

**FISCAL YEAR 2003-04
ADMINISTRATION REPORT
FOR
IMPROVEMENT AREA B
OF
COMMUNITY FACILITIES DISTRICT NO. 10
OF
POWAY UNIFIED SCHOOL DISTRICT**

June 18, 2003

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ADMINISTRATION REPORT
FOR
IMPROVEMENT AREA B
OF
COMMUNITY FACILITIES DISTRICT No. 10**

PREPARED FOR

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INTRODUCTION

This Administration Report ("Report") provides an analysis of the financial and administrative obligations of Improvement Area ("IA") B of Community Facilities District ("CFD") No. 10 of the Poway Unified School District ("District") resulting from the sale of the IA B Special Tax Bonds ("IA B Bonds") issued in October of 2001 in the amount of \$6,345,000. All capitalized terms herein are used as defined in the Rate and Method of Apportionment ("RMA") and the Bond Indenture ("Indenture") for IA B of CFD No. 10.

The IA B Bonds are secured and repaid through the annual levy and collection of Special Taxes from all property subject to the Annual Special Tax within IA B of CFD No. 10. In calculating the Annual Special Tax Requirement for Fiscal Year 2003-04, the Report describes (i) the financial obligations of the current Fiscal Year, (ii) the financial obligations of IA B of CFD No. 10 for Fiscal Year 2003-04, and (iii) the amount of new development which has occurred within the boundaries of IA B of CFD No. 10.

The Report is organized into the following sections:

Section I

Section I provides a description of the Annual Special Tax levy for Fiscal Year 2002-03, including any delinquent Annual Special Taxes.

Section II

Section II examines the financial activity in the funds and accounts established pursuant to the Indenture between State Street Bank and Trust Company of California, N.A. ("Fiscal Agent") and the District. A Fiscal Year summary is provided which lists all disbursements, Annual Special Tax receipts, and interest earnings.

Section III

Section III calculates the Annual Special Tax Requirement based on the financial obligations of IA B of CFD No. 10 for Fiscal Year 2003-04.

Section IV

Section IV provides (i) a description of the Special Tax classifications and (ii) an update of the development which has occurred in IA B of CFD No. 10.

Section V

Section V describes the Annual Special Tax rates and reviews the methodology used to apportion the Annual Special Tax Requirement between Developed Property and Undeveloped Property.

I. ANNUAL SPECIAL TAX LEVY FOR FISCAL YEAR 2002-03

The aggregate Annual Special Tax levy for Fiscal Year 2002-03 equaled \$407,464.38. Special Taxes were levied on Developed Property and Undeveloped Property in Zones 1, 2, and 3. A summary of the levy for Fiscal Year 2002-03 is shown in Table 1.

TABLE 1

**ANNUAL SPECIAL TAX RATES AND LEVY
OF FISCAL YEAR 2002-03**

Zone	Land Use	Building Square Feet	Number of Unit/Acres	Annual Special Tax Rate	Total Special Taxes
1	Attached/Detached Units	≤ 3,600	1	2,517.34	\$2,517.34
1	Attached/Detached Units	3,601 – 3,900	3	\$2,678.60	\$8,035.80
1	Attached/Detached Units	> 3,900	52	\$2,740.02	\$142,481.04
1	Undeveloped	NA	2.22	\$7,039.49	\$15,627.66
2	Attached/Detached Units	≤ 2,600	0	\$1,396.24	\$0.00
2	Attached/Detached Units	2,601 – 3,000	1	\$1,634.28	\$1,634.28
2	Attached/Detached Units	> 3,000	45	\$1,772.50	\$79,762.50
2	Undeveloped	NA	3.39	\$6,601.75	\$22,353.52
3	Attached/Detached Units	≤ 2,450	0	\$1,388.56	\$0.00
3	Attached/Detached Units	2,451 – 2,650	20	\$1,457.68	\$29,153.60
3	Attached/Detached Units	> 2,650	46	\$1,572.86	\$72,351.56
3	Undeveloped	NA	5.704	\$5,881.32	\$33,547.08
Total	NA	NA	NA	NA	\$407,464.38

David Taussig & Associates, Inc. ("DTA") has received delinquency information from the County of San Diego ("County") for the first and second installments of Fiscal Year 2002-03. For the Fiscal Year 2002-03, \$13,510.15 in Special Taxes were delinquent, yielding a delinquency rate of 3.31 percent. DTA has concluded that IA B of CFD No. 10 will be able to meet its remaining obligations for Fiscal Year 2002-03.

II. FUNDS AND ACCOUNTS

The Indenture established nine (9) funds for IA B of CFD No. 10. They are the Administrative Expense Fund, Bond Fund, Cost of Issuance Fund, Improvement Fund, Rebate Fund, Reserve Fund, Redemption Fund, Letter of Credit Fund and Special Tax Fund. In addition, within the Bond Fund, an Interest Account, a Principal Account, and a Prepayments Account were created. Additionally, within the Interest Account, a Capitalized Interest Subaccount was created.

All receipts from the collection of Annual Special Taxes for IA B of CFD No. 10 are deposited in the Special Tax Fund, which is administered by the Fiscal Agent. Pursuant to the Indenture, the Fiscal Agent transfers the Annual Special Tax receipts to the funds in the amount and priority set forth below.

1. **Administrative Expense Fund** – an amount equal to the Administration Expense Requirement of IA B of CFD No. 10 for that Fiscal Year;
2. **Bond Fund** – an amount taking into account any amounts then on deposit sufficient to meet the principal, premium, if any, and interest due on the next interest payment date;
3. **Reserve Fund** – any amount, taking into account any amounts then on deposit that may be necessary to replenish this account to the Reserve Requirement;
4. **Rebate Fund** – an amount, requested in writing by the District to be used to pay rebate to the United States government; and
5. **Administrative Expense Fund** – any additional amount needed to defray the costs of administering IA E of CFD No. 10 in excess of the Administrative Expense Requirement.

Any monies remaining in the Special Tax Fund after each of the above transfers are made shall remain on deposit in the Special Tax Fund. However, after such time as the levy of Special Taxes on Developer property exceeds the Annual Special Tax Requirement, then excess funds shall be paid to the District to be used for school facilities.

The Reserve Requirement is an amount equal to the lesser of (i) ten percent (10%) of the original proceeds of the Bonds, (ii) Maximum Annual Debt Service on the Bonds, or (iii) one hundred and twenty-five percent (125%) of the average annual debt service on the Bonds. As of the date of this report, the Reserve Requirement was \$618,309.79.

A. Sources and Uses of Funds

Sources of funds for IA B of CFD No. 10 during the period of July 1, 2002, through May 1, 2003, totaled \$327,224.75. This amount consisted of \$315,185.48 in Special Tax receipts and \$12,039.27 in interest earnings. Table 2 shows the interest earnings for each fund and account of IA B of CFD 10 for the period stated above.

TABLE 2

INTEREST EARNINGS

Funds and Accounts	Interest Earnings
Special Tax Fund	\$362.74
Reserve Fund	\$8,158.68
Bond Fund	\$0.00
Interest Account	\$0.00
Principle Account	\$0.00
Capitalized Interest Subaccount	\$682.24
Improvement Fund	\$2,486.03
Redemption Fund	\$0.00
Rebate Fund	\$0.00
Administrative Expense Fund	\$349.58
Letter of Credit Fund	\$0.00

Total uses of funds for Fiscal Year 2002-03 was \$1,221,915.43. Of this amount, \$377,417.50 in interest was paid to bondholders, \$823,396.12 was used to construct facilities, and \$21,101.81 was paid in legal/consulting/professional fees.

A detailed analysis of all transactions within the funds and accounts for Fiscal Year 2002-03 is included as Exhibit A.

B. Account Balances

The balances as of May 1, 2003, in the funds and accounts established pursuant to the Indenture are shown in Table 3.

TABLE 3

**FUND AND ACCOUNT BALANCES
AS OF MAY 1, 2003**

Funds and Accounts	Balance
Special Tax Fund	\$127,073.35
Reserve Fund *	\$620,395.92
Bond Fund	\$0.00
Interest Account	\$0.00
Principle Account	\$0.00
Capitalized Interest Subaccount	\$0.00
Improvement Fund	\$33.91
Redemption Fund	\$0.00
Rebate Fund	\$0.00
Administrative Expense Fund	\$27,377.93
Letter of Credit Fund	\$0.00
* The Reserve Fund shows the balance based on cost basis which is below the Reserve Requirement. However, the market value of the Reserve Fund (not shown) is above the Reserve Requirement.	

III. ANNUAL SPECIAL TAX REQUIREMENT FOR FISCAL YEAR 2003-04

The Annual Special Tax Requirement of IA B of CFD No. 10 for Fiscal Year 2003-04 is equal to \$466,992.12. This amount represents (i) interest and principal payments due to bondholders in calendar year 2004, (ii) anticipated Administrative Expenses for Fiscal Year 2003-04 and (iii) funds for School Facilities. Table 4 shows the calculation of the Annual Special Tax Requirement of IA B of CFD No. 10 for Fiscal Year 2003-04.

TABLE 4

**ANNUAL SPECIAL TAX REQUIREMENT
FOR FISCAL YEAR 2003-04**

FY 2002-03 Current and Expected Funds		\$207,973.35
Special Tax Fund Balance (5/30/03)	\$204,357.14	
Reserve Fund Excess (5/28/03)	\$2,086.21	
Expected Special Tax Receipts	\$1,530.00	
FY 2002-03 Remaining Obligations		\$203,708.75
Interest Payment Due September 1, 2003	\$188,709.00	
Remaining Administrative Expense Budget FY 2002-03	\$15,000.00	
<i>FY 2002-03 Surplus/(Draw on Reserve)</i>		<i>\$4,264.60</i>
FY 2003-04 Uses of Funds		\$471,256.72
Interest Payment Due March 1, 2004	\$188,708.75	
Interest Payment Due September 1, 2004	\$188,708.75	
Principal Payment Due September 1, 2004	\$10,000.00	
Administrative Expense Budget for Fiscal Year 2003-04	\$30,000.00	
Direct Construction	\$53,839.22	
<i>Annual Special Tax Requirement FY 2003-04</i>		<i>\$466,992.12</i>

IV. SPECIAL TAX CLASSIFICATIONS AND DEVELOPMENT UPDATE

IA B of CFD No. 10 encompasses approximately 37.15 gross acres of land within the City of San Diego ("City"). IA B of CFD No. 10 includes three (3) subdivisions encompassing 235 Lots.

A. Special Tax Classifications

Each Fiscal Year, the District calculates the Annual Special Taxes to be levied against Taxable Property within IA B of CFD No. 10. The RMA defines two (2) categories of Taxable Property, "Developed Property" and "Undeveloped Property". Developed Property and Undeveloped Property is in turn divided into three (3) separate Zones. Each Zone contains three (3) tax classes for Developed Property which vary with Unit size. The Developed Property classifications are shown in Table 5.

TABLE 5

SPECIAL TAX CLASSIFICATIONS OF DEVELOPED PROPERTY

Zone	Land Use	Building Square Footage
1	Detached/Attached Unit	≤ 3,600
1	Detached/Attached Unit	3,601 – 3,900
1	Detached/Attached Unit	> 3,900
2	Detached/Attached Unit	≤ 2,600
2	Detached/Attached Unit	2,601 – 3,000
2	Detached/Attached Unit	> 3,000
3	Detached/Attached Unit	≤ 2,450
3	Detached/Attached Unit	2,451 – 2,650
3	Detached/Attached Unit	> 2,650

Developed Property is distinguished from Undeveloped Property by the issuance of a building permit. Specifically, Developed Property means, for any Fiscal Year, all Assessor's Parcels in IA B of CFD No. 10 for which a building permit has been issued as of May 1 of the previous Fiscal Year provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year and that such Assessor's Parcels are associated with a Lot. For example, all Assessor's Parcels in IA B of CFD No. 10 for which a building permit was issued as of May 1, 2003, will be classified as Developed Property in Fiscal Year 2003-04.

B. Development Update

As of May 1, 2003, the City had issued building permits for 235 Units. Accordingly, IAB of CFD No. 10 is completely built-out as of Fiscal Year 2003-04. Table 6 lists the status of Developed Property in IA B of CFD No. 10 by Special Tax class for Fiscal Year 2003-04.

TABLE 6

STATUS OF DEVELOPED PROPERTY

Zone	Building Square Footage	Number of Units
1	≤ 3,600	1 Units
1	3,601 – 3,900	3 Units
1	> 3,900	63 Units
2	≤ 2,600	0 Units
2	2,601 – 3,000	3 Units
2	> 3,000	68 Units
3	≤ 2,450	0 Units
3	2,451 – 2,650	29 Units
3	> 2,600	68 Units

V. METHOD OF APPORTIONMENT

Section F of the RMA apportions the Annual Special Tax Requirement to the Taxable Property of IA B of CFD No. 10 in a three (3) step process.

The first step states that the Annual Special Tax shall be levied against each parcel of Taxable Developed Property at the Assigned Annual Special Tax rate applicable to such Assessor's Parcel. If the Special Taxes raised pursuant to the first step are less than the Annual Special Tax Requirement, then the second step is applied. The second step states that the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax rate applicable to such Assessor's Parcel. If the Annual Special Taxes raised pursuant to the first two steps are less than the Annual Special Tax Requirement, then the third step is applied. This step states that the Annual Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is the Backup Annual Special Tax shall be increased Proportionately from the Assigned Annual Special Tax Rate up to the Backup Annual Special Tax rate in order to satisfy the Annual Special Tax Requirement.

Application of the first step yields sufficient Special Taxes to satisfy the Annual Special Tax Requirement for Fiscal Year 2003-04. The Annual Special Tax rates of IA B of CFD No. 10 for Fiscal Year 2003-04 are shown in Table 7. The Annual Special Tax roll, which lists the actual Annual Special Tax levied against each Assessor's Parcel, is included as Exhibit B.

TABLE 7

**ANNUAL SPECIAL TAX RATES
FOR FISCAL YEAR 2003-04**

Zone	Taxable Property	Building Square Footage	FY 2003-04 Special Tax
1	Detached/Attached Unit	≤ 3,600	\$2,567.70 per Unit
1	Detached/Attached Unit	3,601 – 3,900	\$2,732.16 per Unit
1	Detached/Attached Unit	> 3,900	\$2,794.82 per Unit
2	Detached/Attached Unit	≤ 2,600	\$1,424.16 per Unit
2	Detached/Attached Unit	2,601 – 3,000	\$1,666.96 per Unit
2	Detached/Attached Unit	> 3,000	\$1,807.96 per Unit
3	Detached/Attached Unit	≤ 2,450	\$1,416.34 per Unit
3	Detached/Attached Unit	2,451 – 2,650	\$1,486.84 per Unit
3	Detached/Attached Unit	> 2,600	\$1,604.32 per Unit

EXHIBIT A

**SUMMARY OF TRANSACTIONS WITHIN FUNDS AND ACCOUNTS
FISCAL YEAR 2002-03**

EXHIBIT B

**ANNUAL SPECIAL TAX ROLL
FISCAL YEAR 2003-04**