$1,000,000 to \$1,500,000 or an average of  $\pm$ \$1,196,000. Considering a deduction of  $\pm$ \$100,000 for probable incentives results in a net average indication at \$1,096,000. A minor downward time adjustment is mostly offset by the mix of these 18 homes with a higher percentage of Plan 1 homes than the mix of the 74 homes, resulting in a close indication to close upper limit at an average of \$1,096,000.

The 8 closed sales in 2009 (3 @ Plan 1, 5 @ Plan 3) indicated the range of \$1,000,000 to \$1,500,000 or an average of  $\pm$ \$1,176,000, and a net average indication at \$1,076,000 after deducting  $\pm$ \$100,000 for probable incentives. Considering the mix of plans, the indication at \$1,076,000 supports a close upper limit as an average for the 74 homes.

As previously indicated, the current pricing at the sales office is the range of \$1,198,000 to \$1,333,760 or an average of  $\pm$ \$1,281,000. Considering a deduction of  $\pm$ \$100,000 for typical incentives, the adjusted indication at \$1,181,000 supports an upper limit as an average for the 72 homes since actual sale prices would likely be less than the asking prices.

Lastly, it is noted that there are two pending resales of Plan 3 homes, both of which are highly upgraded and originally sold in September and December 2006 at prices near \$1,850,000. Both of these are short sales, one of which has been approved by the bank at a price of \$1,125,000, and the other which has three pending offers that range from below to above the asking price of \$1,075,000. While these sales reflect distressed/motivated seller situations, the indication at  $\pm$ \$1,100,000 or slightly above supports a firm upper limit as an average for the 74 homes.

In summary, as an average value for the 74 completed-sold homes, the various indications provide firm upper limits from  $\pm$ \$1,100,000 to \$1,257,000, and close

## VALUATION, Continuing

indications to close upper limits at \$1,076,000 and \$1,096,000. The conclusion is an average value of \$1,050,000 for the 74 completed-sold homes.

### Analysis of Completed-Unsold Homes

These 4 homes consist of a Plan 2 production home that is currently available and the three models. The initial value conclusion is based on the conclusion for the completed-sold homes or an average of \$1,050,000. Then, applying the 10% discount for the bulk ownership by the builder results in a discounted average of \$945,000 for these 4 homes.

### Analysis of Homes Under Construction

For the 3 homes that were estimated to be  $\pm 10\%$  completed, I have considered an average cost amount of 10% of  $\pm \$65.00$  per s.f. total direct costs (appraiser estimate) or \$6.50 per s.f. on the average home size of  $\pm 5,060$  s.f., or an amount of  $\pm \$33,000$  which is rounded down to \$30,000. This is added to the estimated finished lot value of \$370,000 which is discussed next for the vacant lot, resulting in a total of \$400,000 as an average for these 3 homes under construction.

### Analysis of Vacant Lot

This is the one vacant lot that is currently the parking lot for the models and is planned to be built with a Plan 3 home. Similar to the previous analysis of the Serenity tract, the value of this lot is based on a static residual approach. Thus, the starting point is the concluded average value of \$1,050,000 for completed-sold homes. Then, a deduction is made for direct costs of  $\pm \$65.00$  per s.f. on 5,599 s.f. or \$364,000. Then, indirect costs plus profit totaling 30% or \$315,000 are added, resulting in a total cost plus profit amount of \$679,000. The resulting value to the vacant lot, equivalent to a finished lot, is as follows:

Average Home Price:	\$1,050,000
Less Costs & Profit:	<u>- 679,000</u>
Residual to Vacant Lot:	\$ 371,000

Rd. \$ 370,000

Per builder information, there are no remaining costs to get this lot to finished condition, since all street improvements and landscaping have been completed and all fees have been paid. Thus, the value of the as is condition of the lot is concluded to be \$370,000.

## VALUATION, Continuing

### Conclusion of Value

Based on the foregoing, the total value indication for the subject property in its as is condition is calculated as follows:

74 completed-sold homes @ \$1,050,000 =	\$77,700,000
4 completed-unsold homes @ \$945,000 =	\$ 3,780,000
3 homes under construction @ \$400,000 =	\$ 1,200,000
1 vacant lot, as is condition =	<u>\$ 370,000</u>

Value Indication, As Is: \$83,050,000

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Sanctuary tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$83,050,000**

**(EIGHTY-THREE MILLION FIFTY THOUSAND DOLLARS)**

(Note: This value is allocated as \$77,700,000 for Developed/Completed-Sold, \$4,980,000 for Developed/Builder-Owned, and \$370,000 for Undeveloped.)

# MONTORO



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates



## **ZONE 3 – MONTORO (CORNERSTONE COMMUNITIES)**

### **PROPERTY DATA**

#### **Location**

This tract is located northerly from Stonebridge Pkwy. on both sides of Sweet Willow Way and Terrebonne Ct.

#### **Record Owner/Ownership History**

Cornerstone at Stonebridge Estates, L.P. acquired these lots from McMillin Montecito 47, LLC in September 2005 together with the lots for the Tiburon tract of homes (discussed next). Subsequently, Lots 264, 265 and 282 through 289 in this Montoro tract were deeded to Montoro at Stonebridge Estates, LLC (c/o Cornerstone Communities) in July 2008. The sale prices in both of these transactions are not known.

#### **Legal Description**

This tract is described as Lots 264 to 271 and 279 to 291 of Sycamore Estates Phase II Unit 5 in the City of San Diego, County of San Diego, according to Map No. 15127, filed in the office of the County Recorder on September 27, 2005; and Lots 1 to 7 of Amended Map of Sycamore Estates Phase II Unit 5, recorded December 13, 2006.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-160-01 to 08, 16 to 28, 35 to 39, 46 & 47. Current assessed values for each parcel are \$527,924 for land and \$0 for improvements. The tax rate area is 08-122 with a base tax rate of 1.02360% excluding the CFD, but the projected total tax rate to future homeowners is  $\pm 1.7-1.8\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 28 lots, with a minimum and typical pad size of  $\pm 80'$  x  $120'$  or  $\pm 9,600$  s.f. The actual lot sizes range from 15,113 s.f. to 54,014 s.f., or an average of 31,569 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

#### **Streets and Access**

Access to the tract is by Stonebridge Pkwy. to Sweet Willow Way, with the in-tract streets including Sweet Willow Way and Terrebonne Ct. These in-tract streets are fully completed and both are cul-de-sacs.

## PROPERTY DATA, Continuing

### Physical Condition/Topography/View

All of the vacant lots are in a mostly finished condition from a physical standpoint, other than minor items such as street improvements and some landscaping.

The lots have a gradual terracing down to the north and east, but only a few lots back to open space or have minor territorial views.

### Existing Development/Status of Construction

These lots are being developed by Cornerstone Communities with the tract or product type of homes called Montoro. As of the May 1, 2009 date of value, there were 2 completed-unsold homes (the models), 8 homes under construction of which 4 were  $\pm 80-90\%$  completed and 4 were  $\pm 10\%$  completed, and 18 vacant lots in a near finished condition.

There are two floor plans that are described as follows:

**Plan 1:** 3,655 to 3,840 s.f., two story, with 3 to 5 bedrooms,  $2\frac{1}{2}$  to 3 baths, study, bonus room, super family room, and a 3-car tandem garage.

**Plan 2:** 4,285 s.f. (5,015 s.f. with casita), two story, with 4 to 6 bedrooms,  $3\frac{1}{2}$  to  $4\frac{1}{2}$  baths, bonus room, study, and a 3 to 4-car garage; casita is two story and includes living room, kitchenette, bedroom and bath.

The recent and current pricing at the sales office indicates \$825,990 and \$871,990 for Plan 1, \$871,990 to \$927,990 for Plan 2, and \$934,990 and \$956,990 for Plan 2 with Casita. Incentives of \$50,000 are offered for Phase 1A and \$25,000 for Phase 1B, and the incentives are for upgrades and financing but not price reductions. As of May 1, 2009, there were three escrows of which two are scheduled to close in late May and one is scheduled to close in October upon completion of the homes.

## VALUATION

### Method of Analysis

This is the same as for previous analyses.

### Analysis of Completed-Unsold Homes

These are the two model homes, a Plan 1 and a Plan 2 with Casita. As previously indicated, the pricing at the sales office indicates \$825,990 and \$871,990 for the Plan 1 home and \$934,990 and \$956,990 for the Plan 2 with Casita. It is also noted that there are current escrows of a Plan 1 at \$825,000 and a Plan 2 with Casita at \$966,000 that are due to close by the end of May. Then, deducting the typical

## VALUATION, Continuing

incentive amount of \$50,000 offered on Phase 1A, the indications are \$775,000 and \$916,000 or a total of \$1,691,000. However, it is not known whether higher incentives amounts were negotiated on these two escrows.

I have concluded on a conservative initial indication at \$1,600,000 for these two completed-unsold homes. Then, similar to previous analyses, a deduction of 10% for holding costs and profit to reflect that they are part of the bulk ownership of the builder, but also reflecting that they are upgraded model homes. Thus, the conclusion is a total of \$1,440,000 for these 2 completed-unsold homes.

### Analysis of Homes Under Construction

For the 4 homes that were estimated to be 80-90% completed, I have considered an average cost amount of 85% of  $\pm$ \$65.00 per s.f. total direct costs (appraiser estimate) or \$55.25 per s.f. on the average home size of  $\pm$ 4,360 s.f., or an amount of  $\pm$ \$241,000, which is rounded down to \$240,000. This is added to the estimated finished lot value of \$265,000 which is discussed next for the vacant lots (static residual value prior to cost deduction to get to finished condition) and is prior to the discount for time or absorption since the lots for these homes under construction would have already been reflected as a takedown and thus not be discounted for time, holding costs and profit. This results in a total of \$505,000 as an average for these 4 homes under construction.

For the 4 homes that were estimated to be  $\pm$ 10% completed, an average cost amount of 10% of \$65.00 per s.f. or \$6.50 per s.f. on the average home size of  $\pm$ 4,540 s.f., or an amount of \$30,000 is added to the finished lot value of \$265,000, resulting in a total of \$295,000 as an average for these 4 homes under construction.

### Analysis of Vacant Lots

This is similar to the previous analysis of the Serenity tract. Considering the lot sizes, minimal view potential and relatively smaller homes that are being developed on these lots, the Sales Comparison Approach would support the value range of  $\pm$ \$235,000 to \$245,000 per finished lot. Then, deducting a figure of  $\pm$ \$35,000 in estimated remaining costs to get to finished condition, the indication for the as is condition is \$200,000 to \$210,000 per lot. This results in the following value indication:

18 vacant lots @ \$200,000 to \$210,000/lot = \$3,600,000 to \$3,780,000

For the static residual/discounted cash flow analysis, the starting point is the average home price of \$800,000 as concluded for completed-sold homes (if sold). Then, the deduction for direct costs is calculated as \$65.00 per s.f. on an average home size of  $\pm$ 4,540 s.f. or an amount of \$295,000, and the deduction for indirect costs and profit of 30% of \$800,000 is an amount of \$240,000. This results in a total cost plus profit

## VALUATION, Continuing

amount of \$535,000, and the last deduction is \$35,000 for the costs to get the lot to finished condition. The resulting residual value to the lot is as follows:

Average Home Price:	\$800,000
Less Costs & Profit:	<u>- 535,000</u>
Residual to Vacant Lot, as if Finished Condition:	\$265,000
Less Costs to Complete:	<u>- 35,000</u>
Lot Value, As Is Condition:	\$230,000

Thus, the assumed land sales are based on \$230,000 per lot reflecting the as is condition. Similar to the analysis of the Serenity tract, the absorption or sell-off of the lots is based on 6 lots per quarter but starting with the fourth quarter of 2009 to reflect the existing inventory with 8 homes under construction. This results in an absorption of 0 lots in the third quarter of 2009 and 6 lots in the fourth quarter of 2009 and the first and second quarters of 2010. Then, the combined deduction of 8% of sales is made for general-administrative costs, holding costs and sales-closing costs as the land sales are projected to occur, and the net cash flows are discounted to present value at a discount rate of 17% to 18%.

Based on the foregoing, the following is the discounted cash flow analysis reflecting an 18% discount rate:

Quarterly		3Q-2009	4Q-2009	1Q-2010	2Q-2010	Total
REVENUES (Lot Sales)						
Lot Sales @ \$230,000/lot		\$0	\$1,380,000	\$1,380,000	\$1,380,000	\$4,140,000
LESS PROJECT COSTS						
G&A/Holding/Sales/Closing	8%	<u>-\$0</u>	<u>-\$110,400</u>	<u>-\$110,400</u>	<u>-\$110,400</u>	\$331,200
NET CASH FLOWS		\$0	\$1,269,600	\$1,269,600	\$1,269,600	\$3,808,800
DISCOUNT FACTOR	18%	<u>0.956938</u>	<u>0.917431</u>	<u>0.881057</u>	<u>0.847458</u>	
PV OF CASH FLOWS		\$0	\$1,164,771	\$1,118,590	\$1,075,932	
PRESENT VALUE		\$3,359,293				

As indicated, at a discount rate of 18% the present value is \$3,359,293 and it is noted that at a 17% discount rate the present value indication is \$3,381,297, with both indications being for the lots in as is condition. As previously indicated, the indication by the Sales Comparison Approach for the vacant lots in as is condition is \$3,600,000 to \$3,780,000.

Based on these analyses, the conclusion of value for the vacant lots is \$3,400,000.

## VALUATION, Continuing

### Conclusion of Value

Based on the foregoing, the total value indication for the subject property in its as is condition is calculated as follows:

2 completed-unsold homes =	\$1,440,000
4 homes under construction @ \$505,000 =	\$2,020,000
4 homes under construction @ \$295,000 =	\$1,180,000
18 vacant lots, as is condition =	<u>\$3,400,000</u>

Value Indication, As Is:	\$8,040,000
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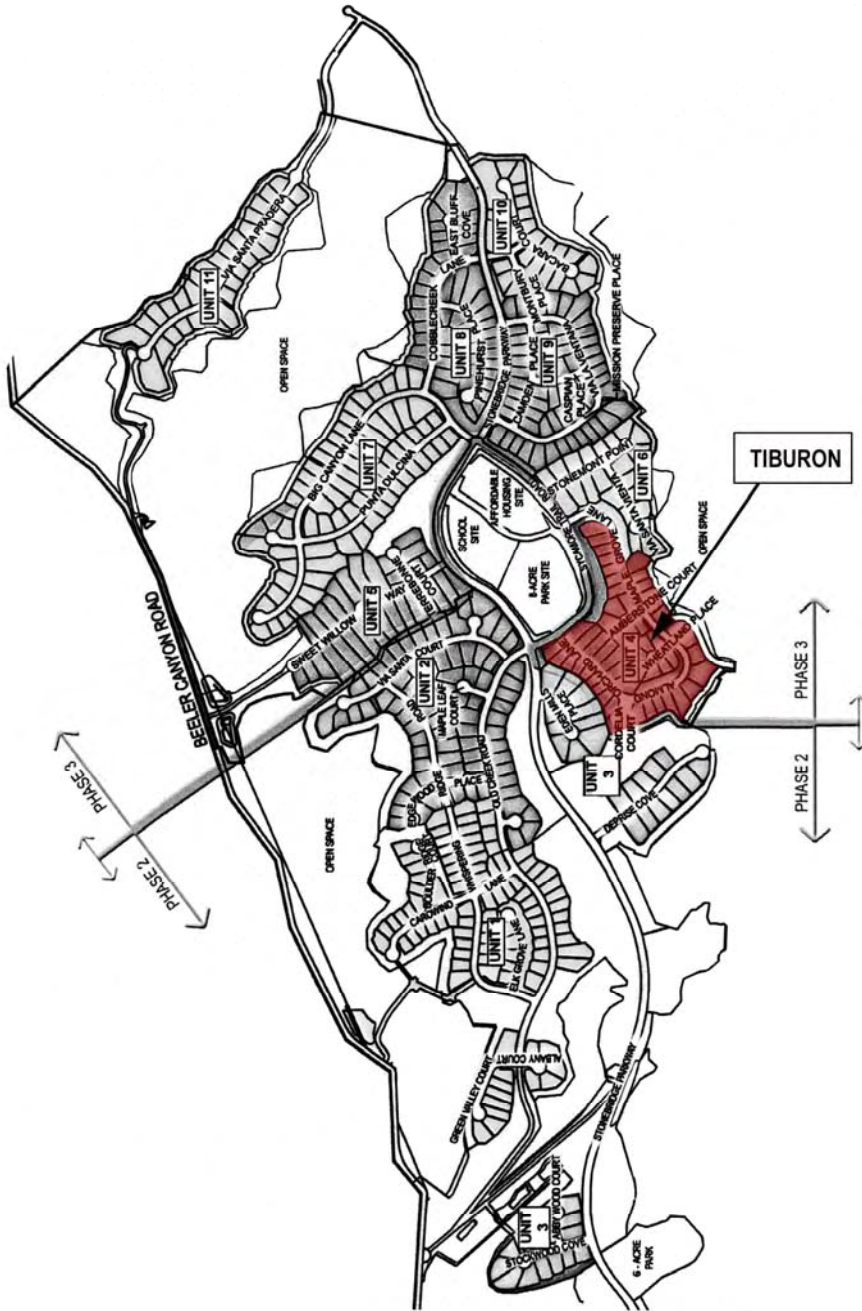
Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Montoro tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$8,040,000**

**(EIGHT MILLION FORTY THOUSAND DOLLARS)**

(Note: This value is allocated as \$4,640,000 for Developed/Builder-Owned and \$3,400,000 for Undeveloped.)

# TIBURON



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates

## **ZONE 3 – TIBURON (CORNERSTONE COMMUNITIES)**

### **PROPERTY DATA**

#### **Location**

This tract is located on the westerly and southerly sides of Sycamore Trail Rd., just to the south of Stonebridge Pkwy.

#### **Record Owner/Ownership History**

Cornerstone at Stonebridge Estates, L.P. acquired these lots from McMillin Montecito 47, LLC in September 2005 together with the lots for the Montoro tract of homes (previously discussed). Subsequently, there have been 22 closed sales of completed homes from Cornerstone Communities to various homeowners that closed from April 30, 2007 through December 10, 2008 at indicated prices ranging from \$1,100,000 to \$1,772,500.

#### **Legal Description**

This tract is described as Lots 211 through 263 of Sycamore Estates Phase II Unit 4 in the City of San Diego, County of San Diego, according to Map thereof No. 15124, filed in the office of the County Recorder on September 21, 2005

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-120-01 to 53. Current assessed values for each parcel range from \$402,831 to \$642,400 for land and \$0 to \$1,125,904 for improvements, or total assessed values ranging from \$527,924 to \$1,768,304. The tax rate areas are 08-122 and 08-151 with base tax rates of 1.02360% excluding the CFD, but the total tax rate to existing and future homeowners is  $\pm$ 1.6-1.7% including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 53 lots, with a minimum and typical pad size of  $\pm$ 80' x 120' or  $\pm$ 9,600 s.f. The actual lot sizes range from 10,485 s.f. to 38,768 s.f., or an average of 19,041 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

#### **Streets and Access**

Access to the tract is by Stonebridge Pkwy. to Sycamore Trail Rd., with the in-tract streets including Almond Orchard Ln., Maple Grove Ln., Cordelia Ct., Wheatland Pl. and Amberstone Ct. All of the in-tract streets have been completed, three of which are cul-de-sacs.

## PROPERTY DATA, Continuing

### Physical Condition/Topography/View

All of the vacant lots are in a mostly finished condition from a physical standpoint, other than minor items such as street improvements and some landscaping.

The tract is on a higher plateau area, above grade of the lots to the north and west and above grade of Stonebridge Pkwy. In addition, the lots terrace up slightly to the south. Thus, about half of the lots will back to open space around the perimeter with territorial views to the northwest, west and south, and a few other lots have territorial views to the north above the lower lots.

### Existing Development/Status of Construction

These lots are being developed by Cornerstone Communities with the tract or product type of homes called Tiburon. As of the May 1, 2009 date of value, there were 22 completed-sold homes, 8 completed-unsold homes (including the 3 models), 6 homes under construction that were  $\pm 90\%$  completed, and 17 vacant lots in a near finished condition.

There are three floor plans that are described as follows:

**Plan 1:** 4,345 to 4,950 s.f., two story, with 4 to 6 bedrooms, 3½ baths, study, bonus room, and a 3-car garage; optional two story casita with living room, kitchen, bedroom and bath.

**Plan 2:** 4,905 to 5,790 s.f., two story, with 4 to 7 bedrooms, 4½ to 5½ baths, loft, study, and a 3 to 4-car garage; optional casita is two story and includes living room, kitchenette, bedroom and bath.

**Plan 3:** 5,390 to 5,955 s.f., two story, with 5 to 7 bedrooms, 4½ to 5½ baths, study, bonus room, and a 4-car garage; optional casita is two story and includes living room, kitchen, bedroom and bath.

The current pricing at the sales office indicates \$1,075,990 for a Plan 2 with no casita, \$999,990 and \$1,150,990 for a Plan 2 with casita, and \$1,050,990 and \$1,075,990 for Plan 3 with no casita. Incentives for upgrades and financing are currently offered at \$30,000, reflecting that prices were recently reduced. As of May 1, 2009, there were six escrows that were scheduled to close in June and July, with another sale on hold and four homes still available.

## VALUATION

### Method of Analysis

This is the same as for previous analyses.



## VALUATION, Continuing

### Analysis of Completed-Sold Homes

These are the 22 homes (mostly Plans 2 and 3) for which the sales closed from April 30, 2007 through December 10, 2008 at indicated prices ranging from \$1,100,000 to \$1,772,500 or an average of  $\pm$ \$1,337,000. It is not known what the incentive amounts were for these sales, but likely were higher than the current incentive amount of \$30,000 that is lower due to a recent price reduction. Thus, considering a probable incentive amount of  $\pm$ \$50,000 the net average indication is \$1,287,000, and this supports a far upper limit as an average at current date due to the dates of sale.

The 11 sales that closed in 2008 ranged in price from \$1,100,000 to \$1,331,000 or an average of  $\pm$ \$1,196,000. Then, deducting a probable incentive amount of \$50,000 results in a net average price of \$1,146,000. This indication supports a closer but still firm upper limit as an average at current date due to the dates of sale.

As previously indicated, the current pricing at the sales office for Plan 2 and Plan 3 homes is the range of \$999,990 to \$1,150,990 or an average of  $\pm$ \$1,071,000. Then, deducting the current incentive amount results in a net average price of  $\pm$ \$1,041,000. While this reflects only Plan 2 and Plan 3 homes, this is fairly similar to the mix of the 22 completed-sold homes which are primarily Plans 2 and 3. It is also noted that the current escrows are indicated to be at or even above the current pricing. Overall, the indication at \$1,041,000 tends to support a close indication to close upper limit as an average for the 22 homes at current date.

Lastly, it is noted that there is a current listing of a Plan 3 home at an asking price of \$975,000. The home was originally listed in February 2009 at an asking price of \$1,149,900, subsequently reduced to \$999,900 and again reduced to the current price. The listing agent indicates that there is starting to be increased activity and interest but no formal offers thus far. It is also noted that the location within the tract is average, with no view and below grade of the homes to the rear. In addition, the seller is highly motivated which is the reason that the price has been reduced below the current builder pricing. In general, this listing would tend to support an upper limit at \$975,000 as an average for the 22 homes, though it is also considered that the price is below market due to the seller motivation.

In summary, as an average value for the 22 completed-sold homes, the various indications provide a far upper limit at \$1,287,000, a closer but firm upper limit at \$1,146,000, and a close indication to close upper limit at \$1,041,000. The indication from the current listing at \$975,000 reflects a motivated seller, but also reflects that no sale has taken place thus far and is concluded to support a close upper limit as an average value. Overall, the conclusion is an average of \$950,000 for the 22 completed-sold homes.

## VALUATION, Continuing

### **Analysis of Completed-Unsold Homes**

These eight homes consist of five production homes and the three models. Three of the production homes are currently in escrow and due to close in June. The initial value conclusion is based on the conclusion for the completed-sold homes, or an average of \$950,000. Then, the discount of 10% is applied to reflect the bulk ownership by the builder, but also reflecting a short holding period for three of the production homes and that the three model homes are highly upgraded. The result is a discounted average of \$855,000 for these 8 completed-unsold homes.

### **Analysis of Homes Under Construction**

For the 6 homes that were estimated to be  $\pm 90\%$  completed, I have considered an average cost amount of 90% of  $\pm \$65.00$  per s.f. total direct costs (appraiser estimate) or \$58.50 per s.f. on the average home size of  $\pm 4,880$  s.f., or an amount of  $\pm \$285,000$ . This is added to the estimated finished lot value of \$350,000 which is discussed next for the vacant lots (static residual value prior to cost deduction to get to finished condition) and is prior to the discount for time or absorption since the lots for these homes under construction would have already been reflected as a takedown and thus not be discounted for time, holding costs and profit. This results in a total of \$635,000 as an average for these 6 homes under construction.

### **Analysis of Vacant Lots**

This is similar to previous analyses. Considering the lot sizes, the view potential and the relatively larger and higher-priced homes that are being developed on these lots than planned on Montoro, the Sales Comparison Approach would support the range of  $\pm \$270,000$  to \$280,000 per finished lot as part of the bulk size of 18 lots. Then, deducting a figure of  $\pm \$35,000$  in estimated remaining costs to get to finished condition, the indication for the as is condition is \$235,000 to \$245,000 per lot. This results in the following value indication:

17 vacant lots @ \$235,000 to \$245,000/lot = \$3,995,000 to \$4,165,000

For the static residual/discounted cash flow analysis, the starting point is the average home price of \$950,000 as concluded for completed-sold homes. Then, the deduction for direct costs is calculated as \$65.00 per s.f. on an average home size of  $\pm 4,880$  s.f. or an amount of \$317,000 rounded to \$315,000, and the deduction for indirect costs and profit of 30% of \$950,000 is an amount of \$285,000. This results in a total cost plus profit amount of \$600,000, and the last deduction is \$35,000 for the costs to get the lot to finished condition. The resulting residual value to the lot is as follows:

## VALUATION, Continuing

Average Home Price:	\$950,000
Less Costs & Profit:	<u>- 600,000</u>
Residual to Vacant Lot, as if Finished Condition:	\$350,000
Less Costs to Complete:	<u>- 35,000</u>
Lot Value, As Is Condition:	\$315,000

Thus, the assumed land sales are based on \$315,000 per lot reflecting the as is condition. Similar to previous analyses, the absorption or sell-off of the lots is based on 6 lots per quarter but starting with the fourth quarter of 2009 to reflect the existing inventory with 5 unsold homes that are either completed or under construction. This results in an absorption of 0 lots in the third quarter of 2009, 6 lots in the fourth quarter of 2009 and the first quarter of 2010, and 5 lots in the second quarter of 2010. Then, the combined deduction of 8% of sales is made for general-administrative costs, holding costs and sales-closing costs as the land sales are projected to occur, and the net cash flows are discounted to present value at a discount rate of 17% to 18%.

Based on the foregoing, the following is the discounted cash flow analysis reflecting an 18% discount rate:

Quarterly		3Q-2009	4Q-2009	1Q-2010	2Q-2010	Total
REVENUES (Lot Sales)						
Lot Sales @ \$315,000/lot		\$0	\$1,890,000	\$1,890,000	\$1,575,000	\$5,355,000
LESS PROJECT COSTS						
G&A/Holding/Sales/Closing	8%	<u>-\$0</u>	<u>-\$151,200</u>	<u>-\$151,200</u>	<u>-\$126,000</u>	\$428,400
NET CASH FLOWS		\$0	\$1,738,800	\$1,738,800	\$1,449,000	\$4,926,600
DISCOUNT FACTOR	18%	<u>0.956938</u>	<u>0.917431</u>	<u>0.881057</u>	<u>0.847458</u>	
PV OF CASH FLOWS		\$0	\$1,595,229	\$1,531,982	\$1,227,966	
PRESENT VALUE		\$4,355,178				

As indicated, at a discount rate of 18% the present value is \$4,355,178 and it is noted that at a 17% discount rate the present value indication is \$4,383,215, with both indications being for the lots in as is condition. As previously indicated, the indication by the Sales Comparison Approach for the vacant lots in as is condition is \$3,995,000 to \$4,165,000.

Based on these analyses, the conclusion of value for the vacant lots is \$4,200,000.

## VALUATION, Continuing

### Conclusion of Value

Based on the foregoing, the total value indication for the subject property in its as is condition is calculated as follows:

22 completed-sold homes @ \$950,000 =	\$20,900,000
8 completed-unsold homes @ \$855,000 =	\$ 6,840,000
6 homes under construction @ \$635,000 =	\$ 3,810,000
17 vacant lots, as is condition =	<u>\$ 4,200,000</u>

Value Indication, As Is: \$35,750,000

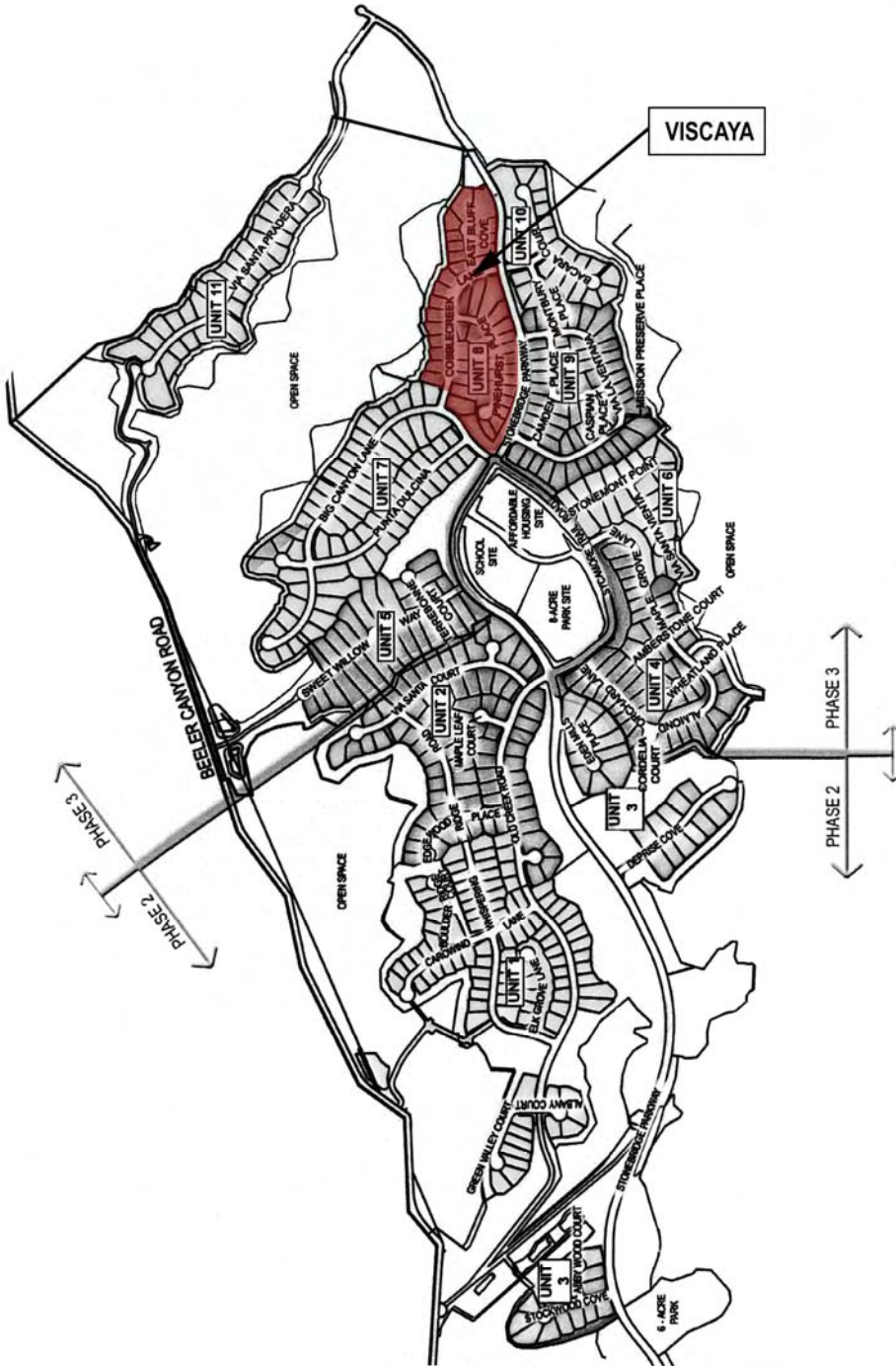
Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Tiburon tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$35,750,000**

**(THIRTY-FIVE MILLION SEVEN HUNDRED FIFTY THOUSAND DOLLARS)**

(Note: This value is allocated as \$20,900,000 for Developed/Completed-Sold, \$10,650,000 for Developed/Builder-Owned and \$4,200,000 for Undeveloped.)

# VISCAYA



## NEIGHBORHOOD PHASING PLAN Stonebridge Estates

## **ZONE 3 – VISCAYA (WARMINGTON HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is located on the north side of Stonebridge Pkwy. at Cobble Creek Ln.

#### **Record Owner/Ownership History**

Warmington Scripps II Associates, L.P. (known by the builder name of Warmington Homes) acquired the lots for this tract from McMillin Sycamore 109, LLC in September 2005. Subsequently, there have been 29 closed sales of completed homes (including the 3 models) from Warmington Homes to various homeowners that closed from July 5, 2007 through August 15, 2008 at indicated prices ranging from \$868,000 to \$1,273,000. It is noted that Warmington Homes stopped construction after these 29 homes, and there is now a pending sale of the remaining 19 vacant lots at a price of \$4,000,000 in which the first takedown of 10 lots would close in June 2009 and the second takedown of 9 lots would close in September 2009.

#### **Legal Description**

This tract is described as Lots 383 through 430 of Sycamore Estates Phase II Unit 8, in the City of San Diego, County of San Diego, per Map No. 15130 recorded September 27, 2005.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-140-01 to 48. Current assessed values range from \$377,424 to \$556,412 for land and from \$0 to \$727,535 for improvements, or total assessed values of \$551,412 to \$1,272,535. The tax rate areas are 08-122 and 08-155 with a base tax rate of 1.02360 excluding the CFD, but the total tax rate to existing and future homeowners is  $\pm 1.6-1.7\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 48 lots, with a minimum and typical pad size of  $\pm 80'$  x  $120'$  or  $\pm 9,600$  s.f. The actual lot sizes range from 10,980 s.f. to 50,965 s.f., or an average of 19,113 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

#### **Streets and Access**

Access to the tract is by Stonebridge Pkwy. to Cobble Creek Ln., and the in-tract streets are Cobble Creek Ln., Pinehurst Pl. and East Bluff Cove. All of the in-tract

## PROPERTY DATA, Continuing

streets have been completed, and both Pinehurst Pl. and East Bluff Cove are cul-de-sacs. Cobble Creek Ln. extends farther to the west into one of the tracts of vacant lots discussed later.

### Physical Condition/Topography/View

All of the vacant lots are in a mostly finished condition from a physical standpoint, other than minor items such as street improvements and some landscaping.

The lots have a gradual terrace down to the north and east, and about 30% of the lots back to the canyon/open space area to the north with territorial views of distant hills and city lights.

### Existing Development/Status of Construction

Of the 48 lots, 29 have been developed by Warmington Homes with a tract of homes called Viscaya. As of May 1, 2009, these 29 homes were completed-sold, and the remaining 19 lots are vacant and in a near finished condition, and are planned to be sold off by Warmington Homes.

There are three floor plans for the Viscaya homes which are described as follows:

**Plan 1:** 3,729 to 4,209 s.f., one story, with 4 bedrooms, 4½ baths, central atrium, covered loggia and a 3-car garage; options include library at bedroom 4, second floor retreat or bedroom 5 and bath 5.

**Plan 2:** 3,977 to 4,178 s.f., two story, with 4 bedrooms, 4½ baths, den, covered deck off master, courtyard with covered loggia and a 3-car garage; options include bedroom 5 at den, teen/bonus room at bedroom 3, outdoor kitchen, casita or game room or office with bath 5 in lieu of covered front loggia.

**Plan 3:** 4,164 to 4,435 s.f., two story, with 4 bedrooms, 4½ baths, den, covered loggia, rear covered outdoor room with optional kitchen and a 4-car tandem garage; options include bedroom 5 at den, casita or game room with bath 5 in lieu of rear covered outdoor room.

## VALUATION

### Method of Analysis

This is similar to previous analyses.

### Analysis of Completed-Sold Homes

These are the 29 homes (9 @ Plan 1, 8 @ Plan 2 and 12 @ Plan 3) for which the sales closed from July 5, 2007 through August 15, 2008 at indicated prices ranging from \$868,000 to \$1,273,000 or an average of ±\$1,074,000. It is not known what the

## VALUATION, Continuing

incentive amounts were for these sales, but considering a probable incentive amount of  $\pm$ \$50,000 the net average indication is \$1,024,000, and this supports a far upper limit as an average at current date due to the dates of sale.

The 14 sales that closed in 2008 ranged in price from \$868,000 to \$1,185,000 or an average of  $\pm$ \$1,019,000. Then, deducting a probable incentive amount of \$50,000 results in a net average price of \$969,000. This indication supports a closer but still firm upper limit as an average at current date due to the dates of sale.

It is noted that there have been no resales since the builder sales and there are no current listings in this tract.

Considering the size of the homes, the lot sizes and the view potential, the pricing of the Montoro homes at an average of  $\pm$ \$800,000 to \$850,000 net of incentives supports a close lower limit for Viscaya, and the pricing of the Calabria homes at  $\pm$ \$950,000 to \$1,000,000 net of incentives supports a firm upper limit. In summary, as an average value, the supportable range is concluded to be well over \$800,000 but well under \$950,000, and the conclusion is an average of \$850,000 for the 29 completed-sold homes.

### Analysis of Vacant Lots

This is similar to previous analyses. Initially and as previously discussed, there is a pending sale of these 19 lots at a price of \$4,000,000 or \$210,526 per lot, and which reflects  $\pm$ \$237,000 per finished lot. Thus, this is concluded to be a supportable indication at \$4,000,000 for the as is condition of the 19 lots.

Alternatively, for the static residual/discounted cash flow analysis the starting point is the average home price of \$850,000 as concluded for completed-sold homes. Then, the deduction for direct costs is calculated as \$65.00 per s.f. on an average home size of  $\pm$ 3,960 s.f. or an amount of \$257,000, and the deduction for indirect costs and profit of 30% of \$850,000 is an amount of \$255,000. This results in a total cost plus profit amount of \$512,000, and the last deduction is \$35,000 for the costs to get the lot to finished condition. The resulting residual value to the lot is as follows:

Average Home Price:	\$850,000
Less Costs & Profit:	<u>- 512,000</u>
Residual to Vacant Lot, as if Finished Condition:	\$338,000
Less Costs to Complete:	<u>- 35,000</u>
Lot Value, As Is Condition:	\$303,000

Thus, the assumed land sales are based on \$303,000 per lot reflecting the as is condition. Similar to previous analyses, the absorption or sell-off of the lots is based on 6 lots per quarter, and starting with the third quarter of 2009. For the 19 lots, this results in an absorption of 6 lots in the third and fourth quarters of 2009, and 7 lots in



## VALUATION, Continuing

the first quarter of 2010. Then, the combined deduction of 8% of sales is made for general-administrative costs, holding costs and sales-closing costs as the land sales are projected to occur, and the net cash flows are discounted to present value at a discount rate of 17% to 18%.

Based on the foregoing, the following is the discounted cash flow analysis reflecting an 18% discount rate:

Quarterly		3Q-2009	4Q-2009	1Q-2010	Total
REVENUES (Lot Sales)					
Lot Sales @ \$303,000/lot		\$1,818,000	\$1,818,000	\$2,121,000	\$5,757,000
LESS PROJECT COSTS					
G&A/Holding/Sales/Closing	8%	<u>-\$145,440</u>	<u>-\$145,440</u>	<u>-\$169,680</u>	\$460,560
NET CASH FLOWS		\$1,672,560	\$1,672,560	\$1,951,320	\$5,296,440
DISCOUNT FACTOR	18%	<u>0.956938</u>	<u>0.917431</u>	<u>0.881057</u>	
PV OF CASH FLOWS		\$1,600,536	\$1,534,459	\$1,719,225	
PRESENT VALUE		\$4,854,219			

As indicated, at a discount rate of 18% the present value is \$4,854,219 and it is noted that at a 17% discount rate the present value indication is \$4,876,565, with both indications being for the lots in as is condition. It is noted that these indications are higher than the pending sale of these lots at \$4,000,000. This likely reflects that the pending sale is at a conservative price and also that the buyer is planning a lower price point for the homes than used in the static residual approach.

In summary, greater weight is given to the pending sale of these lots. Thus, the conclusion of value for the vacant lots is \$4,000,000.

### Conclusion of Value

Based on the foregoing, the total value indication for the subject property in its as is condition is calculated as follows:

29 completed-sold homes @ \$850,000 =	\$24,650,000
19 vacant lots =	<u>\$ 4,000,000</u>
Value Indication, As Is:	\$28,650,000

**VALUATION, Continuing**

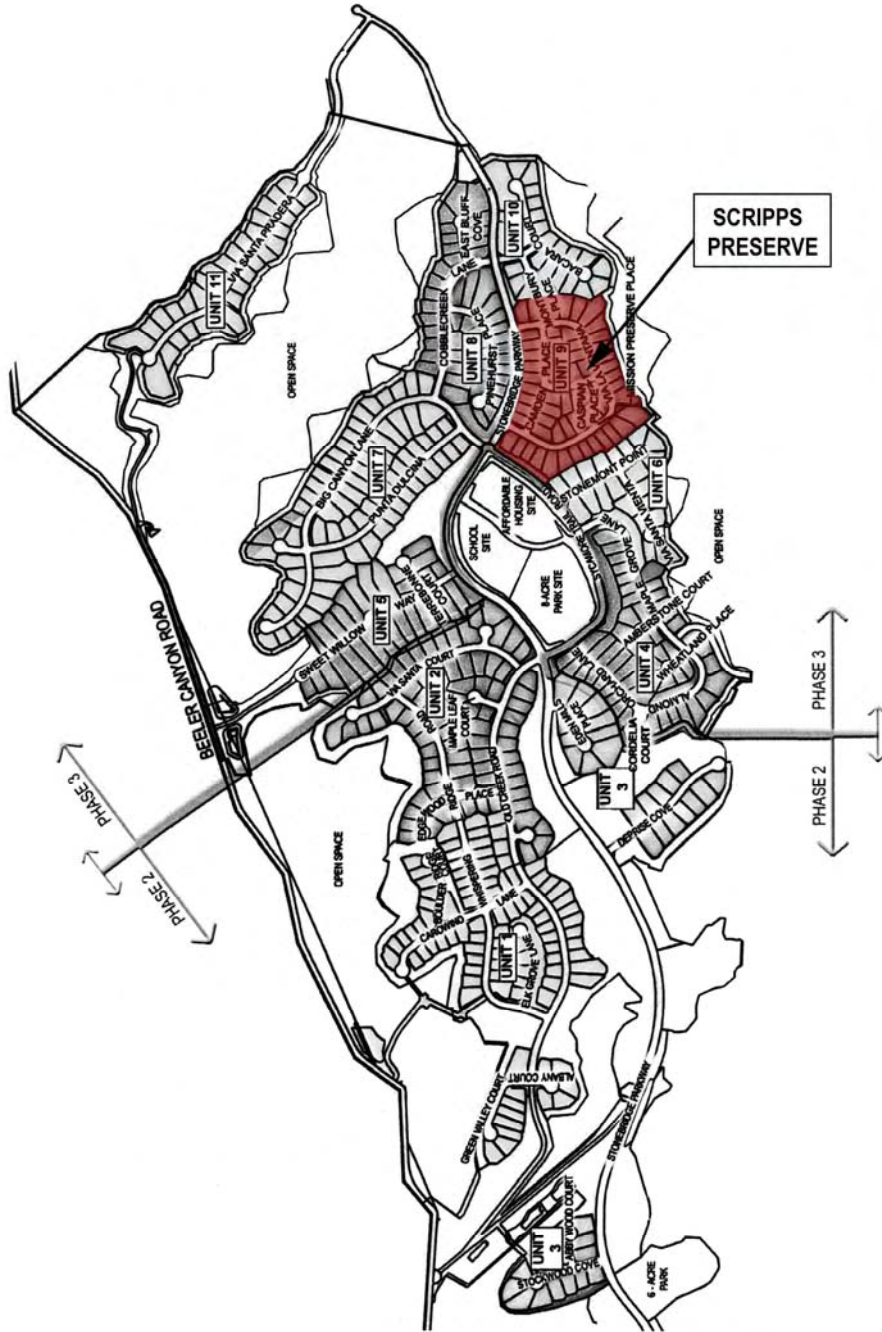
Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Viscaya tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$28,650,000**

**(TWENTY-EIGHT MILLION SIX HUNDRED FIFTY THOUSAND DOLLARS)**

(Note: This value is allocated as \$24,650,000 for Developed/Completed-Sold and \$4,000,000 for Undeveloped.)

# SCRIPPS PRESERVE



**NEIGHBORHOOD PHASING PLAN**  
Stonebridge Estates

## **ZONE 3 – SCRIPPS PRESERVE (DAVIDSON COMMUNITIES)**

### **PROPERTY DATA**

#### **Location**

This tract is located along the south side of Stonebridge Pkwy., easterly from Sycamore Trail Rd., at Mission Preserve Pl. and Via La Ventana.

#### **Record Owner/Ownership History**

Stonebridge-San Diego, L.P. (known by the builder name of Davidson Communities) acquired the lots for this tract from McMillin Sycamore 109, LLC in September 2005. Subsequently, there have been a reported 59 closed sales of completed homes from Davidson Communities to various homeowners that closed from March 27, 2007 through May 1, 2009. Price indications for the sales in 2007 and 2008 indicated the range of \$800,000 to \$1,571,000.

#### **Legal Description**

This tract is described as Lots 431 through 491 of Sycamore Estates Phase II, Unit 9, in the City of San Diego, County of San Diego, per Map No. 15131 recorded September 27, 2005.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-130-01 to 61. Current assessed values range from \$515,780 to \$561,452 for land and from \$350,000 to \$1,025,939 for improvements, or total assessed values of \$552,452 to \$1,570,939, and an average of \$879,658. The tax rate areas are 08-151 and 08-155 with a base tax rate of 1.02360 excluding the CFD, but the total tax rate to existing and future homeowners is  $\pm 1.7-1.8\%$  including the special taxes for this CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 61 lots, with a minimum and typical pad size of  $\pm 80'$  x  $120'$  or  $\pm 9,600$  s.f. The actual lot sizes range from 10,984 s.f. to 37,897 s.f., or an average of 17,347 s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

#### **Streets and Access**

Access to the tract is by Stonebridge Pkwy. to Mission Preserve Pl. and Via La Ventana. The other in-tract streets are Camden Pl. and Caspian Pl. All of the in-tract streets are completed.

## PROPERTY DATA, Continuing

### Topography/View

The lots have a gradual terrace down to the south and west, and about 15% of the lots back to the canyon/open space area to the south with minor territorial views.

### Existing Development

These lots have been developed by Davidson Communities with a tract of homes called Scripps Preserve. As of the May 1, 2009 date of value, the tract was built and mostly sold-out, with 59 completed-sold homes and 2 completed-unsold homes that were in escrow and due to close in mid-May.

The three floor plans are described as follows:

**Plan 1:** 4,630 s.f. (5,022 s.f. with casita), two story, with 4 bedrooms plus den or optional bedroom 5, 3½ to 4½ baths, courtyard and kitchen nook, and 2 to 4-car garage; optional casita is second floor with living room/bedroom, kitchen and bath.

**Plan 2:** 4,744 s.f. (5,037 s.f. with casita), two story, with 4 bedrooms plus den and bonus room or optional bedrooms 5 and 6, 4½ baths, tech center, loggia and 2 or 3-car garage; optional casita is first floor with living room/bedroom and bath.

**Plan 3:** 5,399 to 5,818 s.f., two story, with 5 bedrooms plus office, 5½ baths, optional outdoor kitchen or game room, porte cochere, and a 3 or 4-car garage.

## VALUATION

### Method of Analysis

This is similar to previous analyses.

### Analysis of Completed Homes

As previously indicated, there are 59 completed-sold homes with closed sales from March 2007 through May 1, 2009 plus 2 completed-unsold homes that were in escrow and due to close by mid May. Since there are only 2 completed-unsold homes, and since both are in escrow and due to close soon, no discount has been applied and all 61 completed homes are valued as a bulk.

Assessor data indicates sale prices for 36 of the 39 sales that closed in 2007 and 2008, with a range of \$800,000 to \$1,571,000 or an average of ±\$1,108,000. Considering the timing of the sales, this average supports a far upper limit as an average for all 61 completed homes at current date. For 18 of the 20 sales that closed in 2008 for which prices were indicated, the price range was \$800,000 to \$1,249,000 or an average of ±\$1,003,000. This average is 9.5% lower than the

## VALUATION, Continuing

average including the 2007 sales, and supports a closer but still firm upper limit as an average for the 61 homes at current date.

Specific sale prices could not be obtained for the 23 sales that have closed in 2009. However, general information provided by the builder is that the most recent pricing was approximately \$800,000 for Plan 1, \$870,000 for Plan 2 and the low \$900,000's for Plan 3. This would indicate an average of  $\pm$ \$860,000 to \$870,000. It is noted that Multiple Listing Service data indicates a March 2009 closed sale of a Plan 1 home at \$750,000 (\$50,000 lower than noted above), but also an April 2009 closed sale of a Plan 2 home at \$930,000 (\$60,000 higher than noted above). It is also noted that representatives in various other sales offices in StoneBridge Estates indicated that the most recent pricing in Scripps Preserve was heavily discounted, and one representative confirmed that the sale prices were in the \$800,000's.

Considering the size of these homes ranging from 4,630 s.f. to 5,818 s.f., the quality that is reasonably similar to the other tracts of homes in StoneBridge Estates, and the typical lot pad sizes of  $\pm$ 9,600 s.f., the pricing from  $\pm$ \$800,000 to the low \$900,000's is concluded to be on the conservative side or below market. It likely represents the builder motivation to sell out the product in a timely manner.

In summary, as an average value for these 61 completed homes, the indication at \$1,108,000 supports a far upper limit, the indication at \$1,003,000 supports a closer but firm upper limit, and the indication at  $\pm$ \$860,000 to \$870,000 supports a close indication to closer lower limit. For conservative valuation purposes, the conclusion is an average value of \$860,000, but also reflecting the impact of the most recent builder sales that have taken place in this tract.

### Conclusion of Value

Based on the foregoing, the value indication for the subject property in its as is condition, is calculated as follows:

$$61 \text{ completed homes @ } \$860,000 = \$52,460,000$$

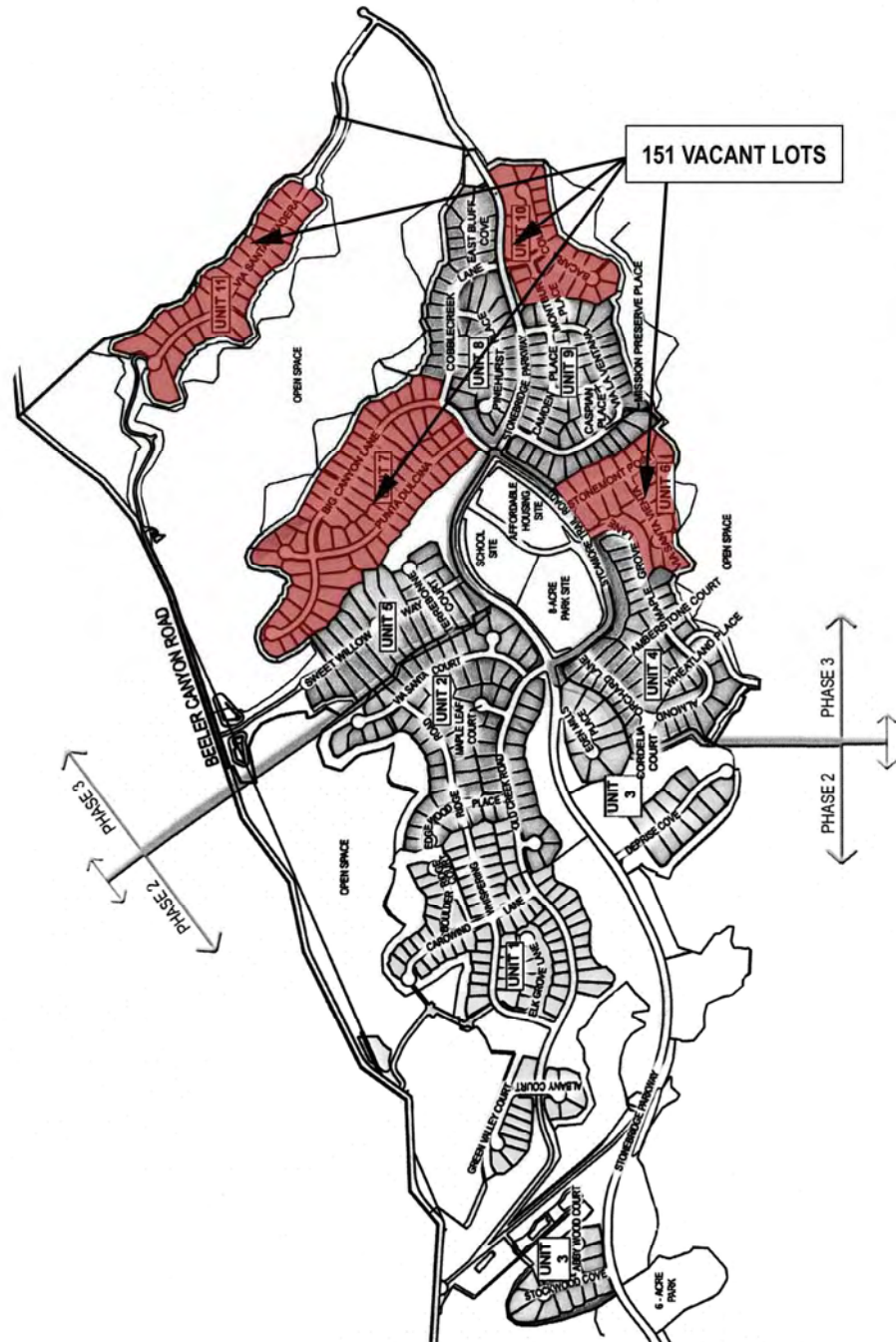
Thus, as the result of this analysis, I have arrived at the following conclusion of aggregate market value for the as is condition of the subject Scripps Preserve tract, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$52,460,000**

**(FIFTY-TWO MILLION FOUR HUNDRED SIXTY THOUSAND DOLLARS)**

(Note: Based on the ownership, this value is allocated as \$50,740,000 for Developed/Completed-Sold and \$1,720,000 for Developer/Completed-Unsold.)

# ZONE 3 - 151 VACANT LOTS



**NEIGHBORHOOD PHASING PLAN**  
Stonebridge Estates

## **ZONE 3 – 151 VACANT LOTS**

### **PROPERTY DATA**

#### **Location**

This ownership consists of four separate segments with the northwest segment located at the northerly corner of Stonebridge Pkwy. and Big Canyon Ln.; the northeast segment located along Via Santa Pradera, northwesterly of the easterly end of Stonebridge Pkwy.; the southwest segment located at the southeast corner of Sycamore Trail Rd. and Maple Grove Ln.; and the southeast segment located on the south side of Stonebridge Pkwy. at Cobble Creek Ln.

#### **Record Owner/Ownership History**

The current owner of the property is Brookfield 10 LLC (known by the builder name of Brookfield Homes). They acquired these lots from Sycamore Estates, LLC in September 2005, and the price was to have been \$66,666,500 or \$441,500 per lot, reflecting finished condition other than fees in the amount of \$11,054 per lot. However, it is noted that the seller and buyer were related entities, thus the price was likely on the conservative side.

#### **Legal Description**

The northwest segment is described as Lots 312 through 382 of Sycamore Estates Phase II, Unit 7, per Map No. 15129; the northeast segment is described as Lots 522 to 524 and 528 to 549 of Sycamore Estates Phase II, Unit 11, per Map No. 15133 and Lots 1 to 8 of Sycamore Estates Phase II, Unit 11-Amended, per Map No. 15564; the southwest segment is described as Lots 292 to 303 and 305 to 311 of Sycamore Estates Phase II, Unit 6, per Map No. 15128 and Lot 1 of Sycamore Estates Phase II, Unit 6-Amended, per Map No. 15562; and the southeast segment is described as Lots 492 to 499 and 507 to 518 of Sycamore Estates Phase II, Unit 10, per Map No. 15132 and Lots 1 to 7 of Sycamore Estates Phase II, Unit 10-Amended, per Map No. 15563.

#### **Assessor Data-2008/09**

The subject property comprises Assessor Parcel Nos. 325-150-01 to 71 for the northwest segment; 325-170-04 to 06, 10 to 31 & 36 to 43 for the northeast segment; 325-121-01 to 12, 14 to 20 & 27 for the southwest segment; and 325-131-01 to 08, 16 to 27 & 34 to 40 for the southeast segment. Current assessed values are for land only and are \$459,306 for three of the parcels, \$459,336 for 147 of the parcels and \$464,436 for one of the parcels. The tax rate areas are 08-122, 08-151 and 08-155 with a base tax rate of 1.02360 excluding the CFD, but the total tax rate to future homeowners is likely to be in the range of ±1.6-1.8% including the special taxes for this CFD.



## PROPERTY DATA, Continuing

### **No. of Lots/Lot Sizes**

This ownership comprises a total of 151 lots, with 71 lots in the northwest segment, 33 lots in the northeast segment, 20 lots in the southwest segment and 27 lots in the southeast segment. The minimum and typical pad size for all of the lots is  $\pm 100'$  x  $120'$  or  $\pm 12,000$  s.f. The actual lot sizes range from just under 14,000 s.f. to just under 62,000 s.f., or an average of  $\pm 23,000$  s.f., but this includes from a minor to a significant amount of side and/or rear slope area on most of the lots.

### **Streets and Access**

Primary access to each segment of the tract is off of Stonebridge Pkwy. The northwest segment then accesses from Big Canyon Ln., and the other in-tract street is Punta Dulcina; the northeast segment has the single in-tract street of Via Santa Pradera which comes off of Stonebridge Pkwy.; the southwest segment access off of Sycamore Trail Rd. at Maple Grove Ln., with in-tract streets of Stonemont Pl. and Via Santa Vienta; and the southeast segment accesses off of Stonebridge Pkwy. at Cobble Creek Ln., with the other in-tract streets of Bacara Ct. and Montbury Pl. All of the in-tract streets have been completed.

### **Physical Condition/Topography/View**

All 151 of the lots are vacant and in a mostly finished condition from a physical standpoint, other than minor items such as street improvements and some landscaping.

The lots in the northwest segment of the tract have a gradual terrace down to the north, and about half of the lots back to open space, though only about 35% of the lots have territorial views. All of the lots in the northeast segment back to canyon/open space and have territorial views. The lots in the southwest segment terrace slightly down to the south, and only a few of the lots back to canyon/open space and have territorial views. About half of the lots in the southeast segment of the tract back to canyon/open space and have territorial views.

### **Proposed Development**

In general, Brookfield Homes considers the current potential of these lots to be for homes in the price range from the mid \$900,000's to \$1,300,000, or an average of  $\pm \$1,100,000$ . However, there are no current plans as to when home construction would commence. It is also noted that the 33 lots in the northeast segment had been marketed as custom lots in a tract to be called View Point, but apparently there was inadequate interest and these lots are no longer actively being marketed.

## VALUATION

### Method of Analysis

This is similar to previous analyses of vacant lots.

### Analysis of Vacant Lots

This is similar to previous analyses. As previously discussed, Brookfield Homes considers these lots to have a value in the range of \$300,000 to \$400,000 per finished lot, however there are no pending sales or offers to support that range. Considering that these lots are larger (12,000 s.f. minimum pad with 100' width) and have superior views than the Viscaya lots, the indication at \$237,000 per finished lot for the Viscaya lots supports a far lower limit for the subject 151 Vacant Lots.

Alternatively, considering the price of \$237,000 per finished lot for the Viscaya lots and the estimated average home price of \$850,000 (for the completed-sold homes), the indicated finished lot ratio is 28%. However, reportedly the buyer is considering a lower-priced product. Thus, at an average product price of \$750,000 to \$800,000, the indicated finished lot ratio is 30% to 32%. Applying a ratio of 28% to 32% to the estimated average home price of \$1,100,000 for the subject lots (per Brookfield Homes estimate), the indication is as follows:

$$\$1,100,000 \times .28 \text{ to } .32 = \$308,000 \text{ to } \$352,000/\text{fin. lot}$$

It is noted that this is a bulk lot indication, in contrast to the static residual analysis that results in a retail lot (individual lot) value. However, the sale of the Viscaya lots is of a bulk size of 19 lots with two takedowns, whereas the subject is a much larger bulk size of 151 lots, and the larger bulk size would tend to result in a significant discount. Thus, considering the lower end of the range at \$310,000 to \$330,000 per finished lot, and a deduction of  $\pm$ \$30,000 per lot for the remaining costs to get to finished lot condition (per input provided by Brookfield Homes), the resulting indication is as follows:

$$151 \text{ lots @ } \$280,000 \text{ to } \$300,000/\text{lot, as is condition} = \$42,280,000 \text{ to } \$45,300,000$$

For the static residual/discounted cash flow analysis, the starting point is the average home price of \$1,100,000 as projected by Brookfield Homes. Then, the deduction for direct costs is calculated as \$65.00 per s.f. on a projected average home size of  $\pm$ 5,000 s.f. or an amount of \$325,000, and the deduction for indirect costs and profit of 30% of \$1,100,000 is an amount of \$330,000. This results in a total cost plus profit amount of \$655,000, and the last deduction is \$30,000 for the costs to get the lot to finished condition. The resulting residual value to the lot is as follows:

## VALUATION, Continuing

Average Home Price:	\$1,100,000
Less Costs & Profit:	<u>- 655,000</u>
Residual to Vacant Lot, as if Finished Condition:	\$ 445,000
Less Costs to Complete:	<u>- 30,000</u>
Lot Value, As Is Condition:	\$ 415,000

Thus, the assumed land sales are based on \$415,000 per lot reflecting the as is condition. As to the absorption, it is assumed that there could be three different product types on these 151 lots, with one on the northwest segment, one on the northeast segment and one on the southwest and southeast segments. Based on previous analyses of 2 lots per month, this would result in an overall absorption of 6 lots per month for the three products. However, due to being higher-priced products, a slightly lower absorption of 5 lots per quarter or a total of 15 lots per quarter has been used. Then, the absorption would not start until the fourth quarter of 2009 to allow time for a builder to get ready for new product to commence development. Thus, the overall absorption would be 15 lots in the fourth quarter of 2009, in each quarter in 2010 and 2011, with the remaining 16 lots in the first quarter of 2012.

Then, the combined deduction of 8% of sales is made for general-administrative costs, holding costs and sales-closing costs as the land sales are projected to occur. Lastly, the net cash flows are discounted to present value at a higher discount rate of 19% to 20%, reflecting the greater risk due to the larger bulk size of 151 lots with a longer absorption period.

Based on the foregoing, the following is the discounted cash flow analysis reflecting a 20% discount rate:

Quarterly		3Q-2009	4Q-2009	1Q-2010	2Q-2010	3Q-2010	4Q-2010
REVENUES (Lot Sales)							
	Lot Sales @ \$415,000/lot	\$0	\$6,225,000	\$6,225,000	\$6,225,000	\$6,225,000	\$6,225,000
PROJECT COSTS							
	G&A/Holding/Sales/Closing	8%	<u>\$0</u>	<u>\$498,000</u>	<u>\$498,000</u>	<u>\$498,000</u>	<u>\$498,000</u>
NET CASH FLOWS							
		\$0	\$5,727,000	\$5,727,000	\$5,727,000	\$5,727,000	\$5,727,000
DISCOUNT FACTOR							
	20%	0.952381	0.909091	0.869565	0.833333	0.800000	0.769231
PV OF CASH FLOWS							
		\$0	\$5,206,364	\$4,980,000	\$4,772,500	\$4,581,600	\$4,405,385

Quarterly		1Q-2011	2Q-2011	3Q-2011	4Q-2011	1Q-2012	Total
REVENUES (Lot Sales)							
	Lot Sales @ \$415,000/lot	\$6,225,000	\$6,225,000	\$6,225,000	\$6,225,000	\$6,640,000	\$62,665,000
PROJECT COSTS							
	G&A/Holding/Sales/Closing	8%	<u>\$498,000</u>	<u>\$498,000</u>	<u>\$498,000</u>	<u>\$531,200</u>	\$5,013,200
NET CASH FLOWS							
		\$5,727,000	\$5,727,000	\$5,727,000	\$5,727,000	\$6,108,800	\$57,651,800
DISCOUNT FACTOR							
	20%	0.740741	0.714286	0.689655	0.666667	0.645161	
PV OF CASH FLOWS							
		\$4,242,222	\$4,090,714	\$3,949,655	\$3,818,000	\$3,941,161	
PRESENT VALUE							
		\$43,987,601					

## **VALUATION, Continuing**

As indicated, at a discount rate of 20% the present value is \$43,987,601 and it is noted that at a 19% discount rate the present value indication is \$44,495,027, with both indications being for the lots in as is condition. As previously indicated, the indication by the Sales Comparison Approach for the vacant lots in as is condition is \$42,280,000 to \$45,300,000.

### **Conclusion of Value**

Based on the foregoing analyses, within the range of \$42,280,000 to \$45,300,000, the conclusion is toward the lower end of the range. Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject 151 Vacant Lots ownership, subject to the Assumptions and Limiting Conditions, and as of May 1, 2009:

**\$43,000,000**

**(FORTY-THREE MILLION DOLLARS)**

(Note: All of this value is allocated as Undeveloped.)

## **ADDENDA**

**QUALIFICATIONS  
OF  
STEPHEN G. WHITE, MAI**

**PROFESSIONAL EXPERIENCE**

Real Estate Appraiser since 1976.

1983 through current date: Self-employed; office located at 1370 N. Brea Blvd., Suite 205, Fullerton, CA 92835 (Phone: 714-738-1595)

1976-1982: Employed by Cedric A. White, Jr., MAI, independent appraiser located in Anaheim.

Real estate appraisals have been completed on most types of properties for purposes of fair market value, leased fee value, leasehold value, easement value, partial acquisitions and severance damages.

**PROFESSIONAL ORGANIZATIONS**

Member, Appraisal Institute; MAI designation obtained 1985

Affiliate Member, Pacific West Association of Realtors

**LICENSES**

Licensed by the State of California as a Certified General Real Estate Appraiser; OREA ID No. AG013311; valid through September 22, 2010.

**EDUCATION**

B.A. Economics & Business, Westmont College, Santa Barbara (1976)

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques

Capitalization Theory and Techniques

Urban Properties

Litigation Valuation

Standards of Professional Appraisal Practice

Numerous seminars and continuing education on various appraisal subjects, including valuation of easements and leased fee interests, litigation, the money market and its impact on real estate, and standards of professional appraisal practice.

**COURT/TESTIMONY EXPERIENCE**

Qualified as an expert witness in the Superior Courts of Orange, Los Angeles, Riverside and San Bernardino Counties; also before the Assessment Appeals Board of Orange and Los Angeles Counties.

**TYPES OF PROPERTY APPRAISED**

**Residential:** vacant lots, acreage and subdivisions; single family residences, condominiums, townhomes and apartment complexes.

**Commercial:** vacant lots/acreage; office buildings, retail stores, shopping centers, restaurants, hotels and motels.

## QUALIFICATIONS, Page 2

**Industrial:** vacant lots and acreage; warehouses, manufacturing buildings, R&D buildings, industrial parks, mini-warehouses.

**Special Purpose:** mobile home parks, churches, automobile agencies, medical buildings, convalescent hospitals, easements, leased fee and leasehold interests.

### CLIENT LIST

#### **Corporations:**

Aera Energy  
British Pacific Properties  
BSI Consultants  
Crown Central Petroleum  
Eastman Kodak Company  
Firestone Building Materials  
Foodmaker Realty Corp.  
Greyhound Lines  
Holiday Rambler Corp.  
International Baking Co.  
Johnson Controls  
Kampgrounds of America  
La Habra Products, Inc.

MCP Foods  
Merrill Lynch Relocation  
Orangeland RV Park  
Pacific Scientific  
Penhall International  
Pic 'N Save Stores  
Sargent-Fletcher Co.  
Shell-Western E&P  
Southern Distributors Corp.  
Southern California Edison  
The Home Depot  
Tooley and Company  
Wastewater Disposal Co.

#### **Developers:**

Brighton Homes  
Citation Builders  
Davison-Ferguson Investment Devel.  
D.T. Smith Homes  
Irvine Company  
Kathryn Thompson Developers  
Mark Taylor, Inc.

Mission Viejo Co.  
Premier Homes  
Presley Homes  
Rockefeller & Associates  
Taylor Woodrow Homes  
Unocal Land & Development

#### **Law Firms:**

Baldikoski, Klotz & Dragonette  
Best Best & Krieger LLP  
Bowie, Arneson, Wiles & Giannone  
Bradshaw, John  
Bye, Hatcher & Piggott  
Callahan, McCune & Willis  
Cooksey, Coleman & Howard  
Hamilton & Samuels  
Horgan, Rosen, Beckham & Coren  
Kent, John  
Kirkland & Ellis  
Latham & Watkins LLP  
McKee, Charles C.  
Mosich, Nicholas J.  
Long, David M.  
Nossaman, Guthner, Knox & Elliott, LLP

Oliver, Barr & Vose  
Ollestad, Freedman & Taylor  
Palmieri, Tyler, Wiener, Wilhelm &  
Waldron LLP  
Paul, Hastings, Jonofsky &  
Walker LLP  
Piggott, George B.  
Pothier, Rose  
Rosenthal & Zimmerman  
Rutan & Tucker, LLP  
Sikora & Price, Inc.  
Smith & Politiski  
Williams, Gerold G.  
Woodruff, Spradlin & Smart, P.C.  
Yates, Sealy M.



## QUALIFICATIONS, Page 3

### Financial Institutions:

Barclays Bank  
Chino Valley Bank  
Continental Bank  
First Interstate Mortgage  
Security Pacific Bank  
Washington Square Capital

San Clemente Savings & Loan  
United Calif. Savings Bank  
National Credit Union Admin.  
First Wisconsin Bank  
Ahmanson Trust Company  
Sunwest Bank

### Cities:

City of Anaheim  
City of Baldwin Park  
City of Buena Park  
City of Cypress  
City of Duarte  
City of La Habra  
City of Laguna Beach  
City of Mission Viejo  
City of Orange

City of Placentia  
City of Riverside  
City of San Clemente  
City of Santa Ana  
City of Santa Fe Springs  
City of Stanton  
City of Tustin  
City of Yorba Linda

### Counties:

County of Orange

County of Riverside

### Other Governmental:

Agua Mansa Industrial Growth Association  
El Toro Water District  
Federal Deposit Insurance Corporation (FDIC)  
Kern County Employees Retirement Association

Metropolitan Water District  
Orange County Water District  
Trabuco Canyon Water District  
U.S. Postal Service

### School Districts:

Anaheim Union High School Dist.  
Banning Unified School Dist.  
Capistrano Unified School Dist.  
Castaic Union School Dist.  
Cypress School Dist.  
Etiwanda School Dist.  
Fullerton School Dist.  
Garden Grove Unified School Dist.  
Irvine Unified School Dist.  
Lake Elsinore Unified School Dist.

Moreno Valley Unified School Dist.  
Newhall School Dist.  
Newport-Mesa Unified School Dist.  
Placentia-Yorba Linda Unified Dist.  
Poway Unified School Dist.  
Rialto Unified School Dist.  
Saddleback Valley Unif. School Dist.  
Santa Ana Unified School Dist.  
So. Org. Cnty Comm. College Dist.  
Temple City School Dist.

### Churches/Church Organizations:

Calvary Church, Santa Ana  
Central Baptist Church, Pomona  
Christian & Missionary Alliance Church, Santa Ana  
Christian Church Foundation  
Congregational Church, Fullerton

First Church of the Nazarene  
Lutheran Church, Missouri Synod  
Presbytery of Los Rancho  
St. Mark's Lutheran Church, Hac. Hts.  
Vineyard Christian Fellowship

### Other:

Biola University  
Cedars-Sinai Medical Center

Garden Grove Boys' Club  
The Sheepfold

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture of Trust and the Zone 2 Bond Indenture and the Zone 3 Bond Indenture and is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement. The provisions of the Zone 2 Bond Indenture and the Zone 3 Bond Indenture are substantially equivalent, except where specified otherwise in this summary. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the documents summarized herein. Purchasers of the Bonds are referred to the complete text of each respective document, copies of which are available upon request from the Trustee.

#### Authority Indenture

##### **Definitions.**

The capitalized terms set forth in the Authority Indenture are defined as follows:

"2009 Bonds" means the \$8,995,000 Poway Unified School District Public Financing Authority 2009 Revenue bonds.

"Act" means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

"Agreement" means that certain Amended and Restated Joint Exercise of Powers Agreement, dated as of May 14, 2007, by and between CFD No. 1 and the School District and as hereafter duly amended and supplemented from time to time, creating the Authority for the purposes, among other things, of assisting the School District and CFD No. 1 in the financing and refinancing of Public Capital Improvements, as such term is defined in the Bond Law.

"Annual Debt Service" means as to the Bonds, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

"Authority" or "Issuer" means the Poway Unified School District Public Financing Authority, a joint exercise of powers authority organized and existing under the Agreement and under and by virtue of the laws of the State of California.

"Authority Administrative Expense Fund" means the fund by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Authority Administrative Expenses" means all actual costs and expenses incurred in connection with the administration of the Bonds, including but not limited to: (a) the fees and expenses payable to the Trustee, and its counsel, and other Persons for professional services rendered in connection with the administration, continuing disclosure and rebate obligations of or for the Bonds; and (b) fees and expenses of Independent Accountants for preparation of audits required by the Indenture.

"Authority Bond Counsel" means the law firm of Best Best & Krieger LLP and any successor firm or any other firm of nationally recognized bond counsel acceptable to the Board of Directors.

"Authority Costs of Issuance" means all items of expense directly or indirectly payable by, or reimbursable to, the Authority relating to the authorization, issuance, sale and delivery of any Series of the Bonds, including but not limited to, underwriters' discount, printing expenses, Authority Bond Counsel fees, bond insurance premiums or costs, surety fees and costs, rating agency fees, filing and recording fees, initial fees, expenses and charges and first annual administrative fees of the Trustee, expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of such Series of the Bonds, and any other cost, charge or fee in connection with the original issuance of such Series of the Bonds. Authority Costs of Issuance shall also include Costs of Issuance as defined in the Zone 2 Bond Indenture for the Zone 2 Bonds and/or the Zone 3 Bond Indenture for the Zone 3 Bonds.

"Authority Costs of Issuance Account" means the account by that name within the Program Fund established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Authority School Facilities Fund" means the fund by the name established with Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Authorized Denomination" means the principal amount or maturity amount, as applicable, of \$5,000 or any integral multiple thereof.

"Authorized Representative" means: (a) with respect to the Authority, its Chairperson, Treasurer or Secretary, each as designated in the Agreement, and any other Person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Treasurer and filed with Community Facilities District No. 11, the Authority and the Trustee; (b) with respect to the School District, its Superintendent, Deputy Superintendent, or any other Person designated as an Authorized Representative of the School District by a Written Certificate signed on behalf of the School District by the Superintendent or the Deputy Superintendent and filed with the Authority and the Trustee; (c) with respect to Community Facilities District No. 11, the President of the Board of Education, Vice President of the Board of Education, the Superintendent, the Deputy Superintendent or any other Person acting for and on behalf of Community Facilities District No. 11 and designated as an Authorized Representative of Community Facilities District No. 11 by a Written Certificate signed on behalf of Community Facilities District No. 11 by the Superintendent or the Deputy Superintendent and filed with the Authority and the Trustee; and (d) with respect to the Trustee, the President, any Vice President, any Assistant Vice President, or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the bylaws of the Trustee. An Authorized Representative may by written instrument designate any Person to act on his or her behalf.

"Average Annual Debt Service" means the average over all Bond Years (from the date of the Bonds to their maturity) of Annual Debt Service.

"Board of Directors" means the Board of Directors of the Authority.

"Board of Education" means the Board of Education of the School District.

"Bond Fund" means the fund by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Bond Indentures" means collectively the Zone 2 Bond Indenture and the Zone 3 Bond Indenture and any supplemental indenture thereto and "Bond Indenture" means the Zone 2 Bond Indenture or the Zone 3 Bond Indenture, as applicable.

"Bond Law" means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584), as amended from time to time.

"Bond Purchase Agreement" means, as to any Series of the Bonds, an agreement to purchase such Bonds by and between the Authority, the School District, on behalf of Community Facilities District No. 11, and the Underwriter of the Bonds.

"Bond Year" means each twelve-month period beginning on September 16 of each year and ending on September 15 the following year; provided, however, that with respect to the 2009 Bonds, the first such Bond Year shall begin on the Date of Delivery, and end on September 15, 2009.

"Bonds" or "Authority Bonds" mean the 2009 Bonds and any Parity Bonds at any time Outstanding pursuant to the Indenture.

"Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Principal Office of the Trustee is located, or the New York Stock Exchange is closed. If any payment under the Indenture is due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such previous day.

"Capitalized Interest Sub-Account" means the sub-account by that name within the Interest Account of the Bond Fund established pursuant to the Indenture and to be administered as prescribed in the Indenture.

"CFD No. 11 Custodian Account" means that account established and maintained by the Custodian pursuant to the Custodian Agreement for and on behalf of and for the benefit of the District.

"CFD Prepayment Credit" means that Reserve Fund Credit as such term is defined in the Special Tax RMA, calculated pursuant to such rate and method and provided for upon the prepayment of the special tax obligation for property within Zone 2 or Zone 3, as applicable, of Community Facilities District No. 11.

"Code" means the Internal Revenue Code of 1986, as amended.

"Community Facilities District Bond Counsel" or "CFD Bond Counsel" means the law firm of Best Best & Krieger LLP and any successor firm or any other firm of nationally recognized bond counsel acceptable to the Board of Education, acting in its capacity as the legislative body of Community Facilities District No. 11.

"Community Facilities District No. 11" or "CFD No. 11" means Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates), a Community Facilities District formed pursuant to the Mello-Roos Community Facilities Act of 1982, as amended.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement as executed and delivered by the Authority and the School District, on behalf of Community Facilities District No. 11, Dolinka Group, LLC, as dissemination agent, and Zions First National Bank, as Trustee, and dated as of June 1, 2009 as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Custodian" means Zions First National Bank as custodian under and pursuant to the Custodian Agreement.

"Custodian Agreement" means that certain Custodian Agreement, dated as of December 1, 2001, by and between the School District and Zions First National Bank, as successor custodian to U.S. Bank National Association.

"Date of Delivery" means with respect to each Series of the Bonds, the date on which such Series of the Bonds are delivered to the Underwriter in exchange for the purchase price therefore.

"Defeasance Obligations" means those investments identified in paragraph 1 of the definition of Permitted Investments.

"Deputy Superintendent" means the Deputy Superintendent of the School District.

"Event of Bankruptcy" means, with respect to any Person, the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against such Person as debtor, other than any involuntary proceeding which has been finally dismissed without entry of an order for relief or similar order as to which all appeal periods have expired.

"Event of Default" means any of the events of default specified in the Indenture.

"Excess Investment Earnings" means an amount equal to the sum of:

- (a) the excess of the aggregate amount earned from the applicable Date of Delivery on all Permitted Investments in which proceeds of a Series of the Bonds are invested (other than amounts attributable to an excess described in this paragraph (a)) over the amount which would have been earned if the yield on such investments (other than amounts attributable to an excess described in this paragraph (a)) had been equal to the yield on such Series of the Bonds; and
- (b) any income attributable to the excess described in the preceding paragraph (a).

"Fiscal Agent" means Zions First National Bank, acting in its capacity as the fiscal agent for the Zone 2 Bonds and the Zone 3 Bonds.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Authority and certified to the Trustee in writing by an Authorized Representative of the Authority.

"Funding Allocation Agreement" means that certain Funding Allocation Agreement, dated as of June 1, 2009, among the Authority, the School District and Community Facilities District No. 11, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Funding Requirement" means, as of any date of calculation, that all deposits required to be made to the Interest Account, the Principal Account and the Redemption Account for the Bond Year have been made.

"Indenture" means the Indenture of Trust, by and between the Authority and Zions First National Bank, as originally executed or as it may from time to time be supplemented, modified or amended pursuant to its terms.

"Independent Accountant" means any nationally recognized firm of certified public accountants or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by the Authority, and who, or each of whom:

- (a) is in fact independent and not under domination of the Authority, School District, or Community Facilities District No. 11;
- (b) does not have any substantial interest, direct or indirect, with the Authority, School District or Community Facilities District No. 11; and
- (c) is not connected with the Authority, School District or Community Facilities District No. 11 as an officer or employee of the Authority, School District, or Community Facilities District No. 11, but who may be regularly retained to make reports to the Authority, School District, or Community Facilities District No. 11.

"Independent Financial Consultant" means any financial consultant or firm of such financial consultants appointed by the Authority, and who, or each of whom:

- (a) is judged by the Authority to have experience with respect to the financing of public capital improvement projects;
- (b) is in fact independent and not under the domination of the Authority, the School District or Community Facilities District No. 11;
- (c) does not have any substantial interest, direct or indirect, with the Authority, the School District or Community Facilities District No. 11; and
- (d) is not connected with the Authority, School District or Community Facilities District No. 11 as an officer or employee of the Authority, School District or Community Facilities District No. 11, but who may be regularly retained to make reports to the Authority, School District or Community Facilities District No. 11.

"Information Services" means Financial Information, Inc. "Daily Called Bond Service," 1 Cragwood Road, 2nd Floor, South Plainfield, New Jersey 07080, Attention: Editor; Kenny Information Services "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; FIS/Mergent, 5250 77 Center Drive, Suite 150, Charlotte, North Carolina, 28217, Attention: Called Bond Department; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a certificate of the Authority delivered to the Trustee.

"Interest Payment Date" means March 15 and September 15, commencing March 15, 2010 as to the 2009 Bonds.

"Maximum Annual Debt Service" means the Annual Debt Service for the Bond Year in which such sum shall be the largest with respect to the Bonds.

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

"Mitigation Agreement" means the School Impact Mitigation and Public Facilities Funding Agreement between the School District and Sycamore Estates, LLC, a Delaware limited liability

company; Sycamore II Estates, LLC, a Delaware limited liability company, McMillin Montecito 109, LLC, a Delaware limited liability company, Brookfield 6, LLC, a Delaware limited liability company and Brookfield 8, LLC, a Delaware limited liability company, as it may be amended, superseded or supplemented by the parties thereto.

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

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

- (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including particular Bonds (or portions of Bonds) described in the Indenture; and
- (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" or "Bond Owner" or "Bondholder" or "Holder," whenever used in the Indenture with respect to a Bond, means the Person in whose name the ownership of such Bond is registered on the Registration Books.

"Parity Bonds" means Bonds issued under the Indenture which are secured by and payable from an irrevocable first lien on the Revenues which lien is on a parity with the lien securing the 2009 Bonds.

"Permitted Investments" means any of the investments listed below that at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall have no duty to investigate the legality of any investments):

1.
  - A. Direct obligations (other than an obligation subject to variation in principal payment) 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:
  - A. Federal Home Loan Mortgage Corporation (FHLMC)
    - (1) Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
    - (2) Senior Debt obligations
  - B. Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
    - (1) Consolidated system-wide bonds and notes
  - C. Federal Home Loan Banks (FHL Banks)
    - (1) Consolidated debt obligations
  - D. Federal National Mortgage Association (FNMA)
    - (1) Senior debt obligations
    - (2) Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
  - E. Student Loan Marketing Association (SLMA)
    - (1) 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)
  - F. Financing Corporation (FICO)
    - (1) Debt obligations
  - G. Resolution Funding Corporation (REFCORP)
    - (1) Debt obligations
4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.
5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks 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 S&P and "Prime-1" by Moody's.

7. Money market funds rated "AAm-1" by Moody's or "AAm-G" by S&P, or better.
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 S&P, 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 S&P 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 S&P 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:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P 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 S&P 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 S&P and Moody's, provided that:

- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);
- B. The Trustee or a third party acting solely as agent therefor or for the Authority (the "Holder of Collateral") has possession of the collateral or the collateral has been transferred to the Holder of Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The Holder of Collateral has a perfected first priority security interest in the collateral, any substituted collateral in the name of the Trustee and all proceeds thereof (in the case of bearer securities, this means the Holder of Collateral is in possession); and
- D. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority 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 Authority or Trustee.

Notwithstanding the above, 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 S&P and Moody's, respectively.

- 11. Investment agreements with a domestic or foreign bank or corporation the long-term debt or financial strength of which it or its guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's; provided that, by the terms of the investment agreement:
  - A. the invested funds are available for withdrawal without penalty or premium, upon not more than seven days' prior notice; the Authority and the Trustee 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;
  - B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinate 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;
  - C. the Authority and the Trustee receive the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);
  - D. the investment agreement shall provide that if during its term

- (1) the provider's rating by either S&P 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 (a) 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 Authority, the Trustee or a Holder of the 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 S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and
- (2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3," respectively, the provider must, within 10 days of the date of such withdrawal, suspension or reduction of the provider's rating, repay the principal of and accrued but unpaid interest on the investment;

E. 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); and

F. 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 Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority 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 Authority or Trustee, as appropriate.

12. The Local Agency Investment Fund (LAIF) administered by the treasurer of the State to the extent such deposits remain in the name of and control of the Trustee.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Principal Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Authority, initially being 550 S. Hope Street, Suite 2650, Los Angeles, California 90071, except that with respect to presentation of Bonds for payment or for

registration of transfer or exchange or maintenance of the Registration Books, such term shall mean the office of the Trustee at which its corporate agency business shall be conducted, initially being the office of Zions First National Bank in Salt Lake City, Utah.

"Principal Payment Date" means September 15 of each year.

"Principal Repayment" means any amounts received by the Trustee representing a repayment of principal of any issue of Special Tax Bonds upon the prior redemption, prepayment or acceleration thereof.

"Private Business Use" means use directly or indirectly in a trade or business carried on by a natural Person or in any activity carried on by a Person other than a natural Person, excluding use by a governmental unit and use by any Person as a member of the general public.

"Proceeds" when used with respect to any Series of the Bonds, means the face amounts of such Bonds, plus original issue premium, if any, less Underwriter's discount and original issue discount, if any.

"Program Fund" means the fund by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Purchase Account" means the Purchase Account of the Program Fund as established by the Trustee pursuant to the Indenture and utilized as set forth in the Indenture.

"Qualified Reserve Fund Credit Instrument" means an irrevocable standby or direct pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met by the Authority at the time of delivery thereof to the Trustee:

- (a) the long term credit rating of such bank or insurance company is Aa or better from Moody's and AA or better from S&P;
- (b) such letter of credit or surety bond has a term of at least twelve (12) months;
- (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and
- (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture.

"Rating Agency(ies)" means any rating agency which is then rating the Bonds, at the request of the Authority.

"Rebate Fund" means the fund by that name established by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Record Date" means the fifteenth (15th) day of the month (whether or not such day is a Business Day) preceding each Interest Payment Date.

"Redemption Account" means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

"Related Documents" means the Indenture, the Agreement, and the documents relating to the issuance and delivery of each of the Special Tax Bonds and all proceedings of the School District or Community Facilities District No. 11 relating to the same.

"Requisition" means a written requisition signed in the name of the Authority by its Authorized Representative.

"Reserve Fund" means the fund of that name established, held and administered by the Trustee pursuant to the provisions of the Indenture.

"Reserve Requirement" means an amount initially equal to \$899,500 which amount shall, as of any date of calculation, be equal to the least of (i) Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the original principal amount of the Bonds; provided, however, the Reserve Requirement shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Code.

"Resolution of Formation" means Resolution No. 34-2004 of the Board of Education forming and establishing Community Facilities District No. 11.

"Revenue Fund" means the fund by that name established and held by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Revenues" means, with respect to the Bonds: (a) all amounts derived from the Special Tax Bonds; (b) all moneys originally deposited with the Trustee for application for payment of principal or interest on the Bonds and all moneys held by the Trustee in the funds and accounts established in the Indenture for payment of the Bonds (excluding the Program Fund, the Authority School Facilities Fund and the Rebate Fund); and (c) investment income with respect to the funds and accounts established under the Indenture except for investment earnings on funds held in the Program Fund, the Authority School Facilities Fund and the Rebate Fund.

"S&P" or "Standard & Poor's" means Standard & Poor's Corporation, its successors and assigns.

"School District" means the Poway Unified School District, a public school district organized and operating pursuant to the provisions of the California Education Code.

"School Facilities" shall have the meaning given such term in the Mitigation Agreement.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Mello-Roos Act.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, New York, New York 10041-0099, Fax (212) 855-3274 or 3799; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Series" means, as to the Bonds, any series of the Bonds issued pursuant to the Indenture or any Supplemental Indenture or, as to the Zone 2 Bonds or the Zone 3 Bonds, any series of such bonds issued pursuant to the applicable Bond Indenture.

"Special Record Date" means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on the Bonds, if any.

"Special Tax Bonds" means the Zone 2 Bonds and the Zone 3 Bonds.

"Special Tax Bonds Purchase Contract" means the Special Tax Bonds Purchase Contract, dated as of June 19, 2009, by and between the Authority and Community Facilities District No. 11 setting forth the terms and conditions pursuant to which the Authority has agreed to acquire the Special Tax Bonds from Community Facilities District No. 11, and Community Facilities District No. 11 has agreed to sell the Special Tax Bonds to the Authority.

"Special Tax Bonds Resolution of Issuance" means Resolution No. 57-2009 of the Board of Trustees of the School District, acting in its capacity as the governing body of the Community Facilities District No. 11, adopted on May 18, 2009, providing for the issuance of the Zone 2 2009 Bonds and the Zone 3 2009 Bonds.

"Supplemental Indenture" means a Supplemental Indenture of Trust providing for any matter authorized, entered into by and between the Authority and the Trustee pursuant to the provisions of the Indenture.

"Surplus Fund" means the fund by that name established and held by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided therein.

"Tax Certificate" means that certificate of the same name, dated as of the Date of Delivery, delivered by the Authority, and executed by the School District on behalf of Community Facilities District No. 11, with regard to any Series of the Bonds and the applicable Series of the Special Tax Bonds.

"Tax Code" means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a provision of the Tax Code shall include the applicable Tax Regulations promulgated with respect to such provision.

"Tax Regulations" means temporary and permanent regulations promulgated under Section 103 and related sections of the Tax Code.

"Term 2009 Bonds" means the 2009 Bonds maturing on September 15, 2032, and September 15, 2039, respectively.

"Trustee" means Zions First National Bank, or its successor, as Trustee under the Indenture as provided therein, or such other trustee as shall be named, provided such other trustee shall meet the requirements of thereto.

"Underwriter" means Stone & Youngberg LLC.

"Written Certificate" and "Written Request" of the Authority, the School District or Community Facilities District No. 11 mean, respectively, a written certificate or written request signed in the name of the Authority by its Authorized Representative, in the name of the School District by its Authorized Representative, or in the name of Community Facilities District No. 11 by its Authorized Representative.

Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"Zone 2" means that portion of the District designated as Zone 2 thereof as shown on the map entitled "Proposed Boundaries of Community Facilities District No. 11, Poway Unified School District, County of San Diego, State of California" recorded as Document No. 2003-1395513 on November 20, 2003 in Book 37 of Maps of Assessment and Community Facilities Districts at page 77 thereof in the office of the County Recorder of the County of San Diego.

"Zone 2 Bonds" means the Zone 2 2009 Bonds and any Zone 2 Parity Bonds.

"Zone 2 2009 Bonds" means the \$5,150,000 Poway Unified School District Community Facilities District No. 11 Zone 2 2009 Special Tax Bonds issued pursuant to Special Tax Bonds Resolution of Issuance, the Zone 2 Bond Indenture and the Indenture.

"Zone 2 Bond Indenture" means the Bond Indenture, dated as of June 1, 2009, by and between Community Facilities District No. 11 and Zions First National Bank, as Fiscal Agent, pertaining to the Zone 2 Bonds.

"Zone 2 Bonds Reserve Fund Credit Amount" means an amount equal to the cash deposited in the Reserve Fund at the Date of Delivery of any Series of Zone 2 Bonds multiplied by a fraction with the numerator equal to the total debt service due on the Zone 2 Bonds through the final maturity date of the Zone 2 Bonds and the denominator equal to the total aggregate debt service of the Special Tax Bonds through final maturity. The Zone 2 Bonds Reserve Fund Credit Amount shall upon the Date of Delivery of the Zone 2 2009 Bonds equal \$515,000.

"Zone 3" means that portion of the District designated as Zone 3 thereof as shown on the map entitled "Proposed Boundaries of Community Facilities District No. 11, Poway Unified School District, County of San Diego, State of California" recorded as Document No. 2003-1395513 on November 20, 2003 in Book 37 of Maps of Assessment and Community Facilities Districts at page 77 thereof in the office of the County Recorder of the County of San Diego.

"Zone 3 Bonds" means the Zone 3 2009 Bonds and any Zone 3 Parity Bonds.

"Zone 3 2009 Bonds" means the \$3,845,000 Poway Unified School District Community Facilities District No. 11 Zone 3 2009 Special Tax Bonds issued pursuant to Special Tax Bonds Resolution of Issuance, the Zone 3 Bond Indenture and the Indenture.

"Zone 3 Bond Indenture" means the Bond Indenture, dated as of June 1, 2009, by and between Community Facilities District No. 11 and Zions First National Bank, as Fiscal Agent, pertaining to the Zone 3 Bonds.

"Zone 3 Bonds Reserve Fund Credit Amount" means an amount equal to the cash deposited in the Reserve Fund at the Date of Delivery of any Series of Zone 3 Bonds multiplied by a fraction with the numerator equal to the total debt service due on the Zone 3 Bonds through the final maturity date of the Zone 3 Bonds and the denominator equal to the total aggregate debt service of the Special Tax Bonds through final maturity. The Zone 3 Bonds Reserve Fund Credit Amount shall upon the Date of Delivery of the Zone 3 2009 Bonds equal \$384,500.

## **Revenues; Funds and Accounts.**



### **Program Fund.**

The Trustee shall maintain and hold in trust such fund and account as a separate and distinct account or fund. Subject to satisfaction of the requirements of the Indenture as to each issue of Special Tax Bonds, funds deposited in the Purchase Account shall immediately be expended for the purchase of each such issue of Special Tax Bonds.

### **Authority Costs of Issuance Account.**

The Trustee shall, on the Date of Delivery of each Series of the Bonds, deposit in the Authority Costs of Issuance Account the amount set forth in the Indenture to the Authority to pay Costs of Issuance pertaining to such Series of the Bonds and shall administer and maintain such Account as set forth in the Indenture.

The Trustee shall disburse funds from the Authority Costs of Issuance Account for Costs of Issuance upon receipt of a requisition signed and approved by an Authorized Representative.

Upon the earlier of: (i) payment in full of all Costs of Issuance for a Series of the Bonds, which shall be determined by a certificate to the Trustee to that effect by an Authorized Representative; or (ii) six months following the Date of Delivery of such Series of the Bonds, the Trustee shall transfer the funds, if any, remaining in the Authority Costs of Issuance Account to the Authority School Facilities Fund. Upon the occurrence of such transfers, the Trustee shall then close the Authority Costs of Issuance Account as to such Series of the Bonds.

### **Pledge and Assignment; Revenue Fund.**

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues, and any other amounts held in any fund or account established pursuant to the Indenture (excluding the Program Fund, the Authority School Facilities Fund, the Authority Administrative Expense Fund and the Rebate Fund), are pledged (as set forth therein) by the Authority to secure the full and timely payment of the principal of and interest and premium, if any, of the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds by the Trustee and the Revenues and other items pledged thereunder shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act.

(b) Subject to the provisions of the Indenture, the Authority pledges and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues, all of the moneys and securities in the funds and accounts created under the Indenture, except the Program Fund, the Authority School Facilities Fund, the Authority Administrative Expense Fund and the Rebate Fund, as their interests appear and other amounts pledged in paragraph (a) above and all of the right, title and interest of the Authority in the Special Tax Bonds. The Authority shall collect and receive, or cause to be collected and received by the Trustee, all such Revenues, and Revenues collected or received by the Authority, or collected and received by the Trustee on behalf of the Authority, shall be deemed to be held, and to have been collected or received, by the Authority, in trust, and shall be paid to the Trustee as set forth therein. The Trustee also shall be entitled to and may take all steps, actions, and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately by itself, all of the rights of the Authority and all of the obligations of Community Facilities District No. 11 with respect to the Special Tax Bonds.

(c) Subject to the provisions of the Indenture, all Revenues shall be promptly transferred to the Trustee by the Authority. All Revenues, other than Principal Repayments, shall be deposited by the Trustee upon receipt thereof in the Revenue Fund which the Trustee shall maintain and hold in trust. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. All Principal Repayments shall be deposited by the Trustee upon receipt thereof in the Redemption Account of the Bond Fund.

**Bond Fund; Allocation of Revenues.**

On each Interest Payment Date the Trustee shall transfer Revenues then in the Revenue Fund into the following funds and accounts, in the following amounts and in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required transfer) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

- (a) The Trustee shall transfer to the Interest Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date and any amount of interest previously due and unpaid.
- (b) The Trustee shall, on September 15 of each year during the term of the Bonds, transfer to the Principal Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal and/or mandatory sinking account payment coming due and payable on the Bonds on such September 15 and any amount of principal previously due and unpaid.
- (c) On each Interest Payment Date on which the balance in the Reserve Fund is less than the Reserve Requirement, the Trustee shall transfer to the Reserve Fund an amount sufficient to increase the balance in the Reserve Fund to the Reserve Requirement.
- (d) On any Interest Payment Date on which the amount on deposit in the Revenue Fund is inadequate to make the transfers described in (a) and (b) above as a result of a default in the scheduled payment of principal of and/or interest on the Bonds, the Trustee shall immediately notify the Deputy Superintendent of the amount of such payment default. In the event that the Trustee receives all or any portion of the principal of and/or interest on the Bonds the payment of which is in default, the Trustee shall disburse or transfer such funds in the following order of priority: (i) for deposit in the Reserve Fund such amount as shall be necessary to replenish the amount of any transfers of cash from the Reserve Fund to the Interest Account or the Principal Account resulting from such payment default; and (ii) for deposit in the Revenue Fund any amount remaining following the transfer required pursuant to (i).
- (e) The Trustee shall transfer to the Rebate Fund an amount, if any, to increase the amount on deposit in the Rebate Fund to the Rebate Requirement as the Authority may direct by Written Certificate.
- (f) The Trustee shall transfer to the Authority Administrative Expense Fund such amount as the Authority may direct by Written Certificate as necessary to pay Authority Administrative Costs.

- (g) On the Business Day following each Principal Payment Date, the Trustee shall transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund to be applied as provided in the Indenture.

#### **Interest Account.**

Subject to the provisions of the Indenture, all amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable or, at the Written Request of the Authority filed with the Trustee, to apply to the payment of accrued interest on any Bonds purchased by the Authority pursuant to the Indenture in lieu of redemption pursuant to the Indenture. Any amounts on deposit in the Interest Account on any September 16 which are not required to pay interest then due and payable on the Bonds shall be transferred to the Surplus Fund. In the event that the deposit in the Interest Account on any Interest Payment Date or redemption date, after any transfers from the Reserve Fund pursuant to the Indenture, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts of the payment of interest on each of the Outstanding Bonds on a pro rata basis so that an equal percentage of the interest due on each Bond is paid.

#### **Principal Account.**

Subject to the provisions of the Indenture, all amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal of the Bonds upon the stated maturity thereof or upon any prior redemption of the Bonds with the proceeds of mandatory sinking payments. Any amounts on deposit in the Principal Account on any September 16 which are not required to pay the principal amount then due and payable on the Bonds shall be transferred to the Surplus Fund. In the event that the amounts on deposit in the Principal Account on any Interest Payment Date or date of redemption, after any transfers from the Reserve Fund pursuant to the Indenture, are insufficient for any reason to pay the aggregate principal amount of, and premium (if any) on, the Outstanding Bonds then coming due and payable (whether at maturity or upon the redemption thereof), the Trustee shall apply such amounts in the following order of priority: (i) first, to the payment of the principal of the Outstanding Bonds which mature by their terms or are to be redeemed pursuant to the Indenture; and (ii) second, to the payment of the principal of any redemption premium (if any) on the Outstanding Bonds which mature by their terms or are to be redeemed pursuant to the Indenture, in each case on a pro rata basis so that an equal percentage of the principal maturing or being redeemed under (i) above is paid first, followed by the payment of an equal percentage under (ii).

#### **Surplus Fund.**

Following the above deposits from the Revenue Fund pursuant to the Indenture, moneys remaining in the Revenue Fund on each September 16th shall be deposited by the Trustee into the Surplus Fund.

Moneys deposited in the Surplus Fund may be used at any time for one or more of the following purposes and shall be transferred by the Trustee as follows:

- (a) to the Interest Account or the Principal Account of the Bond Fund to pay the principal of, including mandatory sinking fund payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Revenue Fund are insufficient to make any deposits required pursuant to the Indenture;

- (b) to the Reserve Fund in order to replenish the Reserve Fund to the Reserve Requirement in the event that the moneys in the Revenue Fund are insufficient to make any deposit required pursuant to the Indenture;
- (c) to the Rebate Fund as the Authority may direct by Written Certificate to increase the amount on deposit therein to the Rebate Requirement if the moneys in the Revenue Fund are insufficient to make any deposit required pursuant to the Indenture; and
- (d) on September 15<sup>th</sup> of any Bond Year following the scheduled payment of principal of and interest on the Bonds due and payable during such Bond Year, to the Administrative Expense Fund as the Authority may direct by Written Certificate if the moneys in the Revenue Fund are insufficient to make any deposit required pursuant to the Indenture.

Moneys transferred to the Surplus Fund on September 16 of any Bond Year pursuant to the Indenture (the "Annual Retained Surplus") shall be retained in the Surplus Fund until March 16 of such Bond Year (the "Annual Retention Period") and shall be used for the purposes described in the preceding paragraph. Annual Retained Surplus remaining on deposit in the Surplus Fund on March 16 of such Bond Year shall no longer be designated as either Annual Retained Surplus or Revenues, shall no longer be pledged to the payment of the Bonds and, upon the receipt of a Written Request of the Authority, shall be transferred to the Custodian, for and on behalf of Community Facilities District No. 11, for deposit in the CFD No. 11 Custodian Account, if any, or if the CFD No. 11 Custodian Account has been closed, to the School District, for and on behalf of Community Facilities District No. 11, and such funds shall be used only for such lawful purposes of Community Facilities District No. 11 as are authorized pursuant to the Act, the Resolution of Formation and the Mitigation Agreement.

#### **Redemption Account.**

The Trustee shall deposit in the Redemption Account any amounts required or permitted to be applied to the redemption of Bonds (exclusive of mandatory sinking fund redemptions on the Term Bonds) pursuant to the Indenture.

Subject to the provisions of the Indenture, all amounts deposited in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming the Bonds in the manner and upon the terms and conditions specified in the Indenture (excluding mandatory sinking fund redemptions which shall be paid from the Interest Account and the Principal Account), at the next succeeding date of redemption for which notice has been given and at the redemption prices then applicable or alternatively to purchase Bonds in lieu of redemption. At any time prior to selection of Bonds for such notice of redemption, the Trustee may, at the Written Request of the Authority apply amounts on deposit in the Redemption Account to the purchase of the Bonds, for cancellation, at public or private sale, as and when and at prices not exceeding the par amount thereof (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) and as specified in the Indenture. Any amounts on deposit in the Redemption Account after the corresponding redemption date which are not necessary, or insufficient in amount, to redeem Bonds designated for redemption shall be transferred to the Surplus Fund.

#### **Reserve Fund.**

On the Date of Delivery, the Trustee shall deposit into the Reserve Fund the proceeds of the Bonds specified in the Indenture representing the Reserve Requirement as of such date.

There shall be maintained in the Reserve Fund an amount equal to the Reserve Requirement.

Moneys in the Reserve Fund shall be used solely for the purposes set forth in the Indenture. Subject to the limitations set forth in the following paragraph, amounts in the Reserve Fund shall be applied to pay the principal of, including sinking fund payments, and interest on the Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Bond Fund are insufficient therefor. In addition, cash amounts, if any, in the Reserve Fund may be applied in connection with an optional redemption pursuant to the Indenture or a mandatory redemption pursuant to the Indenture or a defeasance pursuant to the Indenture of the Bonds in whole or in part, or when the balance therein equals the principal and interest due on the Bonds to and including maturity to pay the principal of and interest due on the Bonds to maturity. Any amounts in the Reserve Fund in excess of what the Reserve Requirement will be following such an optional redemption, mandatory redemption, or partial defeasance of the Bonds shall be applied toward such optional redemption, mandatory redemption, or defeasance of Bonds, as applicable.

If the amounts in the Interest Account and/or the Principal Account of the Bond Fund are insufficient to pay the principal of, including sinking fund payments, or interest on the Bonds when due, the Trustee shall withdraw from the Reserve Fund for deposit in the Interest Account and/or the Principal Account, as applicable, moneys necessary for such purposes. All cash and investments in the Reserve Fund, if any, shall be transferred for payment of debt service on the Bonds before any draw may be made on any Qualified Reserve Fund Credit Instrument included within the Reserve Fund.

The Trustee shall, pursuant to a Written Certificate of the Authority notifying the Trustee that a prepayment of the special tax obligation for a property in Community Facilities District No. 11 has occurred, transfer the amount of the applicable CFD Prepayment Credit specified in such Written Certificate to the Fiscal Agent for the applicable Series of Special Tax Bonds for deposit in the Redemption Account established pursuant to the applicable Bond Indenture.

The Trustee shall, pursuant to a Written Certificate of the Authority, disburse or transfer on the following dates from the cash amount then on deposit in the Reserve Fund the following amounts:

- (i) on the final maturity date of any Series of Zone 2 Bonds, an amount equal to the Zone 2 Bonds Reserve Fund Credit Amount applicable to such Zone 2 Bonds, minus the amount of any transfer previously made necessitated as a result of a deficiency in the scheduled payment of principal of or interest on such Zone 2 Bonds which has not previously been reimbursed, shall be transferred to the Interest Account and the Principal Account as a credit against the payments due on such Zone 2 Bonds on such date with the amount transferred being deposited first to the Interest Account as a credit on the interest due on such Zone 2 Bonds on such date and the balance being deposited to the Principal Account as a credit on the principal due of such Zone 2 Bonds on such date; and
- (ii) on the final maturity date of any Series of Zone 3 Bonds, an amount equal to the Zone 3 Bonds Reserve Fund Credit Amount applicable to such Zone 3 Bonds, minus the amount of any transfer previously made necessitated as a result of a deficiency in the scheduled payment of principal of or interest on such Zone 3 Bonds which has not previously been reimbursed, shall be transferred to the Interest Account and the Principal Account as a credit against the payments due on such Zone 3 Bonds on such date with the amount transferred being deposited first to the Interest Account as a credit on the interest due on such Zone 3 Bonds on such date and the balance being deposited to the Principal Account as a credit on the principal due of such Zone 3 Bonds on such date.

If on the first Business Day following a Principal Payment Date, the amount of money on deposit in the Reserve Fund, together with the principal amount of any Qualified Reserve Fund Credit Instrument,

exceeds the Reserve Requirement, money in an amount equal to such excess shall be withdrawn from the Reserve Fund and transferred to the Interest Account.

The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee a Qualified Reserve Fund Instrument. Upon tender of such items to the Trustee, and upon delivery by the Authority to the Trustee of a written calculation of the amount permitted to be released from the Reserve Fund (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Fund to the District to be applied in accordance with the Bond Law. The Trustee shall comply with all documentation relating to a Qualified Reserve Fund Credit Instrument as shall be reasonably required to maintain such Qualified Reserve Fund Credit Instrument in full force and effect and as shall reasonably be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture. Upon the expiration of any Qualified Reserve Fund Credit Instrument, the Authority shall be obligated either (i) to replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (ii) to deposit or cause to be deposited with the Trustee or to draw upon the Qualified Reserve Fund Credit Instrument prior to its maturity or renewal date an amount of funds such that amounts on deposit in the Reserve Fund shall equal the Reserve Requirement.

#### **Authority Administrative Expense Fund.**

The Authority shall establish with the Trustee a special fund designated the "Authority Administrative Expense Fund" which the Trustee shall maintain and hold in trust. The Authority shall deposit amounts transferred to the Trustee from the Fiscal Agent for Special Tax Bonds for deposit in the Authority Administrative Expense Fund to pay Authority Administrative Expenses and shall administer and maintain such Fund as set forth in the Indenture.

The Trustee shall, from time to time, disburse funds from the Authority Administrative Expense Fund for Authority Administrative Expenses upon receipt of a signed requisition substantially in the form of Exhibit D and approved by an Authorized Representative.

#### **Authority School Facilities Fund.**

The Trustee shall, from time to time, disburse moneys from the Authority School Facilities Fund to pay School Facilities Costs. Upon receipt of a payment request of the Authority duly executed by an Authorized Representative, the Trustee shall pay the School Facilities Costs from amounts in the Authority School Facilities Fund directly to the contractor or such other person, corporation or entity entitled to payment under the Indenture (including reimbursements, if any, to the Authority) unless the Authority requests payment to be made to the contractor or such other party jointly, in which case said School Facilities Costs shall be paid jointly. The Trustee may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all School Facilities Costs as certified by delivery of a written notice from an Authorized Representative of the Authority to the Trustee, the Trustee shall transfer excess moneys, if any, on deposit in, or subsequently deposited in, the Authority School Facilities Fund to the Revenue Fund.

#### **Rebate Fund.**

(a) As required by the Tax Certificate, the Authority covenants that it shall calculate the annual Excess Investment Earnings and shall transmit to the Trustee for deposit to the Rebate Fund an amount equal to the Excess Investment Earnings for the Bonds, if any, from any legally available moneys of the Authority. Neither the Authority nor the Owners of any Bonds shall have any rights in or claim to

such moneys. All such calculations described in this paragraph shall be made in the manner set forth in the Tax Regulations. The calculations of Excess Investment Earnings required under the Indenture shall be made by an Independent Financial Consultant whose calculations of rebate amounts under the Tax Code and the Tax Regulations have been accepted by other public agencies.

(b) **Payment of Excess Investment Earnings.** As required by the Tax Certificate, the Authority shall direct the Trustee to pay from moneys in the Rebate Fund, or from other moneys of the Authority legally available therefore if the deposit therein is insufficient, to the United States an amount that equals at least 90% of the Excess Investment Earnings as of the end of the Bond Year immediately preceding the date of each payment. No later than 60 days after the day on which the last Bond is paid or redeemed, the Authority covenants that it shall pay to the United States from the Rebate Fund or from other legally available moneys of the Authority an amount equal to 100% of the theretofore unpaid Excess Investment Earnings plus earnings on such Excess Investment Earnings received or accrued after the final payment of such earnings as required by the Tax Regulations. The Authority shall direct the Trustee in writing to remit such payments to the United States at the address and in the manner prescribed by the Tax Regulations as the same may be from time to time in effect, together with such reports and statements prepared by the Authority as may be prescribed by the Regulations.

(c) **Record of Investments.** The Authority covenants that it shall keep and retain for a period of six years following the retirement of the Bonds records of the determinations made pursuant to the Indenture and as required by the Tax Certificate. The Trustee shall keep a record of all investments made with moneys on deposit in any fund or account established under the Indenture. Such records shall contain a reference to the date of purchase, the date of sale, the purchase price, the sales price, the principal amount and coupon rate of each obligation purchased or sold.

(d) **Deficiency of Available Moneys.** Payments pursuant to the Indenture shall be made to the maximum extent possible from moneys on deposit in the Rebate Fund. In the event of any remaining deficiency in available moneys for the purposes of such transfer, such deficiency shall be paid by the Authority from any legally available funds of the Authority.

(e) **Computation of Excess Investment Earnings.** Notwithstanding the foregoing, the method of computing Excess Investment Earnings described in the Indenture or the Tax Certificate, as applicable, may be modified, in whole, or in part, without the consent of the Bond Owners, upon receipt by the Authority of an opinion of counsel to the effect that such modification will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds theretofore issued. Notwithstanding the foregoing, if the Authority shall obtain an opinion of counsel that any specified action under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Authority and the Trustee may conclusively rely on such opinion in complying with the requirements under the Indenture, and the terms of this paragraph (e) shall be deemed modified to that extent.

#### **Additional Funds and Accounts.**

The Trustee may establish additional accounts or subaccounts of the above-described funds and accounts as the Trustee shall deem necessary in furtherance of its duties pursuant to the Indenture. The Authority may request the establishment of such additional accounts as it deems necessary to meet its obligations pursuant to the Indenture and the Trustee shall establish such accounts.

#### **Investment of Moneys.**

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments, as

directed in writing by the Authority two (2) Business Days prior to the making of such investment. Such investment instructions shall certify that the investment is a Permitted Investment. Permitted Investments may be purchased at such prices as the Authority shall determine. All Permitted Investments shall be acquired subject to any restrictive instructions given to the Trustee in writing pursuant to the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by the Written Request of the Authority. Absent timely written direction from the Authority, the Trustee shall invest any funds held by it in Permitted Investments described in clause 7 of the definition thereof. The Trustee may commingle moneys in any of the funds and accounts held under the Indenture, other than those in the Rebate Fund, for investment purposes. Permitted Investments that are registrable securities shall be registered in the name of the Trustee.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by the Trustee pursuant to the Indenture, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Permitted Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Trustee for the purposes specified in the Indenture.

Moneys in the Reserve Fund, if any, may be invested only in Permitted 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 of a longer maturity so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture.

Except for moneys held in the Rebate Fund (which shall be retained therein), all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture shall be deposited in the Interest Account of the Bond Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investments equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investments shall be credited to the fund from which such accrued interest was paid.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture shall be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued as follows:

- (a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers;
- (b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and
- (c) As to any investment not specified above: the value thereof established by prior agreement between the Authority and the Trustee.

The Trustee and its affiliates may act as principal, agent or sponsor, advisor, or depository in the making or disposing of any investment and may receive compensation in connection therewith. Upon the Written Request of the Authority, or as required for the purposes of the provisions of the Indenture, the Trustee shall sell or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture.



## **Covenants.**

### **Punctual Payment.**

The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

### **Extension of Payment of Bonds.**

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal, of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

### **Against Encumbrances.**

The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its legitimate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

### **Power to Issue Bonds and Make Pledge Assignment.**

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Special Tax Bonds and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee, subject to the provisions of the Indenture, shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

### **Accounting Records and Financial Statement.**

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the Bond proceeds, the Revenues, the Special Tax Bonds and all funds and accounts established with the Trustee pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, any Independent Financial Consultant, the Underwriter, the School District, and Community Facilities District No. 11, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee.

The Authority shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Bond proceeds, the Revenues, the Special Tax Bonds and all funds and accounts established pursuant to the Indenture (other than those records and accounts kept by the Trustee). Such books of record and account shall be available for inspection by the Trustee, any Independent Financial Consultant, the School District, and Community Facilities District No. 11, during regular business hours and upon twenty-four (24) hours prior notice and under reasonable circumstances as agreed to by the Authority.

**Waiver of Laws.**

The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may have a material adverse effect on the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

**No Arbitrage.**

The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Date of Delivery would have caused any of the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

**Compliance with Rebate Requirement.**

The Authority shall assure compliance with the requirements for a rebate of excess investment earnings to the federal government in accordance with section 148(f) of the Tax Code and applicable Tax Regulations.

**Private Business Use Limitation.**

The Authority shall assure that:

- (a) no more than ten percent (10%) of the Proceeds of the Bonds (as defined in the Tax Code) is used for Private Business Use (as defined in the Tax Code) if, in addition, the payment of the principal of, or the interest on, more than ten percent (10%) of the Proceeds of the Bonds is (under the terms of the Bonds or any underlying arrangement) directly or indirectly, (i) secured by any interest in property, or payments in respect of property, used or to be used for a Private Business Use, or (ii) to be derived from payments (whether or not to the Authority) in respect of property, or borrowed money, used or to be used for a Private Business Use; and
- (b) in the event that in excess of five percent (5%) of the Proceeds of the Bonds is used for a Private Business Use, and, in addition, the payment of the principal of, or the interest on, more than five percent (5%) of the Proceeds of the Bonds is (under the terms of the Bonds or any underlying arrangement), directly or indirectly, secured by any interest in property, or payments in respect of property, used or to be used for said Private Business Use or is to be derived from payments (whether or not to the Authority) in respect of property, or borrowed money, used or to be used for a Private Business Use, then, (A) said excess over said five percent (5%) of the Proceeds of the Bonds which is used for a Private Business Use shall be used for a Private Business Use related to a government use

of such proceeds, and (B) each such Private Business Use over five percent (5%) of the Proceeds of the Bonds which is related to a government use of such Proceeds shall not exceed the amount of such Proceeds which is used for the government use of Proceeds to which such Private Business Use is related.

#### **Limitation of Use of Proceeds for the Bonds.**

In the event that loans are made, directly or indirectly, to a borrower other than a governmental unit, the Authority shall assure that not in excess of five percent (5%) of the Proceeds of the Bonds is used for such purpose. The provisions of this paragraph do not apply to loans constituting non-purpose investments or to loans which enable the borrower to finance any governmental tax or assessment of general application for specific essential governmental functions.

#### **Federal Guarantee Prohibition.**

The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code and applicable Tax Regulations.

#### **Special Tax Bonds.**

The Authority shall cause to be collected and paid to it all Revenues payable with respect to the Special Tax Bonds promptly as such Revenues become due and payable, and shall vigorously enforce and cause to be enforced all rights of the Authority and the Trustee under and with respect to the Special Tax Bonds. Upon any failure of the Authority to perform as required by the Indenture, the Trustee shall, subject to the provisions of the Indenture, take appropriate actions to collect and cause the Revenues to be paid to the Trustee. The Authority shall instruct Community Facilities District No. 11 to authenticate and deliver to the Trustee the Special Tax Bonds registered in the name of the Trustee.

#### **Continuing Disclosure.**

The Authority has covenanted and agreed that it will carry out the provisions of the Continuing Disclosure Agreement or cause such provisions to be carried out. Notwithstanding any provision in the Indenture to the contrary, failure by the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default for purposes of the Indenture; however, any Bond Owner may take such actions as may be necessary and appropriate, including seeking a mandate or specific performance by court order, to cause the Authority to comply with its obligations under the Continuing Disclosure Agreement, as specified therein.

#### **Compliance with State Reporting Guidelines.**

The Authority shall comply with the State of California (the "State") reporting guidelines as required by the provisions of the Act. Notwithstanding any provision in the Indenture to the contrary, failure by the Authority to comply with the State reporting guidelines shall not be considered an Event of Default for purposes of the Indenture; however, any Bond Owner may take such actions as may be necessary and appropriate, including seeking a mandate or specific performance by court order, to cause the Authority to comply with its obligations under this covenant.

#### **Limitation on Additional Bonds.**

Except for Parity Bonds issued pursuant to the provisions of the Indenture, the Authority shall not issue any other bonds, or other securities secured by the same Revenues as are used to secure the Bonds.

However, the foregoing shall not be interpreted to prevent a refunding of the Bonds, or to prevent the Authority from consenting to a refunding of the Special Tax Bonds, provided that the security of the Owners in the Revenues pledged, or pursuant to the Indenture, is maintained.

### **Sale of Special Tax Bonds.**

Notwithstanding anything in the Indenture to the contrary, the Authority may cause the Trustee to sell, from time to time, all or a portion of the Special Tax Bonds (as shall be designated by the Authority at the time) and use the proceeds of such sale to purchase or redeem Outstanding Bonds; provided that the Authority shall deliver to the Trustee:

- (a) a certificate from an Independent Accountant or Independent Financial Consultant to the effect that, following the disposition of such Special Tax Bonds, the Revenues to be paid to the Trustee (assuming the timely payment of the amounts due thereon with regard to any Special Tax Bonds not then in default), together with interest and principal due on any Defeasance Obligations pledged to the repayment of the Bonds or the Revenues then on deposit in the Funds and Accounts established under the Indenture (valuing any Permitted Investments held thereunder at the fair market value thereof), will be sufficient to pay the principal of and interest on the Bonds when due; and
- (b) an opinion of Bond Counsel to the effect that such sale of the Special Tax Bonds is authorized under the provisions of the Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of State or federal income taxation.

Upon compliance with the foregoing conditions, the Trustee shall sell such designated Special Tax Bonds in accordance with the Written Request of the Authority and disburse the proceeds of such sale at the direction of the Authority to be applied to the redemption, purchase or defeasance of Bonds or upon the request of the Authority shall deposit such proceeds in the Revenue Fund or Redemption Fund to be applied to the redemption, purchase or defeasance of Bonds, as appropriate.

### **Further Assurances.**

The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

### **Events of Default and Remedies of Bond Owners.**

#### **Events of Default; Notice of Event of Default.**

With respect to the Bonds, the following events shall be Events of Default:

- (a) if default by the Authority shall be made in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for sinking fund redemption, or otherwise;
- (b) if default by the Authority shall be made in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable;

- (c) if default shall be made by the Authority in the observance of any of the other covenants, agreements, or conditions on its part in the Indenture, if such default shall have continued for a period of thirty (30) days after written notice thereof and specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding as determined in the Indenture; provided, however, if the failure stated in the notice can be corrected (other than a failure to pay the Trustee's fees and expenses, which may only be waived by the Trustee), but not within the applicable period, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected; and
- (d) the occurrence of an Event of Bankruptcy with respect to the Authority.

**No Acceleration.**

The Bonds are not subject to acceleration in the payment of interest or principal.

**Remedies of Bond Owners.**

Subject to the provisions of the Indenture, any Bond Owner shall have the right, for the equal benefit and protection of all Bond Owners:

- (a) by mandamus, suit, action or proceeding, to compel the Authority and its members, officers, agents or employees to perform each and every term, provision, and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Authority in respect of such Series and the fulfillment of all duties imposed upon it by the Bond Law;
- (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful or the violation of any of the Bond Owners' rights; or
- (c) upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the Authority and its members and employees to account as if it and they were the trustees of an express trust.

**Application of Revenues and other Funds After Default.**

If an Event of Default with respect to the Bonds, shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Authority shall immediately upon receipt by the Authority be transferred by the Authority to the Trustee and be deposited by the Trustee in the appropriate accounts of the Bond Fund and all amounts held in the Revenue Fund by the Trustee and all Revenues and any other funds (excluding the Rebate Fund) then held or thereafter received by the Authority or the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

- (a) to the payment of any fees and expenses of the Trustee necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

- (b) to the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: to the payment to the Persons entitled thereto of all payments of interest on the Bonds then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all of the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

#### **Trustee to Represent Bond Owners.**

Subject to the provisions of the Indenture, the Trustee is irrevocably appointed as trustee and true and lawful attorney-in-fact of the Owners of the Bonds (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, the Indenture, the Bond Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, the Indenture, the applicable Supplemental Indenture, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture, or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds as their interests appear, subject to the provisions of the Indenture.

#### **Bond Owners' Direction of Proceedings.**

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default with respect to the Bonds, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its satisfaction, to direct the method of conducting all remedial

proceedings taken by the Trustee under the Indenture in respect of the Bonds; provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and if the Bonds are no longer Outstanding, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

#### **Limitation on Bond Owners' Right to Sue.**

No Owner of any of the Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Agreement, the Bond Law, or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default with respect to the Bonds; (b) the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses, and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be a condition precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that one or more Owners of Bonds shall not have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Bond Law or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds as their interests appear, subject to the provisions of the Indenture.

#### **Absolute Obligation of Authority.**

Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture and subject to the restrictions set forth therein, but only out of the Revenues and other assets in the Indenture pledged therefor and received by the Authority or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Indenture.

#### **Termination of Proceedings.**

In case any proceedings taken by the Trustee, or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, or the Bond Owners, then in every such case the Authority, the Trustee, and the Bond Owners shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

### **Remedies Not Exclusive.**

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

### **No Waiver of Default.**

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee, or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

### **Issuance of Parity Bonds.**

Subject to the satisfaction of the specific conditions set forth below, the Authority may at any time after the issuance and delivery of the 2009 Bonds issue Parity Bonds payable from Revenues and other amounts deposited in the funds and accounts created under the Supplemental Indenture (other than in the Administrative Expense Fund and any rebate fund that may be established for any Series of Parity Bonds) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding 2009 Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be used for the purpose of acquiring or refunding all or a portion of the Zone 2 Bonds or the Zone 3 Bonds then outstanding.

The issuance of any Series of Parity Bonds shall be subject to the following additional specific conditions, which are conditions precedent to the issuance of such Parity Bonds:

- A. Parity Bonds may be issued at any time to refund Outstanding Bonds where the issuance of such Parity Bonds results in a reduction of Annual Debt Service on all Outstanding Bonds.
- B. The Authority shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the Authority to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the Authority is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the Authority will be in compliance with all such covenants.
- C. 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 Authority which shall specify the following:
  1. The purpose for which such Parity Bonds are to be issued and the fund or funds and accounts therein, if any, 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 acquiring Zone 2 Bonds or Zone 3 Bonds, including payment of all costs incidental to or connected with such bonds;
  2. The authorized principal amount of such Parity Bonds;



3. The date and the maturity date or dates of such Parity Bonds; provided that (a) each maturity date shall fall on a September 15, (b) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (c) fixed serial maturities 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 (a) the Authority Reserve Fund to increase the amount therein to equal the Authority Reserve Requirement allocable to the Outstanding Bonds, including such Parity Bonds, on the Delivery Date of such Parity Bonds or (b) a separate reserve fund established pursuant to the Supplemental Indenture providing for the issuance of such Parity Bonds to fund the amount equal to the reserve requirement for such Parity Bonds which shall, as of any date of calculation, be equal to the least of: (i) 10% of the initial principal amount of such Parity Bonds; (ii) Maximum Annual Debt Service on such Parity Bonds; or (iii) 125% of average Annual Debt Service on such Parity Bonds; provided, however, the amount which is required to be maintained in any reserve fund which is established for such Parity Bonds shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Code.
  8. The form of such Parity Bonds; and
  9. Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.
- D. There shall have been received by the Trustee 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 Authority as to the delivery of such Parity Bonds;
  3. An opinion of Authority Bond Counsel to the effect that (a) the Authority has the right and power under the Act to adopt the Supplemental Indenture relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Revenues and other amounts as provided in the Indenture, subject to the

application thereof to the purposes and on the conditions permitted by the Indenture; (c) such Parity Bonds are valid and binding limited obligations of the Authority, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and (d) 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, the 2009 Bonds and Parity Bonds theretofore issued;

4. A certificate of an Authorized Representative containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture; and
5. Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

## **Modification or Amendment of the Indenture.**

### **Amendments Permitted.**

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into (i) to conform to the official statement dated June 19, 2009, with respect to the Bonds, and (ii) with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, which shall have been filed with the Trustee. No such modification or amendment shall: (i) extend the fixed maturity of any Bonds, reduce the amount of principal thereof, reduce the rate of interest thereon, extend the time of payment, or reduce any premium payable upon redemption of the Bonds without the consent of the Owner of each Bond so affected; or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment; or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the liens created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, the Trustee shall cause to be mailed a notice (the form of which shall be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and any Supplemental Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into, without the consent of any Bond Owners for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;
- (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture, or as to any other provisions of the Indenture as the Authority may deem necessary or desirable, in any case which do not adversely affect the security for the Bonds granted under the Indenture;
- (iii) to modify, amend or supplement the 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, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
- (iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income for purposes of federal income taxation by the United States of America;
- (v) to supplement the Indenture to provide for the issuance of Parity Bonds; and
- (vi) to modify or amend any provision of the Indenture with any effect and to any extent whatsoever permissible by law, provided that any such modification or amendment shall apply only to the Bonds issued and delivered subsequent to the execution and delivery of the applicable Indenture.

#### **Effect of Supplemental Indenture.**

Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee, and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

#### **Endorsement of Bonds: Preparation of New Bonds.**

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or

amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

#### **Amendment of Particular Bonds.**

The provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

#### **Amendment of Special Tax Bonds.**

Nothing in the Indenture, or in any applicable Supplemental Indenture (unless such Supplemental Indenture shall provide expressly to the contrary), shall prohibit the Authority from consenting to the amendment, supplement or other modification of any Special Tax Bonds or the proceedings providing for the issuance thereof provided that the Authority shall first deliver to the Trustee a Written Certificate describing such amendment, supplement, or other modification and stating that such amendment, supplement, or other modification will not adversely affect the security of the Owners of the Bonds under the Indenture and the applicable Supplemental Indenture, together with (i) a certificate of an Independent Financial Consultant stating that such amendment, supplement, or other modification will not adversely impact the Authority's ability to pay principal and interest of the Bonds (used to acquire such Special Tax Bonds); and (ii) an opinion of Authority Bond Counsel that such amendment, supplement or other modification will not impair the exclusion from gross income of interest on the Bonds for purposes of federal income taxation by the United States of America. The Trustee shall take such actions as shall be directed by the Authority in writing in implementation of such amendment, supplement, or other modification, including, without limitation, the acceptance by the Trustee of revised Special Tax Bonds in exchange for the amended, supplemented, or otherwise modified Special Tax Bonds.

#### **Defeasance of the Bonds.**

##### **Discharge of Indenture.**

The Bonds, or any portion thereof, may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium, if any, on the Bonds or any portion thereof, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee, or other designated escrow holder, in trust (pursuant to an escrow agreement), at or before maturity, Defeasance Obligations in the necessary amount (as provided in the Indenture) to pay or redeem all or any portion of the Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, all or any portion of the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority including, without limitation, any compensation or other amounts due and owing the Trustee thereunder, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge

all such indebtedness and the Indenture and the documentation set forth in the following sentence), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. Prior to any defeasance becoming effective, the Authority shall cause to be delivered to the Trustee: (i) an executed copy of a report, addressed to the Trustee of an Independent Accountant, verifying that the Defeasance Obligations and cash, if any, satisfy the requirements of (a), (b) or (c) above; (ii) a copy of any escrow deposit agreement entered into in connection with such defeasance; and (iii) an opinion of nationally recognized bond counsel to the effect that upon such defeasance that the Bonds shall no longer be Outstanding under the terms of the Indenture . Each verification report and defeasance opinion required under (i) and (iii) shall be acceptable in form and substance, and addressed, to the Authority and the Trustee. In such event, upon the Written Request of the Authority, and upon receipt of a Written Certificate of an Authorized Representative of the Authority, each to the effect that all conditions precedent provided for in the Indenture for relating to the discharge and satisfaction of the obligations of the Authority have been satisfied, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture and the applicable Supplemental Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the Authority.

#### **Discharge of Liability on Bonds.**

Upon the deposit with the Trustee, in trust, at or before maturity, of Defeasance Obligations in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

#### **Deposit of Defeasance Obligations.**

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

- (a) lawful money of the United States of America, in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or

- (b) noncallable Defeasance Obligations, the principal of, premium, if any, and interest on which when due will provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal and interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such funds to the payment of such principal and interest with respect to such Bonds.

**Payment of Bonds After Discharge of Indenture.**

Notwithstanding any provisions of the Indenture, but subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture and the applicable Supplemental Indenture, and all liability of the Trustee, as applicable, with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall at the cost of the Authority, mail, by first class mail, postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee, as applicable, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

## The Bond Indentures

The following is a summary of certain provisions of the Zone 2 Bond Indenture. The provisions of the Zone 2 Bond Indenture are substantially equivalent to the provisions of the Zone 3 Bond Indenture except where specified otherwise below in italics. For purposes of reviewing this summary as it applies to the Zone 3 Bond Indenture, the reader should substitute "Zone 3" for "Zone 2" as it occurs throughout this summary except as specified otherwise.

### **Definitions.**

For purposes of this summary and except as specified below, the capitalized terms set forth in the Zone 2 Bond Indenture are defined therein as set forth below.

"Act" means the "Mello-Roos Community Facilities Act of 1982," as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California.

"Administrative Expense Fund" means the fund by that name established pursuant to the Indenture.

"Administrative Expense Requirement" means an annual amount equal to \$21,650 subject to escalation by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2010.

"Administrative Expenses" means (a) the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Zone 2 Special Taxes and preparing the annual Zone 2 Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Zone 2 Special Taxes (whether by the County of San Diego, the School District or otherwise); the costs of remitting the Zone 2 Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties of the Fiscal Agent required under the Indenture; the costs of the School District, the District, or any designee thereof of complying with School District, District or obligated person disclosure requirements associated with applicable federal or state securities laws and of the Act; the costs associated with preparing Zone 2 Special Tax disclosure statements and responding to public inquiries regarding the Zone 2 Special Taxes; the costs of the School District, District, or any designee thereof related to an appeal of the Zone 2 Special Tax; and the costs of any credit enhancement obtained by the School District or the District and (b) the District's Proportionate Share of the Authority Administrative Expenses. Administrative Expenses shall also include Delinquency Collection Expenses.

"Annual Debt Service" means as to the Zone 2 Bonds, for each Bond Year, the sum of (a) the interest payable on the Outstanding Zone 2 Bonds in such Bond Year, and (b) the principal amount of the Outstanding Zone 2 Bonds scheduled to be paid in such Bond Year.

"Authority Administrative Expense Fund" means the Administrative Expense Fund established pursuant to the Authority Indenture.

"Authority Administrative Expenses" shall have the meaning given such term in the Authority Indenture.

"Authority Bonds" shall have the meaning given such term in the Authority Indenture.

"Authority Indenture" means that Indenture of Trust, dated as of June 1, 2009, by and between the Poway Unified School District Public Financing Authority and Zions First National Bank, as trustee, pertaining to the Poway Unified School District Public Financing Authority 2009 Revenue Bonds.

"Authority Reserve Fund" means the Reserve Fund established pursuant to the Authority Indenture.

"Authority Reserve Requirement" shall have the meaning given to the term "Reserve Requirement" in the Authority Indenture.

"Authority School Facilities Fund" means the Authority School Facilities Fund established pursuant to the Authority Indenture.

"Authority Trustee" means Zions First National Bank, acting in its capacity as trustee pursuant to the Authority Indenture.

"Authorized Representative" of the District means the Superintendent or Deputy Superintendent, acting on behalf of the District, or any other person designated by the Superintendent or Deputy Superintendent and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related hereto.

"Average Annual Debt Service" means the average over all Bond Years (from the date of the Zone 2 Bonds to their maturity) of Annual Debt Service.

"Bond Counsel" means an attorney or firm of attorneys, selected by the District, of nationally recognized standing in matters pertaining to the tax treatment of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of the State.

"Bond Service Fund" means the fund created and established pursuant to the Indenture.

"Bond Year" means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year for each Series of the Zone 2 Bonds which shall be the period from the Delivery Date thereof to September 1 immediately following such Delivery Date.

"Bondowner" or "Owner," or any similar term, means any person who shall be the registered owner or his duly authorized attorney, trustee, representative or assign of any Outstanding Zone 2 Bond which shall at the time be registered.

"Business Day" means a day that is not a Saturday or a Sunday or a day of the year on which banks in New York, New York and Los Angeles, California, or where the Principal Corporate Trust Office is located, are not required or authorized to remain open.

"Capitalized *Interest* Subaccount" means the subaccount by that name established within the Interest Account of the Bond Service Fund.

"CFD No. 11 Bonds" means the Zone 1 Bonds, the Zone 2 2009 Bonds and any Zone 2 Parity Bonds excluding Zone 2 Parity Bonds issued to refund the Zone 2 2009 Bonds and/or any previously issued Zone 2 Parity Bonds, and the Zone 3 Bonds. *In the Zone 3 Bond Indenture, the term "CFD No. 11 Bonds" means the Zone 1 Bonds, the Zone 3 2009 Bonds and any Zone 3 Parity Bonds excluding Zone 3 Parity Bonds issued to refund the Zone 3 2009 Bonds and/or any previously issued Zone 3 Parity Bonds, and the Zone 2 Bonds.*



"CFD No. 11 Custodian Account" means that account established and maintained by the Custodian pursuant to the Custodian Agreement for and on behalf of and for the benefit of the District.

"Code" means the Internal Revenue Code of 1986, as amended.

"Comptroller of the Currency" means the Comptroller of the Currency of the United States.

"Costs of Issuance" means, as to each Series of the Zone 2 Bonds, all of costs of issuing such Zone 2 Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, such Zone 2 Bonds, and any and all other agreements, instruments, certificates or other documents issued in connection therewith; any computer and other expenses incurred in connection with such Zone 2 Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, legal fees, acceptance fees, and first annual fees payable in advance); the fees and expenses of the appraiser, market absorption consultant, bond counsel, disclosure counsel, Independent Financial Consultant and other fees and expenses incurred in connection with the issuance of such Zone 2 Bonds, to the extent such fees and expenses are approved by the District.

"Custodian" means Zions First National Bank as custodian under and pursuant to the Custodian Agreement.

"Custodian Agreement" means that certain Custodian Agreement, dated as of December 1, 2001, by and between the School District and Zions First National Bank, as successor custodian to U.S. Bank National Association.

"Delinquency Collection Expenses" means those fees and expenses of the District incurred by or on behalf of the District in or related to the collection of delinquent Zone 2 Special Taxes.

"Delinquency Proceeds" means the net amounts collected from the redemption of delinquent Zone 2 Special Taxes including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the Zone 2 Special Tax resulting from the delinquency in the payment of Zone 2 Special Taxes due and payable on such property and net of County of San Diego, foreclosure counsel and other fees and expenses incurred by or on behalf of the District or the School District in undertaking such foreclosure proceedings.

"Delivery Date" means, as to each Series of the Zone 2 Bonds, the date on which such Series of the Zone 2 Bonds are issued and delivered to the initial purchaser thereof.

"Depository" means DTC and its successors and assigns if and when the Zone 2 Bonds may be registered with the Depository or if the Zone 2 Bonds having been registered with a Depository, (a) the then Depository resigns from its functions as securities depository of the Zone 2 Bonds, or (b) the District discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Zone 2 Bonds and which is selected by the Deputy Superintendent.

"Deputy Superintendent" means the Deputy Superintendent of the School District, acting for and on behalf of the District.

"District" or "CFD No. 11" means Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates).

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Excess Authority Rebate Obligation" means that portion of any obligation of the Authority to make a payment to the United States pursuant to the Authority Indenture that exceeds the funds then on deposit in the Rebate Fund established pursuant to the Authority Indenture.

"Fiscal Agent" means Zions First National Bank, and any successor thereto.

"Fiscal Year" means the 12-month period beginning July 1 of each year and terminating on June 30 of the following year, or any other annual accounting period hereinafter selected and designated by the District as its fiscal year in accordance with applicable law.

"Funding Agreement" means the Funding Allocation Agreement, dated as of June 1, 2009, among the Authority, the School District and the District.

"Indenture" means the Zone 2 Bond Indenture, as amended or supplemented pursuant to the terms thereof.

"Independent Accountant" means any certified public accountant or firm of such certified public accountants appointed and paid by the District, and who, or each of whom:

1. is in fact independent and not under domination of the District or the School District;
2. does not have any substantial interest, direct or indirect, in the District or the School District; and
3. is not an officer or employee of the District or the School District, but who may be regularly retained to make annual or other audits of the books of or reports to the School District or the District.

"Independent Financial Consultant" means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas, the administration of special taxes levied for community facilities districts and the provision of advice to public agencies with respect to the issuance and administration of bonds of community facilities districts secured by the levy of special taxes. Any such person or firm shall be appointed and paid by the District and who, or each of whom:

1. is in fact independent and not under domination of the District or the School District;
2. does not have any substantial interest, direct or indirect, in the District, the School District, or the Authority; and
3. is not an officer or employee of the District, the School District, or the Authority, but who may be regularly retained by the District, the School District, or other community facilities districts formed by the School District to administer the levy of special taxes within such community facilities districts.

"Interest Account" means the account by that name established within the Bond Service Fund pursuant to the Indenture.

"Interest Payment Date" means March 1 and September 1 of each year, commencing March 1, 2010 as to the Zone 2 2009 Bonds.

"Land Secured Debt" means, as to any Taxable Property located within Zone 2, (a) the principal amount of all Outstanding Zone 2 2009 Bonds, Outstanding Zone 2 Parity Bonds previously issued and

the Zone 2 Parity Bonds proposed to be issued allocable to such Taxable Property, (b) the principal amount of all other bonds secured by special taxes allocable to such Taxable Property, and (c) the amount of all fixed lien assessments levied on such Taxable Property.

"Legislative Body" means the Board of Education of the School District, acting as the legislative body of the District.

"Maximum Annual Debt Service" means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

"Mitigation Agreement" means the School Impact Mitigation and Public Facilities Funding Agreement between the School District and Sycamore Estates, LLC, a Delaware limited liability company, Sycamore II Estates, LLC, a Delaware limited liability company, McMillin Montecito 109, LLC, a Delaware limited liability company, Brookfield 6, LLC, a Delaware limited liability company and Brookfield 8, LLC, a Delaware limited liability company, as it may be amended, superseded or supplemented by the parties thereto.

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

"Net Zone 2 Special Tax Revenues" means Zone 2 Special Tax Revenues minus, as to each Bond Year, an amount equal to the Administrative Expense Requirement applicable for each Series of the Zone 2 Bonds for such Bond Year.

"Outstanding" means as to the Zone 2 Bonds, all of the Zone 2 Bonds, except:

1. Zone 2 Bonds theretofore canceled or surrendered for cancellation in accordance with the Indenture;
2. Zone 2 Bonds for the transfer or exchange of or in lieu of or in substitution for which other Zone 2 Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms of the Indenture; and
3. Zone 2 Bonds for the payment or redemption of which moneys shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Zone 2 Bonds); provided that, if such Zone 2 Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture.

"Permitted Investments" has the meaning of such term set forth in the summary of the Authority Indenture.

"Prepayments" means Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Special Tax for one or more parcels in the District made in accordance with the Special Tax RMA net of the amount of the cost of the computation of the prepayment, the cost of redeeming the applicable Zone 2 Bonds as a result of such prepayment and the cost of any notices to evidence the prepayment or the redemption of such Zone 2 Bonds.

"Principal Account" means the account by such name established in the Bond Service Fund pursuant to the Indenture.

"Principal Corporate Trust Office" means the office of the Fiscal Agent at 550 S. Hope Street, Suite 2650, Los Angeles, CA 90071, or such other offices as may be specified to the District by the Fiscal Agent in writing.

"Proportionate Share" shall have the meaning given such term in the Funding Agreement.

"Record Date" means the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Regulations" means the regulations promulgated under the Internal Revenue Code of 1986, as amended.

"Resolution of Formation" means Resolution No. 34-2004 of the Board of Education forming and establishing the District.

"School District" means the Poway Unified School District.

"School Facilities" shall have the meaning given such term in the Mitigation Agreement.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Act.

"Series" means any series of Zone 2 Bonds issued pursuant to the Indenture or any Supplemental Indenture.

"Special Tax Bonds" has the meaning given such term in the Authority Bond Indenture.

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

"Special Tax Requirement" has the meaning given such term in the Special Tax RMA.

"Special Tax RMA" means the rate and method of apportionment of the Special Tax originally approved at the special election held in the District on January 20, 2004, as may be modified from time to time in accordance with the Act.

"Standard & Poor's" or "S&P" means Standard & Poor's Rating Services, its successors and assigns.

"State" means the State of California.

"Superintendent" means the Superintendent of the School District, acting for and on behalf of the District.

"Supplemental Indenture" means any bond indenture then in full force and effect which has been duly approved by resolution of the Legislative Body under and pursuant to the Act at a meeting of the Legislative Body duly convened and held, at which a quorum was present and acted thereon, amendatory hereof or supplemental hereto; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Exempt" means, with reference to a Permitted Investment, a Permitted 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.

"Taxable Property" shall have the meaning given such term in the Special Tax RMA.

"Yield" has the meaning assigned to such term for purposes of Section 148(f) of the Code.

"Zone 1 Bonds" means the \$9,000,000 Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates) Zone 1 2004 Special Tax Bonds.

"Zone 2" means that portion of the District designated as Zone 2 thereof as shown on the map entitled "Proposed Boundaries of Community Facilities District No. 11, Poway Unified School District, County of San Diego, State of California" recorded as Document No. 2003-1395513 on November 20, 2003 in Book 37 of Maps of Assessment and Community Facilities Districts at page 77 thereof in the office of the County Recorder of the County of San Diego.

"Zone 2 2009 Bonds" means the \$5,150,000 Poway Unified School District Community Facilities District No. 11 Zone 2 2009 Special Tax Bonds.

"Zone 2 2009 Term Bonds" means the Zone 2 2009 Bonds maturing on September 1, 2032 and the Zone 2 Bonds maturing on September 1, 2039.

"Zone 2 Bonds" means the Zone 2 2009 Bonds and any Zone 2 Parity Bonds authorized and issued by and at any time Outstanding pursuant to the Indenture.

"Zone 2 Parity Bonds" means Zone 2 Bonds hereinafter issued which are secured by and payable from an irrevocable first lien on the Net Zone 2 Special Tax Revenues which lien is on a parity with the lien securing the Zone 2 2009 Bonds.

"Zone 2 Special Tax" means the Special Tax authorized to be levied in Zone 2 of the District to finance the acquisition or construction of the School Facilities pursuant to the Act and the Special Tax RMA.

"Zone 2 Special Tax Revenues" means the following revenues received by the District on and after July 1, 2009: (a) the proceeds of the Zone 2 Special Tax levied and received by the District, (b) the Delinquency Proceeds, and (c) Prepayments.

*"Zone 3" means that portion of the District designated as Zone 3 thereof as shown on the map entitled "Proposed Boundaries of Community Facilities District No. 11, Poway Unified School District, County of San Diego, State of California" recorded as Document No. 2003-1395513 on November 20, 2003 in Book 37 of Maps of Assessment and Community Facilities Districts at page 77 thereof in the office of the County Recorder of the County of San Diego.*

"Zone 3 2009 Bonds" means the \$3,845,000 Poway Unified School District Community Facilities District No. 11 Zone 3 2009 Special Tax Bonds.

*"Zone 3 2009 Term Bonds" means the Zone 3 2009 Bonds maturing on September 1, 2032 and the Zone 3 Bonds maturing on September 1, 2039.*

"Zone 3 Bonds" means the Zone 3 2009 Bonds and any bonds issued on a parity with the Zone 3 2009 Bonds excluding bonds issued to refund Zone 3 Bonds.

*"Zone 3 Parity Bonds" means Zone 3 Bonds hereinafter issued which are secured by and payable from an irrevocable first lien on the Net Zone 3 Special Tax Revenues which lien is on a parity with the lien securing the Zone 3 2009 Bonds.*

## **Funds and Accounts.**

### **Special Tax Fund.**

A. The District shall, no later than the tenth (10th) Business Day after which Zone 2 Special Tax Revenues have been received by the District, and in any event not later than February 15 and August 15 of each year, transfer such Zone 2 Special Tax Revenues to the Fiscal Agent and, except as set forth in paragraph B., such amounts shall be deposited in the Special Tax Fund.

B. With the exception of Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of the Indenture below, the Zone 2 Special Tax Revenues deposited in the Special Tax Fund shall be held in trust and transferred to the following other funds and accounts on the dates and in the amounts set forth in the following paragraphs and in the following order of priority:

1. The Fiscal Agent shall each Fiscal Year transfer to the Administrative Expense Fund from the first Special Tax Revenues received by the Fiscal Agent during such Fiscal Year an amount equal to the Administrative Expense Requirement.

2. The Fiscal Agent shall deposit in the Interest Account of the Bond Service Fund, on each Interest Payment Date and date for redemption of the Zone 2 Bonds, an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest due or becoming due and payable on such Interest Payment Date on all Outstanding Zone 2 Bonds or to be paid on the Zone 2 Bonds being redeemed on such date.

3. The Fiscal Agent shall deposit in the Principal Account of the Bond Service Fund, on each Interest Payment Date and redemption date on which the principal of the Zone 2 2009 Term Bonds shall be subject to mandatory sinking fund redemption or of any Parity Bonds shall be subject to mandatory sinking fund redemption pursuant to the Supplemental Indenture providing for the issuance of such Parity Bonds, an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Zone 2 Bonds coming due and payable on such Interest Payment Date or are subject to mandatory sinking fund redemption.

4. After making the transfer and deposits required under 1. through 3. above, the Fiscal Agent shall transfer to the Authority Trustee the amount, if any, necessary to restore the Authority Reserve Fund to the Authority Reserve Requirement, but only to the extent that any draw on the Authority Reserve Fund was attributable, as determined by the Authority upon request of the Trustee to so determine, to a deficiency in the amount of debt service received by the Authority on the Zone 2 Bonds.

5. On September 2 of each year after making the deposits and transfers required under 1. through 4. above, or after September 2, if funds become available after September 2, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to the Authority Trustee the District's Proportionate Share of any Excess Authority Rebate Obligation that is or will be due and payable during the Bond Year commencing on such September 2. Any such transfer shall be accompanied by written notice to the Authority Trustee that the amount transferred is to be deposited in the Rebate Fund established pursuant to the Authority Indenture.

6. On September 2 of each year after making the deposits and transfers required under 1. through 5. above, or after September 2, if funds become available after September 2, upon receipt of a written request of an Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay:

(i) those Administrative Expenses that the District reasonably believes will become due and payable during such Bond Year or the cost of which Administrative Expenses have previously been incurred and paid by the District from funds other than the Administrative Expense Fund;

(ii) the District's Proportionate Share of Authority Administrative Expenses which the District reasonably determines will become due and payable during such Bond Year or the cost of which Authority Administrative Expenses have been previously paid by the Authority or the District from funds other than the Authority Administrative Expense Fund; and

(iii) the cost of such Administrative Expenses and the District's Proportionate Share of the Authority's Administrative Expenses paid or projected to be paid from the Administrative Expense Fund during the Bond Year commencing on such September 2, that will be in excess of the Administrative Expense Requirement for such Bond Year.

7. If, on or after September 2 of each year, after making the deposits and transfers required under 1. through 6. above, moneys remain in the Special Tax Fund, such monies shall remain on deposit therein the Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1. through 6 above, provided, however, the District may, by written instructions executed by an Authorized Representative, direct the Fiscal Agent to transfer such moneys to the Custodian, for and on behalf of the District, for deposit in the CFD No. 11 Custodian Account, if any, or if the CFD No. 11 Custodian Account has been closed, to the School District, for and on behalf of the District, and such funds shall be used only for such lawful purposes of the District as are authorized pursuant to the Act, the Resolution of Formation and the Mitigation Agreement.

C. The Fiscal Agent shall, upon receipt of Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayments pursuant to such written instructions into the Interest Account of the Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Zone 2 Bonds to be redeemed pursuant to Section 4.03B. The Fiscal Agent may conclusively rely upon such instructions.

D. When there are no longer any Zone 2 Bonds Outstanding, any amounts then remaining on deposit in the Special Tax Fund shall be transferred to the District and used only for such lawful purposes of the District as are authorized pursuant to the Act, the Resolution of Formation and the Mitigation Agreement..

### **Bond Service Fund.**

#### **A. Interest Account.**

All moneys in the Interest Account, including the proceeds of the Zone 2 2009 Bonds deposited in the Capitalized Interest Subaccount to fund interest on the Zone 2 2009 Bonds in part through March 1, 2011, shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying interest on the Zone 2 Bonds as it shall become due and payable (including accrued interest on any Zone 2 Bonds redeemed prior to maturity). The moneys in the Capitalized Interest Subaccount shall be withdrawn therefrom by the Fiscal Agent on March 1, 2010, September 1, 2010 and March 1, 2011 in the amounts specified in the Indenture. and utilized to pay interest on the Zone 2 2009 Bonds.

**B. Principal Account.**

All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (1) paying the principal of the Zone 2 Bonds at the maturity thereof or (2) paying the mandatory sinking fund redemption price of any Zone 2 Bonds.

**Redemption Fund.**

Moneys shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the terms of the Indenture and shall be set aside and used solely for the purpose of redeeming Zone 2 Bonds in accordance with written instructions of the District executed by an Authorized Representative given in accordance with the provisions of the Indenture. Following the redemption of any Zone 2 Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Special Tax Fund.

**Administrative Expense Fund.**

The Fiscal Agent shall deposit from time to time the amounts authorized for deposit therein pursuant to the Indenture. The moneys in the Administrative Expense Fund shall be used: (i) to pay Administrative Expenses from time to time upon receipt by the Fiscal Agent of a written request of the District executed by an Authorized Representative; or (ii) for transfer to the Authority Trustee from time to time for payment of the District's Proportionate Share of those Authority Administrative Expenses not paid directly by the Fiscal Agent upon receipt by the Fiscal Agent of a written request of the District executed by an Authorized Representative specifying the estimated amount necessary to fund such share of such Authority Administrative Expenses.

**Investment of Funds.**

Unless otherwise specified in the Indenture, moneys in the Special Tax Fund, the Bond Service Fund or the Administrative Expense Fund shall, at the written direction of the District executed by an Authorized Representative given at least two (2) days prior, be invested and reinvested in Permitted Investments (including investments with the Fiscal Agent or an affiliate of the Fiscal Agent or investments for which the Fiscal Agent or an affiliate of the Fiscal Agent acts as investment advisor or provides other services so long as the investments are Permitted Investments). Moneys in the Redemption Fund shall, at the written direction of the District executed by an Authorized Representative, be invested in Permitted Investments identified in paragraph 7 of the definition of Permitted Investments. Notwithstanding anything herein to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph 7 of the definition of Permitted Investments. Any Permitted Investments that are registerable securities shall be registered in the name of the Trustee or its nominee.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements,



which include detail for all investment transactions made by the Fiscal Agent hereunder. The Fiscal Agent shall not be required to provide statements for accounts with zero balances.

Obligations purchased as investments of moneys in any fund or account shall be deemed at all times to be a part of such fund or account. Except where provided otherwise in the Indenture, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

Moneys in all funds and accounts may be aggregated for purposes of investing in authorized investments except when it is necessary to segregate a fund or account thereof for purposes of restricting yield on the investment of such funds.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by the Fiscal Agent, moneys in all funds and accounts shall be invested in Permitted Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Fiscal Agent for the purposes specified in the Indenture. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Permitted Investments for repurchase under such agreement.

The Fiscal Agent shall sell or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer for such funds and accounts or from such funds and accounts. The Fiscal Agent shall not be liable for any loss from any investments made or sold by it in accordance with the provisions of the Indenture.

The Fiscal Agent is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Fiscal Agent or for any third person or dealing as principal for its own account.

### **Issuance of Parity Zone 2 Bonds.**

The District may at any time after the issuance and delivery of the Zone 2 2009 Bonds issue Zone 2 Parity Bonds payable from Net Zone 2 Special Tax Revenues and other amounts deposited in the funds and accounts created under the Supplemental Indenture (other than in the Administrative Expense Fund and any rebate fund that may be established for any Series of Zone 2 Parity Bonds) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Zone 2 Bonds and any other Zone 2 Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, that Zone 2 Parity Bonds may only be used for the purpose of financing additional School Facilities Costs or refunding all or a portion of the Zone 2 Bonds or any Zone 2 Parity Bonds then outstanding.

The issuance of any Series of Zone 2 Parity Bonds shall be subject to the following additional specific conditions, which are conditions precedent to the issuance of such Zone 2 Parity Bonds:

- A. The aggregate principal amount of the CFD No. 11 Bonds issued may not exceed \$60,000,000; provided, however, that, notwithstanding the foregoing, Zone 2 Parity Bonds may be issued at any time to refund Outstanding Zone 2 Bonds where the issuance of such Zone 2 Parity Bonds results in a reduction of Annual Debt Service on all Outstanding Zone 2 Bonds.

- B. The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Fiscal Agent; provided, however, that Zone 2 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 Zone 2 Parity Bonds the District will be in compliance with all such covenants.
- C. The issuance of such Zone 2 Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Zone 2 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 Zone 2 Parity Bonds are to be issued and the fund or funds and accounts therein, if any, into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Zone 2 Parity Bonds to be applied solely for the purpose of financing additional School Facilities Costs or refunding any Outstanding Zone 2 2009 Bonds or Zone 2 Parity Bonds, including payment of all costs incidental to or connected with such refunding;
  2. The authorized principal amount of such Zone 2 Parity Bonds;
  3. The date and the maturity date or dates of such Zone 2 Parity Bonds; provided that (a) each maturity date shall fall on a September 1, (b) all such Zone 2 Parity Bonds of like maturity shall be identical in all respects, except as to number, and (c) fixed serial maturities shall be established to provide for the retirement of all such Zone 2 Parity Bonds on or before their respective maturity dates;
  4. The description of the Zone 2 Parity Bonds, the place of payment thereof and the procedure for execution and authentication;
  5. The denominations and method of numbering of such Zone 2 Parity Bonds;
  6. The amount and due date of each mandatory sinking fund payment, if any, for such Zone 2 Parity Bonds;
  7. The amount, if any, to be deposited from the proceeds of such Zone 2 Parity Bonds in (a) the Authority Reserve Fund to increase the amount therein to equal the Proportionate Share of the Authority Reserve Requirement allocable to the Outstanding Zone 2 Bonds, including such Zone 2 Parity Bonds, on the Delivery Date of such Zone 2 Parity Bonds or (b) a separate reserve fund established pursuant to the Supplemental Indenture providing for the issuance of such Zone 2 Parity Bonds to fund the amount equal to the reserve requirement for such Zone 2 Parity Bonds which shall, as of any date of calculation, be equal to the least of: (i) 10% of the initial principal amount of such Zone 2 Parity Bonds; (ii) Maximum Annual Debt Service on such Zone 2 Parity Bonds; or (iii) 125% of average Annual Debt Service on such Zone 2 Parity Bonds; provided, however, the amount which is required to be maintained in any reserve fund which is established for such Zone 2 Parity Bonds shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Code.

8. The form of such Zone 2 Parity Bonds; and
  9. Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.
- D. There shall have been received by the Fiscal Agent 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 Zone 2 Parity Bonds by the Fiscal Agent (unless the Fiscal Agent shall accept any of such documents bearing a prior date):
1. A certified copy of the Supplemental Indenture authorizing the issuance of such Zone 2 Parity Bonds;
  2. A written request of the District as to the delivery of such Zone 2 Parity Bonds;
  3. An opinion of Bond Counsel to the effect that (a) the District has the right and power under the Act to adopt the Supplemental Indenture relating to such Zone 2 Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Zone 2 Special Tax Revenues and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; (c) such Zone 2 Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Zone 2 Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and (d) a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Zone 2 Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Zone 2 2009 Bonds and any Zone 2 Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Zone 2 Bonds, the Zone 2 2009 Bonds and Zone 2 Parity Bonds theretofore issued;
  4. A certificate of an Authorized Representative containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;
  5. A certificate of an Authorized Representative certifying that the District has received a certificate from one or more Independent Financial Consultants which, when taken together, certify that:
    - (a) the amount of the maximum Zone 2 Special Taxes that may be levied pursuant to the Special Tax RMA in each remaining Bond Year based:

- (i) solely on the Developed Property located within Zone 2 existing as of the date of such certificate (but excluding all Developed Property on which the payment of the Zone 2 Special Taxes are delinquent) shall be not less than 1.00 times Annual Debt Service for each remaining Bond Year on all Outstanding Zone 2 Bonds theretofore issued and the Zone 2 Parity Bonds proposed to be issued; and
- (ii) on all Taxable Property located within Zone 2 existing as of the date of such certificate (but excluding all Taxable Property on which the payment of the Zone 2 Special Taxes are delinquent) shall be not less than 1.10 times Annual Debt Service for each remaining Bond Year on all Outstanding Zone 2 Bonds theretofore issued and the Zone 2 Parity Bonds proposed to be issued;

provided that, for purposes of making the above certifications, the Independent Financial Consultant may rely on reports or certificates of such other persons as may be acceptable to the District, Bond Counsel and the underwriter of the proposed Zone 2 Parity Bonds; and

- (b) the aggregate appraised or assessed value of all Taxable Property located within Zone 2 as shown on the latest assessment roll maintained by the County Assessor of the County of San Diego (but excluding all such Taxable Property on which the payment of the Zone 2 Special Taxes are delinquent) is not less than five (5) times the aggregate amount of Land Secured Debt allocable to such Taxable Property; and

- 6. Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Zone 2 Parity Bonds.

### **Amendments or Supplements.**

The Legislative Body may, by adoption of a resolution from time to time, and at any time but without notice to or consent of any of the Bondholders, approve a Supplemental Indenture hereto for any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondowners;
- (b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to modify, alter, amend, or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondowners;

- (d) to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds; or
- (e) to provide for the issuance of Zone 2 Parity Bonds pursuant to the terms of the Indenture.

Exclusive of the Supplemental Indentures hereto provided for in the first paragraph above, the Owners of not less than 60% in aggregate principal amount of the Zone 2 Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing therein shall permit, or be construed as permitting, (i) an extension of the maturity date of the principal of, or the payment date of interest on, any Zone 2 Bond; or (ii) a reduction in the principal amount of, or redemption premium on, any Zone 2 Bond or the rate of interest thereon without the consent of the affected Bondowner(s), or permit, or be construed as permitting: (A) a preference or priority of any Zone 2 Bond or Zone 2 Bonds over any other Zone 2 Bond or Zone 2 Bonds; (B) a reduction in the aggregate principal amount of the Zone 2 Bonds the Owners of which are required to consent to such Supplemental Indenture; or (C) creating of a pledge of or lien or charge upon the Zone 2 Special Tax Revenues superior to the pledge provided for in the Indenture, without the consent of the Owners of all Zone 2 Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The District shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, 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 principal office of the District for inspection by all Bondowners. The failure of any Bondowner to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved as provided in the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Zone 2 Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to the approval thereof by the Legislative Body substantially in the form of the copy thereof referred to in such notice as on file with the District, such proposed Supplemental Indenture, when duly approved by the Legislative Body, shall thereafter become a part of the proceedings for the issuance of the Zone 2 Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Zone 2 Bonds have consented to the approval of any Supplemental Indenture, Zone 2 Bonds which are known to the Fiscal Agent to be 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 approval of any Supplemental Indenture hereto and the receipt of consent to any such Supplemental Indenture from the Owners of the appropriate aggregate principal amount of Zone 2 Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Zone 2 Bonds then Outstanding shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments. Notwithstanding anything in the Indenture to the contrary, no

Supplemental Indenture shall be entered into which would modify the duties of the Fiscal Agent thereunder, without the prior written consent of the Fiscal Agent.

After the effective date of any action taken as hereinabove provided, the District may determine that the Zone 2 Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Zone 2 Bond at such effective date and presentation of his Zone 2 Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Zone 2 Bonds. If the District shall so determine, new Zone 2 Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Zone 2 Bond at such effective date such new Zone 2 Bonds shall be exchanged at the corporate trust office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Zone 2 Bonds, upon surrender of such Outstanding Zone 2 Bonds.

### **Covenants.**

As long as the Zone 2 Bonds are Outstanding and unpaid, the District shall (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants and agreements set forth in the Indenture; provided, however, that said covenants do not require the District to expend any funds other than the Zone 2 Special Tax Revenues.

A. On or before June 1 of each Fiscal Year, the District will review the public records of the County of San Diego, California, in connection with the Zone 2 Special Tax levied in such Fiscal Year to determine the amount of Zone 2 Special Tax actually collected in such Fiscal Year. If the District determines that (i) any single parcel subject to the Zone 2 Special Tax is delinquent in the payment of Zone 2 Special Taxes in the aggregate of \$5,000 or more, or (ii) any single parcel or parcels under common ownership subject to the Zone 2 Special Tax are delinquent in the payment of Zone 2 Special Taxes in the aggregate of \$10,000 or more, the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The District shall cause judicial foreclosure proceedings to be commenced and filed in the superior court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to the Indenture and for which the Zone 2 Special Taxes remain delinquent. With respect to aggregate delinquencies throughout the District, if the District determines that it has collected less than 95% of the Zone 2 Special Taxes levied in the such Fiscal Year, then the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The District will cause judicial foreclosure proceedings to be commenced and filed in the superior court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to the Indenture and for which the Zone 2 Special Taxes remain delinquent.

B. The District shall preserve and protect the security of the Zone 2 Bonds and the rights of the Bondowners and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay Outstanding Zone 2 Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Zone 2 Bond issued thereunder.

C. Except for Zone 2 Parity Bonds issued pursuant to the Indenture, the District will not issue any other obligations payable, principal or interest, from the Zone 2 Special Taxes which have, or

purport to have, any lien upon the Zone 2 Special Taxes superior to or on a parity with the lien of the Zone 2 Bonds authorized in the Indenture. Nothing in the Indenture shall prevent the District from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Zone 2 Special Taxes on a parity with the Outstanding Zone 2 Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in the Annual Debt Service on the Zone 2 Bonds and such refunding bonds or other refunding obligations taken together.

D. The District will duly and punctually pay or cause to be paid the principal of and interest on each of the Zone 2 Bonds issued under the Indenture on the date, at the place and in the manner provided in said Zone 2 Bonds, but only out of Zone 2 Special Tax Revenues and such other funds as may be therein provided.

E. The District shall comply with all requirements of the Act so as to assure the timely collection of the Zone 2 Special Taxes. The District shall annually ascertain the parcels on which the Zone 2 Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the current Fiscal Year. The District shall effect the levy of the Zone 2 Special Tax in accordance with the Special Tax RMA and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County of San Diego before the final date on which the Auditor of the County of San Diego will accept the transmission of the Zone 2 Special Tax for the parcels within the District for inclusion on the next real property tax roll. Upon completion of the computation of the amount of the Zone 2 Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to the Auditor of the County of San Diego, such data as such Auditor requires to include the levy of the Zone 2 Special Tax on the next real property tax roll.

The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District has determined that, absent the certification described below, a reduction in the Maximum Special Tax (as such term is defined in the Special Tax RMA) authorized to be levied below the levels provided would interfere with the timely retirement of the Zone 2 Bonds. The District has determined it to be necessary in order to preserve the security for the Zone 2 Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the Maximum Special Tax, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the Maximum Special Tax which may be levied on all Assessor's Parcels (as such term is defined in the Special Tax RMA) of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all Zone 2 Bonds to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor's Parcels of Developed Property is located to less than 110% of Maximum Annual Debt Service; and (ii) the Board of Education, acting as the Legislative Body of the District, finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the Zone 2 Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Zone 2 Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Special Tax RMA or to limit the power or authority of the District to levy Zone 2 Special Taxes pursuant to the Special Tax RMA, the District shall, from funds available under the Indenture, commence and pursue legal action in order to preserve the authority and power of the District to levy Zone 2 Special Taxes pursuant to the Special Tax RMA.

- F. The District will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Zone 2 Special Tax Revenues and other funds provided for in the Indenture.
- G. The District will not directly or indirectly use or permit the use of any proceeds of the Zone 2 Bonds or any other funds of the District or take or omit to take any action that would cause the Zone 2 Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code. The District will not allow five percent (5%) or more of the proceeds of the Zone 2 Bonds to be used in the trade or business of any non-governmental units and will not loan five percent (5%) or more of the proceeds of the Zone 2 Bonds to any non-governmental units.
- H. The District covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Authority Bonds under Section 103 of the Code. The District will not directly or indirectly use or permit the use of any proceeds of the Authority Bonds or any other funds of the District, or take or omit to take any action, that would cause the Authority Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the District will comply with all requirements of Section 148 of the Code to the extent applicable to the Zone 2 Bonds and the Authority Bonds. In the event that at any time the District is of the opinion that for purposes of the Indenture it is necessary to restrict or limit the yield on the investment of any moneys held under the Indenture or otherwise the District shall so instruct the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed, or final Treasury Regulations as may be applicable to the Zone 2 Bonds and the District's Proportionate Share of the Authority Bonds from time to time. This covenant shall survive payment in full or defeasance of the Zone 2 Bonds. The District specifically covenants to transfer or cause to be transferred to the Authority Trustee any amount necessary to pay the District's Proportionate Share of any Excess Authority Rebate Obligation.

Notwithstanding any provision of the Indenture, if the District shall obtain an opinion of Bond Counsel to the effect that any action required under this covenant is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Authority Bonds pursuant to Section 103 of the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant thereunder shall be deemed to be modified to that extent.

- I. The District shall not directly or indirectly extend the maturity dates of the Zone 2 Bonds or the time of payment of interest with respect thereto.
- J. Not later than October 30<sup>th</sup> of each year, commencing October 30, 2009, and until October 30<sup>th</sup> following the final maturity of the Zone 2 Bonds, the District shall supply or cause to be supplied to the California Debt and Investment Advisory Commission by mail, postage prepaid, the information, if any, then required by Government Code Section 53359.5 to be submitted to such agency.



K. The District covenants that it will not adopt any policy pursuant to Section 53344.1 of the Act permitting tender of Zone 2 Bonds in full payment or partial payment of any Zone 2 Special Taxes unless it first receives a certificate of an Independent Financial Consultant that accepting such tender will not result in the District having insufficient Zone 2 Special Tax Revenues to pay the principal of and interest on the Zone 2 Bonds when due.

L. The District shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the District under the provisions of the Indenture. The District warrants that upon the date of execution and delivery of the Zone 2 Bonds, the conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the execution and delivery of such Zone 2 Bonds do exist, have happened and have been performed and the execution and delivery of the Zone 2 Bonds shall comply in all respects with the applicable laws of the State.

### **Defeasance.**

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Zone 2 Bond and the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of the Zone 2 Special Tax Revenues, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and discharged and satisfied. In the event of the defeasance of all Outstanding Bonds and after payment of any amounts then owed to the Fiscal Agent, the Fiscal Agent shall pay over or deliver to the District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Zone 2 Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such 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, as and when the same shall become due and payable;
- B. by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds established pursuant to the Indenture (exclusive of the Rebate Fund) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- C. by depositing with an escrow bank appointed by the District, in trust, Defeasance Obligations, in such amount as an Independent Accountant shall determine (as set forth in a verification report from such Independent Accountant) will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) 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, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District to preserve the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Notice of such election shall be filed with the Fiscal Agent not less than ten

(10) days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under B. or C. above, there shall be provided to the Fiscal Agent a certificate of an Independent Accountant stating its opinion as to the sufficiency of the Defeasance Obligations deposited with the Fiscal Agent or the escrow bank together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, to pay and discharge the principal of, premium, if any, and interest on all such Bonds to be defeased in accordance with the Indenture as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture.

To accomplish such defeasance, the District shall cause to be delivered: (i) a report of the Independent Accountant verifying the determination made pursuant to C. above (the "Verification Report"); and (ii) an opinion of Bond Counsel to the effect that the Bonds are no longer Outstanding. The Verification Report and opinion of Bond Counsel shall be acceptable in form and substance, and addressed to the District and the Fiscal Agent.

## **Events of Default.**

### **Events of Default.**

The following events shall be events of default under the Indenture:

- A. Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- B. Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.
- C. Default by the District in the observance of any of the other covenants, agreements, or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Fiscal Agent or to the District and the Fiscal Agent by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Fiscal Agent's fees and expenses, which must be cured within such thirty-day period unless waived by the Fiscal Agent) shall not constitute an event of default under the Indenture if the District shall commence to cure such default within said thirty-day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time.
- D. The filing by the District of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the District, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

### **Application of Revenues and Other Funds After Default.**

If a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held or thereafter received under any of the provisions of the Indenture shall be applied as follows and in the following order:

- A. to the payment of any expenses necessary in the opinion of the District to protect the interest of the Owners of the Bonds and payment of reasonable charges and expenses of the Fiscal Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- B. to the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity of redemption, and if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without discrimination or preference.

### **Remedies of Owners.**

Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

- A. by mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers, or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;
- B. by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- C. by a suit in equity to require the District and its members, officers, and employees to account as the trustee of an express trust.

Nothing in any other provision of the Indenture or the 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 to the respective Owners thereof at the respective dates of maturity, as therein provided, out of the Net Zone 2 Special Tax Revenues pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture. The principal of the Bonds shall not be subject to acceleration thereunder.

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

If any suit, action, or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights, and remedies as if such suit, action, or proceeding had not been brought or taken.

No remedy in the Indenture conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and entered into as of June 1, 2009, by and among the Poway Unified School District Public Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the Constitution and of the laws of the State of California (the “Authority”) on behalf of itself, the Poway Unified School District (the “School District”) on behalf of Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates) (the “Community Facilities District”), Zions First National Bank, a national banking association organized and existing under and by virtue of the laws of the United States in its capacity as Trustee (the “Trustee”), and Dolinka Group, LLC, in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance of the Poway Unified School District Public Financing Authority 2009 Revenue Bonds (the “Bonds”);

#### WITNESSETH:

**WHEREAS**, pursuant to the Bond Indenture, dated as of June 1, 2009 (the “Authority Indenture”), by and between the Authority and the Trustee, the Authority has issued the Bonds in the aggregate principal amount of \$8,995,000; and

**WHEREAS**, the Bonds are being issued to acquire two series of special tax bonds (collectively, the “Special Tax Bonds”) of the Community Facilities District. The Special Tax Bonds are each being issued pursuant to separate Bond Indentures (each a “District Bond Indenture,” and together the “District Bond Indentures”), each dated as of June 1, 2009, by and between the Community Facilities District and Zions First National Bank, as Fiscal Agent (collectively, the “Fiscal Agent”); and

**WHEREAS**, each Series of Special Tax Bonds is payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority and the Community Facilities District for the benefit of the owners and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the Authority and the Community Facilities District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

“Annual Report Date” shall mean January 31 next following the end of the Authority’s and the Community Facilities District’s fiscal years, which, as of the date of this Disclosure Agreement, are June 30.

“Community Facilities District” means Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District.

“Disclosure Representative” shall mean the Deputy Superintendent of the School District, acting on behalf of the Authority or the Community Facilities District, or his or her designee, or such other officer or employee as the Community Facilities District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Dolinka Group, LLC, or any successor Dissemination Agent designated in writing by the Authority and the Community Facilities District and which has filed with the Authority and the Community Facilities District a written acceptance of such designation.

“EMMA System” shall mean the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board (the “MSRB”) or such other electronic system designated by the MSRB or the Securities and Exchange Commission (the “S.E.C.”) for compliance with S.E.C. Rule 15c2-12(b).

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

“Participating Underwriter” shall mean Stone & Youngberg LLC.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. 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 Authority and the Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2010, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB, the Trustee, the Fiscal Agent and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Authority and the Community Facilities District shall provide its Annual Report to the Dissemination Agent. An Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report provided by the Authority and later than the date required above for the filing of the Annual Report if not available by that date. If the Authority or the Community Facilities District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 Business Days prior to January 31 in any year, the Dissemination Agent shall notify the Authority or the Community Facilities District, of such failure to receive the Annual Report. The Authority and the Community Facilities District shall provide a written certification with its 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 Authority and the Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Authority or the Community Facilities District is unable to provide to the MSRB through the EMMA System its Annual Report and to the Participating Underwriter its Annual Report by the

date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB through the EMMA System in substantially the form attached as Exhibit A.

- (c) The Dissemination Agent shall:
  - (i) determine each year prior to the date for providing each Annual Report the electronic filing requirements of the MSRB for the Annual Reports;
  - (ii) provide any Annual Report received by it to MSRB through the EMMA System, the Trustee, the Fiscal Agent and the Participating Underwriter as provided herein; and
  - (iii) if the Dissemination Agent is other than the Authority or the Community Facilities District and to the extent it can confirm such filing of an Annual Report, file a report with the Authority, the Community Facilities District, the Trustee, the Fiscal Agent and the Participating Underwriter certifying that an Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and confirming that it has been filed through the EMMA System.

Section 4. Content of Annual Reports. An Annual Report shall contain or incorporate by reference the following:

- (a) With respect to the Authority, the Authority's Annual Report shall provide the following information:
  - (i) Audited Financial Statements of the Authority prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available, at the time required for filing, unaudited financial statements shall be submitted with the Annual Report, and audited financial statements shall be submitted once available. For purposes of this section, the financial statements of the School District shall be deemed to be the financial statements of the Authority; and
  - (ii) The following information regarding the Bonds and any refunding bonds:
    - (1) Principal amount of the Bonds and any refunding bonds outstanding as of a date within 30 days preceding the date of the Annual Report;
    - (2) Balance in the Bond Service Fund as of a date within 30 days preceding the date of the Annual Report;
    - (3) Balance in the Reserve Fund and statement of Reserve Requirement as of a date within 30 days preceding the date of the Annual Report; and
    - (4) Balance in the Authority School Facilities Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (1), (2), (3) or (4) hereof.

(b) With respect to the Community Facilities District, the Community Facilities District's Annual Report shall provide the following information with respect to such Community Facilities District and its Zone 2 Special Tax Bonds and Zone 3 Special Tax Bonds:

- (i) A table summarizing assessed value-to-lien ratios for the property in Zone 2 and Zone 3 of the Community Facilities District and by Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within Zone 2 and Zone 3 of the Community Facilities District on which the Special Taxes are levied, as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date. The lien values in such table will include all Special Tax Bonds and any refunding bonds of the Community Facilities District and any Improvement Area B Special Tax Bonds and Improvement Area C Special Tax Bonds, but need not include other debt secured by a tax or assessments levied on parcels within the Community Facilities District;
- (ii) Information regarding the annual special taxes levied in Zone 2 and Zone 3 of the Community Facilities District, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (iii) Status of foreclosure proceedings of parcels within Zone 2 and Zone 3 of the Community Facilities District and summary of results of foreclosure sales, if available;
- (iv) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy in Zone 2 and Zone 3, respectively, of the Community Facilities District as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within Zone 2 and Zone 3 of the Community Facilities District owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (v) Concerning delinquent parcels in Zone 2 and Zone 3 as of the immediately preceding August 15;
  - number of parcels in Zone 2 and Zone 3, respectively, of the Community Facilities District delinquent in payment of Special Tax,
  - total of such delinquency and percentage of delinquency in relation to total Special Tax levy in Zone 2 and Zone 3, respectively, by zone in each such Zone,
  - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties within Zone 2 and Zone 3 of the Community Facilities District;
- (vi) identity of any delinquent taxpayer obligated for greater than 5% of the annual Special Tax levy as of the immediately preceding August 15, plus:



- assessed value of applicable properties, and
  - summary of results of foreclosure sales, if available;
- (vii) a copy of any report for or concerning the Community Facilities District as of the immediately preceding October 31 required under State law;
- (viii) Any changes to the Rate and Method of Apportionment of Special Tax for the Community Facilities District approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report; and
- (ix) With respect to the Community Facilities District, the following information:
- The amount of bonds authorized for the Community Facilities District,
  - The amount of bonds issued,
  - The date of issuance of such bonds,
  - A description of the use of the proceeds of bonds issued, and
  - Balance as of a date within 60 days preceding the date of the Annual Report, of any other fund not referenced above.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Authority or the Community Facilities District, as applicable, shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or the Community Facilities District or related public entities, which have been submitted to the MSRB through the EMMA System or the S.E.C. If the document included by reference is a final official statement, it must be available from the MSRB. The Authority or the Community Facilities District 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 Authority and the Community Facilities District, as applicable, shall give, or cause to be given, notice of the occurrence of any of the following events with respect to its Bonds or applicable Series of Special Tax Bonds, as applicable, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (iv)     Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v)      Substitution of credit or liquidity providers, or their failure to perform;
- (vi)     Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii)    Modifications to rights of security holders;
- (viii)   Contingent or unscheduled bond calls;
- (ix)     Defeasances;
- (x)      Release, substitution, or sale of property securing repayment of the securities; and
- (xi)     Rating changes.

(b)     The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Authority or the Community Facilities District, as applicable, promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (e). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the principal office of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c)     As soon as practicable based on the time needed to discover the occurrence of a Listed Event, to assess its materiality and to prepare and disseminate the applicable notice, if the Authority or the Community Facilities District has determined that the occurrence of a Listed Event would be material under applicable Federal securities law, the Authority or the Community Facilities District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e). The Authority or the Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the MSRB through the EMMA System.

(d)     If in response to a request under subsection (b), the Authority or the Community Facilities District determines that the Listed Event would not be material under applicable Federal securities law, the Authority or the Community Facilities District, as applicable, shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e)     If the Dissemination Agent has been instructed by the Authority or the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through the EMMA System and shall provide a copy of such notice to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Authority Indenture.

Section 6. Termination of Reporting Obligation. All of the Authority’s obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the Bonds, (ii) prior redemption of the

Bonds, or (iii) payment in full of all the Bonds. All of the Community Facilities District's obligations hereunder with respect to a Series of Special Tax Bonds shall terminate upon the earliest to occur of (i) the legal defeasance of such Series of Special Tax Bonds, (ii) prior redemption of such Series of Special Tax Bonds, or (iii) payment in full of all such Series of Special Tax Bonds. If such determination occurs prior to the final maturity of the Bonds, the Authority or the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. Dissemination Agent. The Authority and the Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out their obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Dolinka Group, LLC. The Dissemination Agent may resign by providing thirty days' written notice to the Authority and the Community Facilities District, the Trustee (if the Trustee is not the Dissemination Agent) and the Fiscal Agent. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Authority and the Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority, the Community Facilities District, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Authority and the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Trustee or the Dissemination Agent, as applicable), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, the Special Tax Bonds or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the Bonds in the manner provided in the Authority Indenture for amendments to the Authority Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information 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. The comparison shall include a 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 in order to provide information to investors to enable them to evaluate the ability of the Authority or the Community Facilities District, as applicable, to meet their obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority or the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority or the Community Facilities District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Authority or such Community Facilities District shall have no obligation under this Disclosure Agreement 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 Authority, the Community Facilities District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee) or 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 Authority, the Community Facilities District, the Trustee or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Authority Indenture or the District Bond Indentures, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority, the Community Facilities District, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Sections 8.02, 8.03, 8.04 and Section 8.06 of the Authority Indenture are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Authority Indenture, and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Authority or the Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the Bonds, the Special Tax Bonds, the Authority, the Community Facilities District or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Trustee under the Authority Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Authority, the Community Facilities District or any other party, apart from the relationship created by the Authority Indenture and this Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds, the Special Tax Bonds, the Authority or the Community Facilities District except in its respective capacities under such agreements. No provision

of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Authority and the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Trustee nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Authority and the Community Facilities District for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Authority and Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Community Facilities District, the Trustee, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Authority or the Community Facilities District:	Poway Unified School District Public Financing Authority 13626 Twin Peaks Road Poway, California 92064-3034 Telephone: 858/679-2517 Telecopier: 858/679-2642 Attention: Deputy Superintendent
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If to the Dissemination Agent:	Dolinka Group, LLC 20 Pacifica, Suite 900 Irvine, California 92618 Telephone: 949/250-8300 Telecopier: 949/250-8301
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If to the Trustee:	Zions First National Bank 550 South Hope Street, Suite 2650 Los Angeles, California 90071 Telephone: 213/593-3152 Telecopier: 213/593-3160
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If to the  
Participating  
Underwriter: Stone & Youngberg LLC  
One Ferry Building  
San Francisco, California 94111  
Telephone: 415/445-2300  
Telecopier: 415/445-2395  
Attention: Municipal Research Department

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

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

Section 16. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

**IN WITNESS WHEREOF**, the parties hereto have executed this Disclosure Agreement as of the date first above written.

POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY ON BEHALF OF ITSELF AND POWAY UNIFIED SCHOOL DISTRICT ON BEHALF OF THE POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES)

By: \_\_\_\_\_  
Authorized Officer

ZIONS FIRST NATIONAL BANK,  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

DOLINKA GROUP, LLC,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

[EXECUTION PAGE OF CONTINUING DISCLOSURE AGREEMENT]

**EXHIBIT A**

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Poway Unified School District Public Financing Authority  
Name of Bond Issue: Poway Unified School District Public Financing Authority 2009 Revenue Bonds  
Date of Issuance: July 2, 2009

NOTICE IS HEREBY GIVEN that Poway Unified School District Public Financing Authority [Community Facilities District No. 11 (StoneBridge Estates)] has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of June 1, 2009, by and among the Poway Unified School District Public Financing Authority, Poway Unified School District, Community Facilities District No. 11 (StoneBridge Estates), Zions First National Bank, as Trustee, and Dolinka Group, LLC, as Dissemination Agent. [\_\_\_\_\_ anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_, 20\_\_

Dolinka Group, LLC, as Dissemination Agent, on behalf of the Poway Unified School District Public Financing Authority, Poway Unified School District and Community Facilities District No. 11 (StoneBridge Estates)

cc: Poway Unified School District Public Financing Authority  
Poway Unified School District  
Community Facilities District No. 11 (StoneBridge Estates)  
Stone & Youngberg LLC  
Zions First National Bank



## APPENDIX F

### PROPOSED FORM OF OPINION OF BOND COUNSEL

Board of Directors  
Poway Unified School District Public Financing Authority  
13626 Twin Peaks Road  
Poway, California 92064

\$8,995,000  
POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY  
2009 REVENUE BONDS

#### FINAL OPINION

Ladies and Gentlemen:

We have acted as bond counsel to the Poway Unified School District Public Financing Authority (the "Authority") in connection with the sale and delivery of the Authority's 2009 Revenue Bonds in the aggregate principal amount of \$8,995,000 (the "2009 Bonds"). The 2009 Bonds are issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (Government Code Section 6584 and following), a resolution adopted by the Board of Directors of the Authority on May 18, 2009 (the "Resolution of Issuance"), and an Indenture of Trust, dated as of June 1, 2009 (the "Indenture"), and entered into by and between the Authority and Zions First National Bank, as trustee. Capitalized terms used herein, but not defined herein, have the meanings ascribed to those terms in the Indenture.

The 2009 Bonds are special, limited obligations of the Authority. The 2009 Bonds are payable solely from and secured by a first lien upon and pledge of the Revenues of the Authority and from certain other amounts on deposit in the funds and accounts created under the Indenture.

We have examined the Indenture, the Resolution of Issuance, the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications, documents and written opinions provided to us by persons believed to be responsible without undertaking to verify such facts by independent investigation. We have also assumed the genuineness of the signatures appearing upon such records, proceedings, certifications, documents and opinions.

We call attention to the fact that the rights and obligations under the 2009 Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California.

We have not been engaged to take, and have not undertaken, any responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the 2009 Bonds and express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

Based upon our examination and subject to the foregoing, we are of the opinion, as of the date hereof, that:

1. The Authority is a joint powers authority duly organized and validly existing under the laws of the State of California and has duly and validly authorized all the acts undertaken by it in connection with the authorization, issuance, sale and delivery of the 2009 Bonds.
2. The Indenture has been duly entered into by the Authority and constitutes a legal, valid and binding limited obligation of the Authority enforceable in accordance with its terms.
3. The Indenture creates valid liens on the funds pledged by the Indenture for the security of and payment on the 2009 Bonds.
4. The 2009 Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the sources provided for in the Indenture.
5. Under existing statutes, regulations, rulings and court decisions, and assuming compliance by the Authority with the aforementioned covenants, the interest on the 2009 Bonds is excluded from gross income for purposes of federal income taxation. Interest on the 2009 Bonds 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 will not be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.
6. Interest on the 2009 Bonds is exempt from State of California personal income tax.

The opinions expressed in paragraph (5) above as to the exclusion from gross income for federal income tax purposes of interest on the 2009 Bonds are subject to the condition that the Authority and Community Facilities District No. 11 comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2009 Bonds to assure that such interest 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 2009 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2009 Bonds. The Authority and Community Facilities District No. 11 each have covenanted to comply with all such requirements. Except as set forth in paragraph (5) above, we express no opinion as to any federal tax consequences related to the 2009 Bonds.

We are admitted to the practice of law only in the State of California and our opinions 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.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the 2009 Bonds terminates upon the issuance of the 2009 Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover matters not directly addressed by such authorities.

Respectfully submitted,

BEST BEST & KRIEGER LLP

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## APPENDIX G

### BOOK-ENTRY-ONLY PROVISIONS

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the Authority which the Authority believes to be reliable, but the Authority, the School District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for 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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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 the 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 requested by an authorized representative of DTC. The deposit of the 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 or 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 Bonds documents. For example, Beneficial Owners of the 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 Trustee 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 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest 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 Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that DTC shall no longer act and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the Book-Entry System with DTC for the Bonds. If the Authority determines to replace DTC with another qualified securities depository, the Authority will prepare or direct the preparation of a new single separate, fully-registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the Bonds will be payable upon surrender thereof at the trust office of the Trustee identified in the Indenture, and (iii) the Bonds will be transferable and exchangeable as provided in the Indenture.

*The Authority and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Indenture. The Authority and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Authority and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.*

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