

*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 2006 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, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS — Tax Exemption" herein.*

**\$51,515,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14**  
**(DEL SUR)**  
**2006 SPECIAL TAX BONDS**

**\$51,495,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14**  
**(DEL SUR)**  
**IMPROVEMENT AREA A**  
**2006 SPECIAL TAX BONDS**

**Dated: Date of Delivery**

**Due: September 1, as shown below**

The Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds (the "2006 CFD Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Community Facilities District Bond Indenture (the "CFD Bond Indenture"), dated as of May 1, 2006, by and between the Community Facilities District No. 14 (Del Sur) of the Poway Unified School District (the "Community Facilities District") and Zions First National Bank, as fiscal agent (the "Fiscal Agent"). The Improvement Area A 2006 Special Tax Bonds (the "2006 Improvement Area A Bonds" and together with the 2006 CFD Bonds, the "2006 Bonds") are being issued under the Act and the Improvement Area A Bond Indenture, dated as of May 1, 2006 (the "Improvement Area A Bond Indenture" and together with the CFD Bond Indenture, the "Bond Indentures"), by and between the Community Facilities District and the Fiscal Agent. The 2006 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within the Community Facilities District and Improvement Area A, respectively, according to the Rates and Methods of Apportionment of Special Tax approved by the qualified electors of the Community Facilities District and Improvement Area A and by the Board of Education of the Poway Unified School District (the "School District"), acting as the Legislative Body of the Community Facilities District.

The 2006 CFD Bonds are being issued to provide for the cost to (i) finance, either directly or indirectly, the acquisition and construction of certain school facilities (the "School Facilities"), (ii) to establish a reserve fund for the 2006 CFD Bonds, (iii) to fund capitalized interest on the 2006 CFD Bonds through September 1, 2007, and Administrative Expenses, and (iv) to pay the costs of issuing the 2006 CFD Bonds. The 2006 Improvement Area A Bonds are being issued to provide for the cost to (i) finance, either directly or indirectly, the acquisition and construction of certain public improvements of the other public agencies (the "Infrastructure Improvements"), (ii) to fund a separate reserve fund for the 2006 Improvement Area A Bonds, (iii) to pay the costs of issuing the 2006 Improvement Area A Bonds, and (iv) in the case of the 2006 Improvement Area A Bonds, to pay interest on the 2006 Bonds through September 1, 2007, and Administrative Expenses. See "ESTIMATED SOURCES AND USES OF FUNDS" and "SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2006 BONDS" herein.

Interest on the 2006 Bonds is payable on September 1, 2006 and semiannually thereafter on each March 1 and September 1. The 2006 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2006 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2006 Bonds as described herein under "THE 2006 Bonds — Book-Entry and DTC."

*The 2006 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein.*

**THE 2006 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2006 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2006 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2006 BONDS. OTHER THAN THE COMMUNITY FACILITIES DISTRICT SPECIAL TAXES AND IMPROVEMENT AREA A SPECIAL TAXES, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2006 BONDS. THE 2006 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE COMMUNITY FACILITIES DISTRICT SPECIAL TAXES AND IMPROVEMENT AREA A SPECIAL TAXES, AS MORE FULLY DESCRIBED HEREIN.**

*This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2006 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2006 Bonds.*

The 2006 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Best Best & Krieger LLP and by McFarlin & Anderson LLP, Lake Forest, California, Disclosure Counsel. It is anticipated that the 2006 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about June 22, 2006.

**STONE & YOUNGBERG LLC**

## MATURITY SCHEDULE

**\$51,515,000**

### POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR) \$7,280,000 SERIAL BONDS

#### 2006 SPECIAL TAX BONDS

Base CUSIP® No. 738855†

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield/ Price</u>	<u>CUSIP® No.†</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield/ Price</u>	<u>CUSIP® No.†</u>
2008	\$130,000	4.00%	100%	QF5	2014	\$ 560,000	4.60%	100%	QM0
2009	190,000	4.10	100	QG3	2015	645,000	4.70	100	QN8
2010	255,000	4.20	100	QH1	2016	740,000	4.80	100	QP3
2011	325,000	4.30	100	QJ7	2019	1,065,000	5.00	100	QS7
2012	395,000	4.40	100	QK4	2020	1,185,000	5.00	5.05	QT5
2013	475,000	4.50	100	QL2	2021	1,315,000	5.10	100	QU2

\$1,790,000 4.90% 2006 CFD Term Bonds due September 1, 2018 Yield 4.93% CUSIP® No. 738855QR9†  
\$8,850,000 5.125% 2006 CFD Term Bonds due September 1, 2026 Yield 5.16% CUSIP® No. 738855QV0†  
\$33,595,000 5.25% 2006 CFD Term Bonds due September 1, 2036 Yield 5.26% CUSIP® No. 738855QW8†

## MATURITY SCHEDULE

**\$51,495,000**

### POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR) \$7,280,000 SERIAL BONDS

#### IMPROVEMENT AREA A 2006 SPECIAL TAX BONDS

Base CUSIP® No. 738855†

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield/ Price</u>	<u>CUSIP® No.†</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield/ Price</u>	<u>CUSIP® No.†</u>
2008	\$130,000	4.00%	100%	QX6	2014	\$ 560,000	4.60%	100%	RD9
2009	190,000	4.10	100	QY4	2015	645,000	4.70	100	RE7
2010	255,000	4.20	100	QZ1	2016	740,000	4.80	100	RF4
2011	325,000	4.30	100	RA5	2019	1,065,000	5.00	100	RJ6
2012	395,000	4.40	100	RB3	2020	1,185,000	5.00	5.05	RK3
2013	475,000	4.50	100	RC1	2021	1,315,000	5.10	100	RL1

\$1,790,000 4.90% Improvement Area A 2006 Term Bonds due September 1, 2018 Yield 4.93% CUSIP® No. 738855RH0†  
\$8,850,000 5.125% Improvement Area A 2006 Term Bonds due September 1, 2026 Yield 5.16% CUSIP® No. 738855RM9†  
\$33,575,000 5.25% Improvement Area A 2006 Term Bonds due September 1, 2036 Yield 5.26% CUSIP® No. 738855RN7†

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**POWAY UNIFIED SCHOOL DISTRICT**

**BOARD OF EDUCATION**

Penny Ranftle, *President*  
Jeff Mangum, *Vice President*  
Linda Vanderveen, *Clerk of the Board*  
Steve McMillan, *Member*  
Andy Patapow, *Member*

**DISTRICT CHIEF ADMINISTRATORS**

Donald A. Phillips, Ed.D., *Superintendent*  
John Collins, *Deputy Superintendent*

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**SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.  
Newport Beach, California

**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 2006 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 2006 Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Community Facilities District in any press release and in any oral statement made with the approval of an authorized officer of 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 Community Facilities District or any other entity described or referenced herein since the date hereof. The Community Facilities District does 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 Community Facilities District to give any information or to make any representations in connection with the offer or sale of the 2006 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 Community Facilities District 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 2006 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 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 2006 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 2006 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 2006 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2006 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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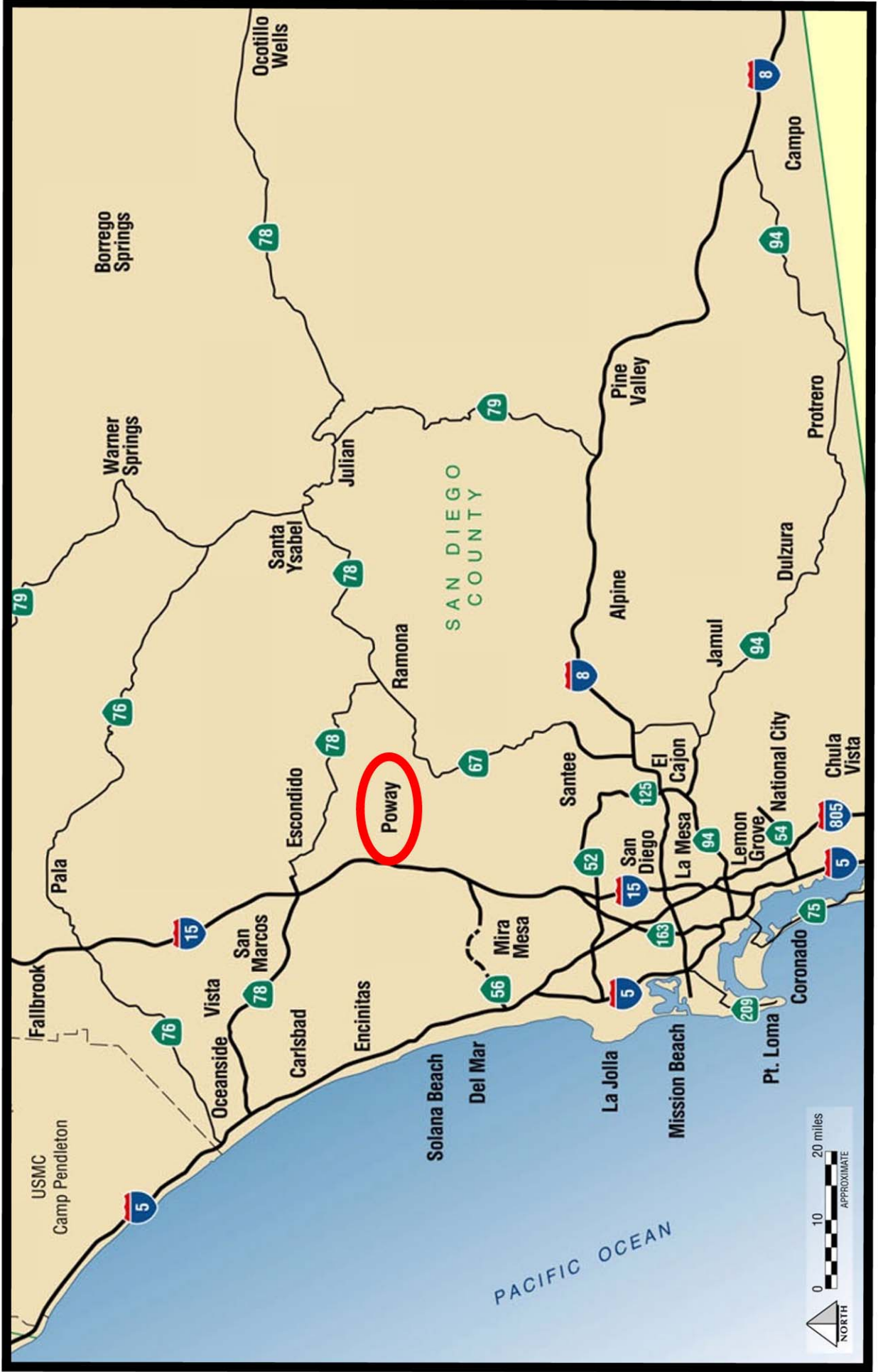
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# Poway Unified School District (San Diego County, California)

## Regional Location Map





Pacific Ocean

# POWAY UNIFIED SCHOOL DISTRICT

## CFD No. 14 (Del Sur)



Note: Boundaries of CFD 14 and  
Improvemet Area A are coterminous

Flight Date: 03/30/06



## OFFICIAL STATEMENT

**\$51,515,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14**  
**(DEL SUR)**  
**2006 SPECIAL TAX BONDS**

**\$51,495,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14**  
**(DEL SUR)**  
**IMPROVEMENT AREA A**  
**2006 SPECIAL TAX 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 2006 Bonds to potential investors is made only by means of the entire Official Statement.*

#### General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Poway Unified School District Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds (the “2006 CFD Bonds”) and Improvement Area A 2006 Special Tax Bonds (the “2006 Improvement Area A Bonds” and together with the 2006 CFD Bonds, the “2006 Bonds”).

The 2006 CFD Bonds are being issued under the Mello-Roos Community Facilities Act of 1982 (as defined herein) and the Community Facilities District Bond Indenture, dated as of May 1, 2006 (the “CFD Bond Indenture”), by and between the Community Facilities District No. 14 (Del Sur) of the Poway Unified School District (the “Community Facilities District”) and Zions First National Bank, a national banking association, as fiscal agent (the “Fiscal Agent”).

The 2006 Improvement Area A Bonds are being issued under the Act and the Improvement Area A Bond Indenture, dated as of May 1, 2006 (the “Improvement Area A Bond Indenture” and together with the CFD Bond Indenture, the “Bond Indentures”), by and between the Community Facilities District and the Fiscal Agent. See “THE 2006 BONDS – Authority for Issuance” herein.

The Community Facilities District may issue Community Facilities District Bonds or Improvement Area A Bonds on a parity with the 2006 CFD Bonds or the 2006 Improvement Area A Bonds, respectively, for refunding purposes only.

#### The School District

The Poway Unified School District (the “School District”) is located north of the City of San Diego (the “City”). The School District was originally formed in 1962. The School District currently covers approximately 100 square miles in the central portion of the County of San Diego (the “County”) and includes the City of Poway, portions of the City of San Diego and unincorporated areas of 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-three (23) elementary schools, six (6) middle schools, four (4) comprehensive high schools, one (1) continuation high school and one (1) adult school. The School District estimates it has approximately 32,670 students enrolled during Fiscal Year 2005-06. See APPENDIX A – “General Information About the Poway Unified School District” herein.

#### The Community Facilities District

The Community Facilities District was formed and established by the School District on January 17, 2006 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. At a landowner election held on January 17, 2006 the qualified electors of the Community Facilities District, by more than a two-thirds vote, authorized the Community Facilities District to incur a bonded indebtedness of the Community Facilities District to finance the acquisition and construction of certain school facilities (the “School Facilities”) and

approved the levy of special taxes. The qualified electors of the Community Facilities District authorized bonded indebtedness in the aggregate not-to-exceed principal amount of \$75,000,000 and approved the levy of annual special taxes (the “Community Facilities District Special Taxes”) in the Community Facilities District pursuant to a rate and method of apportionment (the “Community Facilities District Rate and Method”).

In connection with the formation of the Community Facilities District, the owners of property within the Community Facilities District requested the School District to form a separate improvement area (“Improvement Area A”) which is co-terminus with the Community Facilities District and to authorize the issuance of bonds to finance road, water, sewer, drainage, fire station, park, public library, additional school facilities and other public facilities (the “Infrastructure Improvements”) in the aggregate principal amount of approximately \$75,000,000, such amount to be payable from special taxes levied pursuant to a separate rate and method of apportionment of special tax with respect to Improvement Area A of the Community Facilities District. The Community Facilities District levies a separate special tax pursuant to the Community Facilities District Rate and Method and will levy a separate special tax pursuant to the Improvement Area A Rate and Method of Apportionment of Special Tax (the “Improvement Area A Rate and Method,” and together with the Community Facilities District Rate and Method, each a “Rate and Method” and together the “Rates and Methods”). No cross-collateralization exists between the 2006 CFD Bonds and 2006 Improvement Area A Bonds. See “SECURITY FOR THE 2006 BONDS – Special Taxes” and “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Black Mountain Ranch LLC and the Merchant Builders.”

The cost of the School Facilities funded by the Community Facilities District is expected to exceed the cost of the Infrastructure Improvements funded by Improvement Area A. The School Facilities will be financed through the levy of an annual Special Tax on Developed Property and Undeveloped Property as set forth in the Community Facilities District Rate and Method. See “SECURITY FOR THE 2006 BONDS – Special Taxes – *Community Facilities District Rate and Method.*” The School District will use such Special Taxes and proceeds of the 2006 Bonds for the acquisition, construction, rehabilitation and improvement of the School Facilities. The 2006 CFD Bonds are secured by or payable from the Special Tax levied to finance the School Facilities. The 2006 CFD Bonds will only finance School Facilities and will not finance Infrastructure Improvements. The 2006 CFD Bonds will not be secured by or payable from the special tax to be levied for Improvement Area A to finance the Infrastructure Improvements.

A portion of the costs of the Infrastructure Improvements will be financed through the levy of an annual Special Tax on Developed Property and Undeveloped Property as set forth in the Improvement Area A Rate and Method. See “SECURITY FOR THE 2006 BONDS – Special Taxes – *Improvement Area A Rate and Method.*” The Community Facilities District will use such Special Taxes levied pursuant to the Improvement Area A Rate and Method and proceeds of the 2006 Improvement Area A Bonds for the acquisition, construction, rehabilitation and improvement of the Infrastructure Improvements. The 2006 Improvement Area A Bonds are secured by or payable from the Special Tax levied pursuant to the Improvement Area A Rate and Method to finance the Infrastructure Improvements. The 2006 Improvement Area A Bonds will only finance Infrastructure Improvements. The 2006 Improvement Area A Bonds will not be secured by or payable from the Community Facilities District Special Tax authorized to be levied to finance the School Facilities.

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 west of Interstate 15, north of Rancho Peñasquitos, and east of San Dieguito Road, situated off State Route 56 between Interstate 5 and Interstate 15, seven miles from the coast and 20 miles from downtown San Diego. The Community Facilities District lies within the area of the new master-planned community known as “Del Sur” and is part of the area known as “Black Mountain Ranch.” The Community Facilities District is comprised of approximately 142.63 net residential acres expected to be developed with approximately 1,148 residential units and a school site in an area of the Black Mountain Ranch referred to herein as the western area of the “North Village.”

The property within the Community Facilities District is primarily owned by Black Mountain Ranch LLC, a California limited liability company (“Black Mountain Ranch LLC”) which has sold, or entered into agreements for the sale of, most of the property within the Community Facilities District to Merchant Builders (as defined below).

The Community Facilities District is expected to be developed with thirteen projects, two with attached homes and eleven with single-family detached homes that are orientated primarily towards the move-up housing market segment. There are no affordable sites in the Community Facilities District. At build-out, the Community Facilities District is expected to be comprised of approximately 1,148 residential units and a school site. Approximately 943 units are expected to be Detached Units, approximately 80 units are expected to be Attached Units (duplexes), and approximately 125 units are expected to be condominiums.

The various merchant builders currently anticipated to be involved in development are each individually referred to as a “Merchant Builder” and collectively referred to as the “Merchant Builders.” In many cases, the landowner and/or Merchant Builder is a separate limited liability company or other entity. See the respective Merchant Builder sections in “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP” herein for a description of ownership, legal entities and proposed projects. Commonly recognized builder names affiliated with the Merchant Builders include: Davidson Homebuilders LLC,<sup>1</sup> Laing Luxury, Shea Homes Limited Partnership, Standard Pacific Homes (a d/b/a of Standard Pacific Corp. (“Standard Pacific Corp.”)) and William Lyon Homes, Inc. See “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Black Mountain Ranch LLC and the Merchant Builders”.

### **Sources of Payment for the 2006 Bonds**

The 2006 Bonds are secured by and payable from a first pledge of “Net Special Tax Revenues” of the Community Facilities District and Improvement Area A, respectively, which is defined in each Bond Indenture as proceeds of the Community Facilities District Special Taxes or Improvement Area A Special Taxes, as applicable, levied and received by the Community Facilities District, including the net amounts (the “Delinquency Proceeds”) collected from the redemption of delinquent Community Facilities District Special Taxes or Improvement Area A Special Taxes, respectively, including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the applicable Special Taxes resulting from the delinquency in the payment of the applicable Special Taxes due and payable on such property, and net of the County, foreclosure counsel and other fees and expenses incurred by or on behalf of the Community Facilities District or the School District in undertaking such foreclosure proceedings, less Administrative Expense Requirement (as defined in the applicable Bond Indenture) not to exceed approximately \$50,000 with respect to the 2006 CFD Bonds for Fiscal Year 2006-07 and \$50,000 with respect to 2006 Improvement Area A Bonds for Fiscal Year 2006-07 and subject in each case to escalation by 2.00% each year. “Special Taxes” are defined in each Bond Indenture as the proceeds of the special taxes levied and received by the Community Facilities District within the Community Facilities District or Improvement Area A, as applicable and the “Delinquency Proceeds” as described above.

*The 2006 CFD Bonds and the 2006 Improvement Area A Bonds are separately secured under their respective Bond Indenture, and the Special Taxes securing one series of Bonds are not available for or pledged to the payment of debt service on or the replenishment of the reserve fund established for the other series of Bonds.*

See “SECURITY FOR THE 2006 BONDS.”

The Community Facilities District has also covenanted in the Bond Indentures to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant, see “SECURITY FOR THE 2006 BONDS – Proceeds of Foreclosure Sales.”

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<sup>1</sup> The Appraisal referenced the commonly referred to builder name of Davidson Communities LLC. The Merchant Builder for the Kensington at Del Sur project in the Community Facilities District is Davidson Homebuilders LLC, an affiliate of Davidson Communities LLC which is under the same management as Davidson Communities LLC.

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2006 BONDS. OTHER THAN THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT OR IMPROVEMENT AREA A, AS APPLICABLE, NO TAXES ARE PLEDGED TO THE PAYMENT OF 2006 BONDS. THE 2006 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT AND IMPROVEMENT AREA A, AS APPLICABLE, AS MORE FULLY DESCRIBED HEREIN.**

**Appraisal**

An MAI appraisal of the land and existing improvements for the development within the Community Facilities District dated April 21, 2006 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the 2006 Bonds. The purpose of the appraisal was to estimate the market value of each of the separate tracts in the Community Facilities District. The taxable properties include the completed unsold homes, the homes under construction and vacant residential land and exclude all commercial land. In all, the taxable properties include approximately 1,148 residential units, of which as of April 1, 2006, there were 4 completed unsold model homes, 15 model homes under construction and 138 production homes. No units have closed escrow. There are approximately 991 lots on which production homes have not yet commenced construction.

The Appraisal is based on certain assumptions and limiting conditions. Subject to these assumptions and limiting conditions, as of April 1, 2006, the Appraiser estimated that the market value of the property within the Community Facilities District, including (subject to the lien of the Special Taxes), completed unsold homes, homes under construction, and vacant residential land, was as follows:

<u>Merchant Builder<sup>(1)</sup></u>	<u>Units</u>	<u>Tract Name</u>	<u>Market Value</u>
Standard Pacific Corp.	69	Bridgewalk at Del Sur	\$22,300,000
Shea Homes Limited Partnership	78	Madeira at Del Sur	31,750,000
William Lyon Homes, Inc.	83	Alcala at Del Sur	32,500,000
Standard Pacific Corp.	38	Cassero at Del Sur	13,800,000
Standard Pacific Corp.	26	Cabrillo at Del Sur	10,250,000
Davidson Homebuilders LLC	<u>70</u>	Kensington at Del Sur	<u>28,150,000</u>
<i>Subtotal</i>	364		\$138,750,000
Black Mountain Ranch LLC	<u>784</u>		<u>191,750,000</u>
<i>Total</i>	1,148		\$330,500,000

<sup>(1)</sup> For convenience of reference, this table uses common builder names. In many cases, the landowner and/or Merchant Builder is a separate limited liability company or other entity. Black Mountain Ranch LLC has entered into contracts for the sale of additional lots as a continuation of certain of the developments referenced herein or in connection with other projects which have not yet closed escrow to a Merchant Builder. See the respective Merchant Builder sections in "THE DEL SUR PROJECT AND PROPERTY OWNERSHIP- Black Mountain Ranch and the Merchant Builders" for a description of ownership, legal entities and proposed projects.

*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.*

The values are based on the assumption that Black Mountain Ranch LLC will complete the infrastructure in a timely manner such that building permits will be available for development to occur as projected in the absorption conclusions by the Market Absorption Consultant. The Market Absorption Study contains projected absorption of production homes that differ from those of the Developer.



## **Value to Lien Ratio**

The \$330,500,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 3.21 to 1 with respect to the Community Facilities District, calculated with respect to all direct and overlapping tax and assessment debt as presented in Table 6 in the section entitled “COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR) – Direct and Overlapping Debt” as of the estimated date of issuance of the 2006 Bonds.

See “SECURITY FOR THE 2006 BONDS – Special Taxes – *Community Facilities District Rate and Method*,” and “– *Improvement Area A Rate and Method*,” “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Black Mountain Ranch LLC and the Merchant Builders,” “– Direct and Overlapping Debt” and “BONDOWNERS’ RISKS – Appraised Values” herein and APPENDIX C – “Summary Appraisal Report” appended hereto for further information on the Appraisal, for limiting conditions relating to the Appraisal and for information relating to overlapping indebtedness.

## **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 2006 Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the 2006 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS – Tax Exemption” herein.

## **Risk Factors Associated with Purchasing the 2006 Bonds**

Investment in the 2006 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 matters set forth herein, in considering the investment quality of the 2006 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” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Property Ownership” 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 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 fiscal agent for the 2006 Bonds and will perform the functions required of it under the Bond Indentures for the payment of the principal of and interest and any premium on the 2006 Bonds and all activities related to the redemption of the 2006 Bonds. Best Best & Krieger LLP, San Diego, California is serving as Bond Counsel to the Community Facilities District and as Special Counsel to the School District. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the 2006 Bonds. McFarlin & Anderson LLP, Lake Forest, California, is acting as Disclosure Counsel.

The appraisal work was done by Stephen G. White, MAI of Fullerton, California. David Taussig & Associates, Inc., Newport Beach, California, acted as Special Tax Consultant, Administrator and Dissemination Agent to the Community Facilities District. Empire Economics, Inc., Capistrano Beach, California, acted as Market Absorption Consultant.

*Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2006 Bonds.*

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2006 Bonds, certain sections of the Bond Indentures, security for the 2006 Bonds, special risk factors, the Community Facilities District, the School District, Improvement Area A, Black Mountain Ranch LLC's and Merchant Builders' projects, Black Mountain Ranch LLC, the Merchant Builders 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 2006 Bonds, the Bond Indentures, 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 2006 Bonds, the Bond Indenture, 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 Deputy Superintendent of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098. There may be a charge for copying and delivery of any documents.

## **CONTINUING DISCLOSURE**

*The Community Facilities District.* The Community Facilities District has covenanted in the Community Facilities District Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – “Form of Community Facilities District Continuing Disclosure Agreement” (the “Community Facilities District Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2006 Bonds, to provide certain financial information and operating data relating to the Community Facilities District, Improvement Area A and the 2006 Bonds by not later than January 31 in each year commencing on January 31, 2007 (the “Community Facilities District Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or David Taussig & Associates, Inc., as Dissemination Agent on behalf of the Community Facilities District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State repository, if any (collectively, the “Repositories”), with a copy to the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Fiscal Agent and the Underwriter. Any of the required filings under the Community Facilities District Continuing Disclosure Agreement may be made through the “Central Post Office” approved by the Securities Exchange Commission in lieu of filing with the Municipal Securities Rulemaking Board and any State repository. The specific nature of the information to be contained in the Community Facilities District Annual Report or any notice of a material event is set forth in the Community Facilities District Continuing Disclosure Agreement. The covenants of the Community Facilities District in the Community Facilities District 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 Community Facilities District Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indentures, and the sole remedy under the Community Facilities District Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Community Facilities District Continuing Disclosure Agreement will be an action to compel performance.

Neither the School District nor the Community Facilities District has ever failed to comply, in any material respect, with an undertaking under the Rule.

*Black Mountain Ranch LLC.* Black Mountain Ranch LLC covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX G – “Form of Developer Continuing Disclosure Agreements” (the “Developer Continuing Disclosure Agreements”), for the benefit of owners and beneficial owners of the 2006 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing October 1, 2006 (a “Developer Semi-Annual Report”) and to provide notices of the occurrence of certain enumerated material events. Black Mountain Ranch LLC’s obligations under its Developer Continuing Disclosure Agreement terminate upon the occurrence of certain events. See APPENDIX G – “Form of Developer Continuing Disclosure Agreements.” Black Mountain Ranch LLC currently anticipates selling in excess of 80% of the property within Community Facilities District to Merchant Builders by the end of the second quarter of 2007 and anticipates that the initial Developer Semi-Annual Report due October 1, 2006 will be the last report required of it under the terms of the Developer Continuing Disclosure Agreement.

*Standard Pacific Corp.* Standard Pacific Corp. covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX G – “Form of Developer Continuing Disclosure Agreements,” for the benefit of owners and beneficial owners of the 2006 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing October 1, 2006 (a “Developer Semi-Annual Report”) and to provide notices of the occurrence of certain enumerated material events. Standard Pacific Corp.’s obligations under its Developer Continuing Disclosure Agreement terminate upon the occurrence of certain events. See APPENDIX G – “Form of Developer Continuing Disclosure Agreements.”

*Filing of Annual Reports; Black Mountain Ranch LLC Semi-Annual Reports; Standard Pacific Corp. Semi-Annual Reports; Forms of Reports.* The Developer Semi-Annual Reports will be filed by Black Mountain Ranch LLC, Standard Pacific Corp., or the “Dissemination Agent” (as that term is defined in the Developer Continuing Disclosure Agreement), as applicable on behalf of each respective party with the Repositories, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a material event will be filed by Black Mountain Ranch LLC, or by the Dissemination Agent on behalf of the Black Mountain Ranch LLC or Standard Pacific Corp., as applicable, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any of the required filings under the Developer Continuing Disclosure Agreement may be made through the “Central Post Office” approved by the Securities and Exchange Commission in lieu of filing with the Municipal Securities Rulemaking Board and any State repository. The specific nature of the information to be contained in a Developer Semi-Annual Report or the notices of material events is set forth in the Developer Continuing Disclosure Agreement. The covenants of Black Mountain Ranch LLC and Standard Pacific Corp., respectively, in its respective Developer Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; *provided, however*, a default under the Developer Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indenture, and the sole remedy under the Developer Continuing Disclosure Agreement in the event of any failure of Black Mountain Ranch LLC, Standard Pacific Corp. or the Dissemination Agent, as applicable, to comply with each respective Developer Continuing Disclosure Agreement will be an action to compel performance.

Black Mountain Ranch LLC has indicated that it is not aware of any failures to comply in any material respect with an undertaking under the Rule to provide annual or semi-annual reports or notices of material events.

Standard Pacific Corp. has indicated that it is not aware of any failures to comply in any material respect with an undertaking under the Rule to provide annual or semi-annual reports or notices of material events.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2006 Bonds will be deposited into the following respective accounts and funds established by the School District under the Bond Indentures, as follows:

### **2006 CFD Bonds**

#### *Sources*

Principal Amount of 2006 CFD Bonds	\$51,515,000.00
<i>Less:</i> Original Issue Discount	(103,765.00)
<i>Less:</i> Underwriter's Discount	<u>(566,665.00)</u>
<i>Total Sources</i>	\$50,844,569.45

#### *Uses*

Deposit into 2006 CFD Bonds Reserve Fund <sup>(1)</sup>	\$4,600,987.30
Deposit into 2006 CFD Bonds Costs of Issuance Fund <sup>(2)</sup>	404,000.00
Deposit into Capitalized Interest Fund <sup>(3)</sup>	3,161,015.00
Deposit into School Facilities Account of the Improvement Fund	42,628,567.15
Deposit into Administrative Expense Fund	<u>50,000.00</u>
<i>Total Uses</i>	\$50,844,569.45

### **2006 Improvement Area A Bonds**

#### *Sources*

Principal Amount of 2006 Improvement Area A Bonds	\$51,495,000.00
<i>Less:</i> Original Issue Discount	(103,733.75)
<i>Less:</i> Underwriter's Discount	<u>(566,445.00)</u>
<i>Total Sources</i>	\$50,824,821.25

#### *Uses*

Deposit into 2006 Improvement Area A Bonds Reserve Fund <sup>(1)</sup>	\$4,599,096.73
Deposit into 2006 Improvement Area A Bonds Costs of Issuance Fund <sup>(2)</sup>	404,000.00
Deposit into Improvement Area A Improvement Account of the Improvement Fund	42,611,960.77
Deposit into Capitalized Interest Subaccount of the 2006 Improvement Area A Bond Service Fund <sup>(3)</sup>	3,159,763.75
Deposit into Administrative Expense Fund	<u>50,000.00</u>
<i>Total Uses</i>	\$50,824,821.25

<sup>(1)</sup> With respect to the 2006 Bonds, equal to the Reserve Requirement as of the date of delivery of the 2006 CFD Bonds and with respect to 2006 Improvement Area A Bonds, equal to the Reserve Requirement as of the date of delivery of the 2006 Improvement Area A Bonds.

<sup>(2)</sup> Includes, among other things, the fees and expenses of Bond Counsel, the cost of printing the preliminary and final Official Statements, fees and expenses of the Market Absorption Consultant, Fiscal Agent, the cost of the Appraisal, the fees of the Special Tax Consultant, reimbursement to the Developer and the School District and costs incurred in connection with the 2006 Bonds.

<sup>(3)</sup> Represents capitalized interest on the 2006 Bonds through September 1, 2007.



## **SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2006 BONDS**

### **Purpose of the 2006 Bonds**

The Community Facilities District was formed pursuant to a Subarea I Black Mountain Ranch Phase II School Impact Mitigation Agreement entered into as of July 1, 1998, by and between the School District and Black Mountain Ranch L.P., as amended by First Amendment to Subarea I Black Mountain Ranch Phase II School Impact Mitigation Agreement, dated February 18, 2003, by and between the School District and Black Mountain Ranch L.P., as supplemented by a Supplement to Subarea I Black Mountain Ranch Phase II School Impact Mitigation Agreement, dated January 1, 2006, by and between the School District and Black Mountain Ranch L.P. (the "Impact Mitigation Agreement"), in order to finance School Facilities and among other things, provide for the issuance of bonds of Improvement Area A to fund Infrastructure Improvements. See "SECURITY FOR THE 2006 BONDS – Special Taxes – *Improvement Area A Rate and Method*" and "THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Property Ownership" and " – Black Mountain Ranch LLC and the Merchant Builders" herein.

Proceeds of the 2006 CFD Bonds will be used to fund the acquisition of School Facilities and related infrastructure required by the School District as a result of development of the property within the Community Facilities District, including classrooms, multi-purpose, administration and auxiliary space at each school, 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 the acquisition of land for the construction of School Facilities or land or interests in land required to be provided as mitigation of environmental impacts associated with the development of School Facilities.

In addition, Improvement Area A of the Community Facilities District was formed and a Joint Community Facilities Agreement ("JCFA") has been entered into by and between the School District and the City. The JCFA establishes the terms by which Improvement Area A will finance Infrastructure Improvements to be owned by the City ("City Infrastructure Improvements") with respect to Improvement Area A. Additionally, the School District and the California Transportation Department ("CalTrans") have entered into a Joint Powers Agreement (the "Joint Powers Agreement") with respect to Improvement Area A. The Joint Powers Agreement establishes the terms by which the Community Facilities District will finance public improvements to be owned by CalTrans with respect to Improvement Area A.

The JCFA provides for payment of the acquisition price for a City Infrastructure Improvement upon receipt by the Community Facilities District of notification from the City that such City Infrastructure Improvement has been completed and the costs have been approved in accordance with the Reimbursement Agreement to be entered into between the City and Black Mountain Ranch LLC. City representatives have been negotiating with representatives of Black Mountain Ranch LLC the terms of the Reimbursement Agreement. A draft agreement has been reviewed by representatives of the City and Black Mountain Ranch LLC. While there is additional review and discussion required among the parties, and additional revisions to the Reimbursement Agreement may be made, representatives of the City and Black Mountain Ranch LLC have indicated they are not aware of any issues which would preclude finalizing the agreement or result in Black Mountain Ranch LLC not being eligible to be reimbursed for City Infrastructure Improvements with proceeds of the 2006 Improvement Area A Bonds. Approval of the final form of the Reimbursement Agreement is at the discretion of the City Council.

Proceeds of the 2006 Improvement Area A Bonds will be used to fund the acquisition of a portion of the Infrastructure Improvements. The Infrastructure Improvements include the acquisition, planning, construction and/or financing of improvements to be owned by the City and CalTrans. Infrastructure Improvements may include (i) transportation improvements, (ii) park improvements, (iii) fire station improvements, (iv) library improvements, (v) water/sewer improvements, (vi) City and CalTrans Improvements, and (vii) Non-Facilities Benefit Assessment ("FBA") streets and arterials to support School Facilities. City Infrastructure Improvements may include road improvements for Camino Del Sur, Carmel Valley Road, El Camino Real, and Camino del Norte, including wildlife crossings. Camino del Norte will extend east across the northern property boundary. Improvement Area A may also finance School Facilities to the extent revenues of Special Taxes levied in any Fiscal Year on Developed Property within Improvement

Area A are in excess of that required to satisfy the Special Tax requirements for Improvement Area A in that Fiscal Year.

## THE 2006 BONDS

### Authority for Issuance

The 2006 Bonds will be issued pursuant to the Act and the respective Bond Indentures.

### General Provisions

The 2006 CFD Bonds in the aggregate amount of \$51,515,000 and the 2006 Improvement Area A Bonds in the aggregate principal amount of \$51,495,000 will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on September 1, 2006 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2006 Bonds will be issued in fully-registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the 2006 Bonds. Ownership interests in the 2006 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2006 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2006 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2006 Bonds in accordance with the procedures adopted by DTC. See “THE 2006 BONDS – Book-Entry and DTC.”

Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each 2006 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, or (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the date of the 2006 Bonds; *provided, however*, that if at the time of authentication of a 2006 Bond, interest is in default, interest on that 2006 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Interest on the 2006 Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Fiscal Agent mailed by first class mail on the Interest Payment Dates (or on the next Business Day (as defined in the Indenture) following the Interest Payment Date if such Interest Payment Date is not a Business Day) to the registered Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date. Such interest shall be paid by check of the Fiscal Agent mailed to such Bondowner (as defined in the Indenture) at his or her address as it appears on the books of registration maintained by the Fiscal Agent or upon the request in writing prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds by wire transfer in immediately available funds (i) to the DTC (so long as the 2006 Bonds are in book-entry form), or (ii) to an account in the United States of America designated by such Owner. Such instructions shall continue in effect until revoked in writing, or until such 2006 Bonds are transferred to a new Owner. The principal of the 2006 Bonds and any premium on the 2006 Bonds due upon the redemption thereof are payable by check in lawful money of the United States of America upon presentation and surrender of the 2006 Bonds at maturity or the earlier redemption thereof at the Principal Corporate Trust Office of the Fiscal Agent (currently in Los Angeles, California).

## Debt Service Schedule

The following tables present the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

### 2006 CFD BONDS

Year Ending September 1	Principal	Interest <sup>(1)</sup>	Total Debt Service
2006	-	\$ 508,415.00	\$ 508,415.00
2007	-	2,652,600.00	2,652,600.00
2008	\$ 130,000	2,652,600.00	2,782,600.00
2009	190,000	2,647,400.00	2,837,400.00
2010	255,000	2,639,610.00	2,894,610.00
2011	325,000	2,628,900.00	2,953,900.00
2012	395,000	2,614,925.00	3,009,925.00
2013	475,000	2,597,545.00	3,072,545.00
2014	560,000	2,576,170.00	3,136,170.00
2015	645,000	2,550,410.00	3,195,410.00
2016	740,000	2,520,095.00	3,260,095.00
2017	840,000	2,484,575.00	3,324,575.00
2018	950,000	2,443,415.00	3,393,415.00
2019	1,065,000	2,396,865.00	3,461,865.00
2020	1,185,000	2,343,615.00	3,528,615.00
2021	1,315,000	2,284,365.00	3,599,365.00
2022	1,455,000	2,217,300.00	3,672,300.00
2023	1,605,000	2,142,731.26	3,747,731.26
2024	1,760,000	2,060,475.00	3,820,475.00
2025	1,925,000	1,970,275.00	3,895,275.00
2026	2,105,000	1,871,618.76	3,976,618.76
2027	2,290,000	1,763,737.50	4,053,737.50
2028	2,495,000	1,643,512.50	4,138,512.50
2029	2,705,000	1,512,525.00	4,217,525.00
2030	2,935,000	1,370,512.50	4,305,512.50
2031	3,175,000	1,216,425.00	4,391,425.00
2032	3,430,000	1,049,737.50	4,479,737.50
2033	3,695,000	869,662.50	4,564,662.50
2034	3,980,000	675,675.00	4,655,675.00
2035	4,285,000	466,725.00	4,751,725.00
2036	<u>4,605,000</u>	<u>241,762.50</u>	<u>4,846,762.50</u>
Total	\$51,515,000	\$59,614,180.02	\$111,129,180.02

<sup>(1)</sup> Interest is funded from bond proceeds through September 1, 2007.

**2006 IMPROVEMENT AREA A BONDS**

<b>Year Ending September 1</b>	<b>Principal</b>	<b>Interest<sup>(1)</sup></b>	<b>Total Debt Service</b>
2006	-	\$ 508,213.75	\$ 508,213.75
2007	-	2,651,550.00	2,651,550.00
2008	\$130,000	2,651,550.00	2,781,550.00
2009	190,000	2,646,350.00	2,836,350.00
2010	255,000	2,638,560.00	2,893,560.00
2011	325,000	2,627,850.00	2,952,850.00
2012	395,000	2,613,875.00	3,008,875.00
2013	475,000	2,596,495.00	3,071,495.00
2014	560,000	2,575,120.00	3,135,120.00
2015	645,000	2,549,360.00	3,194,360.00
2016	740,000	2,519,045.00	3,259,045.00
2017	840,000	2,483,525.00	3,323,525.00
2018	950,000	2,442,365.00	3,392,365.00
2019	1,065,000	2,395,815.00	3,460,815.00
2020	1,185,000	2,342,565.00	3,527,565.00
2021	1,315,000	2,283,315.00	3,598,315.00
2022	1,455,000	2,216,250.00	3,671,250.00
2023	1,605,000	2,141,681.26	3,746,681.26
2024	1,760,000	2,059,425.00	3,819,425.00
2025	1,925,000	1,969,225.00	3,894,225.00
2026	2,105,000	1,870,568.76	3,975,568.76
2027	2,290,000	1,762,687.50	4,052,687.50
2028	2,490,000	1,642,462.50	4,132,462.50
2029	2,705,000	1,511,737.50	4,216,737.50
2030	2,930,000	1,369,725.00	4,299,725.00
2031	3,170,000	1,215,900.00	4,385,900.00
2032	3,425,000	1,049,475.00	4,474,475.00
2033	3,695,000	869,662.50	4,564,662.50
2034	3,980,000	675,675.00	4,655,675.00
2035	4,285,000	466,725.00	4,751,725.00
2036	<u>4,605,000</u>	<u>241,762.50</u>	<u>4,846,762.50</u>
<b>Total</b>	<b>\$51,495,000</b>	<b>\$59,588,516.27</b>	<b>\$111,083,516.27</b>

<sup>(1)</sup> Interest is funded from bond proceeds through September 1, 2007.



## Redemption

*Optional Redemption.* The 2006 Bonds may be redeemed at the option of the Community Facilities District, as a whole or in part on any Interest Payment Date, from such maturities as are selected by the Community Facilities District, and by lot within a maturity, from any source of funds, at the following redemption prices (expressed as percentages of the principal amount of the 2006 Bonds to be redeemed), together with accrued interest to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
Any Interest Payment Date through March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and any Interest Payment Date thereafter	100

Whenever provision is made for the optional redemption of less than all of the 2006 Bonds, the Fiscal Agent shall select the 2006 Bonds to be redeemed, among maturities as directed by the Community Facilities District which shall specify the 2006 Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Outstanding CFD Bonds following such redemption as was in effect prior to such redemption. The Fiscal Agent shall select 2006 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate.

*Redemption from Proceeds of Special Tax Prepayment.* The 2006 Bonds are subject to redemption on any Interest Payment Date, prior to maturity, as a whole or in part on a pro rata basis among maturities and by lot within a maturity from prepayment of Special Taxes of the Community Facilities District or with respect to Improvement Area A, as applicable. The Community Facilities District shall deliver written instructions to the Fiscal Agent not less than 60 days prior to the redemption date directing the Fiscal Agent to utilize the applicable Special Tax Revenues transferred to the applicable Redemption Fund pursuant to the Bond Indenture to redeem the 2006 Bonds. The Fiscal Agent shall select 2006 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate. Such extraordinary mandatory redemption of the 2006 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2006 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
Any Interest Payment Date through March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and any Interest Payment Date thereafter	100

*Mandatory Sinking Payment Redemption.* The 2006 CFD Bonds maturing on September 1, 2018, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2017, at a redemption price equal to the principal amount of the 2006 CFD Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

### 2006 CFD BONDS

<u>Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
2017	\$840,000
2018 (maturity)	950,000

The 2006 CFD Bonds maturing on September 1, 2026, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2022, at a redemption price equal to the principal amount of the 2006 CFD Bonds to be redeemed, plus accrued and unpaid interest thereon to

the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

**2006 CFD BONDS**

<u>Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
2022	\$1,455,000
2023	1,605,000
2024	1,760,000
2025	1,925,000
2026 (maturity)	2,105,000

The 2006 CFD Bonds maturing on September 1, 2036, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2027, at a redemption price equal to the principal amount of the 2006 CFD Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

**2006 CFD BONDS**

<u>Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
2027	\$2,290,000
2028	2,490,000
2029	2,705,000
2030	2,935,000
2031	3,175,000
2032	3,430,000
2033	3,695,000
2034	3,980,000
2035	4,285,000
2036 (maturity)	4,605,000

The 2006 Improvement Area A Bonds maturing on September 1, 2018, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2017, at a redemption price equal to the principal amount of the 2006 Improvement Area A Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

**2006 IMPROVEMENT AREA A BONDS**

<u>Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
2017	\$840,000
2018 (maturity)	950,000

The 2006 Improvement Area A Bonds maturing on September 1, 2026, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2022, at a redemption price equal to the principal amount of the 2006 Improvement Area A Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

**2006 IMPROVEMENT AREA A BONDS**

<b>Sinking Fund Redemption Date</b>	<b>Principal Amount</b>
2022	\$1,455,000
2023	1,605,000
2024	1,760,000
2025	1,925,000
2026 (maturity)	2,105,000

The 2006 Improvement Area A Bonds maturing on September 1, 2036, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2027, at a redemption price equal to the principal amount of the 2006 Improvement Area A Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

**2006 IMPROVEMENT AREA A BONDS**

<b>Sinking Fund Redemption Date</b>	<b>Principal Amount</b>
2027	\$2,290,000
2028	2,495,000
2029	2,705,000
2030	2,930,000
2031	3,170,000
2032	3,425,000
2033	3,695,000
2034	3,980,000
2035	4,285,000
2036 (maturity)	4,605,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the 2006 Bonds pursuant to an optional redemption or redemption from proceeds of Special Tax prepayments as specified in writing by the Community Facilities District to the Fiscal Agent.

*Purchase In Lieu of Redemption.* In lieu of any optional, mandatory or mandatory sinking fund redemption, the Community Facilities District may elect to purchase such 2006 Bonds at public or private sale as and when, and at such prices as such written direction may provide; *provided*, that, unless otherwise authorized by law, the purchase price (including brokerage and other charges) thereof shall not exceed the principal amount thereof, plus accrued interest accrued to the purchase date and any premium which would otherwise be due if such 2006 Bonds were to be redeemed in accordance with the Bond Indenture.

*Notice of Redemption.* The Fiscal Agent shall mail, at least 30 days but not more that 45 days prior to the date of redemption, notice of intended redemption, by first class mail, postage prepaid, to the respective registered Owners of the 2006 Bonds at the addresses appearing on the Bond registry books. So long as notice by first class mail has been provided as set forth below, the actual receipt by the Owner of any 2006 Bond of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice shall not affect the validity of the proceedings for redemption of such 2006 Bonds or the cessation of interest on the date fixed for redemption.

Such notice shall (a) state the redemption date; (b) state the redemption price; (c) state the bond registration numbers, dates of maturity and CUSIP® numbers of the 2006 Bonds to be redeemed, and in the case of 2006 Bonds to be redeemed in part, the respective principal portions to be redeemed; *provided*,

*however*, that whenever any call includes all 2006 Bonds of a maturity, the numbers of the 2006 Bonds of such maturity need not be stated; (d) state that such 2006 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2006 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2006 Bonds as originally issued; (g) state the rate of interest borne by each 2006 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2006 Bonds being redeemed as the Community Facilities District shall direct.

*Effect of Redemption.* When notice of redemption has been given substantially as provided for in the applicable Bond Indenture, and when the amount necessary for the redemption of the 2006 Bonds called for redemption has been set aside for that purpose in the Redemption Fund as to Bonds subject to optional redemption or the 2006 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2006 Bonds at the place specified in the notice of redemption, said 2006 Bonds shall be redeemed and paid at the redemption price out of the applicable Redemption Fund and no interest will accrue on such 2006 Bonds or portions of 2006 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2006 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2006 Bonds or portions of 2006 Bonds only to said Redemption Fund.

### **Registration, Transfer and Exchange**

*Registration.* The Fiscal Agent will keep sufficient books for the registration and transfer of the 2006 Bonds, and upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said register, the 2006 Bonds as hereinbefore provided. The Community Facilities District and the Fiscal Agent will treat the owner of any 2006 Bond whose name appears on the applicable Bond Register as the holder and absolute Owner of such 2006 Bond for all purposes under the Bond Indenture, and the Community Facilities District and the Fiscal Agent shall not be affected by any notice to the contrary.

*Transfers of Bonds.* The transfer of any 2006 Bond may be registered only upon such books of registration upon surrender thereof to the Fiscal Agent, together with an assignment duly executed by the Owner or his attorney or legal representative, in satisfactory form. Upon any such registration of transfer, a new 2006 Bond or Bonds shall be authenticated and delivered in exchange for such 2006 Bond, in the name of the transferee, of any denomination or denominations authorized by the applicable Bond Indenture, and in an aggregate principal amount equal to the principal amount of such 2006 Bond or Bonds so surrendered. The Fiscal Agent may make a charge for every such exchange or registration of transfer of Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Fiscal Agent shall not be required to register transfers or make exchanges of (i) 2006 Bonds for a period of 15 days next preceding to the date of any selection of the 2006 Bonds for redemption, or (ii) any 2006 Bonds chosen for redemption.

*Exchange of Bonds.* Bonds may be exchanged at the Principal Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of 2006 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the applicable Bond Indenture, including the payment of certain charges, if any, upon surrender and cancellation of a 2006 Bond.

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2006 Bonds. The 2006 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 2006 Bond certificate will be issued for each maturity of the 2006 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX I – “Book-Entry and DTC.”



## SECURITY FOR THE 2006 BONDS

### General

The 2006 CFD Bonds and 2006 Improvement Area A Bonds are secured by a first pledge of all of the Net Special Tax Revenues of the Community Facilities District and Improvement Area A, as applicable, and all moneys deposited in the applicable Bond Service Fund and in the applicable Reserve Fund and, until disbursed as provided in the applicable Bond Indentures, in the Special Tax Fund. Pursuant to the Act and the Bond Indentures, the Community Facilities District will annually levy the Special Taxes in the Community Facilities District and in Improvement Area A in an amount required for the payment of principal of, and interest on, any outstanding 2006 Bonds, as applicable, becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the applicable Reserve Fund with respect to the 2006 CFD Bonds and 2006 Improvement Area A Bonds and an amount estimated to be sufficient to pay the Administrative Expenses during such year. The Net Special Tax Revenues of the Community Facilities District and Improvement Area A and all moneys deposited into the applicable accounts (until disbursed as provided in the applicable Bond Indentures) are pledged to the payment of the principal of, and interest and any premium on, the 2006 CFD Bonds and the 2006 Improvement Area A Bonds, as applicable, as provided in the applicable Bond Indenture and in the Act until all of the 2006 CFD Bonds and the 2006 Improvement Area A Bonds have been paid and retired or until moneys or authorized federal securities (as provided in each Bond Indenture) have been set aside irrevocably for that purpose.

Amounts in the Administrative Expense Funds, the Costs of Issuance Funds, the Rebate Funds, the School Facilities Fund and the Improvement Fund are not pledged to the repayment of the 2006 Bonds. The School Facilities and the Infrastructure Improvements constructed and acquired with the proceeds of the 2006 Bonds are not in any way pledged to pay the debt service on the 2006 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2006 Bonds are not pledged to pay the debt service on the 2006 Bonds.

### Special Taxes

The Community Facilities District has covenanted in each Bond Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Taxes in the Community Facilities District and Improvement Area A, including without limitation, the enforcement of delinquent Special Taxes. Each Rate and Method provides that the Special Taxes are payable and will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, *provided, however*, that the Community Facilities District may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

**Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the applicable Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies in the Community Facilities District or Improvement Area A, the receipt of Special Taxes in the Community Facilities District or Improvement Area A will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2006 Bonds applicable to the Community Facilities District or Improvement Area A. The Special Taxes levied in the Community Facilities District are not available to pay principal of or interest on the 2006 Improvement Area A Bonds and the Special Taxes levied in Improvement Area A are not available to pay principal of or interest on the 2006 CFD Bonds.**

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation, it does not constitute a personal indebtedness of the owners of property. There is no assurance that the owners of real property 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 “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Black Mountain Ranch LLC and the Merchant Builders – *History of Property Tax Payment; Loan Defaults; Bankruptcy*” for a description of the circumstances relating to such special tax default. See also, “BONDOWNERS’ RISKS” herein.

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2006 CFD BONDS OR THE 2006 IMPROVEMENT AREA**

**A BONDS. OTHER THAN THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT AND IMPROVEMENT AREA A, AS APPLICABLE, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2006 CFD BONDS OR THE 2006 IMPROVEMENT AREA A BONDS. THE 2006 CFD BONDS AND THE 2006 IMPROVEMENT AREA A BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT AND IMPROVEMENT AREA A AS MORE FULLY DESCRIBED HEREIN.**

Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the applicable Rates and Methods.

### **Rates and Methods**

**Community Facilities District Rate and Method.** The Community Facilities District Rate and Method provides the means by which the Board of Education of the School District (the “Board”) may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. The 2006 CFD Bonds, when issued, will fund School Facilities and will be secured by any Annual Special Taxes levied pursuant to the Community Facilities District Rate and Method. The Community Facilities District Rate and Method provides that the Annual Special Tax shall be levied for a term of 35 Fiscal Years after the issuance of the last series of Bonds, but in no event later than Fiscal Year 2050-51. A copy of the Community Facilities District Rate and Method is included in Appendix B hereto.

*Community Facilities District Minimum Annual Special Tax Requirement.* Annually, at the time of levying the Special Tax for the Community Facilities District, the Board shall reasonably determine the Minimum Annual Special Tax Requirement. The Minimum Annual Special Tax Requirement is defined as the amount required to pay the following:

- (i) the debt service and the periodic costs on all outstanding CFD Bonds;
- (ii) the Administrative Expenses of the Community Facilities District;
- (iii) the costs associated with the release of funds from an escrow account established in association with the CFD Bonds (no such account has been established);
- (iv) any amount required to establish, maintain, or replenish any reserve funds (or accounts thereof) established in association with the CFD Bonds; less
- (v) any amounts available to pay debt service or other periodic costs on the CFD Bonds pursuant to the applicable Bond Indenture.

In arriving at the Minimum Annual Special Tax Requirement the Board shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquent rate for Special Taxes based on the previous Fiscal Year.

*Developed Property and Undeveloped Property; Exempt Property.* The Community Facilities District Rate and Method declares that for each Fiscal Year, all Assessor's Parcels of Taxable Property within the Community Facilities District shall be classified as Developed Property, Undeveloped Property or Exempt Property and shall be subject to Special Taxes in accordance with the Community Facilities District Rate and Method. Property shall be classified by Unit type (e.g., as a Detached Unit, Attached Unit, Senior Citizen Unit or Affordable Unit) and Detached Units and Attached Units shall be classified based on the Building Square Footage.

(i) "Developed Property" means all Assessor's Parcels for which Building Permits for new construction were issued after the formation of the Community Facilities District and on or before May 1 of the prior Fiscal Year *provided* that such Assessor's Parcels were created 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 Developed Property.

(iii) "Taxable Property" means all Assessor's Parcels within the Community Facilities District which are Exempt Property (as defined below) pursuant to the Community Facilities District Rate and Method.

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

(a) Assessor's Parcels owned by the State, federal or other local governments,

(b) Assessor's Parcels within the boundaries of the Community Facilities District 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 owned by a homeowners' association,

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

(e) Assessor's Parcels developed, or expected to be developed, exclusively for non-residential use, including any use directly servicing any non-residential property, as reasonably determined by the Board, and

(f) any other Assessor's Parcels, at the reasonable discretion of the Board, *provided* that no such classification would reduce the Net Taxable Acreage to less than 123.76 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 123.76 acres of Acreage 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 Community Facilities District Rate and Method as follows:

(i) Developed Property: In any Fiscal Year, the Maximum Special Tax for each Assessor's Parcel of Developed Property shall be the amount determined by the sum of (i) any portion of the One-Time Special Tax not collected and (ii) the greater of (a) the application of the Assigned Annual Special Tax or (b) the Backup Annual Special Tax for a given final subdivision map.

In Fiscal Year 2006-07, the Assigned Annual Special Tax for Residential Property ranges from \$2,043.05 to \$3,709.94 for Detached Units, \$1,830.34 to \$2,360.19 for Attached Units and is \$1,106.59 for Affordable Units. Senior Citizen Units and Commercial/Industrial Property are not subject to the Assigned Annual Special Tax. Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property increases by the greater of the percentage change in the Index (as defined in the Community

Facilities District Rate and Method) as measured between the Index published in December of the Prior Calendar Year and the Index published in December of the Calendar Year immediately preceding the prior Calendar Year or 2.00% of the amount in effect in the prior Fiscal Year. Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Assigned Annual Special Tax applicable to an Assessor's Parcel is increased by 2.00% of the amount in effect the prior Fiscal Year. See Table 2 in the Community Facilities District Rate and Method of Apportionment for a listing of the Assigned Annual Special Tax rates in the Community Facilities District.

(ii) Undeveloped Property: In any Fiscal Year, the Maximum Special Tax for each Assessor's Parcel of Undeveloped Property shall be the sum of (i) the Assigned Annual Special Tax and (ii) the One-Time Special Tax. The Assigned Annual Special Tax for Undeveloped Property in Fiscal Year 2006-07 is \$25,027.47 per acre of Acreage. Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax per acre of Acreage shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

***The One-Time Special Tax is not collected in connection with construction of a residential structure but is collected on non-residential structures on the date prior to a Building Permit being issued for such Assessor's Parcel and are not pledged to payment of the 2006 CFD Bonds.***

In Fiscal Year 2006-07, the One-Time Special Tax for Senior Citizen Units and Commercial/Industrial Property is \$.040 per building square foot. All other Residential Property is not subject to an One-Time Special Tax. Each July 1, commencing July 1, 2007, the One-Time Special Tax applicable to Senior Citizen Units and Commercial/Industrial Property shall be increased by the greater of the annual percentage change in the Index or 2.00% of the amount in effect the prior Fiscal Year.

The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2006-07 will be determined by the formula indicated in Section F of the Community Facilities District Rate and Method set forth in Appendix B.

*Method of Apportionment.* The Community Facilities District Rate and Method provides that each Fiscal Year, the Community Facilities District shall levy Annual Special Taxes within the Community Facilities District as follows:

Step One. The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

Step Two. If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Undeveloped Property up to the Assigned Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

Step Three. If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Developed Property up to the Maximum Annual Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

*Prepayment of Annual Special Taxes.* 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 in full. The Prepayment Amount for an applicable Assessor's Parcel after the issuance of Bonds is calculated based on the present value of Special Taxes and other costs, all as specified in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 14 of the Poway Unified School District – Section H" herein.

In addition, prior to the conveyance of the first production unit on a lot within a Final Subdivision Map to a Homeowner, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect to prepay a portion of the Annual Special Tax obligations for all of the Assessor's Parcels within such Final Subdivision Map in accordance with the Community Facilities District Rate and Method. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior

to the conveyance of the first production unit to a Homeowner with respect to such Final Subdivision Map. These prepayments are pledged to payment of the Bonds.

**Improvement Area A Rate and Method.** The Improvement Area A Rate and Method provides the means by which the Board may annually levy the Special Taxes within Improvement Area A of the Community Facilities District up to the applicable Maximum Special Tax to pay for the Infrastructure Improvements. The 2006 Improvement Area A Bonds, when issued, will fund a portion of the costs of the Infrastructure Improvements and will be secured by any Annual Special Taxes levied pursuant to the Improvement Area A Rate and Method. The Improvement Area A Rate and Method provides that the Annual Special Tax shall be levied for a term of 35 Fiscal Years after the issuance of the 2006 Improvement Area A Bonds, but in no event later than Fiscal Year 2050-51. A copy of the Improvement Area A Rate and Method is included in Appendix B hereto.

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

- (i) the debt service and the periodic costs on all outstanding 2006 Improvement Area A Bonds;
- (ii) the Administrative Expenses of Improvement Area A of the Community Facilities District;
- (iii) the costs associated with the release of funds from an escrow account established in association with the Improvement Area A Bonds (no such account has been established);
- (iv) any amount required to establish or replenish any reserve funds (or accounts thereof) established in association with the 2006 Improvement Area A Bonds; *less*
- (v) any amounts available to pay debt service or other periodic costs on the Improvement Area A Bonds pursuant to the applicable Bond Indenture.

In arriving at the Minimum Annual Special Tax Requirement the Board shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

*Developed Property and Undeveloped Property; Exempt Property.* The Improvement Area A Rate and Method declares that for each Fiscal Year, all Assessor’s Parcels within Improvement Area A shall be classified as Developed Property, Undeveloped Property or Exempt Property. Property shall be classified by Unit type (e.g., as a Detached Unit, Attached Unit, Senior Citizen Unit or Affordable Unit) and Detached Units and Attached Units shall be classified based on the Building Square Footage.

(i) “Developed Property” means all Assessor’s Parcels of Taxable Property for which building permits for new construction were issued on or before May 1 of the prior Fiscal Year, *provided* that such Assessor’s Parcels were created 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 the Improvement Area A Rate and Method.

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

- (a) Assessor’s Parcels owned by the State, 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 owned by a homeowners' association,
- (d) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement,
- (e) Assessor's Parcels developed or expected to be developed exclusively for non-residential use, including any use directly servicing any non-residential property, such as parking, as reasonably determined by the Board, and
- (f) any other Assessor's Parcels at the reasonable discretion of the Board Superintendent, *provided* that no such classification would reduce the Acreage of all Taxable Property to less than 123.76 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 123.76 acres of Acreage 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 Improvement Area A Rate and Method as follows:

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

In Fiscal Year 2006-07, the Assigned Annual Special Tax for Residential Property ranges from \$2,042.05 to \$3,708.94 for Detached Units and from \$1,829.34 to \$2,359.19 for Attached Units. Senior Citizen Units and Commercial/Industrial Property are not subject to the Assigned Annual Special Tax. Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax applicable to an Assessor's Parcel classified as Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. See Table 2 of the Improvement Area A Rate and Method in Appendix B herein for a listing of the Assigned Annual Special Tax rates.

The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2006-07 will be determined by the formula indicated in Section E of the Improvement Area A Rate and Method set forth in Appendix B.

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

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2006-07 shall be \$25,018.20 per acre of Acreage. Each July 1, commencing July 1, 2007, 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.

*Method of Apportionment.* The Improvement Area A Rate and Method provides that each Fiscal Year commencing with Fiscal Year 2006-07 the Board shall reasonably determine the Minimum Annual Special Tax Requirement. The Community Facilities District shall levy Annual Special Taxes within Improvement Area A of the Community Facilities District as follows:

Step One: The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

Step Three: If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Developed Property up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

*Prepayment of Annual Special Taxes.* 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 in full. The Prepayment Amount for an applicable Assessor's Parcel is calculated based on the present value of Special Taxes and other costs, all as specified in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 14 of the Poway Unified School District (Improvement Area A) – Section H" therein.

In addition, prior to the conveyance of the first production unit on a lot within a Final Subdivision Map to a Homeowner, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect to prepay a portion of the Annual Special Tax obligations for all of the Assessor's Parcels within such Final Subdivision Map in accordance with the Improvement Area A Rate and Method. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the conveyance of the first production unit to a Homeowner with respect to such Final Subdivision Map. These payments are pledged to payment of the Bonds.

### **Proceeds of Foreclosure Sales**

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 each Bond Indenture, on or before June 1 of each Fiscal Year, the Community Facilities District will review the public records of the County of San Diego, California, 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 in the Community Facilities District or Improvement Area A, as applicable, is delinquent in the payment of Community Facilities District Special Taxes or Improvement Area A Special Taxes, as applicable, in the aggregate amount of \$5,000 or more or (ii) any single parcel or parcels under common ownership subject to the Community Facilities District Special Taxes or Improvement Area A Special Taxes, as applicable, is delinquent in the payment of the Community Facilities District 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 Community Facilities District Special Taxes or Improvement Area A Special Taxes, as applicable, 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 after 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 – 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 – Potential Delay and



Limitations in Foreclosure Proceedings.” 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 the 2006 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 the Reserve Funds are depleted and delinquencies in the payment of Special Taxes exist, there could be 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 applicable Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within the Community Facilities District or Improvement Area A, as applicable, in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the applicable Bonds and to replenish the applicable Reserve Fund. There is, however, no assurance that the maximum Special Tax rates of the Community Facilities District or Improvement Area A, as applicable, will be at all times sufficient to pay the amounts required to be paid on the 2006 Bonds by the applicable Bond Indenture.

### **Special Tax Funds**

Pursuant to each Bond Indenture, the Special Tax Revenues of the Community Facilities District and of Improvement Area A received by the Community Facilities District, excluding in the case of 2006 Improvement Area A Bonds only Special Tax Revenues representing Delinquency Proceeds required to be transferred to the Letter of Credit Fund established with respect to the 2006 Improvement Area A Bonds (*there is no Letter of Credit Fund with respect to the 2006 Bonds*) and Special Tax Revenues representing Prepayments, will be deposited in the applicable Special Tax Fund, which will be held by the Fiscal Agent on behalf of the Community Facilities District. Special Tax Revenues representing Prepayments shall be transferred to the Interest Account of the applicable Bond Service Fund and the applicable Redemption Fund and utilized to pay the interest and premium, if any, on and the principal of the applicable 2006 Bonds to be redeemed. Moneys in each Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the Community Facilities District and the owners of the applicable 2006 Bonds. Pending disbursement, moneys in each Special Tax Fund will be subject to a lien in favor of the Bondowners of the applicable 2006 Bonds as established under each Bond Indenture.

*Disbursements.* Moneys in each Special Tax Fund will be disbursed as needed to pay the obligations of the Community Facilities District in the following priority: (i) an amount up to the Administrative Expense Requirement for the Community Facilities District and Improvement Area A to pay Administrative Expenses allocable to the applicable Series of the 2006 Bonds, (ii) amounts required to be deposited into the applicable Accounts in the applicable Bond Service Fund in order to pay debt service on the applicable 2006 Bonds, any parity bonds and any refunding bonds on the next Interest Payment Date, (iii) amounts required to replenish the applicable Reserve Fund to the applicable Reserve Requirement (as defined below), (iv) amounts required to fund the applicable Rebate Fund and (v) additional amounts required to pay Administrative Expenses allocable to the applicable Series of the 2006 Bonds. At any time following the deposit of Special Taxes in an amount sufficient to make payment of all of the foregoing deposits for the current Bond Year (as that term is defined in each Bond Indenture), any amounts in excess of such amounts remaining in the applicable Special Tax Fund shall remain on deposit in the applicable Special Tax Fund and

shall be subsequently deposited or transferred pursuant to the above provisions, *provided, however*, that if the School District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Minimum Annual Special Tax Requirement (as defined in the applicable Rate and Method) then an amount up to such excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation, improvement of School Facilities and related expenses.

*Investment.* Moneys in each Special Tax Fund will be invested and deposited by the Community Facilities District as described in “Investment of Moneys in Funds” below. Interest earnings and profits resulting from such investment and deposit will be retained in the Special Tax Fund to be used for the purposes thereof.

### **Bond Service Funds**

The Fiscal Agent will hold each Bond Service Fund in trust for the benefit of the applicable Bondowners. Within each Bond Service Fund, the Fiscal Agent will create and hold an Interest Account and a Principal Account.

On each Interest Payment Date, the Fiscal Agent will withdraw from each Bond Service Fund and pay to the owners of the applicable 2006 Bonds the principal, interest and any premium then due and payable on the 2006 Bonds, including any amounts due on such 2006 Bonds by reason of the sinking payments or a redemption of such 2006 Bonds.

If amounts in the Bond Service Fund are insufficient for the purposes set forth in the preceding paragraph, the Fiscal Agent will withdraw the deficiency from the applicable Reserve Fund to the extent of any funds therein.

The Community Facilities District has covenanted in each Bond Indenture to increase the levy of the Special Taxes of the Community Facilities District or Improvement Area A, as applicable, in the next Fiscal Year (subject to the maximum amount authorized by the applicable Rate and Method) in accordance with the procedures set forth in the Act for the purpose of curing Bond Service Fund deficiencies.

### **Redemption Funds**

Moneys in each Redemption Fund shall be set aside and used solely for the purpose of redeeming Bonds in accordance with the applicable Bond Indenture.

### **Reserve Funds**

In order to further secure the payment of principal of and interest on the 2006 CFD Bonds and the 2006 Improvement Area A Bonds, certain proceeds of the 2006 CFD Bonds and 2006 Improvement Area A Bonds will be deposited into the applicable Reserve Fund in an amount equal to the applicable Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). “Reserve Requirement” is defined in each Bond Indenture to mean, as of any date of calculation, an amount equal to the least of (i) the then maximum annual debt service on the 2006 CFD Bonds or the 2006 Improvement Area A Bonds, as applicable, (ii) 125% of the then average annual debt service on the 2006 CFD Bonds or the 2006 Improvement Area A Bonds, as applicable, or (iii) 10% of the initial principal amount of the 2006 CFD Bonds or the 2006 Improvement Area A Bonds, as applicable, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of 2006 CFD Bonds or the 2006 Improvement Area A Bonds, as applicable, are to be redeemed with the proceeds of such prepayment, a proportionate amount in the applicable Reserve Fund (determined on the basis of the principal of such 2006 Bonds to be redeemed and the original principal of such 2006 Bonds) will be applied to the redemption of such 2006 Bonds.

Moneys in each Reserve Fund will be invested and deposited as described in “Investment of Moneys in Funds” below.

See APPENDIX E – “Summary of Certain Provisions of the Bond Indentures” for a description of the timing, purpose and manner of disbursements from each Reserve Fund.

## **Administrative Expense Funds**

The Fiscal Agent will receive the transfer of Special Taxes from the Community Facilities District from the applicable Special Tax Fund and deposit in the applicable Administrative Expense Fund an amount to pay Administrative Expenses.

**Pursuant to each Bond Indenture, moneys in the applicable Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the applicable 2006 Bonds and will not be available for the payment of debt service on the 2006 Bonds.**

## **Improvement Funds**

The Fiscal Agent will deposit proceeds of the 2006 Bonds in the applicable School Facilities or Improvement Fund. Moneys in the applicable School Facilities or Improvement Fund will be disbursed to pay for School Facilities pursuant to a requisition of the Community Facilities District.

**Pursuant to each Bond Indenture, moneys in the School Facilities Fund in the case of the 2006 CFD Bonds and the Improvement Area A Improvement Fund in the case of the 2006 Improvement Area A Bonds will not be construed as a trust fund held for the benefit of the Owners of the applicable 2006 Bonds and will not be available for the payment of debt service on the 2006 Bonds.**

## **Investment of Moneys in Funds**

Moneys in any fund or account created or established by the Bond Indentures and held by the Fiscal Agent will be invested by the Fiscal Agent in Permitted Investments, as directed by the Community Facilities District, that mature prior to the date on which such moneys are required to be paid out under each Bond Indenture. In the absence of any direction from the Community Facilities District, the Fiscal Agent will invest, to the extent reasonably practicable, any such moneys in money market funds rated “Aam-1” or “Aam-G” by Standard & Poor’s, or better (including those of the Fiscal Agent or its affiliates). See APPENDIX E – “Summary of Certain Provisions of the Bond Indentures” for a definition of “Permitted Investments.”

## **Payment of Rebate Obligation**

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in each Bond Indenture. If necessary, the Community Facilities District may use amounts in the Special Tax Fund, or amounts on deposit in the applicable Administrative Expense Fund and other funds available to the Community Facilities District (except amounts required to pay debt service on the Bonds) to satisfy rebate obligations.

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

Bonds issued on a parity with a Series of the CFD Bonds (“Parity CFD Bonds”) may be issued for refunding purposes only and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the applicable Bond Indenture and any Supplement then in effect and a certificate of the Community Facilities District to that effect will be filed with the Fiscal Agent. Bonds issued on a parity with the 2006 Improvement Area A Bonds (“Parity Improvement Area A Bonds”) may be issued for refunding purposes only and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the applicable Bond Indenture and any Supplement then in effect and a certificate of the Community Facilities District to that effect will be filed with the Fiscal Agent.

The aggregate principal amount of the 2006 CFD Bonds and all Parity Bonds issued may not exceed \$75,000,000 and the aggregate principal amount of the 2006 Improvement Area A Bonds and all Parity Bonds issued may not exceed \$75,000,000; *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 Bonds.

See APPENDIX E – “Summary of Certain Provisions of the Bond Indentures.”

## **Letters of Credit/Cash Deposit for 2006 Improvement Area A Bonds**

As a condition precedent to issuance of the 2006 Improvement Area A Bonds, Black Mountain Ranch LLC or the applicable Merchant Builder shall provide a Letter of Credit in the applicable Stated Amount therefor (having the Fiscal Agent as beneficiary) for each discrete development (each a "Project Area") or a cash deposit in lieu thereof. The Letter of Credit and/or cash deposit shall secure payment of Special Taxes levied against the applicable Project Area within Improvement Area A. The "Stated Amount" is the estimated amount of Special Tax to be levied in the next Fiscal Year with respect to the applicable Project Area. *There is no Letter of Credit Fund with respect to the 2006 Bonds.*

The Letter of Credit, or a Substitute Letter of Credit issued with respect thereto, shall be in effect in each Fiscal Year that individual homeowners own fewer than 60% of the lots within the applicable Project Area.

In the event fewer than 60% of the lots within the applicable Project Area are owned by individual homeowners as of each June 1, then the Community Facilities District shall cause Black Mountain Ranch LLC or the applicable Merchant Builder to provide to the Fiscal Agent, no later than the following June 15, (a) a Letter of Credit in the then-Stated Amount, (b) an irrevocable written commitment of a Letter of Credit Bank to provide a Letter of Credit in the then-Stated Amount or to extend the existing Letter of Credit in an amount equal to the then-Stated Amount, effective the next succeeding July 1 or (c) a cash deposit in lieu thereof.

In the event the Fiscal Agent does not receive (a) a Letter of Credit, (b) a Substitute Letter of Credit or (c) a cash deposit in lieu of the foregoing by June 15 of each year (assuming the Letter of Credit is required to be in effect during the next succeeding Fiscal Year), the Fiscal Agent shall, upon the written direction of an Authorized Officer, immediately, with no further authorization or instruction, draw upon the applicable Letter of Credit in the full Stated Amount. The Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund for use as described below.

### *Deposits into the Letter of Credit Fund; Transfers from the Letter of Credit Fund.*

*Draws Prior to an Interest Payment Date.* Ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund for that Interest Payment Date will be sufficient to pay principal of and interest on the 2006 Improvement Area A Bonds that will be due and payable on such Interest Payment Date and notify the Community Facilities District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on the 2006 Improvement Area A Bonds and such insufficiency is attributable to the delinquency in the payment of Special Taxes levied on properties in the applicable Project Area owned by Black Mountain Ranch LLC or a Merchant Builder pursuant to the Supplement to Impact Mitigation Agreement or an Affiliate of Black Mountain Ranch LLC or the applicable Merchant Builder, the Fiscal Agent shall upon the receipt of written direction of an Authorized Officer (prior to any withdrawals from the applicable Reserve Fund permitted by the applicable Bond Indenture) draw upon the applicable Letter of Credit or withdraw money from the cash deposit; *provided, however*, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Officer) shall equal the delinquent Special Taxes levied on such properties.

The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the Letter of Credit Fund. On the day preceding the Interest Payment Date, and prior to any transfers from the Reserve Fund, the Fiscal Agent shall transfer the amount of such draw on the Letter of Credit or an equivalent amount from any cash deposit from the Letter of Credit Fund to the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a cash deposit, the Fiscal Agent shall, upon receipt of Delinquency Proceeds representing the Improvement Area A Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a cash deposit, (a) reimburse the applicable Letter of Credit provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit or (b) replenish the cash deposit from such Delinquency Proceeds in an amount not to exceed such transfer.

*Draws Prior to Termination of the Letter of Credit.* If a Letter of Credit is not renewed, or a Substitute Letter of Credit or cash deposit is not provided within fifteen (15) days prior to the stated

expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the Community Facilities District. In the event the Fiscal Agent makes such a draw upon a Letter of Credit, the Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described in “*Draws Prior to an Interest Payment Date*” above, such proceeds shall be invested and reinvested by the Fiscal Agent in Government Obligations or money market funds. At no time shall the Community Facilities District direct that the proceeds of a draw on any Letter of Credit held in a Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the yield on the 2006 Improvement Area A Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund.

*Final Release of Moneys from the Letter of Credit Fund.* If a Letter of Credit may be terminated pursuant to the provisions of the Supplement to Impact Mitigation Agreement, the Community Facilities District shall provide written notice of such termination to the Fiscal Agent with instructions directing the Fiscal Agent to return the Letter of Credit or cash deposit to the applicable party.

*Actions by the Community Facilities District.* In the event a Letter of Credit Bank wrongfully refuses to honor any drawing made on its Letter of Credit, the Community Facilities District, on behalf of the owners of the applicable 2006 Improvement Area A Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling such Letter of Credit Bank to honor such drawing and to enforce the provisions of such Letter of Credit.

### **Compliance with Letter of Credit Requirements**

The following describes how Black Mountain Ranch LLC and each Merchant Builder intends to comply with the requirement to provide a Letter of Credit or cash deposit.

*Black Mountain Ranch LLC.* Black Mountain Ranch LLC has obtained a Revolving Building Loan Agreement with Union Bank of California. In connection with the issuance of the 2006 Bonds, Black Mountain Ranch LLC has arranged for Union Bank of California to issue Letters of Credit in the aggregate Stated Amount equal to the Letter of Credit requirement for the 2006 Bonds with respect to the Units set forth in the table below. The stated amount of the Letters of Credit may be reduced as sales to Merchant Builders occur and Merchant Builders post Letters of Credit or cash deposits satisfying the Letter of Credit/cash deposit requirement.

Union Bank of California is a national banking association organized and existing under and by virtue of the laws of the United States of America, and the bank’s holding company is UnionBanCalCorporation (“UnionBanCal”), which is approximately 63 percent owned by The Bank of Tokyo-Mitsubishi, Ltd. UnionBanCal is listed on the New York Stock Exchange under the trading symbol “NYSE:UB.” Information about UnionBanCal is contained in reports filed with the Securities and Exchange Commission and the Federal Reserve Bank.

*DW La Jolla Valley L.P.* DW La Jolla Valley L.P., a California Limited Partnership (“DW La Jolla Valley L.P.”), the entity which owns the property expected to be developed by Davidson Homebuilders LLC, has obtained a Letter of Credit from Wachovia Bank, National Association (“Wachovia Bank”) in connection with the issuance of 2006 Improvement Area A Bonds with respect to Units 1A and 2A. Wachovia Bank is a national banking association organized under the laws of the United States of America, and is a subsidiary of Wachovia Corporation (“Wachovia Corporation”). Wachovia Corporation is listed on the New York Stock Exchange under the trading symbol “WB.” Information about Wachovia Corporation is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation.

*Laing Luxury.* Laing Luxury has obtained a Letter of Credit from Bank of America, National Association (“Bank of America”) in connection with the issuance of 2006 Improvement Area A Bonds with respect to Unit 3C. Bank of America is a national banking association organized under the laws of the United States of America, and is a subsidiary of Bank of America Corporation, Inc. (“Bank of America Corp.”). Bank of America Corp. is listed on the New York Stock Exchange under the trading symbol “BAC.” Information about Bank of America and Bank of America Corp. is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation.

*Shea Homes Limited Partnership.* Shea Homes Limited Partnership has obtained Letters of Credit from Wells Fargo Bank (“Wells Fargo Bank”) in connection with the issuance of 2006 Improvement Area A Bonds with respect to Units 1C and 4A. Wells Fargo Bank is a national banking association organized under the laws of the United States of America, and is a subsidiary of Wells Fargo & Company (“Wells Fargo & Company”). Wells Fargo & Company is listed on the New York Stock Exchange under the trading symbol “WFC.” Information about Wells Fargo Bank and Wells Fargo & Company is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation.

*Standard Pacific Corp.* Standard Pacific Corp. has obtained Letters of Credit from Bank of America, National Association in connection with the issuance of the Improvement Area A Bonds with respect to Units 1B, 1D, 1F, 2B, and 2F. See the information above regarding Bank of America.

*William Lyon Homes, Inc.* William Lyon Homes, Inc. has obtained a Letter of Credit from California Bank & Trust (“California Bank and Trust”) in connection with the issuance of 2006 Improvement Area A Bonds with respect to Units 1E and 2E.

California Bank & Trust is a national banking organized under the laws of the United States of America and is a subsidiary of Zions Bancorporation (“Zions Bancorporation”). Zions Bancorporation is listed on the National Association of Securities Dealers Automated Quotation system (NASDAQ) under the trading symbol “ZION.” Information about California Bank & Trust and Zions Bancorporation is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation (“FDIC”). Black Mountain Ranch LLC will keep its Letter of Credit in place for the portion of the property under contract to William Lyon Homes, Inc. until such time as William Lyon Homes, Inc. substitutes its respective Letter of Credit or a cash deposit. At that time Black Mountain Ranch LLC’s Letter of Credit will be proportionately reduced.

<b>Developer/Merchant Builder Black Mountain Ranch</b>	<b>Letter of Credit Bank</b>	<b>2005-06 Letter of Credit Amount</b>
Black Mountain Ranch LLC Units 2C, 2D, 3B, 3D, 3E, 5A, 5B, 5C, 5D, 5E, 9A, 9B, 9C, and 9F	Union Bank of California	\$1,661,258.09
DW La Jolla Valley L.P. Units 1A and 2A	Wachovia Bank, N.A.	191,577.37
Laing Luxury Unit 3C	Bank of America, National Association	146,703.74
Shea Homes Limited Partnership Units 1C and 4A	Wells Fargo Bank	269,291.41
Standard Pacific Corp. Units 1B, 1D, 1F, 2B and 2F	Bank of America, National Association	283,115.40
William Lyon Homes, Inc. Units 1E and 2E	California Bank & Trust	200,260.59

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

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within 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 assessments, reassessments and special taxes in its Teeter program. The Special Taxes are not included in the County’s Teeter Program.

## THE DEL SUR PROJECT AND PROPERTY OWNERSHIP

### Background

The Community Facilities District is located in the City of San Diego and is generally located west of Interstate 15, north of Rancho Peñasquitos, and east of San Dieguito Road, situated off State Route 56 between Interstate 5 and Interstate 15, located seven miles from the coast and 20 miles from downtown San Diego. The boundaries of Improvement Area A are co-terminus with the boundaries of the Community Facilities District. The Community Facilities District lies within the area of the new master-planned community known as “Del Sur” and is part of a larger area originally known as “Black Mountain Ranch.” In 1988, a predecessor to Black Mountain Ranch L.P. acquired approximately 4,677 acres of land through a bankruptcy court proceeding. The Black Mountain Ranch development was proposed for an aggregate of approximately 3,132 single-family residential dwelling units, approximately 1,299 multi-family residential dwelling units, approximately 650,000 square feet of commercial/retail uses, an approximately 300-room hotel and two 18-hole championship golf courses as well as other office and institutional uses. Since 1988, the “Santaluz” portion of the Black Mountain Ranch was sold to other developers and the “Verrazzano” portion of the Black Mountain Ranch was sold to a developer. The remaining portion, now known as “Del Sur,” or the “North Village,” “West Cluster,” “East Cluster” and “North Cluster” is proposed for approximately 2,581 single-family attached and detached homes and approximately 469 affordable apartments and homes.

The Community Facilities District comprises the western portion of the North Village and is an extension of the on-going development of Black Mountain Ranch. Appendix K contains maps which present the land use plan for the North Village, including the eastern portion which is outside the boundaries of the Community Facilities District. Appendix K also contains maps which present the unit designations for the land uses within the Community Facilities District.

The Community Facilities District is comprised of approximately 142.63 net acres expected to be developed with approximately 1,148 residential units and a school site. The area consists of fairly flat terrain with slopes to the southeast and east. Within Black Mountain Ranch are approximately 18 miles of hiking, biking and rough terrain acres designated as natural open space. The property within the Community Facilities District had been agricultural land and had historically been used for crop growing and livestock grazing.

*Overview of Development of Original Black Mountain Ranch.* The original Black Mountain Ranch consisted of approximately 4,677 acres of land located south of Santa Fe Valley adjoining the community of Fairbanks Ranch and Rancho Peñasquitos. Approximately one-quarter of Black Mountain Ranch lies within the planning area of what will become San Dieguito River Park (not yet dedicated). When assembled, the San Dieguito River Park will extend from Del Mar on the coast to Volcan Mountain more than 50 miles inland.

The planning of Black Mountain Ranch commenced after its purchase in 1988. Approximately 1,760 acres of the open space have been designated for the San Dieguito River Park. An extensive system of horseback riding, bicycle, and pedestrian trails will provide public access to the park. These amenities are partially complete in the “Santaluz” and “Verrazzano” projects, and have not yet been constructed in the North Village project. In addition, approximately 1,060 acres of private open space has been permanently protected by restrictive easements. This area includes active recreation uses, such as golf courses, and private open space areas. The Black Mountain Ranch Community Park has been dedicated.

Phase I of Black Mountain Ranch, encompassing approximately 3,800 acres, was developed at an overall rural density of one house per four acres, and includes a mix of single-family housing types clustered in the southern portion of the property in association with the surrounding golf course and open space system. This first phase, known as “Santaluz,” has been completed and sold out, except for custom home sites being sold on a resale basis. The south golf course, which is a privately owned golf course is now open to the membership of the Santaluz Club.

Phase II-A of Black Mountain Ranch, the “South Village,” encompasses a project named “Verrazzano.” Verrazzano includes approximately 218 market rate homes and 42 affordable homes. Verrazzano has been completed and sold out.



*North Village West; The Community Facilities District.* The Community Facilities District encompasses a portion of Phase II-B, the North Village. The North Village is proposed for approximately 2,314 market rate homes and approximately 469 affordable homes. The property within the Community Facilities District is proposed for a total of approximately 1,148 homes, all of which will be market rate homes. The approximately 469 affordable homes are all located in the eastern portion of the North Village, or other areas of Black Mountain Ranch.

The western portion of the North Village community will have eight (8) Homeowner Association parks of which seven (7) will have pools and other recreation facilities. Each park is approximately one acre. The community will also have a city park which is approximately five (5) acres. The western portion of the North Village community has one proposed Poway Unified School District parcel of 10 acres for an elementary school.

*Later Phases of Black Mountain Ranch.* Later phases of Black Mountain Ranch will include the eastern portion of the North Village (approximately 1,166 market rate homes and approximately 469 affordable homes), as well as the West Cluster (70 dwelling units), East Cluster (138 dwelling units), and the North Cluster (59 dwelling units). Black Mountain Ranch is also proposed to include a second northern “valley” golf course which is proposed to be open to the general public on a daily fee basis. A 20-acre resort hotel or lodge is proposed in association with the “valley” golf course located at the foot of Black Mountain in La Jolla Valley. The proposed 300-room facility is proposed as a destination resort/conference facility. *None of the later phases of Black Mountain Ranch are included within the Community Facilities District and none of the communities of Santaluz or Verrazzano are included within the Community Facilities District.*

*Utility Services.* Utility services for parcels in the Community Facilities District will be provided by San Diego Gas & Electric (gas and electricity), the City of San Diego (water, sewage and refuse), Time Warner (cable), and AT&T Telephone (telephone).

## **Project Approvals and Environmental Review**

Development of the original Black Mountain Ranch has entailed a variety of approvals since 1988. In 1992, Black Mountain Ranch L.P. received City Council approval to build at a density of one house per four acres. In 1994, Black Mountain Ranch L.P., along with other developers in a 12,000 acre area referred to by the City as the “Future Urbanizing Area,” supported Proposition C which would have allowed permitted higher suburban densities. Proposition C was defeated at the polls. Subsequent thereto, Black Mountain Ranch L.P. sold approximately 3,740 acres known as “Santaluz” and 60 acres known as “Verrazzano” to other developers. Those two developments have since been completed and sold out.

In 1998, Black Mountain Ranch L.P. supported Proposition K, which allowed an increase in density consistent with the Black Mountain Ranch Subarea Plan. The voters approved Proposition K, and the final 1,800 acres remaining of the original Black Mountain Ranch project have proceeded to development. That property is now referred to as “Del Sur.”

The Santaluz area is still designated as a Future Urbanizing Area in the City’s Progress Guide and General Plan. The remaining 1,410 acres of Black Mountain Ranch is designated “Planned Urbanizing” and is subject to the policies of the Black Mountain Ranch Subarea Plan. The Subarea Plan was approved by the City Council on July 28, 1998. The implementation of the Black Mountain Ranch Subarea Plan was approved by the citizens of the City in a phase change vote (Proposition K) in November 1998.

In conjunction with the City’s approval of the Black Mountain Ranch Subarea I Specific Plan in the North City Future Urbanizing Area (NCFUA), the City Council on November 27, 2001, certified the Black Mountain Ranch Subarea I Addendum to Environmental Impact Report LDR No. 40-0528 (Addendum to EIR No. 96-7902, SCH No. 97111070) certified on July 28, 1998. There have been numerous amendments to the approvals relating to Black Mountain Ranch. Except as modified by later approvals, the property within the Community Facilities District is subject to (i) the North City Future Urbanizing Area Framework Plan (“NCFUA Framework Plan”), adopted on October 1, 1992 by Resolution No. 93-336, (ii) the Mitigation Monitoring and Reporting Program included in the Black Mountain Ranch II Environmental Impact Report, certified on October 31, 1995 by Resolution No. R-286501, (iii) the Mitigation Monitoring and Reporting Program included in the Black Mountain Ranch (Subarea) Environmental Impact Report (LDR No. 96-7902/SCH No. 97111070) certified on July 28, 1998 (“Subarea EIR”), as supplemented by Addendum LDR

No. 99-1054 and Addendum LDR No. 40-0529, which were certified on June 19, 2001, and Addendum LDR No. 40-0528, which was certified on November 27, 2001. The approvals have been in compliance with the California Environmental Quality Act (“CEQA”). The statutory period within which a court action or proceeding could be filed challenging the City’s CEQA compliance with respect to its approvals has expired. Final maps for the property within the Community Facilities District were recorded from September 17, 2004 through April 28, 2006. However, it is possible that future discretionary approvals necessary to complete the development of the property in the Community Facilities District will be subject to CEQA. Challenges to such discretionary approvals could slow the rate of development in the Community Facilities District. The Community Facilities District believes that no action with respect to environmental compliance is necessary in connection with the formation of the Community Facilities District.

Pursuant to CEQA, in addition to the City’s certification of the EIR, additional environmental analysis is required to be conducted for the City’s review to determine whether the analysis contained in the EIR with respect to the property in the Community Facilities District has adequately addressed the environmental impact of each subsequent discretionary approval related thereto. Black Mountain Ranch LLC reports that the reviews by the City conducted to date have resulted in findings of no significant impact not previously discussed in the EIR. Black Mountain Ranch LLC generally expects that, as further entitlement approvals (*e.g.*, any necessary tentative subdivision map and zoning modifications, area plans, subdivision maps and site development permits) are pursued, the EIR will be determined by the City to have adequately addressed the environmental impacts of each such subsequent entitlement and that there would be no significant impact not previously discussed in the EIR. However, no assurance can be given as to these matters, and if new significant impacts are found, it could have an adverse effect on the development of the property within the Community Facilities District.

### **Environmental Permits**

Approximately 1,915 acres of Black Mountain Ranch lie within the City’s Multi-Habitat Planning Area (“MHPA”), Northern Area. (The Community Facilities District does not include any MHPA land.) The North Village project was included in the approved negotiated project list of the City’s Multiple Species Conservation Plan Subarea Plan and is consistent with the Multiple Species Conservation Program MHPA

Black Mountain Ranch LLC acquired a 4d/ Interim Habitat Loss Permit and Associated Natural Community Conservation Planning finding (DEP No. 95-0173) that was filed December 28, 1995. The Habitat Loss Permits allowed for the clearing of the development areas within Black Mountain Ranch. The area within the Community Facilities District has been graded in compliance with this permit, as shown on the approved and permitted grading plans.

The development has followed normal permitting requirements for impacts to wetlands and other water courses regulated by the U.S. Army Corps of Engineers and the California Department of Fish & Game. Black Mountain Ranch LLC obtained a Section 404 Permit (U.S. Army Corps of Engineers 404 Permit No. 95-20192-DZ, dated December 30, 1996, and Permit No. 1999-15816-KKM (NWP), dated June 18, 2001) from the U.S. Army Corps of Engineers. The authorized activities relating to the Community Facilities District are substantially complete at this time.

Black Mountain Ranch LLC entered into an Agreement regarding Proposed Stream or Lake Alteration (Section 1603 Streambed Alteration Agreement No. 5-350-99 between the State of California Department of Fish and Game and Black Mountain Ranch LLC), dated June 2, 2000, with the California Department of Fish and Game for diverting or obstructing the natural flow of, or changing the bed channel or bank of, or using material from the streambed(s) of the following waters: Lusardi Creek, a tributary to the San Dieguito River, and 15 unnamed tributaries to Lusardi Creek, San Diego County, California required in connection with the project. The work required under that agreement has been completed and the improvements are in a five year maintenance and monitoring program. This work related to areas outside of the Community Facilities District.

See “BONDOWNERS’ RISKS–Endangered and Threatened Species.” Black Mountain Ranch LLC believes that the likelihood of a listing of additional species affecting the development of the project is remote at this stage of development. Black Mountain Ranch LLC has been issued grading permits for all of the western portion of the North Village and is in conformance with the approved boundaries of the Multiple Species Conservation Program and has granted the required open space easement to the City of San Diego

and the State of California. Furthermore, the development has followed normal permitting requirements for impacts to wetlands and other water courses regulated by the U.S. Army Corps of Engineers and the California Department of Fish & Game.

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

*Unexploded Ordnance.* In June, 2004, Black Mountain Ranch LLC employees and contractors observed objects near a proposed grading area (Area 1 of APN 367-150-15) resembling military bombs. Black Mountain Ranch LLC personnel reported the discovery to the City Bomb Squad, Fire Department and Army and Marine Corps Explosive Ordnance Disposal units, all of which responded to the scene. The US Army Corps of Engineers office was also notified and requested federal jurisdiction and response. A site inspection was conducted and the conclusion was the unexploded ordnance appeared to be inert practice rounds related to target practice by World War II-era Army and Navy aircraft. The affected site appeared to be a fairly well-defined 4 to 5 acre target area located upon a high, flat plateau. The US Army Corps of Engineers advise Black Mountain Ranch LLC that it considered the inert training rounds to be a "low risk" condition and would not qualify for an Army Corps of Engineers Response. In the absence of a federal response, Black Mountain Ranch retained InfoPro Corporation in July 2004 to implement a program to identify and remove the inert training round debris. The area was apparently formerly plowed into concentric circles for targeting and pilot scoring purpose. Training rounds were typically found in less than 2 to 3 feet of soil and certain rounds were found at depths of 6 feet. The Army Corps of Engineers subsequently concluded that the site was part of a former Lake Hodges aircraft practice range.

The proposed future elementary school site is located approximately 1,200 to 1,500 feet from the target area. No practice rounds were found in the proposed school area upon inspection and the school area site has been filled with approximately 10 to 13 feet of additional soil. No ground-based targets or training areas were detected anywhere on the 590 acre site (golf course excluded). All ordnance and ordnance debris was aircraft-based ordnance. Approximately 22,320 rounds of ordnance, including some inert non-explosive rounds, were detected in the 4 to 5 acre target and surrounding areas. InfoPro Corporation subsequently conducted a screening survey of all residential, school and park site areas comprising the North Village project site. No additional target areas, ordnance or evidence of such were located on any residential, school or park sites. No evidence was located to suggest there were any ground-based weapons system or targets used outside the former Lake Hodges aircraft practice range.

*Aircraft.* Aircraft from the Marine Corps Air Station Miramar (MCAS) operate in the vicinity of the Community Facilities District. Overflights may occasionally subject residents in the project area to varying degrees of noise and vibration.

## **Development Agreement**

Black Mountain Ranch LLC and the City have entered into a Second Amended and Restated Development Agreement Between The City of San Diego and Black Mountain Ranch Limited Partnership, Document No. O-18387, dated March 17, 1997 and a First Amendment to Second Amended and Restated Development Agreement Between The City of San Diego and Black Mountain Ranch Limited Partnership, Document No. O-19020, dated December 10, 2001 (collectively, the "Development Agreement"). The Development Agreement was recorded on January 17, 2002 as Document No. 2002-0043111. For purposes of the Development Agreement, the proposed development includes the improvement of the Project sites for the purposes of construction and otherwise effecting the structure, improvements and facilities comprising the Project, including but not limited to grading, the construction of infrastructure and public facilities related to the Project (whether located within or outside the project area), the construction of structures and buildings and the installation of landscaping.

Pursuant to the terms of the Development Agreement, Black Mountain Ranch LLC has the right to develop the Project in a manner consistent with the City's approvals and applicable rules, regulations and official policies. The Project is expected to be sold to Merchant Builders by the end of the fourth quarter of 2007 and as long as the project is constructed in a manner consistent with the City's existing approvals, the project may be constructed at the rate and in the sequence that the Merchant Builders deems appropriate. Build-out within the Community Facilities District is expected to occur by the end of 2009.

Termination of the Development Agreement by one party due to the default of the other party will not affect a right or duty emanating from City entitlements or approvals on the Project.

The Development Agreement was approved and entered into pursuant to California Government Code Section 65864, *et seq.* (the "Development Agreement Law"). The Development Agreement Law provides that a developer can obtain a vested right to develop its real property pursuant to a validly executed development agreement. One appellate case in California, *Santa Margarita Residents v. San Luis Obispo County Bd. of Supervisors*, has held that development agreements are enforceable under the Development Agreement Law. However, the development agreement in that case did not address vested rights. Consequently, although the Development Agreement purports to provide Black Mountain Ranch LLC with a vested right to build the project area as currently planned and as described herein, if the Development Agreement were to be challenged in a California court, there can be no assurances that such court would enforce the Development Agreement if the City fails to fulfill its obligations under the Development Agreement or if more restrictive local land use regulations are adopted in the future. Additionally, public entities not bound by the terms of the Development Agreement may impose additional conditions on the Development. See "BONDOWNERS' RISKS – Failure to Develop Properties" and "– Ballot Initiatives and Legislative Measures" herein.

### **Development Status and Current Entitlement**

The Community Facilities District encompasses approximately 142.63 net taxable residential acres expected to be developed with approximately 205 attached and 943 detached single-family units, and excluding a 5-acre community park and excluding a proposed 10-acre school site. Final maps have been approved for the property within the Community Facilities District.

As of April 1, 2006, building permits have been issued for approximately 19 models and approximately 138 production units. Single-family detached and attached homes are being, or are anticipated to be, offered for sale in the Community Facilities District by a number of homebuilders, including Davidson Homebuilders LLC, Laing Luxury, Shea Homes Limited Partnership, Standard Pacific Corp. and William Lyon Homes, Inc. At build-out, the Community Facilities District is estimated to include approximately 1,148 taxable units (i.e., Detached Units and Attached Units), but no Affordable Units or commercial/industrial property. Under the Indentures, no Special Taxes are levied on Affordable Units and no Special Taxes derived from Commercial/Industrial Property are pledged to the payment of the Bonds. Other than normal permits relating to construction of homes, there are no conditions or restrictions on the issuance of building permits within the Community Facilities District.

### **Covenants, Conditions and Restrictions; Homeowners' Association**

All of the parcels are, or will be, subject to recorded covenants, conditions and restrictions that provide for a levy of homeowners' association assessments. The assessments are on a basis subordinate to the lien of the Special Taxes.

### **Black Mountain Ranch LLC and the Merchant Builders**

The information about Black Mountain Ranch LLC, the Merchant Builders and the other owners of land within the Community Facilities District / Improvement Area A contained in this Official Statement has been provided by representatives of Black Mountain Ranch LLC and the Merchant Builders and has not been independently confirmed or verified by either the Underwriter or the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2006 Bonds. However, because ownership of the property is expected to change, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below. No representation is made herein as to the accuracy or adequacy of such information,

as to the experience, abilities or financial resources of Black Mountain Ranch LLC, the Merchant Builders or any other landowner, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

Black Mountain Ranch LLC and the Merchant Builders are not personally liable for payment of the Special Taxes or the 2006 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2006 Bonds are personal obligations or indebtedness of Black Mountain Ranch LLC, the Merchant Builders or any other landowners in the Community Facilities District / Improvement Area A.

Table 1 below sets forth by Unit Areas the names of the current or anticipated Merchant Builders and the name(s) of the project(s) being developed or proposed to be developed by each such Merchant Builder. For maps which present the Unit Areas, see Appendix K. In some cases, ownership is held in the name of a separate legal entity.

**Table 1**  
**Poway Unified School District**  
**Community Facilities District No. 14**  
**Property Ownership and Development Status**  
**As of April 1, 2006**

<u>Expected Merchant Builder</u>	<u>Development Name<sup>(1)</sup></u>	<u>Unit Designation</u>	<u>Total Number of Units</u>	<u>Merchant Builder Owned Lots</u>	<u>Units Completed as of 4/1/06<sup>(1)</sup></u>	<u>Status of Development as of 4/1/06<sup>(2)</sup></u>
Davidson Homebuilders LLC	Kensington	1A and 2A	70	70	0	3 Model Homes under construction. 27 Units under construction.
Davidson Homebuilders LLC	Kensington II	9A	70	0	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
Laing Luxury	Sentinels	3C and 5C	76	0 <sup>(3)</sup>	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
Shea Homes Limited Partnership	Del Sur Clusters	4A	55 <sup>(4)</sup>	0	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
Shea Homes Limited Partnership	Madeira	1C	78	78	4	4 models completed. 49 production units under construction. 25 remaining to be constructed.
Shea Homes Limited Partnership	Madeira II	2C and 9C	58	0	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
Standard Pacific Corp.	Product P-5	3E	69 <sup>(5)</sup>	0	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
Standard Pacific Corp.	Product P-6	3D	42 <sup>(6)</sup>	0	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
Standard Pacific Corp.	Bridgeway at Del Sur	1D and 2D	153	69	0	3 models and 24 production units under construction.
Standard Pacific Corp.	Cassero at Del Sur	1F, 2F and 9F	80 <sup>(7)</sup>	38	0	3 Models and 13 production units under construction.
Standard Pacific Corp.	Cabrillo at Del Sur	1B, 2B and 9B	62 <sup>(8)</sup>	26	0	3 Models and 9 production homes are under construction.
William Lyon Homes, Inc.	Pasado	3B and 5B	89 <sup>(9)</sup>	0	0	Blue top condition; Black Mountain Ranch constructing balance of back bone infrastructure.
William Lyon Homes, Inc.	Alcala	1E and 2E	83	83	0	3 model homes and 16 production homes under construction.
Black Mountain Ranch	To be Determined	5C	70	0	0	Blue top condition; Black Mountain Ranch LLC is constructing the balance of backbone infrastructure.
Black Mountain Ranch	To be Determined	5D	39 <sup>(5)</sup>	0	0	Blue top condition; Black Mountain Ranch LLC is constructing the balance of backbone infrastructure.
Black Mountain Ranch	To be Determined	5E	54 <sup>(5)</sup>	0	0	Blue top condition; Black Mountain Ranch LLC is constructing the balance of backbone infrastructure.
Total			1,148	364	4	

(1) For convenience of reference, Units 3 and 5 are referred to herein with an alphabetical designation even though the final maps relating to such properties do not include the alphabetical designation. See Appendix K.

(2) Based on Appraisal; Status of ownership of parcels provided by Black Mountain Ranch LLC and the respective Merchant Builder. There is no certainty that sales contracts or option agreements entered into or under negotiation will be consummated and land transferred from Black Mountain Ranch LLC to any of the third parties described herein.

(3) Subsequent to the date of value set forth in the Appraisal Laing Luxury acquired 25 lots.

(4) Shea Homes Limited Partnership and Black Mountain Ranch LLC have had discussions regarding the 70 lots in Unit 5A, but no agreement has been reached.

(5) Standard Pacific Corp., IHP Investment Fund III, L.P. and Black Mountain Ranch LLC have had discussions regarding the 69 lots in Unit 3E, but no agreement has been reached. 39 lots in Unit 5D have been identified as a possible extension of the Project P-5 project. Black Mountain Ranch has not entered into an agreement as to the remaining 39 lots in Unit 5D.

(6) Standard Pacific Corp., IHP Investment Fund III, L.P. and Black Mountain Ranch LLC have had discussions regarding the 42 lots in Unit 3D, but no agreement has been reached. 54 lots in Unit 5E have been identified as a possible extension of the Project P-6 project. Black Mountain Ranch has not entered into an agreement as to the remaining 54 lots in Unit 5E.

(7) 38 lots in Unit 1B are owned by Standard Pacific Corp. and 42 lots in Units 2B and 9B are subject to an option agreement, but Standard Pacific Corp. has not yet acquired any of the 42 lots from Black Mountain Ranch LLC.

(8) 26 lots in Unit 1B are owned by Standard Pacific Corp. and 36 lots in Units 2B and 9B are subject to an option agreement, but Standard Pacific Corp. has not yet acquired any of the 36 lots from Black Mountain Ranch LLC.

(9) William Lyon Homes, Inc. has entered a contract for the acquisition of the 89 lots in Unit 3B and 5B.

Source: Development Plan from Black Mountain Ranch LLC.

*Black Mountain Ranch LLC.*

Black Mountain Ranch LLC (“Black Mountain Ranch LLC”), is a California limited liability company of which the members are Black Mountain Ranch Limited Partnership, a Maryland limited partnership (“Black Mountain Ranch L.P.”) and BMR Communities LLC, a California limited liability company (“BMR Communities LLC”). The partners of Black Mountain Ranch L.P. are USF&G Black Mountain Ranch Mortgage Holding Company, a Maryland corporation and various Class B limited partners. The members of BMR Communities LLC are Standard Pacific Corp. and IHP Investment Fund III, L.P., a California limited partnership (“IHP Investment Fund III, L.P.”). The general partner of IHP Investment Fund III, L.P. is Institutional Housing Partners III L.P., a California limited partnership. Institutional Housing Partners, Inc., a California corporation, is the general partner of Institutional Housing Partners III L.P. Institutional Housing Partners, Inc. is a real estate venture capital firm formed in 1992 to provide investment and advisory services to institutional investors desiring to invest in single-family residential development.

The property within the Community Facilities District was primarily owned by Black Mountain Ranch L.P.. On April 24, 2003, an Assignment, Assumption and Release Agreement was made between Black Mountain Ranch L.P. and Black Mountain Ranch LLC, as the master developer. Black Mountain Ranch L.P. and the City of San Diego are parties to the First Amendment to Second Amended and Restated Development Agreement between the City and Black Mountain Ranch Limited Partnership which was recorded on January 17, 2002. Black Mountain Ranch L.P. granted the property to Black Mountain Ranch LLC.

Black Mountain Ranch LLC intends to market property to merchant builders and does not intend to construct residential structures. Standard Pacific Corp. is a member of BMR Communities LLC, which is a member of Black Mountain Ranch LLC. Standard Pacific Corp. is expected to be the Merchant Builder for approximately 588 of the 1,148 residential lots within the Community Facilities District. As of April 1, 2006, Black Mountain Ranch LLC has sold land to merchant builders or entered into contracts for the sale of land to Merchant Builders for 874 of the approximately 1,148 single-family detached and attached dwelling units within the Community Facilities District.

*Status of Permits and Approvals.* Black Mountain Ranch LLC has obtained approvals and permits for grading and for public improvements required for development of all of the property within the Community Facilities District. Final maps have been approved for portions of the property within the Community Facilities District.

Black Mountain Ranch LLC has completed approximately 95% of the grading and approximately 70% of the backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the 1,148 detached and attached single-family lots within the Community Facilities District. Such improvements are estimated to be completed by the end of the second quarter of 2007. Backbone infrastructure improvements being completed include water, sewer, drainage, streets improvements, paving and street lights. Pursuant to Black Mountain Ranch LLC’s sales agreements with merchant builders, Black Mountain Ranch LLC generally conveys the property to each merchant builder in a blue top/finished lot condition with street and utilities constructed. Each merchant builder is responsible for completing sidewalks and landscape improvements for the detached and attached single-family housing lots acquired by such merchant builder.

The City will provide water, wastewater and recycled water services to the property within the Community Facilities District. The City will also provide fire protection master plan and fire protection services.

*Estimated Development Costs; Plan of Finance*

As of December 31, 2005, Black Mountain Ranch, LLC has expended in excess of \$160 million on the development of the Del Sur project. That includes expenditures on land acquisition, infrastructure improvements, site development, engineering, marketing and other entitlement costs. Of this amount, more than \$26 million is directly attributable to the site development costs for the lots within the Community Facilities District. An additional \$34 million has been spent to date on major roads and other infrastructure, including improvements to Camino del Sur, Paseo del Sur and Carmel Valley Road, on and off site water lines and a sewer pump station, among others. These roadway and other major infrastructure improvements



will benefit the entire Del Sur project, including the lots within the Community Facilities District. These improvements will provide all the access and services necessary for the construction and occupancy of homes on all lots within the Community Facilities District.

A portion of the costs expended, and certain future costs obligations, will be eligible for reimbursement from the proceeds of the 2006 Improvement Area A Bond proceeds. It is currently anticipated that approximately \$42 million will be available to Black Mountain Ranch, LLC from this source, of which approximately \$9,391,000 will be set aside for payments to CALTRANS for Black Mountain Ranch, LLC's fair share contribution to improvements on Interstate 15 and State Route 56. None of the 2006 CFD Bond proceeds will be used to pay for or reimburse the cost of infrastructure improvements but such proceeds will be used to pay for School Facilities.

Eligible costs not funded by the proceeds of the 2006 Improvement Area A Bonds, as well as all costs not eligible for reimbursement from the 2006 Bonds, will be financed through the loan from Union Bank of California (discussed below in the section captioned "Plan of Finance"), proceeds of sales to Merchant Builders or through other funds available to Black Mountain Ranch, LLC. These costs include additional grading, the installation of remaining backbone improvements, including roads, storm drain, wet and dry utilities, street lights, parks and other common area landscaping. As of December 31, 2005, Black Mountain Ranch, LLC estimated the cost to complete these improvements for the lots included in the Community Facilities District was approximately \$42 million, with an additional \$39.8 million for regional infrastructure improvements (including the CALTRANS fair share payments mentioned above) that will benefit the entire Del Sur project, not just the lots contained in the Community Facilities District. These amounts exclude soft costs, such as engineering, planning and other consultants, bonds and fees paid to public agencies and interest on loans. The foregoing merely reflects Black Mountain Ranch, LLC's present plan for the development of the property. There can be no assurance that Black Mountain Ranch, LLC will have the resources, willingness or ability to successfully implement the development plan as described above.

In addition to the foregoing costs of Black Mountain Ranch LLC, certain Merchant Builders will incur costs to develop its project from the blue-top lot condition, for which Black Mountain Ranch LLC is responsible, to finished lots (ready for house construction). These costs include for the Merchant Builders all in-tract improvements including fees paid at building permit issuance. Additional costs have been included for those items that are traditionally considered a house cost, but are often used to determine a finished lot value. APPENDIX C – "Summary Appraisal Report" is appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

Table 2 summarizes the sources and uses of funds anticipated to complete Black Mountain Ranch, LLC's development in the Community Facilities District and the expected cash flow from its operation therein. It is important to emphasize that development of the Community Facilities District is an indistinguishable subset of Black Mountain Ranch, LLC's ongoing effort to develop the Del Sur project as a whole. The sources and uses table shows both costs directly and solely attributable to the development of lots within the Community Facilities District and costs that are more general in nature and have been allocated for the purpose of this analysis using a number of methods. The sources and uses relate to possible future development of property within the Community Facilities District and the costs associated with such development. The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While Black Mountain Ranch LLC has agreed to provide certain on-going financial and operating data for a limited period of time (see "CONTINUING DISCLOSURE" and Appendix G hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

**Table 2**  
**Poway Unified School District**  
**Community Facilities District No. 14**

**PROJECTED**  
**SOURCES AND USES OF FUNDS**

	Through 12/13/05	2006	2007	2008
Equity Investment	\$90,926,857	\$0	\$0	\$0
Revenue from Land Sales	130,441,030	195,118,556	63,956,812	0
Construction Loan Draws	119,854,722	123,261,774	12,779,223	0
Mello-Roos, TIF Bond Proceeds	0	42,000,000	0	0
Draws on Project Reserve Account	0	0	5,850,238	11,804,281
Other Revenue	2,273,843	0	0	0
<b>TOTAL SOURCES</b>	<b>\$343,496,452</b>	<b>\$360,380,329</b>	<b>\$82,586,273</b>	<b>\$11,804,281</b>
Project Wide Expenses	\$107,148,874	\$62,908,540	\$25,466,520	\$11,613,923
Units 1 & 2 Expenses	24,304,354	14,822,992	201,346	0
Unit 9 Expenses	3,644,246	11,928,501	150,666	0
Units 3 & 4 Expenses	6,415,039	22,004,644	0	0
Unit 5 Expenses	3,103,247	7,006,343	529,630	0
Contributions to Project Reserve Account	(5,977,902)	11,676,618	0	0
Construction Loan Repayments	101,975,933	146,373,128	12,842,038	0
<b>TOTAL USES</b>	<b>240,613,791</b>	<b>276,720,765</b>	<b>39,190,200</b>	<b>11,613,923</b>
<b>DISTRIBUTABLE CASH</b>		<b>\$83,659,564</b>	<b>\$43,396,073</b>	<b>\$190,358</b>

Source: Black Mountain Ranch, LLC.

*Plan of Finance.* Black Mountain Ranch LLC is financing its development of the property owned by Black Mountain Ranch LLC in the Community Facilities District from an \$80,000,000 revolving building loan agreement with Union Bank of California. As of April 30, 2006, the outstanding principal amount was approximately \$26,752,407.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the 1,148 lots, portions of the project may not be developable. While Black Mountain Ranch LLC has made such internal and external financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Black Mountain Ranch LLC to provide internal or obtain external financing in the past, Black Mountain Ranch LLC has not represented in any way that it will do so in the future.

*Development Experience.* Black Mountain Ranch LLC's historical projects in California include those associated with earlier development of Black Mountain Ranch. Development experience of Standard Pacific Corp. are listed below in the section describing Standard Pacific Corp.

*Absorption.* Development of the property within the Community Facilities District is estimated by Black Mountain Ranch LLC to occur over the next four to five years and Black Mountain Ranch LLC has estimated that its sales to Merchant Builders will conclude in 2007, with merchant builder sales of new homes concluding in 2009.

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* For purposes of this Official Statement the terms "Affiliate" and "control" shall have the following meanings:

The term “Affiliate” means:

- (a) a Person directly or indirectly owning, controlling or holding with power to vote, 5% or more of the outstanding voting securities of such other Person,
- (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote, by such other Person, and
- (c) any Person directly or indirectly controlling, controlled by or under common control with such other person.

The term “control” means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person. “Person” means an individual, a corporation, a partnership, an association, a joint stock company, a limited liability company, a trust, any unincorporated organization or a government or political subdivision thereof.

An authorized representative executing a certificate on behalf of Black Mountain Ranch LLC certifies that to its knowledge:

- members of Black Mountain Ranch LLC and related entities of those members have numerous Affiliates consisting of various entities that are developing or have been involved in the development of numerous different projects in numerous different states over several decades. It is likely that any such Affiliates have been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments or special taxes. Black Mountain Ranch LLC does not have actual knowledge that any such Affiliate is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes,
- neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- Black Mountain Ranch LLC and its Affiliates are solvent and neither Black Mountain Ranch LLC nor any of its current Affiliates has ever filed for bankruptcy or been declared bankrupt or has any proceeding pending or to its actual knowledge, threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations, and
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Black Mountain Ranch LLC or an Affiliate having been accomplished) against Black Mountain Ranch LLC or any Affiliate or threatened, which if successful, would materially adversely affect the ability of Black Mountain Ranch LLC to complete the development and sale of the property currently owned within the Community Facilities District or to pay Special Taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

*Development Activity.* Table 5 below summarizes certain information regarding the planned development with respect to the 1,148 residential units which remain to be constructed in the Community Facilities District as of April 1, 2006, the date of the estimated market value set forth in the Appraisal.

**There is no certainty that sales contracts or option agreements entered into or under negotiation will be consummated and land transferred from Black Mountain Ranch LLC to any of the third parties described above.**

*Limited Number of Individual Owners.* As of April 1, 2006, the date of the estimated market value set forth in the Appraisal, there are no owner-occupied homes within the Community Facilities District.

## Merchant Builder Sales.

The Community Facilities District will comprise approximately 205 attached residential units and 943 detached residential units and a proposed 10-acre elementary school site. As of April 1, 2006, Black Mountain Ranch LLC had entered sales contracts for or closed escrow on 780 of the 943 lots for single-family detached and all 205 lots for single-family attached homes in the Community Facilities District with five Merchant Builders. **There is no certainty that contracts entered into will be consummated and land transferred from Black Mountain Ranch LLC to any of the third parties described above.**

## Davidson Homebuilders LLC

Davidson Homebuilders LLC<sup>1</sup>, a California limited liability company established February 23, 2005 (“Davidson Homebuilders LLC”) is an affiliate of, and under the same management as, Davidson Communities LLC, a California limited liability company (“Davidson Communities”). Davidson Builders, Inc.<sup>1</sup>, a California corporation established in 1996 (“Davidson Builders”) and its affiliate Davidson Construction Management, Inc., a California corporation (“Davidson Construction Management Inc.,”) established February 23, 2005) will be the builders with respect to 70 detached single-family homes in Units 1A and 2A and 70 detached single-family homes in Unit 9A. Davidson Builders, Inc. and Davidson Construction Management, Inc. are the general contractors for Davidson Homebuilders LLC. Davidson Homebuilders LLC and its affiliate Davidson Communities LLC are based in Del Mar, California and build homes in San Diego and Riverside Counties. Davidson Homebuilders LLC is privately held. Davidson Homebuilders LLC’s homebuilding segment specializes in the sale and construction of single-family attached and detached housing.

The landowner within Davidson Homebuilders LLC’s Kensington at Del Sur project is DW La Jolla Valley L.P., a California limited partnership (Unit 1A and 2A). The membership interests of the DW La Jolla Valley L.P. are owned by MW Housing Partners III, L.P., a California limited partnership, and by DW La Jolla Valley L.P., a California limited partnership. Black Mountain Ranch 136 LLC, a California limited liability company is the sole general partner of DW La Jolla Valley L.P. Black Mountain Ranch 136, LLC was organized to join with MW Housing Partners III, L.P., in forming DW La Jolla Valley L.P. which will engage in the marketing and sale of the 70 lots.

The landowner within the second phase of Davidson Homebuilders LLC’s Kensington at Del Sur project is expected to be DW La Jolla Valley 9 L.P., a California limited partnership (Unit 9A) (“DW La Jolla Valley 9 L.P.,” and together with DW La Jolla Valley L.P., the “DW La Jolla Valley Entities”). The membership interests of the DW La Jolla Valley 9 L.P. are owned by MW Housing Partners III, L.P., a California limited partnership, and by DW La Jolla Valley 9 L.P., a California limited partnership. Black Mountain Ranch 140 LLC, a California limited liability company is the sole general partner of DW La Jolla Valley 9 L.P. Black Mountain Ranch 140, LLC was organized to join with MW Housing Partners III, L.P., in forming DW La Jolla Valley 9 L.P., which will engage in the marketing and sale of the 70 lots.

*Description of Project.* DW La Jolla Valley L.P. has entered into a purchase contract with Black Mountain Ranch LLC for lots for 70 Detached Units. All 70 of the lots for the Kensington at Del Sur project in Units 1A and 2A have been acquired. As of April 1, 2006, there were 3 models and 27 production homes under construction. DW La Jolla Valley 9 L.P. has entered into a purchase contract with Black Mountain Ranch LLC for lots for 70 Detached Units. None of the 70 of the lots for the second phase of the Kensington at Del Sur project in Unit 9A have been acquired.

The development which constitutes DW La Jolla Valley L.P.’s and DW La Jolla Valley 9 L.P.’s projects, together with the estimated lot sizes, unit sizes and base sales price range is set forth below.

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<sup>1</sup> Davidson Homebuilders LLC and Davidson Builders LLC are not affiliated with other entities utilizing similar names in their Internet websites.

<b>Project Name</b>	<b>Minimum Lot Size (Square Feet)</b>	<b>Estimated Unit Size (Square Feet)</b>	<b>Estimated Base Sales Price Range</b>	<b>Total Units</b>	<b>Homes Under Construction as of 4/1/06</b>
Kensington at Del Sur	5,000	2,660 - 3,156	\$816,000 - \$975,900	70 detached	30
Kensington II at Del Sur <sup>1</sup>	5,000	2,660 - 3,156	\$827,000 - \$975,900	70 detached	0

<sup>1</sup> The lots in Unit 9A are subject to an option agreement, and as of May 1, 2006, DW La Jolla Valley 9 L.P. has not yet acquired any of such lots from Black Mountain Ranch LLC.

*Status of Permits and Approvals.* The lots in DW La Jolla Valley L.P. and DW La Jolla Valley 9 L.P.'s projects are encompassed within recorded final maps. DW La Jolla Valley L.P. is in the process of constructing 3 model homes and 27 production homes. DW La Jolla Valley L.P. commenced model construction for the Kensington at Del Sur project during the third quarter of 2005. Home closings expected to commence during the third quarter of 2006. DW La Jolla Valley 9 L.P. has not yet acquired any of the 70 lots in Unit 9A. Most required development approvals were obtained by Black Mountain Ranch LLC over the last few years. The project has satisfied reviews relating to sensitive plant or animal species on the property (among other matters). The DW La Jolla Valley Entities are not aware of any additional permits required to proceed with development of the property other than the usual permits required from the City and applicable local agencies. No lots are in the 100-year flood plain.

Grading and sewer for the 70 lots in Unit 1A and 2A is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the third quarter of 2006. DW La Jolla Valley L.P.'s remaining costs relate primarily to model and production home construction and as of May 1, 2006, its remaining costs to get to finished lots for all remaining lots was approximately \$2,500,000.

Black Mountain Ranch LLC has completed grading of the 70 lots in Unit 9A and has recently commenced work related to installation of sewer, water, street, curb and gutters improvements in Unit 9A. DW La Jolla Valley 9 L.P.'s remaining costs relate primarily to model and production home construction and as of May 1, 2006, because Black Mountain Ranch LLC will deliver finished lots to DW La Jolla Valley 9 L.P., DW La Jolla Valley 9 L.P. has no costs relating to developing the lots to a finished lot condition.

*Plan of Finance.* DW La Jolla Valley L.P. expects to finance the construction of housing units through a \$41,921,000 credit facility from Wachovia Bank, National Association, internal resources and home sales. As of April 9, 2006, approximately \$13,258,750.63 construction loan was outstanding and approximately \$6,280,794.11 acquisition and development loan was outstanding.

DW La Jolla Valley 9 L.P. expects to finance the construction of housing units through a credit facility, internal resources and home sales. As of May 1, 2006, the credit facility has not been arranged.

DW La Jolla Valley L.P. and DW La Jolla Valley 9 L.P.'s remaining costs relate primarily to model and production home construction and as of May 1, 2006, their remaining costs to get to finished lots for all remaining lots was approximately \$ 2,500,000 for DW La Jolla Valley L.P. and \$0 for DW La Jolla Valley 9 L.P., respectively.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of DW La Jolla Valley L.P. or DW La Jolla Valley 9 L.P.'s expected development, portions of the project may not be developable. While Davidson Homebuilders LLC's affiliates have made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Davidson Homebuilders LLC's affiliates to provide internal financing in the past, Davidson Homebuilders LLC's affiliates have not represented in any way that they will do so in the future.

*Absorption.* The Kensington at Del Sur development has a projected absorption rate of approximately 9 units per quarter, with home sales commencing in the third quarter of 2006, and home closing commencing seven to eight months thereafter. The Del Sur 9A development has a projected absorption rate of approximately 9 units per quarter, with home sales estimated to commence during the first quarter of 2007, and home closing estimated to commence seven to eight months thereafter.

*Development Experience.* Davidson Homebuilders LLC’s affiliate Davidson Communities LLC delivered 191 homes in 2002, 129 homes in 2003, 117 homes in 2004, 196 homes in 2005 and anticipate closing approximately 232 homes in 2006. Recent projects under development by Davidson Homebuilders LLC’s affiliates in southern California include the following:

<u>Site Name</u>	<u>Location</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>
Starboard @ La Costa Oaks	La Costa	98	\$998,000 - 1,076,000	3,739 - 4,337
Coda @ The Crosby	San Diego	30	\$1,665,000 - 1,740,000	4,232 - 5,046
Aria @ Greer Ranch	Murietta	86	\$599,000 - 627,000	3,882 - 4,311
Reunion at 4S Ranch	4S Ranch	66	low \$900,000's	3,594 - 4,276
Clearstory @ Rolling Hills Ranch	Chula Vista	48	\$1,069,900 - 1,179,900	3,807 - 4,680
Atrium @ Eastlake Vistas	Chula Vista	68	\$1,029,539 - 1,089,990	3,750 - 4,258
Stonebridge	Poway	61	\$1,250,000 - 1,450,000	4,000 - 5,000

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* An authorized representative executing a certificate on behalf of DW La Jolla Valley Entities certifies that to its knowledge:

- neither the DW La Jolla Valley Entities nor to the DW La Jolla Valley Entities’s actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither the DW La Jolla Valley Entities nor any of their Affiliates is currently in default on any loans, lines of credit or other obligation related to its development or any of its other projects which default would in any way materially and adversely affect its ability to develop its property as described in the Official Statement or to pay the Community Facilities District Special Taxes for which it is responsible,
- The DW La Jolla Valley Entities and their Affiliates are solvent and neither the DW La Jolla Valley Entities nor any of its Affiliates has ever filed bankruptcy or been declared bankrupt or has any proceeding pending or threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations, and
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to the DW La Jolla Valley Entities or an Affiliate having been accomplished) against the DW La Jolla Valley Entities or any Affiliate or, to the DW La Jolla Valley Entities’s actual knowledge, threatened, which if successful, would materially adversely affect the ability of the DW La Jolla Valley Entities to complete the acquisition and development of the property expected to be owned or to pay Special Taxes or *ad valorem* tax obligations when due on its property.

#### Laing Luxury; John Laing Homes

Laing Luxury is a division of John Laing Homes, a privately held company. The actual legal entity of the privately held company is WL Homes LLC, a Delaware limited liability company. John Laing Homes is the “Doing Business As” name of WL Homes. John Laing Homes entered the U.S. market in 1984. John Laing Homes has acquired lots for 76 detached residential units in Units 3C and 5C. WL Homes LLC was formed in April 1998 when John Laing Homes merged with Watt Homes. WL Homes LLC has nine divisions in California and Colorado under the name John Laing Homes. John Laing Homes’ headquarters is located in Newport Beach, California.

*Description of Projects.* The development which constitutes Laing Luxury’s project, together with the estimated lot sizes, unit sizes and base sales price range is set forth below.

<b>Project Name</b>	<b>Minimum Lot Size (Square Feet)</b>	<b>Estimated Unit Size (Square Feet)</b>	<b>Estimated Base Sales Price Range</b>	<b>Total Units</b>	<b>Homes Under Construction as of 4/1/06<sup>(1)</sup></b>
Sentinels	6,500	2,800 - 3,250	\$1,027,500 – \$1,137,500	76	0

<sup>(1)</sup> The lots in the Sentinels project are subject to an option agreement, but a of January 15, 2006, Laing Luxury had not yet acquired any of such lots from Black Mountain Ranch LLC. On April 25, 2006, Laing Luxury acquired 25 of the 76 lots.

*Status of Permits and Approvals.* The final map for the lots in the Sentinels project has been recorded. Pursuant to its purchase agreement with Laing Luxury, Black Mountain Ranch, LLC was obligated to deliver finished lots to Laing Luxury. As described above, under “ – Status of Permits and Approvals,” Black Mountain Ranch, LLC is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots. Most required development approvals were obtained by Black Mountain Ranch LLC over the last few years. The project has satisfied reviews relating to sensitive plant or animal species on the property (among other matters). Laing Luxury is not aware of any additional permits required to proceed with development of the property other than the usual permits required from the City and applicable local agencies. No lots are in the 100-year flood plain.

Laing Luxury intends to begin model construction for the Sentinels at Del Sur project by the third quarter of 2006. Home sales are anticipated to commence in the first quarter of 2007, with home closing estimated to commence approximately seven to eight months thereafter.

Grading, sewer and water for the lots is substantially complete. Because Laing Luxury will acquire “finished lots,” Laing Luxury’s remaining costs relate primarily to model and production home construction.

*Plan of Finance.* Laing Luxury has obtained acquisition and construction financing through a \$23,970,000 loan with Bank of America. As of May 1, 2006, approximately \$7,104,100 had been draw on the loan. Laing Luxury expect to finance the construction of housing units through the loan and home sales.

If and to the extent that the member contributions and land sales revenues are inadequate to pay the costs to complete the planned development, portions of the projects may not be developable. While the members have made such contributions in the past, there can be no assurance whatsoever of their willingness or ability to do so in the future; and the members have no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of the members to provide funds in the past, the members have not represented in any way that they will do so in the future.

*Absorption.* The Sentinels at Del Sur development has a projected absorption rate of approximately 9 units per quarter, with home sales estimated to commence during the first quarter of 2007, and home closing estimated to commence approximately seven to eight months thereafter.

*Development Experience.* Through its Laing Luxury homebuilding division, WL Homes LLC delivered 92 homes in 2005 and anticipates closing approximately 120 homes in 2006. Recent projects under development by WL Homes LLC include the following:



<u>Site Name</u>	<u>Location</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>
Nautilus	Newport Beach	96	\$1,447,000-\$4,548,000	3,400
La Cima	Turtle Ridge	44	\$1,890,000-\$4,182,500	5,500
Castillo	Calabasas	64	\$1,447,000-\$2,429,000	5,800
Shady Canyon	Shady Canyon	18	\$2,923,000-\$4,700,000	6,100
San Donato	Ladera Ranch	23	\$1,365,000-\$2,497,000	4,600
Crosby Villas	Rancho Sante Fe	70	\$1,176,000-\$1,338,000	3,200
Icon	Playa Vista	62	\$1,549,000-\$1,964,000	3,450
Seacrest	Newport Beach	29	\$5,139,500-\$6,978,000	6,800
Lucia	San Clemente	53	\$1,929,845-\$2,885,000	5,500

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* An authorized representative executing a certificate on behalf of Laing Luxury certifies that to its knowledge

- as an affiliate of Laing Homes, a large, nation-wide company that is developing or has been involved in the development of numerous projects over an extended period of time, Laing Luxury cannot represent with assurance that neither Laing Homes nor any other Affiliate of Laing Luxury has ever been delinquent in the payment of *ad valorem* property taxes, special assessments or special taxes; however, Laing Luxury does not have actual knowledge that it or any of its Affiliates is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes,

- neither Laing Luxury nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to the development being undertaken by Laing Luxury or any of Laing Luxury's Affiliates' other projects which default would in any way materially and adversely affect the ability of Laing Luxury to develop its property as described in the Official Statement or to pay the Community Facilities District Special Taxes for which it is responsible,

- Laing Luxury and its Affiliates are solvent and neither Laing Luxury nor, to the actual knowledge of Laing Luxury, any of its Affiliates have ever filed bankruptcy or been declared bankrupt or have any proceeding pending or threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations, and

- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Laing Luxury or an Affiliate having been accomplished) against Laing Luxury or is pending against any Affiliate or is threatened against Laing Luxury or any of its Affiliates, which if successful, would materially adversely affect the ability of Laing Luxury to complete the development of the property being undertaken by Laing Luxury or to pay Community Facilities District Special Taxes or *ad valorem* tax obligations when due on their property.

#### Shea Homes Limited Partnership

Shea Homes Limited Partnership, a California limited partnership ("Shea Homes Limited Partnership"), will be the builder with respect to 55 Attached Units in Units 4A, 78 detached single-family homes in Units 1C and 58 detached single-family homes in Units 2C and 9C. The general partner of Shea Homes Limited Partnership is J. F. Shea, L.P., a Delaware limited partnership. Shea Homes Limited Partnership and related entities have ten operating divisions throughout California, Arizona, Colorado and Washington. Shea Homes Limited Partnership and related entities construct town houses, condominiums, detached homes and also develop master planned communities. The Shea family of companies are privately held and have been operating for over 100 years. Management of Shea Homes Limited Partnership is directed by members of the Shea family.

*Description of Project.* Shea Homes Limited Partnership entered into agreements with Black Mountain Ranch LLC for the purchase of lots for 55 attached units, 78 detached single-family units, and 58 detached single-family units. Shea Homes Limited Partnership has acquired lots for 78 detached single-family homes, and expects to acquire the lots for 55 attached units during the summer of 2006. Lots for 58 detached single-family units are under contract but are not expected to be acquired until the end of 2006.

The development which constitutes Shea Homes Limited Partnership's project, together with the estimated lot sizes, unit sizes and base sales price range is set forth below.

<b>Project Name</b>	<b>Minimum Lot Size (Square Feet)</b>	<b>Estimated Unit Size (Square Feet)</b>	<b>Estimated Base Sales Price Range</b>	<b>Total Units</b>	<b>Homes Under Construction as of 4/1/06</b>
Del Sur Clusters	N/A	1,643 - 2,333	\$589,000 - \$690,000	55 <sup>(1)</sup>	0
Madeira at Del Sur	3,700	1,785 - 2,269	\$715,000 - \$777,000	78	39
Madeira II at Del Sur <sup>1</sup>	3,700	1,785 - 2,269	\$715,000 - \$769,000	58 <sup>(2)</sup>	0

<sup>(1)</sup> The 55 lots in Unit 4A are subject to an option agreement, but Shea Homes Limited Partnership has not yet acquired any of such lots from Black Mountain Ranch LLC. 70 lots in Unit 5A have been identified as a possible extension of the Del Sur Cluster project, but no agreement has been reached between Black Mountain Ranch, LLC and Shea Homes Limited Partnership with respect thereto.

<sup>(2)</sup> The 58 lots in Unit 2C and 9C are subject to an option agreement, but Shea Homes Limited Partnership has not yet acquired any of such lots from Black Mountain Ranch LLC.

*Status of Permits and Approvals.* The lots are encompassed within recorded final maps. Pursuant to its purchase agreement with Shea Homes Limited Partnership, Black Mountain Ranch, LLC is obligated to deliver finished lots to Shea Homes Limited Partnership. As described above, under “ – Status of Permits and Approvals,” Black Mountain Ranch, LLC is currently completing grading and constructing of all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots. Most required development approvals were obtained by Black Mountain Ranch LLC over the last few years. The project has satisfied reviews relating to sensitive plant or animal species on the property (among other matters). Shea Homes Limited Partnership is not aware of any additional permits required to proceed with development of the property other than the usual permits required from the City and applicable local agencies. No lots are in the 100-year flood plain.

Shea Homes Limited Partnership will construct model and production homes. Shea Homes Limited Partnership started model construction in Madeira at Del Sur during the third quarter of 2005. Closings of production homes is anticipated to commence seven to eight months thereafter. Shea Homes Limited Partnership has not yet commenced model construction in the Del Sur Clusters project.

Grading and sewers for the lots in the Madeira at Del Sur project (Unit 1C) are substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the third quarter of 2006. With respect to the Del Sur Clusters projects, Shea Homes Limited Partnership will acquire graded pads, and Shea Homes Limited Partnership will install internal improvements, including underground utilities and street improvements. With respect to the Madeira at Del Sur project, Shea Homes Limited Partnership will acquire “blue-top lots” and will incur costs for underground utilities, alleys and streets. With respect to Madeira II project, Shea Homes Limited Partnership will acquire “finished lots” and Black Mountain Ranch LLC, rather than Shea Homes Limited Partnership will incur the costs relating to in-tract utilities and streets.

*Plan of Finance.* Shea Homes Limited Partnership financed the purchase of the 78 residential lots it has acquired in the Madeira at Del Sur project from Black Mountain Ranch, LLC through equity and through unsecured financings, including an unsecured credit facility and unsecured private placements of debt. Shea Homes Limited Partnership anticipates financing the purchase of the 55 residential lots in the Del Sur Clusters at Del Sur and the 58 lots in the Madeira II project in the same manner. Shea Homes Limited Partnership expects the total land acquisition and construction costs to be financed through equity contributions and the proceeds of home sales within its project.

As of May 12, 2006, Shea Homes Limited Partnership expects the in-tract development costs within its Del Sur Clusters project to be approximately \$2,400,000, all of which remains to be expended. These costs do not include costs which would be incurred if Shea Homes Limited Partnership were to acquire additional lots from Black Mountain Ranch, LLC as an extension of its Del Sur Clusters project.

As of May 12, 2006, Shea Homes Limited Partnership expects the in-tract development costs within its Madeira project to be approximately \$2,200,000, of which \$800,000 remains to be expended.

Shea Homes Limited Partnership expects to acquire its Madeira II project in a “finished” condition, and does not expect to incur in-tract development costs.

*There is no assurance that amounts necessary to finance the remaining site development and construction costs within the Shea Homes Limited Partnership project will be available from any source, when needed. Shea Homes Limited Partnership is under no legal obligation of any kind to borrow or expend funds for the development of its property within its project. Any contribution of capital by partners of Shea Homes Limited Partnership or any other Shea entity, or any borrowings by Shea Homes Limited Partnership, whether to fund costs of development within its project or to pay special taxes, is entirely voluntary.*

**Absorption.** Del Sur Clusters development has a projected absorption rate of approximately 10 to 12 units per quarter, with home sales estimated to commence during the fourth quarter of 2006, and home closings estimated to commence approximately seven to eight months thereafter. Shea Homes Limited Partnership’s Madeira at Del Sur development has a projected absorption rate of approximately 10 to 12 units per quarter. Home sales commenced during the fourth quarter of 2005, and home closings commencing approximately seven to eight months thereafter. Shea Homes Limited Partnership’s Madeira II at Del Sur development has a projected absorption rate of approximately 10 to 12 units per quarter, with home sales estimated to commence during the fourth quarter of 2006, and home closings estimated to commence approximately seven to eight months thereafter. To date, absorption for Madeira at Del Sur project has been less than initially anticipated by Shea Homes Limited Partnership due to a variety of factors, and Shea Homes Limited Partnership cannot predict what actual absorption will be.

**Development Experience.** Since 1986, Shea Homes Limited Partnership’s San Diego Division has built over 30 housing communities, delivering approximately 5,500 homes. All projects have been completed as planned. Shea Homes Limited Partnership’s San Diego Division is currently producing homes in ten communities with an additional three communities scheduled to deliver homes this year. During the last five years, all of the key managers have played significant roles at:

<b>Project</b>	<b>Location</b>	<b>Number of Units</b>
Heron Bay	Carlsbad	71
Spyglass Hills	Carlsbad	76
Coral Cove	Encinitas	69
Highgrove	Carlsbad (La Costa)	71
Calico Bluffs	San Marcos	84
Larkspur Heights	San Marcos	72
Azure	San Elijo Hills	92
Chapparal Ridge	Escondido	97
San Moritz	4S Ranch	140
Madiera @ Del Sur	Black Mountain Ranch	78
Avalon Point	Torrey Highlands	142
Cypress Greens	Carmel Mountain Ranch	92
Sanctuary @ Stonebridge	Scripps Ranch	82
Verandas @ Escala	Mission Valley	152
Terraces @ Escala	Mission Valley	97
Bungalows @ Escala	Mission Valley	144
Estrella	San Miguel Ranch	69
Maravilla	San Miguel Ranch	74
Sedona	Chula Vista	167
Azalea @ Windingwalk	Chula Vista	119
Wisteria @ Windingwalk	Chula Vista	163
Agave @ Windingwalk	Chula Vista	175
Aristata @ Windingwalk	Chula Vista	84
Saguaro @ Windingwalk	Chula Vista	100
Total		2,510

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* An authorized representative executing a certificate on behalf of Shea Homes Limited Partnership certifies that to its knowledge:

- neither Shea Homes Limited Partnership nor to Shea Homes Limited Partnership's actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither Shea Homes Limited Partnership nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- Shea Homes Limited Partnership and the current Affiliates are solvent and neither Shea Homes Limited Partnership nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt or has any proceeding pending or threatened in which it or its current Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations, and
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Shea Homes Limited Partnership or an Affiliate having been accomplished) against Shea Homes Limited Partnership or any Affiliate or, to Shea Homes Limited Partnership's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Shea Homes Limited Partnership to complete the acquisition and development of the property expected to be owned within Community Facilities District Special Taxes or *ad valorem* tax obligations when due on.

#### Standard Pacific Corp.

Standard Pacific Corp., a Delaware corporation ("Standard Pacific Corp."), is the builder with respect to approximately 69 single-family detached homes in Unit 1D, 84 single-family detached homes in Unit 2D, for a total of 153 homes (Bridgewalk); 80 attached single-family homes in Units 1F, 2F and 9F (Cassero); and 62 detached single-family homes in Units 1B, 2B and 9B (Cabrillo). The 80 units comprising Cassero at Del Sur are being acquired in phases, with the first 38 lots acquired by Standard Pacific Corp. on approximately May 19, 2005, and 42 lots anticipated to close no later than June 30, 2006. The 62 units comprising Cabrillo at Del Sur are being acquired in phases, with the first 26 lots acquired by Standard Pacific Corp. on approximately May 19, 2005, and 36 lots anticipated to close no later than June 30, 2006. Standard Pacific Corp. has entered into agreements with IHP Investment Fund III, L.P. through which IHP Investment Fund III, L.P. is expected to acquire from Black Mountain Ranch LLC 69 lots in Unit 3 and 42 lots in Unit 3, and then sell those lots on a phased basis to Standard Pacific Corp. IHP Investment Fund III, L.P. a California limited partnership may initially acquire the balance of the lots for Bridgewalk, Cassero and Cabrillo. Standard Pacific Corp. will then purchase the lots from IHP Investment Fund III, L.P. in phases.

Standard Pacific Corp. has built homes for more than 85,000 families during its 40-year history. Standard Pacific Corp. constructs homes within a wide range of price and size targeting a broad range of homebuyers. Standard Pacific Corp. operates in some of the largest housing markets in the country with operations in major metropolitan areas in California, Florida, Arizona, the Carolinas, Texas, Colorado, and Nevada. Standard Pacific Corp. provides mortgage financing and title services to its homebuyers through its subsidiaries and joint ventures – Family Lending Services, Westfield Home Mortgage, Home First Funding, Universal Land Title of South Florida and SPH Title.

Standard Pacific Corp. is subject to the informational reporting requirements of the United States Securities Exchange Act (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Security and Exchange Commission ("SEC"). Such filings, particularly Standard Pacific Corp.'s Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC's website at [sec.gov](http://sec.gov). In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. Standard Pacific

Corp. is listed in the NYSE (trading symbol “SPF”). All documents subsequently filed by Standard Pacific Corp. pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

*Description of Projects.* The development which constitutes Standard Pacific Corp.’s projects, together with the estimated lot sizes, unit sizes and base sales price range is set forth below.

<b>Project Name</b>	<b>Minimum Lot Size (Square Feet)</b>	<b>Estimated Unit Size (Square Feet)</b>	<b>Estimated Base Sales Price Range</b>	<b>Total Units</b>	<b>Homes under Construction as of 4/1/06</b>
Unit 3 – Product P-5	6,000	3,000 - 3,600	\$947,000 - \$1,021,000	69 <sup>(1)</sup>	0
Unit 3 – Product P-6	5,500	2,825 - 3,150	\$880,000 - \$925,000	42 <sup>(2)</sup>	0
Bridgewalk	2,450	1,702 - 1,969	\$686,900 - \$728,900	153 <sup>(3)</sup>	27
Cassero at Del Sur	10,000	2,079 - 2,569	\$759,900 - \$818,900	80 <sup>(4)</sup>	16
Cabrillo at Del Sur	5,000	2,420 - 3,000	\$790,900 - \$863,900	62 <sup>(5)</sup>	12

<sup>(1)</sup> 69 lots in Unit 3E are anticipated to be purchased by IHP Investment Fund III, L.P. from Black Mountain Ranch LLC, with an option for Standard Pacific Corp. to acquire such lots from Black Mountain Ranch LLC. 39 lots in Unit 5D have been identified as a possible extension of the Product P-5 project. Black Mountain Ranch has not entered into an agreement as to the 69 lots in Unit 3E or the 39 lots in Unit 5D.

<sup>(2)</sup> 42 lots in Unit 3D are anticipated to be purchased by IHP Investment Fund III, L.P. from Black Mountain Ranch LLC, with an option for Standard Pacific Corp. to acquire such lots from Black Mountain Ranch LLC. 54 Lots in Unit 5E have been identified as a possible extension of the Product P-6 project. Black Mountain Ranch has not entered into an agreement as to the 42 lots in Unit 3D or the 54 lots in Unit 5E.

<sup>(3)</sup> The 69 lots in Unit 1D are owned by Standard Pacific Corp. and the 84 lots in Unit 2D are subject to an option agreement, but Standard Pacific Corp. has not yet acquired any of the 84 lots from Black Mountain Ranch LLC.

<sup>(4)</sup> 38 lots in Unit 1B are owned by Standard Pacific Corp. and 42 lots in Units 2B and 9B are subject to an option agreement, but Standard Pacific Corp. has not yet acquired any of the 42 lots from Black Mountain Ranch LLC.

<sup>(5)</sup> 26 lots in Unit 1B are owned by Standard Pacific Corp. and 36 lots in Units 2B and 9B are subject to an option agreement, but Standard Pacific Corp. has not yet acquired any of the 36 lots from Black Mountain Ranch LLC.

*Status of Permits and Approvals.* A final map which encompassed each of Standard Pacific Corp.’s projects was recorded on September 2, 2005. Pursuant to its purchase agreement with Standard Pacific Corp., Black Mountain Ranch LLC was obligated to deliver finished lots to the Standard Pacific Corp. As described above, under “ – Status of Permits and Approvals,” Black Mountain Ranch LLC is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots. Most required development approvals were obtained by Black Mountain Ranch LLC over the last few years. The project has satisfied reviews relating to sensitive plant or animal species on the property (among other matters). Standard Pacific Corp. is not aware of any additional permits required to proceed with development of the property other than the usual permits required from the City and applicable local agencies. No lots are in the 100-year flood plain.

As of May 9, 2006, model construction for the Bridgewalk, Cassero and Cabrillo projects is complete. Home sales commenced in the fourth quarter of 2005 with home closings estimated to commence seven to eight months thereafter. Standard Pacific Corp. estimates it will complete model construction for the P-5 and P-6 projects during the second quarter of 2007. Home closings are estimated to commence seven to eight months thereafter.

Grading and sewer for the lots in the Bridgewalk, Cassero and Cabrillo projects is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the second quarter of 2006. Grading and sewer for the lots in the P-5 and P-6 projects is 75% complete and water, streets, curbs and gutters are estimated to be completed by the end of the third quarter of 2006. Because Standard Pacific Corp. will acquire “finished lots,” Standard Pacific Corp.’s remaining costs relate primarily to model and production home construction.

*Plan of Finance.* Standard Pacific Corp. expect to finance the construction of housing units through internal financing and home sales.

If and to the extent that the member contributions and land sales revenues are inadequate to pay the costs to complete the planned development Standard Pacific Corp. expects to develop within the Community Facilities District, portions of the projects may not be developable. While Standard Pacific Corp. has made funds available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and Standard Pacific Corp. has no legal obligation of any kind to Bondowners to make any funds available or to obtain loans. Other than pointing out the willingness of Standard Pacific Corp. to provide funds in the past, Standard Pacific Corp. has not represented in any way that it will do so in the future.

*Absorption.* The Bridgeway at Del Sur development has a projected absorption rate of approximately 12 unit sales per quarter, with home sales commencing during the fourth quarter of 2005, and home closings estimated to commence approximately seven to eight months thereafter. The Cassero at Del Sur development has a projected absorption rate of approximately 12 unit sales per quarter, with home sales commencing during the fourth quarter of 2005, and home closings estimated to commence approximately seven to eight months thereafter. The Cabrillo at Del Sur development has a projected absorption rate of approximately 12 unit sales per quarter, with home sales commencing during the fourth quarter of 2005, and home closings commencing approximately seven to eight months thereafter. The P-5 development has a projected absorption rate of approximately 10 unit sales per quarter, with home sales estimated to commence during the first quarter of 2007, and home closings estimated to commence approximately seven to eight months thereafter. The P-6 development has a projected absorption rate of approximately 10 unit sales per quarter, with home sales estimated to commence during the first quarter of 2007, and home closings estimated to commence approximately seven to eight months thereafter.

*Development Experience.* Through its homebuilding divisions and joint ventures, Standard Pacific Corp. delivered 6,265 homes in 2002, 8,213 homes in 2003, 9,091 homes in 2004, 11,694 homes in 2005. The San Diego division delivered approximately 485 homes in 2005. Recent projects under development by the San Diego Division of Standard Pacific include the following:

<u>Site Name</u>	<u>Location</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>
Sansonnet	San Diego	183	\$550,000 - \$700,000	2,700 - 3,875
Cedar Crossing	San Marcos	93	\$350,000 - \$400,000	1,700 - 2,600
Chesapeake Bay	Carlsbad	106	\$1,200,000 - \$1,350,000	3,090 - 4,200
Pleasant Bay	Carlsbad	126	\$990,000 - \$1,100,000	2,840 - 3,315
Shorepointe	Carlsbad	146	\$425,000 - \$500,000	1,800 - 2,890
Maravu	Encinitas	43	\$700,000 - \$800,000	3,200 - 4,500

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* An authorized representative executing a certificate on behalf of Standard Pacific Corp. certifies that to its knowledge:

- as Standard Pacific Corp. is a large, nation-wide company that is developing or has been involved in the development of numerous projects over an extended period of time, Standard Pacific Corp. cannot represent with assurance that neither Standard Pacific Corp. nor any other Affiliate of the Standard Pacific Corp. has ever been delinquent in the payment of *ad valorem* property taxes, special assessments or special taxes; however, Standard Pacific Corp. does not have actual knowledge that it or any of its Affiliates is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes,
- neither Standard Pacific Corp. nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to the development being undertaken by Standard Pacific Corp. in the Community Facilities District or any of Standard Pacific Corp.'s other projects which default would in any way materially and adversely affect the ability of Standard Pacific Corp. to develop its property as described in the Official Statement or to pay the Community Facilities District Special Taxes for which it is responsible,
- Standard Pacific Corp. and, to the actual knowledge of Standard Pacific Corp., its Affiliates are solvent and neither Standard Pacific Corp. nor, to the actual knowledge of Standard Pacific Corp., any of its Affiliates has ever filed bankruptcy or been declared bankrupt or have any proceeding pending or

threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of their debts or obligations, and

- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Standard Pacific Corp. or an Affiliate having been accomplished) against Standard Pacific Corp. or is pending against any Affiliate or is threatened against Standard Pacific Corp. or any of its Affiliates, which if successful, would materially adversely affect the ability of Standard Pacific Corp. to complete the development of the property being undertaken by Standard Pacific Corp. or to pay Special Taxes or *ad valorem* tax obligations when due on its property.

For purposes of this Official Statement, the actual knowledge of Standard Pacific Corp. shall mean the actual knowledge of Brian Utsler, Vice President of Standard Pacific Corp.

William Lyon Homes, Inc.

William Lyon Homes, Inc., a California corporation (“William Lyon Homes, Inc.”), is primarily engaged in designing, constructing and selling single-family detached and attached homes in California, Arizona and Nevada. The San Diego division of William Lyon Homes, Inc. delivered 325 homes in 2005. William Lyon Homes, Inc. is a wholly-owned subsidiary of William Lyon Homes, a Delaware corporation (“WLH Delaware”). WLH Delaware is currently a publicly traded company with a ticker symbol of “WLS.” However, WLH Delaware is in the process of converting to a privately-held company, as discussed further below.

*The Tender Offer.* On March 17, 2006, General William Lyon, Chairman of the Board and Chief Executive Officer of WLH Delaware, announced that he had commenced a tender offer to purchase all outstanding shares of common stock of WLH Delaware not already owned by him, The William Harwell Lyon 1987 Trust, or The William Harwell Lyon Separate Property Trust .

On May 18, 2006, General Lyon announced the completion of the tender offer and that he had accepted for payment all shares validly tendered in the offer, a portion of which remain subject to guaranteed delivery procedures. The shares tendered in the offer, together with the shares already owned by General Lyon, The William Harwell Lyon 1987 Trust and The William Harwell Lyon Separate Property Trust, represent over 90% of the outstanding shares of WLH Delaware. Accordingly, upon completion of the purchase of the tendered shares (including those still subject to guaranteed delivery procedures) and contribution of all shares held by General Lyon and the aforementioned trusts into a newly formed Delaware corporation (the "Acquisition Corporation"), the Acquisition Corporation would hold a sufficient number of shares to enable General Lyon to effect a short-form merger between the Acquisition Corporation and WLH Delaware under Delaware law. General Lyon intends to complete the short-form merger as soon as practicable following receipt by the depository of the remaining shares tendered through guaranteed delivery procedures, pursuant to which all outstanding shares of WLH Delaware not held by the Acquisition Corporation would be converted into the right to receive cash.

*Although the Official Statement is dated as of June 9, 2006, subsequently to its preparation additional information regarding the tender offer and delisting of common stock became available. Such information is set forth below:*

*On June 13, 2006, WLH Delaware announced that it had been informed by the New York Stock Exchange (the “NYSE”) that the NYSE has, on its own initiative, suspended trading in WLH Delaware’s common stock. The NYSE confirmed that this action would not affect the trading of the Company’s 10-3/4% Senior Notes due April 1, 2013 or 7-1/2% Senior Notes due February 15, 2014. The NYSE has informed WLH Delaware that it has information indicating that the amount of publicly held shares of WLH Delaware’s common stock available for trading is not sufficient for auction market trading. The NYSE further indicated that it intends to make application to the Securities and Exchange Commission to delist the common stock.*

*On June 13, 2006, General Lyon reaffirmed his intention to complete the previously announced short-form merger with WLH Delaware as soon as practicable following receipt by the depository of a number of remaining shares tendered through guaranteed delivery procedures. General Lyon indicated that*

he intends to vigorously enforce his rights against those institutions which have failed to honor their guaranteed delivery obligations in full.

*Development Experience.* Since the founding of its predecessor in 1956, WLH Delaware and its subsidiaries (including the Company) has sold over 56,000 homes. WLH Delaware conducts its homebuilding operations through five geographic divisions (Southern California, San Diego, Northern California, Arizona and Nevada) including both wholly-owned projects and projects being developed in unconsolidated joint ventures. WLH Delaware believes that it is one of the largest homebuilders in California in terms of both sales and homes delivered. In 2005, WLH Delaware, its subsidiaries, and its unconsolidated joint ventures had combined revenues from home sales of \$1,856,383,000 and delivered 3,196 homes.

William Lyon Homes, Inc. and its Affiliates delivered approximately 2,522 homes in 2002, approximately 2,804 homes in 2003, approximately 3,471 homes in 2004, approximately 3,196 homes in 2005, and anticipates closing approximately 3,000 homes in 2006.

William Lyon Homes, Inc. assigned its purchase rights to Hearthstone Multi-Asset Entity B, L.P., which subsequently acquired the 83 lots in Units 1E and 2E. William Lyon Homes, Inc. entered into an agreement with Hearthstone Multi-Asset Entity B, L.P. to acquire the 83 lots in Units 1E and 2E on a predetermined take-down schedule. As of May 15, 2006, William Lyon Homes, Inc. has acquired all 83 lots from Hearthstone Multi-Asset Entity B, L.P.

William Lyon Homes, Inc.'s is expected to acquire the 89 lots in Units 3B and 5B but as of May 1, 2006, has not acquired the 89 lots in Units 3B and 5B from Black Mountain Ranch LLC.

*Description of Project.* William Lyon Homes, Inc. is the builder with respect to land for both projects. As of April 1, 2006, 19 of the 83 units with respect to the Alcalá at Del Sur project were under construction. The Alcalá at Del Sur project has three model homes. No building permits for any of the 89 units have been issued with respect to the Pasado at Del Sur project. The Pasado at Del Sur project is expected to have 4 model homes, but as of May 1, 2006, there were no model or production units under construction.

The vacant lots in the Alcalá at Del Sur project were in a partially finished condition. The Alcalá at Del Sur project in Units 1E and 2E opened in the second quarter of 2006.

All of the lots in the Pasado at Del Sur project are graded and improvements are currently being installed by Black Mountain Ranch LLC.

The development which constitutes William Lyon Homes, Inc.'s projects, together with the estimated lot sizes, unit sizes and base sales price range is set forth below.

<b>Project Name</b>	<b>Minimum Lot Size (Square Feet)</b>	<b>Estimated Unit Size (Square Feet)</b>	<b>Estimated Base Sales Price Range</b>	<b>Total Units</b>	<b>Building Permits as of 6/13/06</b>
Alcalá at Del Sur	4,000	2,463 - 2,593	\$769,000 - \$792,900	83	52
Pasado at Del Sur	3,150	2,020 - 2,349	\$743,000 - \$752,200	89	0

*Status of Permits and Approvals.* The 83 units in the Alcalá at Del Sur project are encompassed within two recorded final maps. The two final maps encompassing the 89 units in the Pasado at Del Sur project have also been recorded. Pursuant to the purchase agreement with Black Mountain Ranch, LLC, Black Mountain Ranch, LLC delivered blue top lots in the Alcalá at Del Sur project and William Lyon Homes, Inc. has completed the in-tract street, sewer, water and dry utility improvements. Black Mountain Ranch, LLC is completing the lots in the Pasado at Del Sur project to a finished condition, including in-tract street, sewer, water and dry utility improvements. Most required development approvals were obtained by Black Mountain Ranch LLC over the last few years. The project has satisfied reviews relating to sensitive plant or animal species on the property (among other matters). William Lyon Homes, Inc. is not aware of any additional permits required to proceed with development of the property other than the usual permits required from the City and applicable local agencies. No lots are in the 100-year flood plain.



Three models for the Alcalá at Del Sur project opened in May 2006, and home sales commenced in the first quarter of 2006 with home closings estimated to commence in June/July 2006. Four models for the Pasado at Del Sur project are anticipated to commence construction in the fourth quarter of 2006 and home sales are anticipated to commence in the first quarter of 2007 with home closings estimated to commence approximately seven to eight months thereafter.

As described above, under “– Status of Permits and Approvals,” Black Mountain Ranch LLC has completed the work which it is responsible for relating to the Alcalá at Del Sur project and Black Mountain Ranch LLC is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the Pasado at Del Sur project. Since Black Mountain Ranch LLC is completing the work relating to the Pasado at Del Sur project, William Lyon Homes, Inc. is not able to provide an estimated date for completion of the work by Black Mountain Ranch LLC. Because William Lyon Homes, Inc. will acquire “finished lots” with respect to the Pasado at Del Sur project, William Lyon Homes, Inc.’s remaining costs relate primarily to model and production home construction.

*Plan of Finance.* Development of the property in Alcalá at Del Sur (Units 1E and 2E) is being financed, and development of property in Pasado at Del Sur (Units 3B and 5B) are proposed to be financed, through a combination of loans from Guaranty Bank National Association, private equity and internal sources. As of April 1, 2006, William Lyon Homes, Inc. has a \$35,000,000 credit facility from Guaranty Bank, National Association with respect to the Alcalá at Del Sur project. As of April 1, 2006, the construction loan was outstanding in the approximate amount of \$8,000,000. William Lyon Homes, Inc. anticipates obtaining an approximately \$13,860,000 credit facility from an existing lender in connection with its acquisition of lots for the Pasado at Del Sur project. The credit facility with respect to the Pasado at Del Sur project will not fund until lots within the project are acquired from Black Mountain Ranch, LLC.

As of April 1, 2006, William Lyon Homes, Inc. has expended approximately \$20,000,000 for acquisition of the property and the development within the Alcalá at Del Sur project. As of April 1, 2006, estimated costs to improve the Alcalá at Del Sur project property from finished condition and for constructing in-tract street, water, sewer and dry utility improvements for the attached single-family housing was approximately \$2,400,000 for Units 1E and 2E of which approximately \$1,700,000 had been expended.

As of April 1, 2006, William Lyon Homes, Inc. had expended approximately \$134,000 for acquisition of the property and development within the Pasado at Del Sur project. As of April 1, 2006, estimated costs to improve the Pasado at Del Sur project from finished condition and for constructing in-tract street, water, sewer and dry utility improvements for the attached single-family housing was approximately \$1,000,000 for Units 3B and 5B of which no amounts had been expended. As of May 1, 2006, William Lyon Homes, Inc. does not own the property on which the Pasado at Del Sur project is proposed to be constructed.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of William Lyon Homes, Inc.’s expected development within property it acquires, portions of the project may not be developable. While William Lyon Homes, Inc. has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of William Lyon Homes, Inc. to provide internal financing in the past, neither William Lyon Homes, Inc. nor WLH Delaware have represented in any way that it will do so in the future.

*Absorption.* William Lyon Homes, Inc.’s Alcalá at Del Sur development has a projected absorption rate of approximately 16 units per quarter, and home sales commenced during the first quarter of 2006 with home closings estimated to commence in June/July 2006. William Lyon Homes, Inc.’s Pasado at Del Sur development has a projected absorption rate of approximately 18 units per quarter, with home sales estimated to commence during the first quarter of 2007 and home closings estimated to commence seven to eight months thereafter.

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* Authorized representatives executing a certificate on behalf of William Lyon Homes, Inc. certify that to their knowledge:

- William Lyon Homes, Inc. has numerous Affiliates consisting of various entities that are developing or have been involved in the development of numerous projects over an extended period of time. It is likely that William Lyon Homes, Inc. and any of such Affiliates have been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments or special taxes. William Lyon Homes, Inc. does not have actual knowledge that it or any such Affiliate is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes,
- Neither William Lyon Homes, Inc. nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- William Lyon Homes, Inc. and its Affiliates are solvent and neither William Lyon Homes, Inc. nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt or has any proceeding pending or threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations, and
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to William Lyon Homes, Inc. or an Affiliate having been accomplished) against William Lyon Homes, Inc. or any Affiliate or threatened, which if successful, would materially adversely affect the ability of William Lyon Homes, Inc. to complete the acquisition and development of the property expected to be owned within the Community Facilities District or to pay Special Taxes or *ad valorem* tax obligations prior to delinquency on its property within the Community Facilities District.

## **COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**

### **Authority for Issuance**

The 2006 Bonds are issued pursuant to the Act and the Bond Indentures. In addition, as required by the Act, the Board has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2006 Bonds:

*Resolutions of Intention:* On December 17, 2005, the Board adopted Resolution No. 36-2006 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein pursuant to the Community Facilities District Rate and Method. On the same day the Board adopted Resolution No. 37-2006 stating its intention to incur bonded indebtedness in an amount not to exceed \$75,000,000 with respect to the Community Facilities District. The Community Facilities District Rate and Method will finance School Facilities. See “SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2006 BONDS” herein.

*Resolution of Formation:* Immediately following a noticed public hearing on January 17, 2006, the Board adopted Resolution No. 41-2006 (the “Resolution of Formation”), which established the Community Facilities District, established the Community Facilities District Rate and Method and authorized the levy of a special tax within the Community Facilities District pursuant to the Community Facilities District Rate and Method.

*Resolution of Necessity:* On January 17, 2006, the Board adopted Resolution No. 42-2006 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$75,000,000 with respect to the Community Facilities District and submitting the proposition to the qualified electors of the Community Facilities District.

*Landowner Election and Declaration of Results:* On January 17, 2006, an election was held within the Community Facilities District, in which the landowners eligible to vote (Black Mountain Ranch LLC), being the qualified electors, approved the ballot propositions authorizing the issuance of up to \$75,000,000 in bonds to finance the acquisition and construction of the School Facilities and the issuance of up to \$75,000,000 in bonds to finance the acquisition and construction of the Infrastructure Improvements. The

qualified electors within the Community Facilities District also approved the levy of a special tax in accordance with the Community Facilities District Rate and Method, the levy of a special tax in accordance with the Improvement Area A Rate and Method, and the establishment of an appropriations limit for the Community Facilities District.

On January 17, 2006, the Board adopted Resolution No. 43-2006 pursuant to which the Board approved the canvass of the votes.

Special Tax Lien and Levy: Notices of Special Tax Lien for the Community Facilities District and for the Improvement Area were recorded in the real property records of San Diego County on February 1, 2006.

*Ordinance Levying Special Taxes:* On February 13, 2006, the Board adopted Ordinance No. 2006-01 levying the Special Tax within the Community Facilities District and Improvement Area A.

*Resolution Authorizing Issuance of the 2006 Bonds:* On May 15, 2006, the Board adopted Resolution No. 76-2006 approving issuance of the 2006 CFD Bonds and the 2006 Improvement Area A Bonds.

### **Market Absorption Study**

Empire Economics, Inc., the market absorption consultant (the “Market Absorption Consultant”), has prepared a market analysis of the property in the District in its Market Absorption Study, dated March 17, 2006 (the “Market Absorption Study”).

Based upon its analysis of the expected demographic-economic trends, the Market Absorption Consultant estimated the District is expected to accommodate the approximately 1,148 residential units with build-out by the end of 2010. The Market Absorption Study is subject to a number of assumptions and limiting conditions. See APPENDIX D – “Market Absorption Study” for a discussion of the assumptions and limiting conditions of the Market Absorption Study. The Market Absorption Consultant’s estimated absorption rates of the different categories of residential units are as follows:

**Table 3**  
**Poway Unified School District**  
**Community Facilities District No. 14 (Del Sur)**  
**Projected Absorption**  
**March 17, 2006**

Market Segments	Attached		\$700,000 - 799,999				
	Del Sur Clusters	Cassero	Madeira	Bridgewalk	Alcala	Madeira II	Pasado
<b>Projects</b>							
<b>Units</b>	4	11	1C	N/A	1E & 2E	2C & 9C	3B
<b>Tract/Map</b>			15076	15095		15149 & 15165	
<b>Product Types</b>	Attached	Attached	Detached	Detached	Detached	Detached	Detached
<b>Lot Sizes</b>	N/A	N/A	3,600	2,450	4,200	3,600	3,300
<b>Builders</b>	Shea Homes	Standard Pacific	Shea Homes	Standard Pacific	William Lyon	Shea Homes	William Lyon
<b>Number of Homes Occupied</b>	125	80	78	153	83	58	89
<b>Future Occupancies</b>	0	0	0	0	0	0	0
<b>Number of Units</b>	125	80	78	153	83	58	89
<b>Plan #1</b>	12	26	23	48	23	12	26
<b>Plan #2</b>	17	27	7	54	31	7	30
<b>Plan #3</b>	35	27	21	51	29	11	33
<b>Plan #4</b>	31		4			8	
<b>Plan #5</b>	30		23			20	
<b>Totals</b>	<b>125</b>	<b>80</b>	<b>78</b>	<b>153</b>	<b>83</b>	<b>58</b>	<b>89</b>
<b>Living Areas</b>							
<b>Plan #1</b>	1,643	2,079	1,785	1,702	2,463	1,785	2,020
<b>Plan #2</b>	1,800	2,424	1,939	1,930	2,460	1,939	2,200
<b>Plan #3</b>	1,842	2,569	2,000	1,961	2,593	2,000	2,349
<b>Plan #4</b>	2,192		2,131			2,131	
<b>Plan #5</b>	2,298		2,269			2,269	
<b>Averages</b>	<b>2,013</b>	<b>2,361</b>	<b>2,017</b>	<b>1,869</b>	<b>2,507</b>	<b>2,059</b>	<b>2,203</b>
<b>Prices - Estimated</b>							
<b>Plan #1</b>	\$589,000	\$760,000	\$715,000	\$686,900	\$769,900	\$715,000	\$743,000
<b>Plan #2</b>	\$599,000	\$794,000	\$737,000	\$713,900	\$774,900	\$737,000	\$755,000
<b>Plan #3</b>	\$635,000	\$819,000	\$745,000	\$728,900	\$791,900	\$745,000	\$769,000
<b>Plan #4</b>	\$675,000		\$777,000			\$777,000	
<b>Plan #5</b>	\$690,000		\$789,000			\$769,000	
<b>Averages</b>	<b>\$648,808</b>	<b>\$791,388</b>	<b>\$750,051</b>	<b>\$710,429</b>	<b>\$779,454</b>	<b>\$750,517</b>	<b>\$756,685</b>
<b>Value Ratio: Price/Living Area</b>	\$322	\$335	\$372	\$380	\$311	\$365	\$344
<b>Homeowners Commence Occupancies</b>	2nd-2007	4th-2006 Active	2nd-2006 Active	3rd-2006 Active	3rd-2006 Active	1st-2007	3rd-2007
<b>Absorption/ Occupancies</b>							
<b>2006</b>	0	15	40	25	25	0	0
<b>2007</b>	30	40	38	45	35	40	15
<b>2008</b>	45	25	0	45	23	18	40
<b>2009</b>	50	0	0	38	0	0	34
<b>2010</b>	0	0	0	0	0	0	0
<b>Totals</b>	<b>125</b>	<b>80</b>	<b>78</b>	<b>153</b>	<b>83</b>	<b>58</b>	<b>89</b>

**Table 3**  
**Poway Unified School District**  
**Community Facilities District No. 14 (Del Sur)**  
**Projected Absorption**  
**March 17, 2006**

Market Segments	\$800,000 - 899,999			\$900,000 - 999,999		Above \$1,000,000	Annually	Cumulatively
	Kensington	Cabrillo	Del Sur Unit 9A	Product P-6	Product P-5	Sentinels		
<b>Projects</b>								
<b>Units</b>	1A & 2A	9	9A	3 & 5	3 & 5	3 & 5		
<b>Tract/Map</b>	15093 & 15099	N/A						
<b>Product Types</b>	Detached	Detached	Detached	Detached	Detached	Detached		
<b>Lot Sizes</b>	6,027	9,000	6,027	7,000	8,000	8,000		
<b>Builders</b>	Davidson	Standard Pacific	Davidson	Standard Pacific	Standard Pacific	Laing Luxury		
<b>Number of Homes Occupied</b>	70	62	70	96	108	76	1,148	
<b>Future Occupancies</b>	0	0	0	0	0	0	0	
	70	62	70	96	108	76	1,148	
<b>Number of Units</b>								
<b>Plan #1</b>	14	20	16	30	21	17		
<b>Plan #2</b>	6	19	6	32	26	41		
<b>Plan #3</b>	17	23	23	34	30	18		
<b>Plan #4</b>	22		21		31			
<b>Plan #5</b>	11		4					
<b>Totals</b>	<b>70</b>	<b>62</b>	<b>70</b>	<b>96</b>	<b>108</b>	<b>76</b>	<b>1,148</b>	
<b>Living Areas</b>								
<b>Plan #1</b>	2,660	2,420	2,660	2,825	3,000	2,800		
<b>Plan #2</b>	2,766	2,772	2,766	3,000	3,200	2,975		
<b>Plan #3</b>	2,861	3,000	2,861	3,150	3,400	3,250		
<b>Plan #4</b>	3,037		3,037		3,600			
<b>Plan #5</b>	3,156		3,156					
<b>Averages</b>	<b>2,914</b>	<b>2,743</b>	<b>2,877</b>	<b>2,998</b>	<b>3,331</b>	<b>3,001</b>	<b>2,490</b>	
<b>Prices - Estimated</b>								
<b>Plan #1</b>	\$827,000	\$791,000	\$827,000	\$880,000	\$947,000	\$1,027,500		
<b>Plan #2</b>	\$853,000	\$829,000	\$853,000	\$905,000	\$972,000	\$1,063,500		
<b>Plan #3</b>	\$857,000	\$866,000	\$857,000	\$925,000	\$996,000	\$1,137,500		
<b>Plan #4</b>	\$885,000		\$885,000		\$1,021,000			
<b>Plan #5</b>	\$900,000		\$900,000					
<b>Averages</b>	<b>\$866,214</b>	<b>\$830,468</b>	<b>\$860,657</b>	<b>\$904,271</b>	<b>\$987,870</b>	<b>\$1,072,974</b>	<b>\$814,109</b>	
<b>Value Ratio: Price/Living Area</b>	\$297	\$303	\$299	\$302	\$297	\$358	\$327	
<b>Homeowners Commence Occupancies</b>	2nd-2006 Active	4th-2006 Active	1st-2008	2nd-2007	2nd-2007	2nd-2007		
<b>Absorption/ Occupancies</b>								
<b>2006</b>	25	10	0	0	0	0	140	140
<b>2007</b>	40	40	0	30	30	25	408	538
<b>2008</b>	5	12	40	35	40	30	358	906
<b>2009</b>	0	0	30	31	38	21	242	1,148
<b>2010</b>	0	0	0	0	0	0	0	1,148
<b>Totals</b>	<b>70</b>	<b>62</b>	<b>70</b>	<b>96</b>	<b>108</b>	<b>76</b>	<b>1,148</b>	

## Appraised Property Values

An MAI appraisal of the land and existing improvements for the development within the Community Facilities District dated April 21, 2006 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with the issuance of the 2006 Bonds. The purpose of the appraisal was to estimate the market value of each of the separate tracts in the Community Facilities District. The taxable properties include the completed unsold homes, homes under construction and vacant residential land and exclude all commercial land. In all, the taxable properties include approximately 1,148 residential units, of which as of April 1, 2006, there were 4 completed unsold models, 15 models under construction and 138 production homes under construction. No units have closed escrow. There are approximately 991 vacant lots on which production homes have not yet commenced construction.

The Appraisal estimated the value of the property in the Community Facilities District as "finished lots," that is, the lots have had fine grading, all in-tract streets and utilities have been completed and fees have been paid or credited (sewer, water, road, library, park, etc.), up to the stage of pulling building permits (which, as described in "Property Ownership" above, is not yet the condition of the property), less the remaining cost to Black Mountain Ranch LLC and the Merchant Builders to achieve finished lots (based on the status of the development process as of April 1, 2006). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Special Taxes.

The Appraiser used a sales comparison approach, in which recent sales of residential land or bulk lots 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 was achieved using the sales price of comparable bulk residential lots in the area that were listed or had sold within the prior two years.

The valuation of the homes under construction is based on consideration of an estimate of costs expended plus the value of the vacant lot. The valuation of the vacant lots is based on the Sales Comparison Approach, and considered as part of the larger tract. This approach considers recent sales of residential land or bulk lots from the general area in comparison to the subject property.

The Appraisal is based on certain assumptions and limiting conditions. Subject to these assumptions and limiting conditions, as of April 1, 2006, the Appraiser estimated that the market value of the property within the Community Facilities District, including (subject to the lien of the Special Taxes) homes under construction and vacant residential land, was as follows:

<u>Merchant Builder<sup>(1)</sup></u>	<u>Units</u>	<u>Tract Name</u>	<u>Market Value</u>
Standard Pacific Corp.	69	Bridgewalk at Del Sur	\$22,300,000
Shea Homes Limited Partnership	78	Madeira	31,750,000
William Lyon Homes, Inc.	83	Alcala	32,500,000
Standard Pacific Corp.	38	Cassero at Del Sur	13,800,000
Standard Pacific Corp.	26	Cabrillo at Del Sur	10,250,000
Davidson Homebuilders LLC	70	Kensington @ Del Sur	28,150,000
<i>Subtotal</i>	364		\$138,750,000
Black Mountain Ranch LLC	784		191,750,000
<i>Total</i>	1,148		\$330,500,000

<sup>(1)</sup> For convenience of reference, this table uses common builder names. In many cases, the landowner and/or Merchant Builder is a separate limited liability company or other entity. Black Mountain Ranch LLC has entered into contracts for the sale of additional lots as a continuation of certain of the developments referenced herein or in connection with other projects which have not yet closed escrow to a Merchant Builder. See the respective Merchant Builder sections in "THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Black Mountain Ranch LLC and the Merchant Builders" for a description of ownership, legal entities and proposed projects.

*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.*

The values are based on the assumption that Black Mountain Ranch LLC will complete the infrastructure in a timely manner such that building permits will be available for development to occur as projected in the absorption conclusions by the Market Absorption Consultant. The Market Absorption Study contains projected absorption of production homes that differ from those of the Developer.

The \$330,500,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 3.21 to 1 with respect to the Community Facilities District, calculated with respect to all direct and overlapping tax and assessment debt as presented in Table 4 below as of the estimated date of issuance of the 2006 Bonds. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate values. The foregoing value-to-lien estimate does include the overlapping indebtedness incurred, or expected to be incurred, with respect to the Community Facilities District. The foregoing value-to-lien estimate does not include the overlapping indebtedness expected to be incurred in the future to be incurred in the future with respect to the Community Facilities District.

See “SECURITY FOR THE 2006 BONDS – Special Taxes – *Community Facilities District Rate and Method*,” and “ – *Improvement Area A Rate and Method*,” “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Black Mountain Ranch LLC and the Merchant Builders,” “Direct and Overlapping Debt” and BONDOWNERS’ RISKS – Appraised Values” herein and APPENDIX C – “Summary Appraisal Report” appended hereto for further information on the Appraisal, for limiting conditions relating to the Appraisal and for information relating to overlapping indebtedness.

**Value-to-Lien Ratios**

Table 4 below sets forth the value-to-lien analysis for the Community Facilities District as of the April 1, 2006 appraisal date of value:

**Table 4**  
**Poway Unified School District**  
**Community Facilities District No. 14**  
**Value-to-Lien Analysis**

Owner	Units	CFD Special Taxes <sup>(1)</sup>	Imp. Area Special Taxes <sup>(1)</sup>	Total Appraised Value <sup>(2)</sup>	CFD No. 14 2006 Bonds <sup>(3)</sup>	IA A of CFD No. 14 2006 Bonds <sup>(3)</sup>	Additional Land Secured Debt <sup>(4)</sup>	Total Lien	Value to Lien <sup>(5)</sup>
<b>Standard Pacific</b>	<b>1B, 2B ID</b>	\$73,720.75	\$73,694.75	\$10,250,000.00	\$1,243,688.12	\$1,243,205.27	\$461.20	\$2,487,354.59	4.12:1
	<b>1F, 2F</b>	\$151,876.80	\$151,807.80	\$22,300,000.00	\$2,562,200.89	\$2,561,206.15	\$1,223.96	\$5,124,631.00	4.35:1
		\$88,536.62	\$88,498.62	\$13,800,000.00	\$1,493,635.67	\$1,493,055.79	\$674.07	\$2,987,365.53	4.62:1
		\$314,134.17	\$314,001.17	\$46,350,000.00	\$5,299,524.68	\$5,297,467.21	\$2,359.23	\$10,599,351.12	4.37:1
<b>Subtotal Standard Pacific</b>									
<b>Davidson</b>	<b>1A, 2A</b>	\$212,545.92	\$212,475.92	\$28,150,000.00	\$3,585,704.63	\$3,584,312.53	\$1,241.70	\$7,171,258.86	3.93:1
<b>Shea Homes</b>	<b>1C</b>	\$183,297.65	\$183,219.65	\$31,750,000.00	\$3,092,278.75	\$3,091,078.22	\$1,383.61	\$6,184,740.58	5.13:1
<b>William Lyon Homes, Inc.</b>	<b>1E, 2E</b>	\$222,190.52	\$222,107.52	\$32,500,000.00	\$3,748,411.53	\$3,746,956.26	\$1,472.30	\$7,496,840.09	4.34:1
<b>Black Mountain Ranch, LLC</b>	<b>9A-C, 9F, 2C-D, 3B-E, 3C, 4A, 5A-E</b>	\$2,121,430.46	\$2,120,646.46	\$191,750,000.00	\$35,789,080.42	\$35,775,185.79	\$13,907.03	\$71,578,173.24	2.68:1
<b>Total</b>		<b>\$3,053,598.72</b>	<b>\$3,052,450.72</b>	<b>\$330,500,000.00</b>	<b>\$51,515,000.00<sup>(6)</sup></b>	<b>\$51,495,000.00<sup>(6)</sup></b>	<b>\$20,363.87</b>	<b>\$103,030,363.89</b>	<b>3.21:1</b>

(1) Annual Special Taxes shown here are based on projected development and do not reflect the levy of Special Taxes in Fiscal Year 2006-07.

(2) Source: Summary Appraisal Report dated April 21, 2006.

(3) Debt has been allocated based on planned development, actual allocation of debt may vary depending on pace of development.

(4) Source: Detailed Direct and Overlapping Debt Report provided by National Tax Data, Inc. Debt has been allocated equally to each Lot planned to be developed, based on the Appraisal; actual allocation of debt per Lot may vary.

(5) Average value to lien per Lot; actual value to lien may vary by Lot.

(6) Totals may not total due to rounding.



## Estimated Special Tax Allocation by Project

For Fiscal Year 2006-07, the Community Facilities District Special Tax will be levied on Developed Property, i.e., assessor's parcels for which building permits for new construction were issued on or before May 1, 2006. Based on the Appraisal, as of April 1, 2006, there were approximately 4 completed model homes, 15 model homes under construction and 138 production homes under construction in the Community Facilities District.

Based on property ownership as updated by Black Mountain Ranch LLC and each Merchant Builder, the Special Tax Consultant estimated that Black Mountain Ranch LLC owned none of the lots and the Merchant Builders owned in the aggregate approximately 157 of the lots in the Community Facilities District categorized as Developed Property in Fiscal Year 2006-07. As of May 1 2006, there were no individual homeowners within the Community Facilities District. Interest on the 2006 Bonds is capitalized until September 1, 2007. Based on the foregoing allocations, Black Mountain Ranch LLC is responsible for none of the Fiscal Year 2006-07 Special Taxes and Merchant Builders are responsible for all of the Fiscal Year 2006-07 Special Taxes levied. Such percentages will decline as Merchant Builders sell completed production homes to individual homeowners during Fiscal Year 2006-07.

Interest on the 2006 Bonds is capitalized through September 1, 2007 and the Community Facilities District estimates that the Community Facilities District Special Tax and the Improvement Area A Special Tax will be levied on Undeveloped Property in Fiscal Year 2007-08. A portion of the Developed Property levy will relate to homes completed or under construction and owned by Merchant Builders. At this time, the Community Facilities District estimates that Merchant Builders will be responsible for a significant portion of the Fiscal Year 2007-08 Community Facilities District Special Tax levy and for a significant portion of the Fiscal Year 2007-08 Improvement Area A Special Tax levy. However, at this time, the Community Facilities District cannot estimate the portion of the Fiscal Year 2007-08 for which the Merchant Builders will be responsible. See "THE DEL SUR PROJECT AND PROPERTY OWNERSHIP" and "COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)" for a description of the Community Facilities District, Black Mountain Ranch LLC, the Merchant Builders and the development within the Community Facilities District. Were it necessary, the Community Facilities District is authorized to levy Community Facilities District Special Taxes and Improvement Area A Special Taxes on Undeveloped Property in order to pay debt service on the applicable series of 2006 Bonds or to replenish the applicable Reserve Fund.

Fiscal Year 2006-07 will be the first year in which Special Taxes are levied in the Community Facilities District. *Ad valorem* taxes levied in Fiscal Year 2005-06 have been paid.

Table 5 below presents the Special Taxes estimated to be levied in Fiscal Year 2006-07 if the Community Facilities District were fully built out. As noted above, permits have been issued for only approximately 157 of the approximately 1,148 units expected to be built in the Community Facilities District. The following table sets forth certain information concerning those parcels as if all of such parcels were levied as Developed Property. *The property is not currently in a fully developed condition.* The Community Facilities District Special Tax obligation and the Improvement Area A Special Tax obligation is estimated using Developed Property Special Tax rates applied to projected development.

**Table 5**  
**Poway Unified School District**  
**Community Facilities District No. 14**  
**Property Ownership for Taxable Property and Estimated Allocation of CFD**  
**and Improvement Area Special Tax Liability of Parcels**  
**At Ultimate Build Out**

Merchant Builder <sup>(1)</sup>	Unit	Number of Units <sup>(1)</sup>	Aggregate CFD Special Tax <sup>(2)</sup>	% of CFD Special Tax Obligation <sup>(1)</sup>	Aggregate Improvement Area Special Tax <sup>(2)</sup>	% of Improvement Area Special Tax Obligation <sup>(1)</sup>
Davidson	Unit 1A, 2A	70	\$212,545.92	6.96%	\$212,475.92	6.96%
	Unit 9A	70	\$209,592.72	6.86%	\$209,522.72	6.86%
Subtotal Davidson		140	\$422,138.64	13.82%	\$421,998.64	13.82%
Standard Pacific	Unit 1B, 2B	26	\$73,720.75	2.41%	\$73,694.75	2.41%
	Unit 9B	36	\$103,611.17	3.39%	\$103,575.17	3.39%
	Unit 1D	69	\$151,876.80	4.97%	\$151,807.80	4.97%
	Unit 2D	84	\$185,075.10	6.06%	\$184,991.10	6.06%
	Unit 1F, 2F	38	\$88,536.62	2.90%	\$88,498.62	2.90%
	Unit 9F	42	\$97,517.14	3.19%	\$97,475.14	3.19%
	Unit 3D	42	\$125,290.76	4.10%	\$125,248.76	4.10%
	Unit 3E	69	\$246,663.06	8.08%	\$246,594.06	8.08%
Subtotal Standard Pacific		406	\$1,072,291.40	35.12%	\$1,071,885.40	35.12%
Shea Homes	Unit 1C	78	\$183,297.65	6.00%	\$183,219.65	6.00%
	Unit 2C, 9C	58	\$138,955.92	4.55%	\$138,897.92	4.55%
	Unit 4A	55	\$115,504.50	3.78%	\$115,449.50	3.78%
Subtotal Shea Homes		191	\$437,758.07	14.34%	\$437,567.07	14.33%
William Lyon Homes, Inc.	Unit 1E, 2E	83	\$222,190.52	7.28%	\$222,107.52	7.28%
	Unit 3B	60	\$155,456.60	5.09%	\$155,396.60	5.09%
	Unit 5B	29	\$75,163.14	2.46%	\$75,134.14	2.46%
Subtotal William Lyon Homes, Inc.		172	\$452,810.26	14.83%	\$452,638.26	14.83%
Laing Luxury	Unit 3C	55	\$162,763.02	5.33%	\$162,708.02	5.33%
	Unit 5C	21	\$62,342.18	2.04%	\$62,321.18	2.04%
Subtotal Laing Luxury		76	\$225,105.20	7.37%	\$225,029.20	7.37%
Black Mountain Ranch, LLC	Unit 5A, Unit 5D, and Unit 5E	163	\$443,495.15	14.52%	\$443,332.15	14.52%
Individual Homeowners		0	\$0.00	0.00%	\$0.00	0.00%
Total		1,148	\$3,053,598.72	100.00%	\$3,052,450.72	100.00%

- (1) Based on anticipated ownership as of April 1, 2006. There is no certainty that sales contracts or option agreements entered into or under negotiation will be consummated and land transferred from Black Mountain Ranch LLC to any of the third parties described above.
- (2) Annual Special Taxes shown here are based on projected development and do not reflect the levy of taxes in Fiscal Year 2006-07.
- (3) As of April 1, 2006, Black Mountain Ranch is the current owner of 784 lots, including those in Units 2C, 2D, 3B, 3C, 3E, 4A, 5C, 9A, 9B, 9C and 9F which are under contract to the indicated Merchant Builders as well as those in Unit 5A, Unit 5D, and Unit 5E which Black Mountain Ranch LLC is expected to sell to Merchant Builders.

Source: David Taussig & Associates, Inc.

The Assigned Annual Special Tax under the Community Facilities District Rate and Method on Developed Property authorized for the 2006-07 Fiscal Year in the Community Facilities District ranges from \$2,043.05 to \$3,709.94 for a Detached Unit and from \$1,830.34 to \$2,360.19 for an Attached Unit. The Assigned Annual Special Tax for Undeveloped Property authorized for the 2006-07 Fiscal Year is \$25,027.47 per acre of Acreage.

The Assigned Annual Special Tax under the Improvement Area A Rate and Method on Developed Property authorized for the 2006-07 Fiscal Year ranges from \$2,042.05 to \$3,708.94 for Detached Units and ranges from \$1,829.34 to \$2,359.19 for Attached Units. The Assigned Annual Special Tax for Undeveloped Property authorized for the 2006-07 Fiscal Year is \$25,018.20 per acre of Acreage.

### **Direct and Overlapping Debt**

Table 6 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District prepared by National Tax Data, Inc. and based on the Fiscal Year 2005-06 tax levy and prepared in May 2006 (the "Debt Report") based on information regarding the Fiscal Year 2005-06 tax roll, as modified on behalf of the Community Facilities District. The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the City or the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District. See " – Overlapping Direct Assessments" below.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. Such long term obligations generally are not payable from property taxes, assessments or special taxes on land in 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 School District, the County, the City or other public agencies at any time.

The Community Facilities District has not undertaken to commission annual appraisals of the market value of property in the Community Facilities District for purposes of its 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 F hereto for the form of the Community Facilities District Continuing Disclosure Agreement.

**Table 6  
Poway Unified School District  
Community Facilities District No. 14  
Special Tax Bonds**

**Detailed Direct and Overlapping Debt**

STATE OF CALIFORNIA

COUNTY OF SAN DIEGO

I. Assessed Value

2005-2006 Secured Roll Assessed Value \$10,548,737

II. Secured Property Taxes

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy
Basic Levy	PROP13	\$917,031	\$2,959,910,664.51	0.00356%	14	\$105,487.37
Voter Approved Debt	VOTER	\$906,545	\$195,933,669.33	0.00063%	14	1,228.78
County of San Diego Mosquito Abatement	VECTOR	\$904,648	\$7,312,817.72	0.00035%	14	25.40
County of San Diego Vector Control, Zone B	VECTOR	\$405,036	\$908,491.68	0.00462%	14	42.00
Metropolitan Water District of Southern California Standby Charge	STANDBY	\$338,933	\$4,206,542.70	0.10325%	14	4,343.28
Palomar Pomerado Health Debt Service	GOB	\$178,332	\$8,814,005.21	0.02124%	14	1,872.39
San Diego County Water Authority Standby Charge	STANDBY	\$346,167	\$3,697,096.38	0.10207%	14	3,773.50
<i>2005-2006 TOTAL PROPERTY TAX LIABILITY</i>						116,772.72
TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2005-2006 ASSESSED VALUATION						1.11%

III. Land Secured Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Poway Unified School District CFD No. 14	CFD	\$51,515,000	\$51,515,000	100.00000%	18	\$51,515,000
Poway Unified School District CFD No. 14 Improvement Area A	CFD	\$51,495,000	\$51,495,000	100.00000%	18	\$51,495,000
<i>TOTAL LAND SECURED BOND INDEBTEDNESS (1)</i>						\$103,010,000
TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1)						\$103,010,000

IV. General Obligation Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of San Diego Public Safety Communication System Debt Service	GOB	\$25,500,000	\$11,520,000	0.00781%	18	\$899.98
Metropolitan Water District of Southern California Debt Service	GOB	\$850,000,000	\$419,390,000	0.00064%	18	2,693.95
Palomar Pomerado Health Debt Service	GOB	\$80,000,000	\$80,000,000	0.02096%	18	16,769.93
<i>TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS (1)</i>						\$20,364
TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (1)						\$20,364

TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT \$103,030,364

(1) 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.*

Table 7 below sets forth estimated Fiscal Year 2006-07 overall tax rates projected to be applicable to an Attached Unit in the Community Facilities District. Table 7 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 7**  
**Poway Unified School District**  
**Community Facilities District No. 14**  
**Estimated Fiscal Year 2006-07 Tax Rates**  
**(Attached Units with 1,620 Square Feet)**

**ASSESSED VALUATIONS AND PROPERTY TAXES**

Estimated Sales Price (1)	\$535,000.00
Homeowner's Exemption	<u>(\$7,000.00)</u>
Net Assessed Value (2)	\$528,000.00

**AD VALOREM PROPERTY TAXES**

	Percent of Total AV	Projected Amount
General Purposes	1.00000%	\$5,280.00
Ad Valorem Tax Overrides		
City of San Diego Zoological Exhibits	0.00500%	\$26.40
City of San Diego Public Safety Communications Systems	0.00145%	\$7.66
Metropolitan Water District Remainder of San Diego County Water Authority	0.00520%	\$27.46
Palomar Pomerado Health Debt Service	0.01775%	\$93.72
Total Ad Valorem Property Taxes	1.02940%	\$5,435.23

**ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES (3)**

Poway Unified School District CFD No. 14	\$1,830.34
Poway Unified School District Improvement Area No. A of CFD No. 14	\$1,829.34
Black Mountain Ranch North Maintenance Assessment District	\$91.80
County of San Diego Vector Control	\$8.55
Metropolitan Water District Water Standby Charge	\$11.50
County of San Diego Water Availability Charge	\$10.00
County of San Diego Mosquito/Rat Control	\$3.00

**PROJECTED TOTAL PROPERTY TAXES**

Projected Total Effective Tax Rate (as % of Sales Price)	\$9,219.76 1.72%
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(1) Estimated sales price for an average single-family attached residential unit 1,620 building square feet.

(2) Assessed value reflects estimated total assessed value for the parcel net of homeowner's exemption.

(3) All charges and special assessments are based on a lot size of less than an acre.

*Source: David Taussig & Associates, Inc.*

Table 8 below sets forth estimated Fiscal Year 2006-07 overall tax rates projected to be applicable to a Detached Unit in Improvement Area A. Table 8 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 8  
Poway Unified School District  
Community Facilities District No. 14  
Estimated Fiscal Year 2006-07 Tax Rates  
(Detached Units with 1,650 Square Feet)**

<b>ASSESSED VALUATIONS AND PROPERTY TAXES</b>		
Estimated Sales Price (1)	\$590,000.00	
Homeowner's Exemption	<u>(\$7,000.00)</u>	
Net Assessed Value (2)	\$583,000.00	
<b>AD VALOREM PROPERTY TAXES</b>	Percent of Total AV	Projected Amount
General Purposes	1.00000%	\$5,830.00
Ad Valorem Tax Overrides		
City of San Diego Zoological Exhibits	0.00500%	\$29.15
City of San Diego Public Safety Communications Systems	0.00145%	\$8.45
Metropolitan Water District Remainder of San Diego County	0.00520%	\$30.32
Water Authority		
Palomar Pomerado Health Debt Service	0.01775%	\$103.48
Total Ad Valorem Property Taxes	1.02940%	\$6,001.40
<b>ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES (3)</b>		
Poway Unified School District CFD No. 14		\$2,043.05
Poway Unified School District Improvement Area No. A of CFD No. 14		\$2,042.05
Black Mountain Ranch North Maintenance Assessment District		\$131.14
County of San Diego Vector Control		\$8.55
Metropolitan Water District Water Standby Charge		\$11.50
County of San Diego Water Availability Charge		\$10.00
County of San Diego Mosquito/Rat Control		\$3.00
<b>PROJECTED TOTAL PROPERTY TAXES</b>		<b>\$10,250.69</b>
Projected Total Effective Tax Rate (as % of Sales Price)		1.74%

(1) Estimated sales price for an average single-family detached residential unit 1,650 building square feet.

(2) Assessed value reflects estimated total assessed value for the parcel net of homeowner's exemption.

(3) All charges and special assessments are based on a lot size of less than an acre.

### **Overlapping Direct Assessments**

*Metropolitan Water District Standby Charge.* The Metropolitan Water District imposes an annual direct assessment of \$11.51 per acre, or \$11.51 per parcel if the parcel is less than an acre. This assessment is used for capital improvements to the 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 once every year. Parcels with their own wells may be exempted from this assessment.

*County Vector Control.* The San Diego County Department of Environmental Health imposes an annual direct assessment on all property at the rate of approximately \$8.55 per parcel. This assessment will escalate based on the San Diego area Consumer Price Index, at a rate not to exceed five percent (5%) per

year. This pay-as-you-go assessment is used for vector surveillance and control programs. The County Department of Environmental Health provides free services to the residents to control mosquito breeding.

*County of San Diego Water Authority Water Availability.* The San Diego County Water Authority imposes an annual assessment at the rate of \$10.00 per acre, or \$10.00 per parcel if the parcel is less than one (1) acre. This pay-as-you-go assessment is used to fund capital improvements and will continue to be levied for an indefinite period.

*County of San Diego Mosquito/Rat Control.* The County of San Diego imposes an annual direct assessment on all property at the rate of \$3.00 per residential parcel. This pay-as-you-go assessment is used for vector surveillance and control programs.

*Black Mountain Ranch North Maintenance Assessment District.* The City of San Diego formed the Black Mountain Ranch North Maintenance Assessment District to fund the annual maintenance of identified lighting improvements within the district. The maximum annual assessment on the property within the district is \$131.14 per Equivalent Benefit Unit (EBU). Single Family Detached Units are assigned 1 EBU while condominiums are assigned 0.7 EBUs. Beginning in Fiscal Year 2007-08, the maximum authorized assessment per EBU will be increased annually by a factor not to exceed the percentage change in the San Diego Area Consumer Price Index plus three percent (3.00%).

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 a 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 2006 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 – Appraised Values."

## **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 2006 Bonds. The School District 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 2006 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 2006 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.*

### **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 residential 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, wildfires, landslides and floods), which may result in uninsured losses.

### **Concentration of Ownership**

As of May 1, 2006, approximately 19 model homes and approximately 138 production homes were under construction. Units for which building permits are issued on or before May 1, 2006, will be categorized as Developed Property under the Rates and Methods and will be subject to the Special Tax in Fiscal Year 2006-07. The Merchant Builders will be responsible for such Community Facilities District Special Taxes and Improvement Area A Special Taxes. However, such percentages will decline as production homes are completed and individual homeowners acquire such homes. See “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Property Ownership.” If a Merchant Builder is unwilling or unable to pay the Special Tax when due, a potential shortfall in the applicable Bond Service Fund could occur, which would result in the depletion of the applicable Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the 2006 Bonds or the 2006 Improvement Area A Bonds, as applicable.

No property owner is obligated in any manner to continue to own or develop any of the land it presently owns within the Community Facilities District. The Special Taxes are not a personal obligation of Black Mountain Ranch LLC, any merchant builder or of any owner of the parcels, and the Community Facilities District can offer no assurance that any current owner or any future owner will be financially able to pay such installments or that it will choose to pay even if financially able to do so.

### **Failure to Develop Properties**

Development of property within the Community Facilities District may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of Black Mountain Ranch LLC, the Merchant Builders or any property owner to pay the Special Taxes when due.

Land development is also subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. Final maps have been recorded for portions of the lots within the Community Facilities District. As of April 1, 2006, building permits have been issued for approximately 19 model units and approximately 138 production units within the Community Facilities District. The property is only partially developed with public infrastructure improvements and construction, some of which are substantially complete; however, additional approvals are necessary to complete the development. It is possible that the approvals necessary to complete development of the property will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations. In addition, there is a risk that future governmental restrictions on land development within the Community Facilities District will be enacted, either directly by a governmental entity with jurisdiction or by the voters through the exercise of the initiative power.

The failure to complete the development or the required infrastructure or substantial delays in the completion of the development or the required infrastructure for the development due to litigation, the inability to obtain required funding, failure to obtain necessary governmental approval or other causes may reduce the value of the property within the Community Facilities District and increase the length of time during which Special Taxes will be payable from Undeveloped Property, and may affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due. See “COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR) – Appraised Property Values.”

Bondowners should assume that any event that significantly impacts the ability to develop land in the Community Facilities District would cause the property values within the Community Facilities District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the Community Facilities District to pay the Special Taxes when due.



## **Special Taxes Are Not Personal Obligations**

The current and future owners of land within the Community Facilities District, including Improvement Area A, are not personally liable for the payment of the applicable Special Taxes. Rather, each 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 applicable Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2006 Bonds have been issued.

## **The 2006 Bonds Are Limited Obligations of the Community Facilities District**

The Community Facilities District has no obligation to pay principal of and interest on the CFD Bonds or the 2006 Improvement Area A Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the applicable Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2006 Bonds.

## **Appraised Values**

The Appraisal summarized in APPENDIX C hereto estimates the fee simple interest market value of the residential property within the Community Facilities District. 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 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 the Community Facilities District/Improvement Area A 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.

## **Land Development**

A major risk to the Bondowners is that development by the property owners in the Community Facilities District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay Special Taxes when due. For example, proposed development within the Community Facilities District could be adversely affected by unfavorable economic conditions, competing development projects, an inability of the current owners or future owners of the parcels to obtain financing, fluctuations in the real estate market or interest rates, unexpected increases in development costs, changes in federal, State or local governmental policies relating to the ownership of real estate, faster than expected depletion of existing water allocations, the appearance of previously unknown environmental impacts necessitating preparation of a supplemental environmental impact report, unfavorable economic conditions which might result from factors similar to the September 11, 2001 airline hijackings and catastrophic destruction of the World Trade Center in New York, New York and damage to the Pentagon in Washington D.C. There can be no assurance that land development operations within the Community Facilities District will not be adversely affected by the factors described above.

In addition, partially developed land is less valuable than developed land and provides less security for the 2006 Bonds (and therefore to the owners of the 2006 Bonds) should it be necessary for the Community Facilities District to foreclose on undeveloped property due to the nonpayment of Special Taxes. Moreover, failure to complete future development on a timely basis could adversely affect the land values of those parcels which have been completed. Lower land values result in less security for the payment of

principal of and interest on the 2006 Bonds and lower proceeds from any foreclosure sale necessitated by delinquencies in the payment of the Special Taxes.

Furthermore, an inability to develop the land within the Community Facilities District as planned will reduce the expected diversity of ownership of land within the Community Facilities District, making the payment of debt service on the 2006 Bonds more dependent upon timely payment of the Special Taxes levied on the undeveloped property. Because of the concentration of undeveloped property ownership, the timely payment of the 2006 Bonds depends upon the willingness and ability of the current owners of undeveloped land and any merchant builders to whom finished lots are sold to pay the Special Taxes levied on the undeveloped land when due. Furthermore, continued concentration of ownership increases the potential negative impact of a bankruptcy or other financial difficulty experienced by the existing landowners. See “Concentration of Ownership” above.

### **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 “COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR) – Direct and Overlapping Debt” state the Fiscal Year 2006-07 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 state 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 Tax securing the 2006 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax 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 2006 Bonds, the Special Tax 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 Tax 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 Tax is a claim with regard to a hazardous substance. See “Hazardous Substances” below.

### **Disclosure to Future Purchasers**

The Community Facilities District has recorded Notices of Special Tax Lien on behalf of itself, in the Office of the San Diego County Recorder on February 1, 2006, as Document No. 2006-0076725, and with respect to Improvement Area A Special Tax on February 1, 2006, as Document No. 2006-0076724. 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 parcel of land or a home in the Community Facilities District 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 Tax when due.

### **Government Approvals**

Black Mountain Ranch LLC and the Merchant Builders or their predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within the Community Facilities District. Nevertheless, development within the Community Facilities District is contingent upon the construction of a number of major public improvements as well as the necessary local in-tract improvements. The installation of the necessary improvements and infrastructure is subject to the receipt of construction or building permits from the City and other public agencies. The failure to obtain any such approval could adversely affect construction within the Community Facilities District. A slow down or stoppage of the construction process could adversely affect land values. No assurance can be given that permits will be obtained in a timely fashion, if at all. The failure to do so may result in the prevention, or significant delays in the development of the projects or portions thereof. See “Failure to Develop Properties” above.

### **Local, State and Federal Land Use Regulations**

There can be no assurance that land development operations within the Community Facilities District will not be adversely affected by future government policies, including, but not limited to, governmental policies which directly or indirectly restrict or control development. During the past several years, citizens of a number of local communities in California have placed measures on the ballot designed to control the rate of future development. During the past several years, state and federal regulatory agencies have significantly expanded their involvement in local land use matters through increased regulatory enforcement of various environmental laws, including the Endangered Species Act, the Clean Water Act and the Clear Air Act, among others. Such regulations can substantially impair the rate and amount of development without requiring just compensation unless the effect of the regulation is to deny all economic use of the affected property. Bondowners should assume that any event that significantly impacts the ability to construct homes on land in the Community Facilities District could cause the land values within the Community Facilities District to decrease substantially and could affect the willingness and ability of the owners of land to pay the Special Taxes when due or to proceed with development of land in the Community Facilities District. See “Failure to Develop Properties” above.

### **Endangered and Threatened Species**

It is illegal to harm or disturb any plants or animals in their habitat that have been listed as endangered species by the U.S. Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California Endangered Species Act without a permit. Thus, the presence of an endangered plant or animal could delay development of vacant property in the Community Facilities District or reduce the value of undeveloped property. Failure to develop the vacant property in the Community Facilities District as planned, or substantial delays in the completion of the planned development of the property may increase the amount of Special Taxes to be paid by the owners of undeveloped property and affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due.

At present, other than the species covered by the Implementing Agreement and the Habitat Management Plan, the vacant property within the Community Facilities District is not known to be inhabited by any plant or animal species which either the California Fish & Game Commission or the U.S. Fish & Wildlife Service has listed as endangered or threatened. See “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Environmental Permits” for a discussion of the Implementing Agreement and Subarea Plan and the Habitat Management Plan. Furthermore, Black Mountain Ranch LLC reports that the vacant property within the Community Facilities District proposed to be developed by Black Mountain Ranch LLC is not known by Black Mountain Ranch LLC to be inhabited by any plant or animal species which either the California Fish & Game Commission or the U.S. Fish & Wildlife Service has proposed for addition to the endangered species list.

## **Hazardous Substances**

While governmental taxes, assessments, and charges are a common claim against the value of a 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 Tax is a claim with regard to hazardous substances. In general, the owners and operators of parcels within the Community Facilities District may be required by law to remedy conditions of the parcels related to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but State 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 substances condition of a property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any parcel within the Community Facilities District be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

Black Mountain Ranch LLC retained Geocon Incorporated to conduct geotechnical investigations of its proposed development site. In its opinion, each site could be developed as planned provided certain recommendations of the report were followed.

The value of the property within the Community Facilities District, as set forth in the appraised values set forth in the Appraisal hereto, does not take into account the possible reduction in marketability and value of any of the parcels of Taxable Property by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Community Facilities District has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the parcels of Taxable Property, except as expressly noted. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels of Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the value of a Taxable Property that is realizable upon a delinquency.

## **Insufficiency of the Special Tax**

The principal source of payment of principal of and interest on the 2006 Bonds is the proceeds of the annual levy and collection of the applicable Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2006 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2006 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of each Rate and Method. Application of each Rate and Method will, in turn, be dependent upon certain development factors with respect to each Taxable Property by comparison with

similar development factors with respect to the other Taxable Property within the Community Facilities District. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Taxable Property to vary from the Special Tax that might otherwise be expected:

- (1) Reduction in the amount of Taxable Property, for such reasons as acquisition of Taxable Property by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.
- (2) Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

Except as set forth above under “SECURITY FOR THE 2006 BONDS– Special Taxes” herein, each Bond Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 2006 BONDS – Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the City.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2006 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the School District of the proceeds of sale if the Reserve Fund is depleted. See “SECURITY FOR THE 2006 BONDS – Proceeds of Foreclosure Sales.”

In addition, each Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District or Improvement Area A, as applicable. See “SECURITY FOR THE 2006 BONDS – Special Taxes” herein.

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with each Rate and Method (see “SECURITY FOR THE 2006 BONDS – Special Taxes” herein). In addition, 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 and Improvement Area A acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although 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, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Special Tax.

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.

### **Depletion of Reserve Funds**

Each Reserve Fund is to be maintained at an amount equal to the applicable Reserve Requirement (see “SECURITY FOR THE 2006 BONDS – Reserve Funds” herein). Funds in the Reserve Funds may be used to pay principal of and interest on the 2006 CFD Bonds or 2006 Improvement Area A Bonds, as applicable, in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District and Improvement Area A, respectively, are insufficient. If funds in the applicable Reserve Fund for the 2006 Bonds are depleted, the funds can be replenished from the proceeds

of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to each Bond Indenture. 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 Tax against property within the Community Facilities District and Improvement Area A, respectively, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that a Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

### **Potential Delay and Limitations in Foreclosure Proceedings**

The payment of property owners' taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE 2006 BONDS – Proceeds of Foreclosure Sales" and "BONDOWNERS' RISKS – Bankruptcy and Foreclosure Delay" herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has or obtains an interest. The FDIC would obtain such an interest by taking over a financial institution which has made a loan which is secured by property within the Community Facilities District. See "BONDOWNERS' RISKS – Payments by FDIC and Other Federal Agencies."

The Community Facilities District and the School District are unable to predict what effect the application of a policy statement by the FDIC regarding payment of state and local real property taxes would have in the event of a delinquency on a parcel within the Community Facilities District or Improvement Area A in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would likely reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale.

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 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 2006 Bonds.

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. 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 the 2006 Bonds outstanding.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2006 Bonds. See “Concentration of Ownership” above.

If the Reserve Funds are depleted and delinquencies in the payment of Special Taxes exist, there could be 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 applicable Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within the Community Facilities District or Improvement Area A, as applicable, in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the applicable Bonds and to replenish the applicable Reserve Fund. There is, however, no assurance that the maximum Special Tax rates of the Community Facilities District or Improvement Area A, as applicable, will be at all times sufficient to pay the amounts required to be paid on the 2006 Bonds by the applicable Bond Indenture.

### **Adjustable Rate and Unconventional Mortgage Structures**

Since the end of 2002, many persons have financed the purchase of new homes using loans with little or no down payment and with adjustable interest rates that start low and are subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions. Many of these loans allow the borrower to pay interest only for an initial period, in some cases up to 10 years. Currently, in Southern California, a substantial portion of outstanding home loans are adjustable rate loans at historically low interest rates. In the opinion of some economists, the significant increase in home prices in this time period has been driven, in part, by the ability of home purchasers to access adjustable rate and non-conventional loans. These economists predict that as interest rates on new loans increase and as the interest rates on existing adjustable rate loans are reset (and payments are increased) there will be a decrease in home sales due to the inability of purchasers to qualify for loans with higher interest rates. They further predict that such a decrease in home sales will, eventually, result in a decrease in home prices. Some economists are concerned that such a reduction in home prices will result in recent homebuyers having loan balances that exceed the value of their homes, given their low down payments and small amount of equity in their homes.

Homeowners in the District who purchase their homes with adjustable rate and non-conventional loans with no or low down payments may experience difficulty in making their loan payments due to automatic mortgage rate increases and rising interest rates and should homeowners in the District have loan balances that exceed the value of their homes, those homeowners may choose not to make their loan payments even if they are able to. This could result in an increase in the Special Tax delinquency rate in the District and draws on the Reserve Fund. If there were significant delinquencies in Special Tax collections in the District and the Reserve Fund was fully depleted, there could be a default in the payment of principal of and interest on the 2006 Bonds.

Some economists have also predicted that, as mortgage loan defaults increase, bankruptcy filing by such homeowners are also likely to increase. Bankruptcy filings by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See “SPECIAL RISK FACTORS —Bankruptcy and Foreclosure Delay” below.

### **Bankruptcy and Foreclosure Delay**

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled “SECURITY FOR THE 2006 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. Provisions of the new bankruptcy law become effective for cases filed on or after October 17, 2005.

The various legal opinions to be delivered concurrently with the delivery of the 2006 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 2006 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. To the extent that a significant percentage of the property in the Community Facilities District is owned by Black Mountain Ranch LLC, a Merchant Builder, or any other property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the School District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

In 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.

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.



## **Payments by FDIC and Other Federal Agencies**

The ability of the School District to collect interest and penalties specified by state law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. With respect to property in California owned by the FDIC on January 9, 1997 and that was owned by the Resolution Trust Corporation ("RTC") on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The School District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within the Community Facilities District which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2006 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the 2006 Bonds. Based upon the secured tax roll as of January 1, 2006, the FDIC does not presently own any of the property in the Community Facilities District. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2006 Bonds are outstanding.

## **Factors Affecting Parcel Values and Aggregate Value**

*Geologic, Topographic and Climatic Conditions.* The value of the Taxable Property in the Community Facilities District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Taxable Property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will

not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

*Seismic Conditions.* The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity. The occurrence of seismic activity in the Community Facilities District could result in substantial damage to properties in the Community Facilities District, which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of seismic activity could result in greater reliance on undeveloped property in the payment of Special Taxes.

*Legal Requirements.* Other events which may affect the value of a parcel of Taxable Property in the Community Facilities District include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

### **No Acceleration Provisions**

The 2006 Bonds do not contain a provision allowing for the acceleration of the 2006 Bonds in the event of a payment default or other default under the terms of the 2006 Bonds or the Bond Indentures. Pursuant to each Bond Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX E – “Summary of Certain Provisions of the Bond Indentures” herein). So long as the 2006 Bonds are in book-entry form, DTC will be the sole Bondowner and will be entitled to exercise all rights and remedies of Bondowners.

### **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 elections held in the Community Facilities District and Improvement Area A pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District and Improvement Area A, consisting of the landowners within the boundaries of the Community Facilities District and Improvement Area A, as applicable, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and the Infrastructure Improvements and approved the Rates and Methods. 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 community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District, 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 “SECURITY FOR THE 2006 BONDS – Proceeds of Foreclosure Sales” 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.

### **Inability to Collect Special Taxes**

In order to pay debt service on the 2006 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District has covenanted in each Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2006 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 owners of the 2006 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 of Education 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 "SECURITY FOR THE 2006 BONDS – Proceeds of Foreclosure Sales."

### **Right to Vote on Taxes Act**

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2006 Bonds.

It may be possible, however, for voters of the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2006 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 2006 Bonds.

Like its antecedents, the Initiative 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 the Initiative 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 foregoing discussion of the Initiative 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 the Initiative on the 2006 Bonds as well as the market for the 2006 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

### **Ballot Initiatives and Legislative Measures**

The Initiative 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 County, 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.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2006 Bonds or, if a secondary market exists, that such 2006 Bonds can be sold for any particular price. Although the Community Facilities District has 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, the absence of credit rating for the 2006 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the 2006 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds as a result of an act or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2006 Bonds, the School District has covenanted in each Bond Indenture 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 2006 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2006 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 Bond Indenture. See "THE 2006 BONDS – Redemption."

### **Limitations on Remedies**

Remedies available to the Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2006 Bonds or to preserve the tax-exempt status of the 2006 Bonds. See "Payments by FDIC and other Federal Agencies," "No Acceleration Provisions" and "Billing of Special Taxes" herein.

**The Board of Education has not evaluated the foregoing risks, and further, is not aware of any evaluation of these risks by the landowners. Since these are largely business risks of the type that landowners customarily evaluate individually, and inasmuch as changes in land ownership may well**

**mean changes in the evaluation with respect to any particular parcel of Taxable Property, the Board of Education has undertaken financing of the acquisition and construction of the School Facilities and the Infrastructure Improvements without regard to any such evaluation, as an incident to the orderly, planned development of the project site. Thus, formation of the Community Facilities District by the Board of Education in no way implies that the Board of Education has evaluated these risks or the reasonableness of these risks, but to the contrary, the Board of Education has made no such evaluation and is undertaking acquisition and construction of the School Facilities and the Infrastructure Improvements even though such risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of Taxable Property values.**

## **LEGAL MATTERS**

### **Legal Opinion**

The legal opinions of Best Best & Krieger LLP, San Diego, California, Bond Counsel, approving the validity of the 2006 Bonds will be made available to purchasers at the time of original delivery and are attached hereto as Appendix H. A copy of the applicable legal opinion will be printed on each 2006 Bond. McFarlin & Anderson LLP, Lake Forest, California is serving as Disclosure Counsel. Best Best & Krieger LLP will also pass upon certain legal matters for the School District and the Community Facilities District as special counsel to these entities.

### **Tax Exemption**

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2006 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2006 Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2006 Bonds is based upon certain representations of fact and certifications made by the Community Facilities District, the Underwriter and others and is subject to the condition that the Community Facilities District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the bonds to assure that interest on the 2006 Bonds will not become included in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2006 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds. The Community Facilities District has covenanted to comply with all such requirements.

Should the interest on the 2006 Bonds become includable in gross income for federal income tax purposes, the 2006 Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2006 Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value of tax treatment of a 2006 Bond and Bond Counsel expresses no opinion with respect thereto.

Although Bond Counsel has rendered an opinion that interest on the 2006 Bonds is excluded from gross income for federal income tax purposes provided the Community Facilities District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2006 Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the 2006 Bonds.

## **IRS Audit of Tax-Exempt Bond Issues**

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that a Series of the 2006 Bonds will be selected for audit by the IRS. It is also possible that the market value of such 2006 Bonds might be affected as a result of such an audit of such 2006 Bonds (or by an audit of similar bonds).

## **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the 2006 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2006 Bonds or in any way contesting or affecting the validity of the 2006 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District will be delivered to the Underwriter simultaneously with the delivery of the 2006 Bonds.

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

The 2006 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Community Facilities District Special Tax or Improvement Area A Special Tax, as applicable, and certain proceeds of the 2006 Bonds, including amounts in each Reserve Fund, Special Tax Fund and Bond Service Fund and investment income on funds held pursuant to each Bond Indenture (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 2006 Bonds shall be limited to the Community Facilities District Special Tax or Improvement Area A Special Taxes to be collected within the Community Facilities District or Improvement Area A, as applicable.

## **NO RATINGS**

The 2006 Bonds have not been rated by any securities rating agency.

## **UNDERWRITING**

The 2006 CFD Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$50,844,569.45 (which represents the aggregate principal amount of the 2006 CFD Bonds of \$51,515,000.00, less an underwriter’s discount of \$566,665.00 and less an original issue discount of \$103,765.55). The 2006 Improvement Area A Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$50,824,821.25 (which represents the aggregate principal amount of the 2006 Improvement Area A Bonds of \$51,495,000.00, less an underwriter’s discount of \$566,445.00 and less an original issue discount of \$103,733.75).

The purchase agreement relating to the 2006 Bonds provides that the Underwriter will purchase all of the 2006 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2006 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## **PROFESSIONAL FEES**

Except for some Bond Counsel fees paid from advances made to the School District by Black Mountain Ranch LLC, 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 Fiscal Agent, are contingent upon the issuance of the 2006 Bonds. The fees of David Taussig

& Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2006 Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the 2006 Bonds.

### MISCELLANEOUS

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 statement 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 representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2006 Bonds.

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

COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR) OF THE POWAY UNIFIED SCHOOL DISTRICT

By: /s/ John Collins  
John Collins, Deputy Superintendent of the Poway Unified School District on behalf of Community Facilities District No. 14 (Del Sur) of the Poway Unified School District

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## 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 2006 Bonds, and the 2006 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: Deputy Superintendent.

#### **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 23 (K-5) elementary schools, six (6-8) middle schools, four comprehensive high schools (9-12), one continuation high school and one (1) adult school. The School District includes the City of Poway, 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 2005-06 academic year is approximately 31,550. As of January 1, 2005, the estimated population within the School District's boundaries was approximately 178,504 and approximately 32,670 students attend schools in the School District.

#### **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, an Associate Superintendent, two Area Superintendents for Learning Support Services and an Assistant Superintendent of Personnel Support Services.

From Fiscal Year 2001-02 through Fiscal Year 2005-06 the School District's enrollment increased by 163, an aggregate of approximately 0.5%. Information concerning enrollment for these years is set forth below:

**Poway Unified School District  
Student Enrollment**

<u>Fiscal Year</u>	<u>Enrollment</u>	<u>District Average Daily Attendance</u>	<u>District Base Revenue Limit</u>
2001-02	32,507	31,319	\$4,679.70
2002-03	32,754	31,405	4,753.00
2003-04	33,031	31,663	4,623.54
2004-05	32,749	31,817	4,809.31
2005-06	32,670	31,524	5,125.00

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

**Labor Relations**

As of May 1, 2006, the School District employed approximately 1,802 certificated professionals and approximately 1,703 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**

<u>Labor Organization</u>	<u>Approximate Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Poway Federation of Teachers (PFT), Local 2357	1,634	6/30/07 <sup>(1)</sup>
Service Employees International Union	456	6/30/07
California Schools Employees Association	1,165	6/30/08

<sup>(1)</sup> The Poway Federation of Teachers (PFT) contract expired June 30, 2006, but is still in effect as of May 1, 2006.

*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 2001-02 was \$9,278,909, in Fiscal Year 2002-03 was \$9,633,674, in Fiscal Year 2003-04 was \$9,263,916, in Fiscal Year 2004-05 was \$9,450,619 and Fiscal Year 2005-06 was approximately \$9,921,195. 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 all classified personnel who are employed 1,000 more hours per fiscal year. The School District’s contribution to PERS for Fiscal Year 2001-02 was \$1,229,741, in Fiscal Year 2002-03 was \$2,217,039, in Fiscal Year 2003-04 was \$4,822,739, in Fiscal Year 2004-05 was \$4,856,272 and Fiscal Year 2005-06 was approximately \$4,878,126.

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, 2005 was \$651,520. The School District budgeted approximately \$756,067 for Fiscal Year 2005-06. 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 exposure and as may be required by statute.

Effective July 1, 2005, the School District joined a statewide joint powers authority providing first-dollar coverage for workers’ compensation claims arising on and after that date. Previously, the State of California authorized the School District to operate a Self-Insured Workers’ Compensation Plan to finance liabilities arising from employee industrial injuries. Under this program, the Fund provided coverage for individual claims up to a limit of \$750,000. Commercial insurance was purchased to defray claim costs exceeding the self-insured retention level. All open self-insured claims that arose prior to July 1, 2005, will continue to be managed by the District until they are settled and closed.

The School District operates a Self-Insurance Program to cover general liability claim losses up to a limit of \$50,000 per claim and property losses up to \$25,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems breakdown (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through a combination of pooling through a joint powers authorities and purchase of commercial insurance and reinsurance policies.

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**APPENDIX B**

**RATES AND METHODS OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)  
OF THE POWAY UNIFIED SCHOOL DISTRICT AND  
IMPROVEMENT AREA A OF THE  
POWAY UNIFIED SCHOOL DISTRICT**

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**RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 14  
OF POWAY UNIFIED SCHOOL DISTRICT**

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes ("Rate and Method of Apportionment") of Community Facilities District No. 14 ("CFD No. 14") of the Poway Unified School District ("School District"). An Annual Special Tax shall be levied on and collected on Taxable Property (defined below) located within the boundaries of CFD No. 14 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. 14, 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**

For purposes of this Rate and Method of Apportionment the terms hereinafter set forth have the following meanings:

**"Acreage"** means the number of acres of 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 Board may rely on the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

**"Act"** means the Mello-Roos Communities 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 expense incurred by the School District on behalf of CFD No. 14 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes, including the reasonable expenses of collecting delinquencies, the administration of Bonds, the proportionate payment of salaries and benefits of any School District employee whose duties are directly related to the administration of CFD No. 14, and reasonable costs otherwise incurred in order to carry out the authorized purposes of CFD No. 14.

**"Affordable Unit"** means an Attached Unit that is subject to affordable housing restrictions under any applicable law.

**"Annual Special Tax"** means the Special Tax actually levied in any Fiscal Year on any Assessor's Parcel.

**"Assessor's Parcel"** means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number within the boundaries of CFD No. 14.

**"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 County for purposes of identification.

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

**"Attached Unit"** means a Unit that is located or shall be located within a building in which each of the individual Units has or shall have at least one common wall with another Unit.

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

**"Board"** means the Board of Education of Poway Unified School District, or its designee, in certain cases acting as the Legislative Body of CFD No. 14.

**"Bond Index"** means the national Bond Buyer Revenue Index, commonly referenced as the 25-Bond Revenue Index. In the event the Bond Index ceases to be published, the index used shall be based on a comparable index for revenue bonds maturing in 30 year with an average rating equivalent to Moody's A1 and/or S&P's A+, as reasonably determined by the Board.

**"Bond Yield"** means the yield of the last series of Bonds issued, for purposes of this calculation the yield of the Bonds shall be the yield calculated at the time such Bonds are issued, pursuant to Section 148 of the Internal Revenue Code of 1986, as amended for the purpose of the Non-Arbitrage Certificate or other similar bond issuance document.

**"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 which the Special Taxes have been pledged for repayment.

**"Building Permit"** means a permit for the construction of one or more Units issued by the City, or another public agency in the event the City no longer issues said permits for the construction of Units within CFD No. 14. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of structures, parking structures, retaining walls, utility improvements, or other such improvements not intended for human habitation or commercial/industrial use.

**"Building Square Footage"** or **"BSF"** means the square footage of assessable internal living space of a Unit, exclusive of any carports, walkways, garages, overhangs, patios, enclosed patios, detached accessory structure, other structures not used as living space, or any other square footage excluded under Government Code Section 65995 as determined by reference to the Building Permit for such Unit.

**"Calendar Year"** means the period commencing January 1 of any year and ending the following December 31.

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

**"Commercial/Industrial Property"** means all Assessor's Parcels of Developed Property other than Residential Property.

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



**"Developed Property"** means all Assessor's Parcels of Taxable Property for which Building Permits were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created 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.

**"Detached Unit"** means a Unit which is not an Attached Unit.

**"Exempt Property"** means all Assessor's Parcels designated as being exempt from Special Taxes in Section L each Fiscal Year as determined May 1<sup>st</sup> of the previous Fiscal Year.

**"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 County Office of the Recorder.

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

**"Gross Floor Area" or "GFA"** means, for an Assessor's Parcel of Commercial/Industrial Property, the covered and enclosed space determined to be within the perimeter of a commercial or industrial structure, not including any storage areas incidental to the principal use of the development, garage, parking structure, unenclosed walkway, utility, or disposal area. The determination of Gross Floor Area shall be made by the Board in accordance with the standard practice of the building department of the City.

**"Homeowner"** means any owner of a completed Unit constructed and sold within CFD No. 14.

**"Index"** means the Marshall & Swift eight (8) California Cities Class B Construction Cost Index, or if the Marshall & Swift eight (8) California Cities Class B Construction Cost Index ceases to be used by the State Allocation Board, a reasonably comparable index used by the State Allocation Board to estimate changes in school construction costs, or in the absence of such an Index, the Engineering News Record, Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc.

**"Inflator"** means the greater of (i) 2.00% or (ii) the percentage change in the Index as measured between the Index published in December of the prior Calendar Year and the Index published in December of the Calendar Year immediately preceding the prior Calendar Year.

**"Lot"** means an individual legal lot created by a Final Subdivision Map for which a Building Permit for residential construction has been or could be issued. Notwithstanding the foregoing, in the case of an individual legal lot created by such a Final Subdivision Map upon which condominium units are entitled to be developed but for which a condominium plan has not been recorded, the number of Lots allocable to such legal lot for purposes of calculating the Backup Special Tax applicable to such Final Subdivision Map shall equal the number of condominium units which are permitted to be constructed on such legal lot as shown on such Final Subdivision Map.

**"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C, that can be levied by CFD No. 14 in any Fiscal Year on any Assessor's Parcel.

**"Minimum Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds, (ii) Administrative Expenses of CFD No. 14, (iii) the costs associated with the release of funds from an escrow account(s) established in association with the Bonds, and (iv) any amount required to establish or replenish any reserve funds (or accounts thereof) established in association with the Bonds, less (v) any amount(s) available to pay debt service or other periodic costs on the Bonds pursuant to any applicable bond indenture, fiscal agent agreement, trust agreement, or equivalent agreement or document. In arriving at the Minimum Annual Special Tax requirement the Board shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

**"Minimum Taxable Acreage"** means the applicable Acreage listed in Table 3 set forth in Section L.

**"Net Taxable Acreage"** means the total Acreage of all Taxable Property expected to exist in CFD No. 14 after all Final Subdivision Maps are recorded.

**"One Time Special Tax"** means the single payment Special Tax which shall be levied on each Assessor's Parcel of Undeveloped Property, determined pursuant to Section D.

**"Partial Prepayment Amount"** means the amount required to prepay a portion of the Annual Special Tax obligation for an Assessor's Parcel as described in Section I.

**"Prepayment Administrative Fees"** means any fees or expenses of the School District or CFD No. 14 associated with the prepayment of the Special Tax obligation of an Assessor's Parcel. Prepayment Administrative Fees shall include among other things the cost of computing the Prepayment Amount, redeeming Bonds, and recording any notices to evidence the prepayment and redemption of Bonds.

**"Prepayment Amount"** means the amount required to prepay the Annual Special Tax obligation in full for an Assessor's Parcel as described in Section H.

**"Present Value of Taxes"** means for any Assessor's Parcel the present value of (i) the unpaid portion, if any, of the Special Tax applicable to such Assessor's Parcel in the current Fiscal Year and (ii) the Annual Special Taxes expected to be levied on such Assessor's Parcel in each remaining Fiscal Year, as determined by the Board, until the termination date specified in Section K. The discount rate used for this calculation shall be equal to the (i) Bond Yield after Bond issuance or (ii) most recently published Bond Index prior to Bond issuance.

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

**"Reserve Fund Credit"** means an amount equal to the reduction in the applicable reserve fund requirement(s) resulting from the redemption of Bonds with the Prepayment Amount. In the event that a surety bond or other credit instrument satisfies the reserve requirement or the reserve requirement is under funded at the time of the prepayment no Reserve Fund Credit shall be given.

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

**"Senior Citizen Unit"** means a Unit designated as senior citizen housing, part of a residential care facility for the elderly, or part of a multilevel care facility for the elderly as referred to in California Government Code Section 65995.1. For the purpose hereof it shall be sufficient to designate a Unit as a Senior Citizen Unit if Senior Citizen Restrictions have been affected with respect to such Unit.

**"Senior Citizen Restriction"** means (i) a restriction limiting the use of Units to senior citizen housing under a specific plan, a final map or other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar recorded instrument or (ii) licensing from appropriate agencies received for residential care facilities for the elderly or multilevel care facilities as those terms are defined in Health and Safety Code Section 1569.23 and Government Code Section 15432(d)(8), respectively.

**"Special Tax(es)"** means any of the special taxes authorized to be levied by CFD No. 14 pursuant to 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 Developed Property.

**"Unit"** means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units. Each Unit shall be classified as an Attached Unit or a Detached Unit.

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

For each Fiscal Year, beginning with Fiscal Year 2006-07, each Assessor's Parcel within CFD No. 14 shall be classified as Taxable Property or Exempt Property. Furthermore, each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and Developed Property shall be further classified as Residential Property or Commercial/Industrial Property. Residential Property shall be classified by unit type (e.g. Detached Unit, Attached Unit, Senior Citizen Unit, or Affordable Unit) and Detached Units and Attached Units shall be classified based on the Building Square Footage of the Unit. The classification of Exempt Property shall take into consideration the Minimum Taxable Acreage as determined pursuant to Section L.

**SECTION C  
MAXIMUM SPECIAL TAXES**

**1. Developed Property**

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property for any Fiscal Year shall be the amount determined by the sum of (i) any portion of the One-Time Special Tax not collected and (ii) the greater of (a) the application of the Assigned Annual Special Tax or (b) the application of the Backup Annual Special Tax for a given Final Subdivision Map.

**2. Undeveloped Property**

The Maximum Special Tax for each Assessor's Parcel classified as Undeveloped Property for any Fiscal Year shall be the amount determined by the application of the Assigned Annual Special Tax.

**SECTION D  
ONE-TIME SPECIAL TAXES**

A One-Time Special Tax shall be collected for each Assessor's Parcel of Undeveloped Property prior to the time a Building Permit is issued for such Assessor's Parcel. The One-Time Special Tax shall be determined by reference to Table 1 below, subject to increases as described below.

**TABLE 1**

**ONE-TIME SPECIAL TAX FOR  
FISCAL YEAR 2006-07**

<b>Property Type</b>	<b>Unit Type</b>	<b>One-Time Special Tax</b>
Residential Property	Detached Unit	\$0.00 per Unit
Residential Property	Attached Unit	\$0.00 per Unit
Residential Property	Affordable Unit	\$0.00 per Unit
Residential Property	Senior Citizen Unit	\$0.40 per BSF
Commercial/Industrial	NA	\$0.40 per GFA

Each July 1, commencing July 1, 2007, the One-Time Special Tax for each Assessor's Parcel of Undeveloped Property shall be increased by the Inflation.

**SECTION E  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

**A. Assigned Annual Special Tax For Newly Developed Property**

The Assigned Annual Special Tax for an Assessor's Parcel of Developed Property in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be determined by reference to Table 2 below, subject to increases as described below.

**TABLE 2**  
**ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED PROPERTY  
FISCAL YEAR 2006-07**

<b>Property Type</b>	<b>Unit Type</b>	<b>Building Square Footage</b>	<b>Assigned Annual Special Tax</b>
Residential Property	Detached Unit	< 1,800	\$2,043.05 per Unit
Residential Property	Detached Unit	1,800 – 2,000	\$2,275.10 per Unit
Residential Property	Detached Unit	2,001 – 2,200	\$2,565.16 per Unit
Residential Property	Detached Unit	2,201 – 2,400	\$2,642.51 per Unit
Residential Property	Detached Unit	2,401 – 2,600	\$2,661.85 per Unit
Residential Property	Detached Unit	2,601 – 2,800	\$2,758.54 per Unit
Residential Property	Detached Unit	2,801 – 3,000	\$2,932.58 per Unit
Residential Property	Detached Unit	3,001 – 3,200	\$3,258.22 per Unit
Residential Property	Detached Unit	3,201 – 3,450	\$3,613.26 per Unit
Residential Property	Detached Unit	> 3,450	\$3,709.94 per Unit
Residential Property	Attached Unit	< 1,900	\$1,830.34 per Unit
Residential Property	Attached Unit	1,900 – 2,100	\$2,130.07 per Unit
Residential Property	Attached Unit	> 2,100	\$2,360.19 per Unit
Residential Property	Affordable Unit	NA	\$1,106.59 per Unit
Residential Property	Senior Citizen Unit	NA	\$0.00 per Unit
Commercial/Industrial Property	NA	NA	\$0.00 per GFA

Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be increased by the Inflator.

**B. Assigned Annual Special Tax for Existing Developed Property**

Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Assigned Annual Special Tax applicable to such Assessor's Parcel shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**2. Undeveloped Property**

The Assigned Annual Special Tax rate in Fiscal Year 2006-07 for an Assessor's Parcel classified as Undeveloped Property shall be \$25,027.47 per acre of Acreage.

Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax per acre of Acreage for each Assessor's Parcel of Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**SECTION F  
BACKUP ANNUAL SPECIAL TAXES**

Each Fiscal Year, each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax rate for an Assessor's Parcel of Developed Property within a Final Subdivision Map in Fiscal Year 2006-07 or such later Fiscal Year in which such Final Subdivision Map is created shall be the rate per Lot calculated according to the following formula:

$$B = \frac{U \times A}{L}$$

The terms above have the following meanings:

- B = Backup Annual Special Tax per Lot
- U = Assigned Annual Special Tax per acre of Acreage for Undeveloped Property in the Fiscal Year which the calculation is performed
- A = Acreage of Taxable Property in such Final Subdivision Map at time of calculation, as determined by the Board pursuant to Section L
- L = Lots in the Final Subdivision Map at the time of calculation

Each July 1, commencing the July 1 first following the initial calculation of the Backup Annual Special Tax rate for an Assessor's Parcel of Developed Property with a Final Subdivision Map, the Backup Annual Special Tax for each Lot within such Final Subdivision Map shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

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 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 area in the Final Subdivision Map prior to the change or modification in the current Fiscal Year.
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 area in the Final Subdivision Map, 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 area of the Final Subdivision Map. Each July 1, commencing the July 1 first following the change or modification to be Final Subdivision Map the amount determined by this Section shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

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

Commencing Fiscal Year 2006-07, and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes as follows:

- Step One: The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.
- Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.
- Step Three: If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Developed Property up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

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

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

An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 14 with written notice of intent to prepay. Within thirty (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. The Prepayment Amount shall be calculated according to the following formula:

$$P = PVT - RFC + PAF$$

The terms above have the following meanings:

P	=	Prepayment Amount
PVT	=	Present Value of Taxes
RFC	=	Reserve Fund Credit
PAF	=	Prepayment Administrative Fees

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.

With respect to any Assessor's Parcel that is prepaid, the Board shall indicate in the records of CFD No. 14 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 Tax shall cease.

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

The Annual Special Tax obligation of an Assessor's Parcel 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 prepaid.

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

Prior to the conveyance of the first production Unit on a Lot within a Final Subdivision Map to a Homeowner, 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 I.2. below. The partial prepayment of each Annual Special Tax obligation shall be collected for all Assessor's Parcels prior to the conveyance of the first production Unit to a Homeowner with respect to such Final Subdivision Map.



**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 H
- 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 CFD No. 14 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 the Backup Annual Special Tax if applicable for the Assessor's Parcel 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 and such partial 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 J  
EXCESS ASSIGNED ANNUAL SPECIAL TAXES**

In any Fiscal Year which the Annual Special Taxes collected from Developed Property, pursuant to Step 1 of Section G, exceeds the Minimum Annual Special Tax Requirement, the School District shall use such amount for acquisition, construction or financing of school facilities in accordance with the Act, CFD No. 14 proceedings and other applicable laws as determined by the Board.

**SECTION K  
TERMINATION OF SPECIAL TAX**

Annual Special Taxes shall be levied for a period of thirty-five (35) Fiscal Years after the last series of Bonds have been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2050-2051.

**SECTION L  
EXEMPTIONS**

The Board shall classify as Exempt Property (i) Assessor’s Parcels owned by 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 owned by a homeowners' association, (iv) Assessor’s Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor’s Parcels developed or expected to be developed exclusively for non-residential use, including any use directly servicing any non-residential property, such as parking, as reasonably determined by the Board, and (vi) any other Assessor’s Parcels at the reasonable discretion of the Board, provided that no such classification would reduce the Net Taxable Acreage to less than the Minimum Taxable Acreage. Notwithstanding the above, the Board shall not classify an Assessor’s Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than the Minimum Taxable Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than the Minimum Taxable Acreage will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

**TABLE 3**

**MINIMUM TAXABLE ACREAGE**

<b>Minimum Taxable Acreage</b>
123.76 Acres

**SECTION M  
APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Board not later than twelve months after having paid the first installment of the Special Tax that is disputed. In order to be considered sufficient, any notice of appeal must: (i) specifically identify the property by address and Assessor's Parcel Number; (ii) state the amount in dispute and whether it is the whole amount or only a portion of the Special Tax; (iii) state all grounds on which the property owner is disputing the amount or application of the Special Tax, including a reasonably detailed explanation as to why the amount or application of such Special Tax is incorrect; (iv) include all documentation, if any, in support of the claim; and (v) be verified under penalty of perjury by the person who paid the Special Tax or his or her guardian, executor or administrator. A representative(s) of CFD No. 14 shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or 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) as the representative's decision shall indicate.

**SECTION N**  
**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 and shall be subject to the same penalties, the same procedure, sale and lien priority in the case of delinquency; provided, however, that CFD No. 14 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and if so collected, a delinquent penalty of 10% of the Special Tax will attach at 5:00 p.m. on the date the Special Tax becomes delinquent and interest at 1.5% per month of the Special Tax will attach on the July 1 after the delinquency date and the first of each month thereafter until such Special Taxes are paid.

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**RATE AND METHOD OF APPORTIONMENT FOR  
IMPROVEMENT AREA NO. A OF  
COMMUNITY FACILITIES DISTRICT NO. 14  
OF POWAY UNIFIED SCHOOL DISTRICT**

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes ("Rate and Method of Apportionment") of Improvement Area No. A ("IA No. A") of Community Facilities District No. 14 ("CFD No. 14") of the Poway Unified School District ("School District"). An Annual Special Tax shall be levied on and collected on Taxable Property (defined below) located within the boundaries of IA No. A of CFD No. 14 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 No. A of CFD No. 14, 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**

For purposes of this Rate and Method of Apportionment the terms hereinafter set forth have the following meanings:

**"Acreage"** means the number of acres of 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 Board may rely on the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

**"Act"** means the Mello-Roos Communities 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 expense incurred by the School District on behalf of IA No. A of CFD No. 14 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes, including the reasonable expenses of collecting delinquencies, the administration of Bonds, the proportionate payment of salaries and benefits of any School District employee whose duties are directly related to the administration of IA No. A of CFD No. 14, and reasonable costs otherwise incurred in order to carry out the authorized purposes of IA No. A of CFD No. 14.

**"Affordable Unit"** means an Attached Unit that is subject to affordable housing restrictions under any applicable law.

**"Annual Special Tax"** means the Special Tax actually levied in any Fiscal Year on any Assessor's Parcel.

**"Assessor's Parcel"** means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number within the boundaries of IA No. A of CFD No. 14.

**"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 County for purposes of identification.

**"Assigned Annual Special Tax"** means the Special Tax of that name described in Section D.

**"Attached Unit"** means a Unit that is located or shall be located within a building in which each of the individual Units has or shall have at least one common wall with another Unit.

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

**"Board"** means the Board of Education of Poway Unified School District, or its designee, in certain cases acting as the Legislative Body of IA No. A of CFD No. 14.

**"Bond Index"** means the national Bond Buyer Revenue Index, commonly referenced as the 25-Bond Revenue Index. In the event the Bond Index ceases to be published, the index used shall be based on a comparable index for revenue bonds maturing in 30 year with an average rating equivalent to Moody's A1 and/or S&P's A+, as reasonably determined by the Board.

**"Bond Yield"** means the yield of the last series of Bonds issued, for purposes of this calculation the yield of the Bonds shall be the yield calculated at the time such Bonds are issued, pursuant to Section 148 of the Internal Revenue Code of 1986, as amended for the purpose of the Non-Arbitrage Certificate or other similar bond issuance document.

**"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 which the Special Taxes have been pledged for repayment.

**"Building Permit"** means a permit for the construction of one or more Units issued by the City, or another public agency in the event the City no longer issues said permits for the construction of Units within IA No. A of CFD No. 14. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of structures, parking structures, retaining walls, utility improvements, or other such improvements not intended for human habitation or commercial/industrial use.

**"Building Square Footage"** or **"BSF"** means the square footage of assessable internal living space of a Unit, exclusive of any carports, walkways, garages, overhangs, patios, enclosed patios, detached accessory structure, other structures not used as living space, or any other square footage excluded under Government Code Section 65995 as determined by reference to the Building Permit for such Unit.

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

**"Commercial/Industrial Property"** means all Assessor's Parcels of Developed Property other than Residential Property.

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

**"Developed Property"** means all Assessor's Parcels of Taxable Property for which Building Permits were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created 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.

**"Detached Unit"** means a Unit which is not an Attached Unit.

**"Exempt Property"** means all Assessor's Parcels designated as being exempt from Special Taxes in Section K each Fiscal Year as determined May 1<sup>st</sup> of the previous Fiscal Year.

**"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 County Office of the Recorder.

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

**"Gross Floor Area" or "GFA"** means, for an Assessor's Parcel of Commercial/Industrial Property, the covered and enclosed space determined to be within the perimeter of a commercial or industrial structure, not including any storage areas incidental to the principal use of the development, garage, parking structure, unenclosed walkway, utility, or disposal area. The determination of Gross Floor Area shall be made by the Board in accordance with the standard practice of the building department of the City.

**"Homeowner"** means any owner of a completed Unit constructed and sold within IA No. A of CFD No. 14.

**"Lot"** means an individual legal lot created by a Final Subdivision Map for which a Building Permit for residential construction has been or could be issued. Notwithstanding the foregoing, in the case of an individual legal lot created by such a Final Subdivision Map upon which condominium units are entitled to be developed but for which a condominium plan has not been recorded, the number of Lots allocable to such legal lot for purposes of calculating the Backup Special Tax applicable to such Final Subdivision Map shall equal the number of condominium units which are permitted to be constructed on such legal lot as shown on such Final Subdivision Map.

**"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C, that can be levied by IA No. A of CFD No. 14 in any Fiscal Year on any Assessor's Parcel.

**"Minimum Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds, (ii) Administrative Expenses of IA No. A of CFD No. 14, (iii) the costs associated with the release of funds from an escrow account(s) established in association with the Bonds, and (iv) any amount required to establish or replenish any reserve funds (or accounts thereof) established in association with the Bonds, less (v) any amount(s) available to pay debt service or other periodic costs on the Bonds pursuant to any applicable bond indenture, fiscal agent agreement, trust agreement, or equivalent agreement or document. In arriving at the Minimum Annual Special Tax requirement the Board shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

**"Minimum Taxable Acreage"** means the applicable Acreage listed in Table 3 set forth in Section K.

**"Net Taxable Acreage"** means the total Acreage of all Taxable Property expected to exist in IA No. A of CFD No. 14 after all Final Subdivision Maps are recorded.

**"Partial Prepayment Amount"** means the amount required to prepay a portion of the Annual Special Tax obligation for an Assessor's Parcel as described in Section H.

**"Prepayment Administrative Fees"** means any fees or expenses of the School District or IA No. A of CFD No. 14 associated with the prepayment of the Special Tax obligation of an Assessor's Parcel. Prepayment Administrative Fees shall include among other things the cost of computing the Prepayment Amount, redeeming Bonds, and recording any notices to evidence the prepayment and redemption of Bonds.

**"Prepayment Amount"** means the amount required to prepay the Annual Special Tax obligation in full for an Assessor's Parcel as described in Section G.

**"Present Value of Taxes"** means for any Assessor's Parcel the present value of (i) the unpaid portion, if any, of the Special Tax applicable to such Assessor's Parcel in the current Fiscal Year and (ii) the Annual Special Taxes expected to be levied on such Assessor's Parcel in each remaining Fiscal Year, as determined by the Board, until the termination date specified in Section J. The discount rate used for this calculation shall be equal to the (i) Bond Yield after Bond issuance or (ii) most recently published Bond Index prior to Bond issuance.

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

**"Reserve Fund Credit"** means an amount equal to the reduction in the applicable reserve fund requirement(s) resulting from the redemption of Bonds with the Prepayment Amount. In the event that a surety bond or other credit instrument satisfies the reserve requirement or the reserve requirement is under funded at the time of the prepayment no Reserve Fund Credit shall be given.

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



**"Senior Citizen Unit"** means a Unit designated as senior citizen housing, part of a residential care facility for the elderly, or part of a multilevel care facility for the elderly as referred to in California Government Code Section 65995.1. For the purpose hereof it shall be sufficient to designate a Unit as a Senior Citizen Unit if Senior Citizen Restrictions have been affected with respect to such Unit.

**"Senior Citizen Restriction"** means (i) a restriction limiting the use of Units to senior citizen housing under a specific plan, a final map or other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar recorded instrument or (ii) licensing from appropriate agencies received for residential care facilities for the elderly or multilevel care facilities as those terms are defined in Health and Safety Code Section 1569.23 and Government Code Section 15432(d)(8), respectively.

**"Special Tax"** means any of the special taxes authorized to be levied by IA No. A of CFD No. 14 pursuant to 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 Developed Property.

**"Unit"** means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units. Each Unit shall be classified as an Attached Unit or a Detached Unit.

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

For each Fiscal Year, beginning with Fiscal Year 2006-07, each Assessor's Parcel within IA No. A of CFD No. 14 shall be classified as Taxable Property or Exempt Property. Furthermore, each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and Developed Property shall be further classified as Residential Property or Commercial/Industrial Property. Residential Property shall be classified by unit type (e.g. Detached Unit, Attached Unit, Senior Citizen Unit, or Affordable Unit) and Detached Units and Attached Units shall be classified based on the Building Square Footage of the Unit. The classification of Exempt Property shall take into consideration the Minimum Taxable Acreage as determined pursuant to Section K.

## **SECTION C MAXIMUM SPECIAL TAXES**

### **1. Developed Property**

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

**2. Undeveloped Property**

The Maximum Special Tax for each Assessor's Parcel classified as Undeveloped Property for any Fiscal Year shall be the amount determined by the application of the Assigned Annual Special Tax.

**SECTION D  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Assigned Annual Special Tax in Fiscal Year 2006-07 for each Assessor's Parcel of Developed Property shall be the amount determined by reference to Table 2 subject to increases as described below.

**TABLE 2  
ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED PROPERTY  
FISCAL YEAR 2006-07**

<b>Property Type</b>	<b>Unit Type</b>	<b>Building Square Footage</b>	<b>Assigned Annual Special Tax</b>
Residential Property	Detached Unit	< 1,800	\$2,042.05 per Unit
Residential Property	Detached Unit	1,800 – 2,000	\$2,274.10 per Unit
Residential Property	Detached Unit	2,001 – 2,200	\$2,564.16 per Unit
Residential Property	Detached Unit	2,201 – 2,400	\$2,641.51 per Unit
Residential Property	Detached Unit	2,401 – 2,600	\$2,660.85 per Unit
Residential Property	Detached Unit	2,601 – 2,800	\$2,757.54 per Unit
Residential Property	Detached Unit	2,801 – 3,000	\$2,931.58 per Unit
Residential Property	Detached Unit	3,001 – 3,200	\$3,257.22 per Unit
Residential Property	Detached Unit	3,201 – 3,450	\$3,612.26 per Unit
Residential Property	Detached Unit	> 3,450	\$3,708.94 per Unit
Residential Property	Attached Unit	< 1,900	\$1,829.34 per Unit
Residential Property	Attached Unit	1,900 – 2,100	\$2,129.07 per Unit
Residential Property	Attached Unit	> 2,100	\$2,359.19 per Unit
Residential Property	Affordable Unit	NA	\$0.00 per Unit
Residential Property	Senior Citizen Unit	NA	\$0.00 per Unit
Commercial/Industrial Property	NA	NA	\$0.00 per GFA

Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax for each Assessor's Parcel of Developed Property shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**2. Undeveloped Property**

The Assigned Annual Special Tax rate in Fiscal Year 2006-07 for an Assessor's Parcel classified as Undeveloped Property shall be \$25,018.20 per acre of Acreage.

Each July 1, commencing July 1, 2007, the Assigned Annual Special Tax per acre of Acreage for each Assessor's Parcel of Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**SECTION E  
BACKUP ANNUAL SPECIAL TAXES**

Each Fiscal Year, each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax rate for an Assessor's Parcel of Developed Property within a Final Subdivision Map in Fiscal Year 2006-07 or such later Fiscal Year in which such Final Subdivision Map is created shall be the rate per Lot calculated according to the following formula:

$$B = \frac{U \times A}{L}$$

The terms above have the following meanings:

- B = Backup Annual Special Tax per Lot
- U = Assigned Annual Special Tax per acre of Acreage for Undeveloped Property in the Fiscal Year which the calculation is performed
- A = Acreage of Taxable Property in such Final Subdivision Map at time of calculation, as determined by the Board pursuant to Section K
- L = Lots in the Final Subdivision Map at the time of calculation

Each July 1, commencing the July 1 first following the initial calculation of the Backup Annual Special Tax rate for an Assessor's Parcel of Developed Property with a Final Subdivision Map, the Backup Annual Special Tax for each Lot within such Final Subdivision Map shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

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 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 area in the Final Subdivision Map prior to the change or modification in the current Fiscal Year.

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 area in the Final Subdivision Map, 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 area of the Final Subdivision Map. Each July 1, commencing the July 1 first following the change or modification to be Final Subdivision Map the amount determined by this Section shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

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

Commencing Fiscal Year 2006-07, and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes as follows:

**Step One:** The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

**Step Two:** If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

**Step Three:** If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall Proportionately levy an Annual Special Tax on each Assessor's Parcel of Developed Property up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

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

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

An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide IA No. A of CFD No. 14 with written notice of intent to prepay. Within thirty (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. The Prepayment Amount shall be calculated according to the following formula:

$$P = PVT - RFC + PAF$$

The terms above have the following meanings:

P	=	Prepayment Amount
PVT	=	Present Value of Taxes
RFC	=	Reserve Fund Credit
PAF	=	Prepayment Administrative Fees

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.

With respect to any Assessor's Parcel that is prepaid, the Board shall indicate in the records of IA No. A of CFD No. 14 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 Tax shall cease.

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

The Annual Special Tax obligation of an Assessor's Parcel 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 prepaid.

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

Prior to the conveyance of the first production Unit on a Lot within a Final Subdivision Map to a Homeowner, 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 for all Assessor's Parcels prior to the conveyance of the first production Unit to a Homeowner with respect to such Final Subdivision Map.

### **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 No. A of CFD No. 14 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 the Backup Annual Special Tax if applicable for the Assessor's Parcel 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 and such partial 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 I EXCESS ASSIGNED ANNUAL SPECIAL TAXES**

In any Fiscal Year which the Annual Special Taxes collected from Developed Property, pursuant to Step 1 of Section F, exceeds the Minimum Annual Special Tax Requirement, the School District shall use such amount for acquisition, construction or financing of school facilities in accordance with the Act, IA No. A of CFD No. 14 proceedings and other applicable laws as determined by the Board.

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

Annual Special Taxes shall be levied for a period of thirty-five (35) Fiscal Years after the last series of Bonds have been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2050-2051.

**SECTION K  
EXEMPTIONS**

The Board shall classify as Exempt Property (i) Assessor’s Parcels owned by 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 owned by a homeowners' association, (iv) Assessor’s Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor’s Parcels developed or expected to be developed exclusively for non-residential use, including any use directly servicing any non-residential property, such as parking, as reasonably determined by the Board, and (vi) any other Assessor’s Parcels at the reasonable discretion of the Board, provided that no such classification would reduce the Net Taxable Acreage to less than the Minimum Taxable Acreage listed in Table 3 below. Notwithstanding the above, the Board shall not classify an Assessor’s Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than the Minimum Taxable Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than the Minimum Taxable Acreage will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

**TABLE 3**

**MINIMUM TAXABLE ACREAGE**

<b>Taxable Acres</b>
123.76 Acres

**SECTION L  
APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Board not later than twelve months after having paid the first installment of the Special Tax that is disputed. In order to be considered sufficient, any notice of appeal must: (i) specifically identify the property by address and Assessor's Parcel Number; (ii) state the amount in dispute and whether it is the whole amount or only a portion of the Special Tax; (iii) state all grounds on which the property owner is disputing the amount or application of the Special Tax, including a reasonably detailed explanation as to why the amount or application of such Special Tax is incorrect; (iv) include all documentation, if any, in support of the claim; and (v) be verified under penalty of perjury by the person who paid the Special Tax or his or her guardian, executor or administrator. A representative(s) of IA No. A of CFD No. 14 shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or 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) as the representative's decision shall indicate.

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

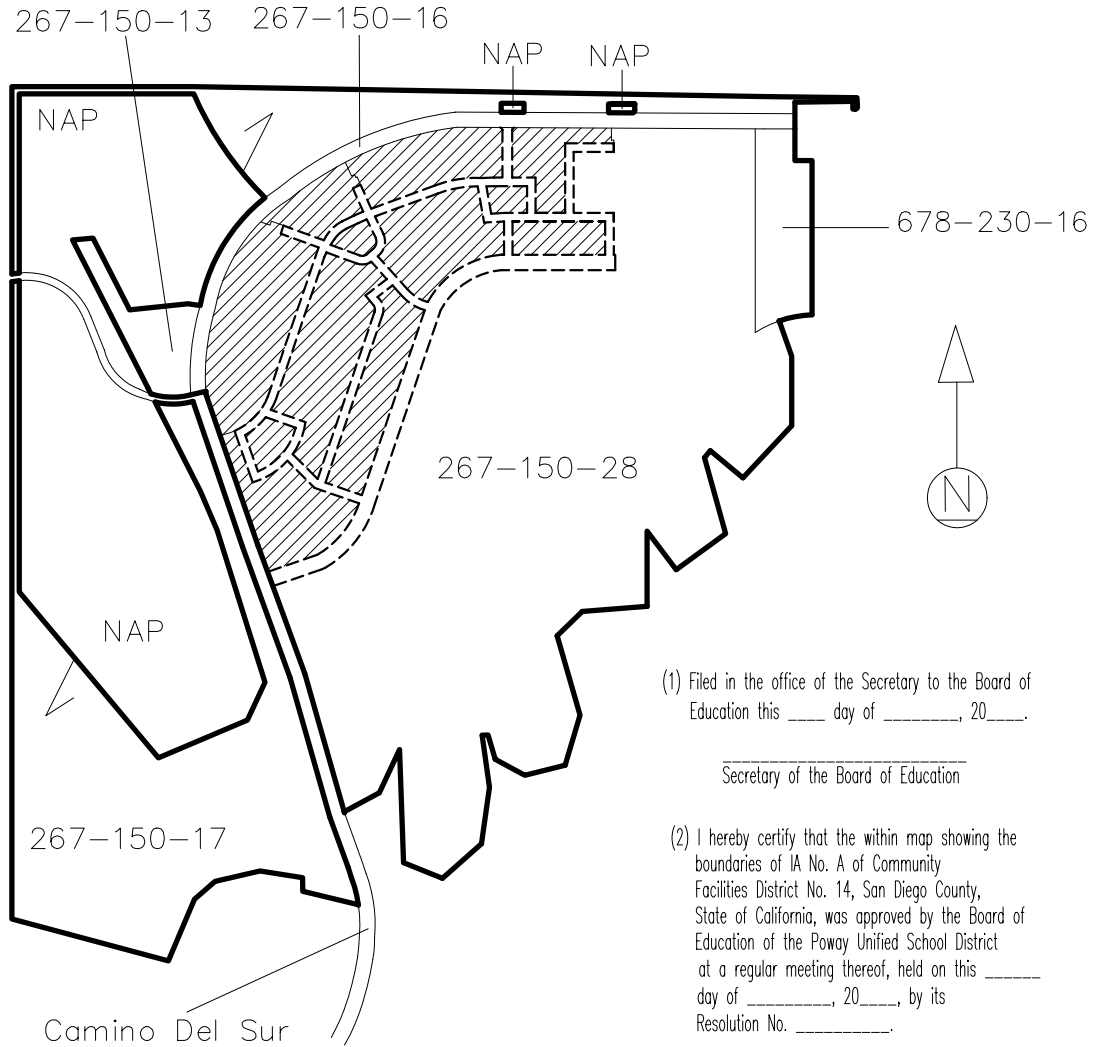
The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes and shall be subject to the same penalties, the same procedure, sale and lien priority in the case of delinquency; provided, however, that IA No. A of CFD No. 14 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and if so collected, a delinquent penalty of 10% of the Special Tax will attach at 5:00 p.m. on the date the Special Tax becomes delinquent and interest at 1.5% per month of the Special Tax will attach on the July 1 after the delinquency date and the first of each month thereafter until such Special Taxes are paid.

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**EXHIBIT A**  
**CFD BOUNDARY MAP**

PROPOSED BOUNDARIES OF  
 POWAY UNIFIED SCHOOL DISTRICT  
 IMPROVEMENT AREA NO. A OF  
 COMMUNITY FACILITIES DISTRICT NO. 14  
 SAN DIEGO COUNTY  
 STATE OF CALIFORNIA



(1) Filed in the office of the Secretary to the Board of Education this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Secretary of the Board of Education

(2) I hereby certify that the within map showing the boundaries of IA No. A of Community Facilities District No. 14, San Diego County, State of California, was approved by the Board of Education of the Poway Unified School District at a regular meeting thereof, held on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by its Resolution No. \_\_\_\_\_.

Secretary of the Board of Education

(3) Filed this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, at the hour of \_\_\_\_ o'clock \_\_m, in Book \_\_\_\_\_ of Maps of Assessment and Community Facilities Districts at page \_\_\_\_\_ and as Instrument No. \_\_\_\_\_, in the office of the County Recorder of San Diego County, State of California.

County Recorder of San Diego County

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

LEGEND

	Boundaries of IA No. A of Community Facilities District No. 14
	Road Easements (Not a part of IA No. A of CFD No. 14)
	Assessor's Parcel Line
	San Diego County Assessor's Parcel Number
	Not a Part of IA No. A of CFD No. 14
	Exhibit A

EXHIBIT "A"  
BOUNDARIES OF  
POWAY UNIFIED SCHOOL DISTRICT  
IMPROVEMENT AREA NO. A OF  
COMMUNITY FACILITIES DISTRICT NO. 14

Assessor's Parcel Numbers\*

267-150-20  
267-150-21  
267-150-22  
267-150-23  
267-150-24  
267-150-25  
267-230-01  
267-230-02  
267-230-03  
267-230-04  
267-230-05  
267-230-06  
267-230-07

\*Current as of equalized  
tax Role of the Assesor of  
the County of San Diego  
for Fiscal Year 2005-06

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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. 14  
(Del Sur)

DATE OF VALUE:

April 1, 2006

SUBMITTED TO:

Sandra G. Burgoyne  
Poway Unified School District  
13626 Twin Peaks Rd.  
Poway, CA 92064-3098

DATE OF REPORT:

April 21, 2006

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

April 21, 2006

Sandra G. Burgoyne  
Poway Unified School District  
13626 Twin Peaks Rd.  
Poway, CA 92064-3098

Re: Community Facilities District No. 14  
(Del Sur)

Dear Ms. Burgoyne:

In accordance with your request and the District's authorization, I have completed a Complete Appraisal of the taxable properties comprising the above-referenced Community Facilities District (CFD). This CFD consists of six separate tracts by four different builders plus the remaining master developer ownership. Construction of homes is underway on the six tracts owned by the four different builders, and the master developer ownership consists of vacant lots that are mostly graded and with installation of the backbone infrastructure in process.

The purpose of this appraisal is to estimate the market value of each of the separate tracts, plus the remaining master developer ownership. This appraisal also reflects the proposed public bond financing, as well as the tax rates up to a maximum of 1.9% to the future homeowners, including the special taxes for this CFD and other overlapping debt. Based on the inspections of the properties and analysis of matters pertinent to value, the following conclusions of market value have been arrived at, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

<u>Tract Name (Builder)</u>	<u>No. of Lots/Units</u>	<u>Market Value</u>
Bridgewalk (Standard Pacific Homes)	69	\$ 22,300,000
Madeira (Shea Homes)	78	\$ 31,750,000
Alcala (William Lyon Homes)	83	\$ 32,500,000
Cassero (Standard Pacific Homes)	38	\$ 13,800,000
Cabrillo (Standard Pacific Homes)	26	\$ 10,250,000
Kensington (Davidson Communities)	<u>70</u>	<u>\$ 28,150,000</u>
Sub-Total	364	\$138,750,000
<b>Black Mountain Ranch LLC Ownership:</b>	<u>784</u>	<u>\$191,750,000</u>
Total	1,148	\$330,500,000

**(THREE HUNDRED THIRTY MILLION FIVE HUNDRED THOUSAND DOLLARS)**



MS. SANDRA G. BURGOYNE  
APRIL 21, 2006  
PAGE 2

The following is the balance of this 73-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,

A handwritten signature in black ink, appearing to read "Stephen G. White", is written over a horizontal line.

Stephen G. White, MAI  
(State Certified General Real Estate  
Appraiser No. AG013311)

SGW:sw  
Ref: 06006

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## 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 property that is the subject of this report, and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is 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 inspection of the property that is the subject of this report.
9. No one provided significant professional assistance to the person signing this report, other than data research and partial report writing 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 estimate contained in the report is 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 is no encroachment or trespass 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 properties, but the value estimated in this

**ASSUMPTIONS AND LIMITING CONDITIONS,** Continuing

appraisal is 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. Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
13. 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.
14. 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.

**SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS**

1. Estimates of land development costs including fees to get the subject tracts and the master developer ownership from their as is condition to finished lot condition have been obtained from the merchant builders and from the master developer's consultant. These costs are integral to the analysis of the value of the as is condition of the land, and have been relied upon in this appraisal as being reasonably accurate.
2. The valuation has assumed that School Facilities in an amount of  $\pm$ \$42,300,000 will be funded by bond proceeds from Community Facilities District No. 14 of the Poway Unified School District, and Non-School Facilities in an amount of  $\pm$ \$42,250,000 will be funded by bond proceeds from Community Facilities District No. 14 Improvement Area A of the Poway Unified School District.

## **PURPOSE AND USE OF THE APPRAISAL**

The purpose of this appraisal is to estimate the aggregate market value of the six separate tracts owned by four different merchant builders plus the remaining ownership of the master developer, comprising the taxable property located within Community Facilities District No. 14 (Del Sur) of the Poway Unified School District. This Summary Appraisal Report is to be used as required in the bond issuance.

## **SCOPE OF THE APPRAISAL**

It is the intent of this Complete 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 an inspection of the subject properties and their surroundings; review of various maps and documents relating to the properties and the developments which are currently underway and planned; obtaining of pertinent property data on the subject properties; obtaining of comparable land and home sales from a variety of sources; and analysis of all of the data to the value conclusions.

## **DATE OF VALUE**

The date of value for this appraisal is April 1, 2006.

## **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.

## **DEFINITION OF FINISHED LOT**

This term describes the condition of residential lots in a single-family subdivision for detached homes or a subdivision of building pads for attached homes in which the lots or building pads are fully improved and ready for homes to be built. This reflects that the lots or building pads have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot or building pad, street improvements completed, common area improvements/landscaping (associated with the tract) completed, resource agency permits (if necessary), and all

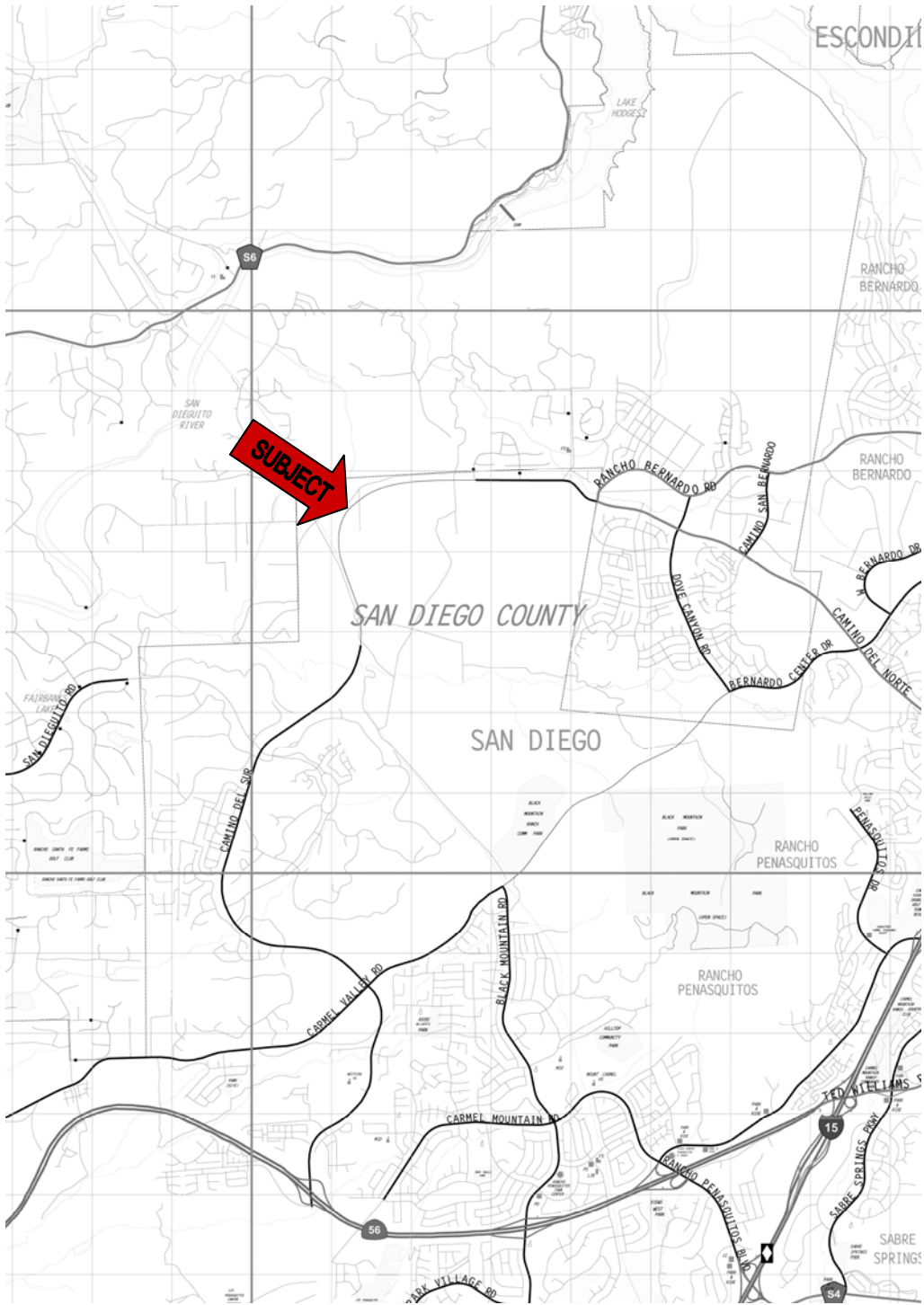
**DEFINITION OF FINISHED LOT, Continuing**

development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map.

**DEFINITION OF BLUE-TOP LOT**

This term describes residential lots in a single-family subdivision for detached homes or a subdivision for attached homes in which the lots or building pads and streets have been rough graded, and the offsite infrastructure of streets and utilities are completed to the tract, but not within the tract.

# LOCATION MAP





## **GENERAL PROPERTY DATA**

### **LOCATION**

The map on the opposite page indicates the approximate location of Del Sur, with the six tracts and master developer ownership in CFD No. 14 being located to the south and east of Camino Del Sur. This location is in the northern part of the City of San Diego in a newly developing area that includes portions of unincorporated San Diego County nearby to the north, west and east. The 15 Freeway is just over 3 miles to the east, the 5 Freeway is approximately 7 miles to the west and Highway 56 is within 3 miles to the south.

### **GENERAL AREA DESCRIPTION**

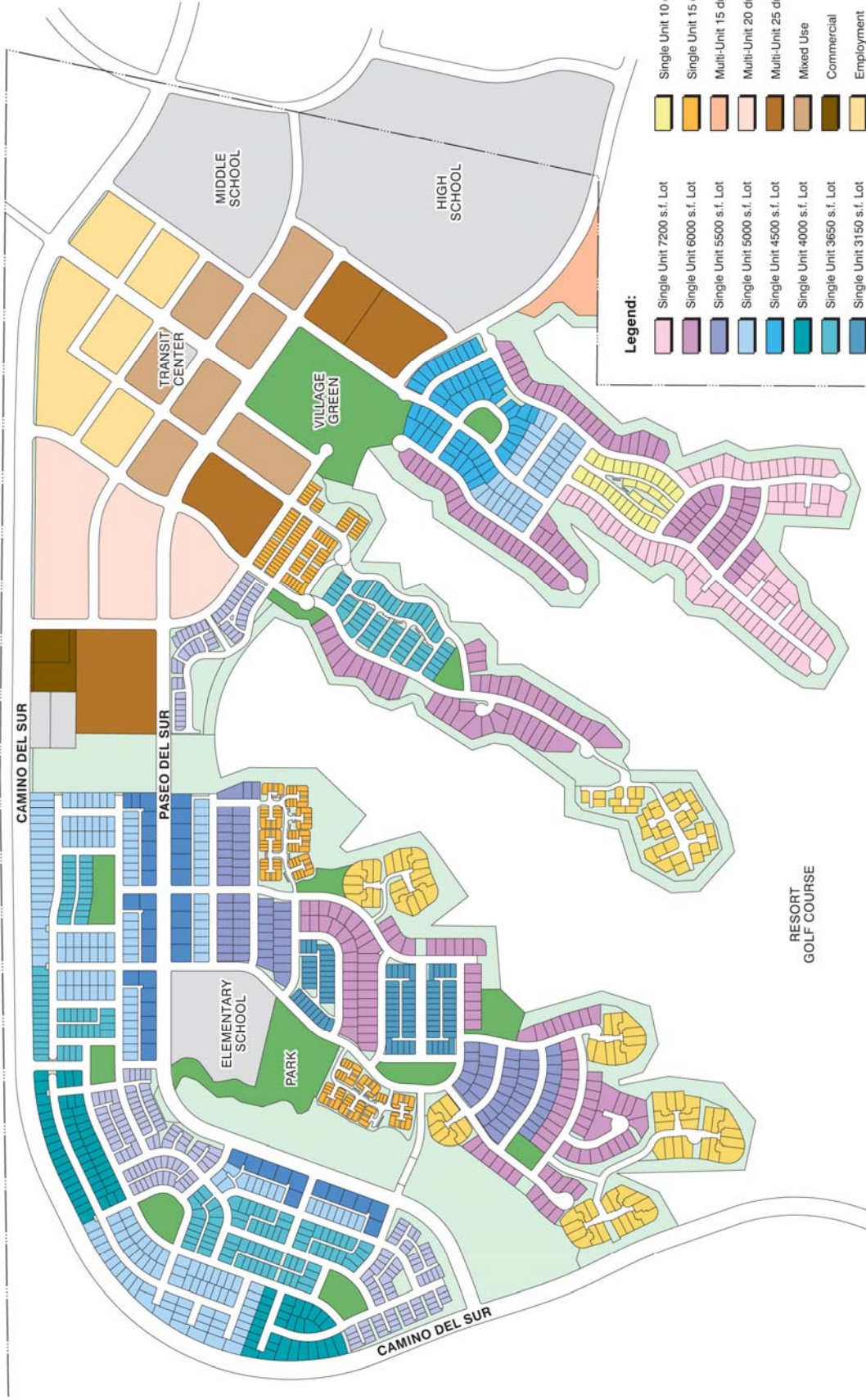
The immediate subject area is located in the northwest part of the City of San Diego, with unincorporated County areas adjacent to the north and nearby to the west and east. The subject area is located about 20 miles northerly of downtown San Diego, and about 8 miles inland of the ocean at Encinitas and Solana Beach.

To the north of the subject property is the Santa Fe Valley area, which is mostly a large area of undeveloped and gently undulating land with some scattered homes. Across Camino Del Sur from the northeast part of the subject property is a 17.5-acre site that is currently being developed by Maranatha Christian Schools with a pre-school through high school facility. North and northeast of that is the Santa Fe Valley Water Reclamation Facility that was completed several years ago and includes a reservoir and storage pond. East of that are three gated estate communities of Bel Etage, Savenna and Salviati.

To the east of the subject property is the undeveloped land for the future phases of Del Sur, and not a part of CFD No. 14. This area will include a wide range of residential development similar to the subject area, but also including higher density attached housing, as well as commercial and mixed-use development, a middle school and a high school. Most of this area is beyond a valley area that lies along the east/southeast part of the subject property. However, adjacent to the east of the subject property along the south side of Camino Del Sur is a narrow open space, then an SDG&E facility, a future fire station site and the Fairbanks Ridge Apartments that are currently under construction and being developed by Chelsea Investment Corp.

Farther to the east and northeast is the master-planned community of 4S Ranch that has been developing over the past six years. The community will include a total of  $\pm 4,500$  dwelling units at build-out, plus much commercial and mixed-use development. The current pricing for new homes in this community ranges from the high \$300,000's to near \$1,500,000.

To the west of the subject property is a tract of new homes under construction called Avaron, being built by Standard Pacific. The homes range in size from 3,951 s.f. to



Land Use Plan - North Village (Phase II-B)

Black Mountain Ranch



## **GENERAL AREA DESCRIPTION, Continuing**

4,778 s.f., on lots of 9,000 s.f. minimum or an average size of  $\pm 15,000$  s.f. The current pricing for these homes ranges from \$1,245,900 to \$1,448,900. Farther to the west is a large area of undeveloped and gently undulating land. Farther to the northwest is the Crosby Estates, which is a 722-acre gated community in Rancho Santa Fe, including a private golf course plus a swim and racquet facility.

To the south of the subject property the land slopes down to a valley area, with a large area of undeveloped land, in which a future golf course is planned. Farther south is the Santaluz community which was the first phase of development of Black Mountain Ranch. It will encompass over 1,000 dwelling units and a golf course on nearly 3,800 gross acres, of which nearly 2,900 acres is open space. The residential lots range from  $\pm 5,000$  s.f. to estate lots of over several acres in size.

## **DESCRIPTION OF DEL SUR**

### **Overview**

Del Sur comprises the northerly portion of the 4,677-acre historic Black Mountain Ranch. The original planning documents as well as current tract maps refer to this community as Black Mountain Ranch North Village. However, the current marketing name of the community is Del Sur. This is a mixed-use master planned community that that will ultimately contain just over 3,050 dwelling units ranging from large custom estates to affordable apartments. The community will also include an elementary school, middle school and high school as well as a 120,000 s.f. town center that will offer shops and restaurants. Proposed for future development is a 495,000 s.f. business/commercial park in the northeast part of the community as well as an 18-hole championship golf course (the “valley” golf course) and a 300-room luxury resort hotel.

Community amenities will include a 5-acre regional park that will comprise ballparks, playing fields and playgrounds, as well as various neighborhood parks with tot lots, picnic areas and private pools ranging from a lap pool to infinity pools. As part of the overall Black Mountain Ranch there will be an 18-mile network of groomed hiking and biking trails that will link to San Dieguito River Park and Black Mountain Regional Park as well as a trail designed specifically for pets.

The overall Black Mountain Ranch project, of which Del Sur comprises the northerly portion, has obtained various development approvals dating back to 1988. The Subarea Plan that included Del Sur was approved by the City Council in 1998. Additional approvals were obtained in 2001, and final “A” tract maps were recorded in 2004. The first land sales to merchant builders were negotiated in January and February 2005 and closed in May and June 2005, with construction of homes beginning in late 2005. The first closed sales of completed homes are expected in June and July 2006.

## **DESCRIPTION OF DEL SUR, Continuing**

It is noted that the subject property within CFD No. 14 comprises only the westerly part of Del Sur, referred to as the West Village and West Ridge areas. As previously indicated, the subject property comprises only residential land which is to be developed with a total of 1,148 dwelling units, including 943 detached homes and 205 attached homes. The remaining residential development and all of the commercial development will be located in the easterly part of Del Sur, and is not a part of CFD No. 14.

### **Streets and Access**

The primary access to Del Sur is provided by Camino Del Sur which curves around the north and west sides of the community. From the community of Del Sur it extends easterly toward 4S Ranch and the 15 Freeway, and it also extends southerly through the community of Santaluz and the Torrey Highlands area to Highway 56. Part of this road is completed and paved, but construction is still underway and not yet completed to provide full access to Del Sur, but access is expected to be available in May 2006. This will be a four-lane roadway with a wide landscaped center median.

Paseo Del Sur extends to the northeast from Camino Del Sur from the southwest part of the overall subject property. It extends northeast and then curving east, nearly parallel with Camino Del Sur but to the south and southeast, and providing access through Del Sur, and ultimately will extend easterly into the town center area at the east side of Del Sur. This collector street provides access to many of the subject tracts, and is mostly paved as a four-lane street through the west portion or West Village of Del Sur.

Other collector and in-tract streets connect between Camino Del Sur and Paseo Del Sur for the tracts in the West Village area, and Paseo Montenero and Kristen Glen will extend south from Paseo Del Sur to provide access to most of the tracts in the West Ridge area, comprising the east portion of the subject properties. These streets are graded dirt roadways and not yet paved.

### **Utilities**

The utilities for the community are provided as follows:

Water & Sewer:	City of San Diego
Gas & Electric:	San Diego Gas & Electric
Telephone:	AT&T
Cable:	Time Warner

## **DESCRIPTION OF DEL SUR, Continuing**

### **Zoning/Approvals**

The residential lots within CFD No. 14 are zoned RS-1-14 which permits single family residential development on 5,000 s.f. minimum lot sizes and RX-1-2 which permits both attached and detached single dwelling units on 3,000 s.f. minimum lots. These lots are also within the Urban Village Overlay Zone which provides for greater flexibility in development, and with the intent to “create a mix of land uses in a compact pattern that will reduce dependency on the automobile, improve air quality, and promote high quality, interactive neighborhoods.”

The Black Mountain Ranch Subarea Plan was approved by the City Council on July 28, 1998 and by the voters of the City of San Diego on November 3, 1998, and this plan provides for the development of 1,410 acres of the Black Mountain Ranch community, including the Del Sur area. Subsequent City approvals of the Black Mountain Ranch Subarea I Specific Plan took place in 2001, and the Planned Development Permit/Site Development Permit No. 40-0528 (MMRP) for North Village at Black Mountain Ranch was recorded on April 1, 2003.

More specific approvals for development are by the approved tentative tract map for Black Mountain Ranch North Village that covers all of the Del Sur community; the final “A” maps or master maps for Units 1, 2 and 9 of Black Mountain Ranch North Village that recorded on September 17, 2004 (Units 1 and 2) and June 17, 2005 (Unit 9); and the final “B” maps on the specific tracts for Units 1, 2, 3 and 9 that recorded from August 23, 2005 through December 16, 2005. The final “B” maps for Units 4 and 5 (comprising the West Ridge or southeast portion of the overall subject property) are approved but not yet recorded.

### **Topography/Views**

The bulk of the subject property comprising the west portion of Del Sur is fairly flat. There is a narrow valley area that generally runs north-south between the West Village and West Ridge areas, with Paseo Del Sur above grade of this along the westerly side and the residential tracts above grade of this along the easterly side. In addition, the land slopes down to the southeast and east of the overall subject property, resulting in territorial views to lots at the edges of the tracts in these areas.

### **Drainage/Flood Hazard**

Drainage is and will be within master-planned facilities that have been or will be constructed throughout the community. The area drainage is generally to the south. Per FEMA Flood Insurance Rate Map No. 060295 1069F dated 6/19/97, the subject property is in Zone X which indicates areas determined to be outside of the 100-year flood plain.

## DESCRIPTION OF DEL SUR, Continuing

### **Soil/Geologic/Seismic Conditions**

This appraisal has assumed that all necessary grading and compacting has been and will be properly completed by the master developer and the merchant builders, and that there are no abnormal soil or geologic conditions that would affect the continuing development of the lots as planned with the residential development. It is also noted that the property is not within an Alquist-Priolo Earthquake Fault Zone.

### **Environmental Conditions**

An Environmental Impact Report (EIR) on Black Mountain Ranch Subarea I was certified in 1998, and an Addendum to this report was certified in 2001. Per the master developer, further reviews conducted by the City have resulted in findings of no significant impact not previously discussed in the EIR, and it is expected that future City reviews will result in similar findings.

It is noted that the Black Mountain Ranch North Village project (which includes the subject portion of the Del Sur community) was included in the approved negotiated project list of the City's Multiple Species Conservation Plan Subarea Plan. Thus, the requirement for the Multiple Species Conservation Program has been satisfied.

It is also noted that portions of the property within CFD No. 14 and/or adjacent properties had been commercially farmed in past years. A Pesticide Assessment and Re-Use Plan was prepared in April 2004, and a plan for on-site reuse of the affected soils that would comply with regulatory criteria and would be protective of human health was developed and implemented.

Lastly, it is noted that unexploded ordnance/inert training round debris was found on a portion of the subject property in June 2004. The US Army Corps of Engineers determined that this debris represented a "low risk" condition, and the master developer then retained a firm to implement a program to identify and remove the debris which has been completed.

In summary, this appraisal has assumed that all necessary environmental permits and approvals have been obtained, and that there are no other environmental conditions that would have a negative effect on the existing, ongoing and future residential development of the land as planned.

# MAP OF BRIDGEWALK



## **BRIDGEWALK (STANDARD PACIFIC HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is located at the northeasterly corner of Camino Del Sur and Paseo Del Sur, extending northerly and easterly to Katherine Claire Ln., Canton Ridge Terrace and Haaland Glen.

#### **Record Owner/Ownership History**

Standard Pacific Corp. (known by the builder name of Standard Pacific Homes) acquired the vacant lots for this tract from Black Mountain Ranch LLC by deed recorded May 17, 2005, Document No. 0413574, at a price of \$262,978 per lot in blue top condition. They still own all lots in this tract as the first closings of completed homes are not projected to occur until September or October 2006.

#### **Legal Description**

This tract comprises Lots 1 through 31 and 211 through 248 of Black Mountain Ranch North Village Unit No. 1D, according to Map No. 15095, County of San Diego.

#### **Assessor Data-2005/06**

This overall tract comprises Assessor Parcel No. 267-150-23. The current assessed value is \$661,607 for land and \$0 for improvements, which does not reflect the subdivision of the lots or the land development and home construction completed thus far. The tax rate area is 08-050, with a current base tax rate of  $\pm 1.1\%$ , but the overall tax rate to the homebuyers is projected to be  $\pm 1.8-1.9\%$  including the special taxes for the CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 69 lots. The lots are a minimum size of 2,450 s.f., or approximately 35' by 70'.

#### **Planned Development/Status of Construction**

These 69 lots are being developed with a tract of homes called Bridgewalk at Del Sur. As of the April 1, 2006 date of value there were 27 homes under construction and 42 vacant lots. Of the 27 homes under construction, the 3 models were  $\pm 80-90\%$  completed and 24 were  $\pm 10\%$  completed. The vacant lots were in a graded condition but with street improvements not yet completed.



## PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

**Plan One (Laurel):** 1,702-1,730 s.f., two-story, with 3 bedrooms, 2½ baths, living room, dining room and a 2-car garage with work space.

**Plan Two (Spruce):** 1,930 s.f., two-story, with 3 bedrooms, 2½ baths, tech center, living room, dining room, upstairs deck and a 2-car garage with work space.

**Plan Three (Quince):** 1,969 s.f., two-story, with 4 bedrooms, 2½ baths, living room, dining room and a 2-car garage with shop space; optional loft in lieu of bedroom 4 and optional master retreat in lieu of bedroom 2.

The pricing from the first two sales releases in October and December 2005 ranged from \$683,900 to \$718,900 for Plan 1, \$713,900 to \$750,900 for Plan 2, and \$720,900 to \$766,900 for Plan 3. The pricing for the most recent release of four homes in March 2006 was \$690,000 for a Plan 1, \$730,900 and \$745,900 for the Plan 2's, and \$744,900 for a Plan 3. The range in prices reflects the lot premiums and some options.

As of the April 1, 2006 date of value there had been 24 homes released for sale, with 14 homes sold and 10 still available. The models are due to open in May 2006 and the first escrows are due to close in September or October 2006.

### **Title Report**

A preliminary report by Chicago Title Company dated April 5, 2005 has been reviewed. Exceptions to title include a bond issued May 30, 2003 for Facilities Benefits Assessment Lien for the City of San Diego; various documents pertaining to the Development Agreement, Assignment/Assumption/Release Agreements, Covenants Running with Land, and the School Impact Mitigation Agreement; a pending assessment for CFD No. 8 of the Poway Unified School District recorded September 20, 2000 and Notices of Special Tax Lien for Improvement Area A recorded September 26, 2000 and November 17, 2000; a pending assessment for Improvement Area No. A of CFD No. 14 of the Poway Unified School District recorded December 29, 2005 with the Notice of Special Tax Lien recorded February 1, 2006; a pending assessment for Black Mountain Ranch Facilities Benefit Assessment Plat No. 4092 recorded May 30, 2003; various CC&R's; and various easements for purposes of utilities.

These easements are fairly typical for a subdivision such as the subject, and this appraisal has assumed that there are no exceptions to title which would affect the continuing development of the lots as planned.

## VALUATION

### Method of Analysis

The Sales Comparison Approach is used to estimate the value of the vacant lots, as if in a finished lot condition, based upon recent sales of similar residential land or bulk single-family residential lots in comparison to the subject property. For the homes under construction, a simplified Cost Approach is used, in which the value is based on a conservative estimate of costs expended on the construction plus the estimated value of the vacant lot, as if in finished condition. Lastly, a deduction is made for the estimated remaining costs to the builder, including pertinent fees, to get all of the lots from the as is condition to finished lot condition.

### Analysis of Homes Under Construction

For the 3 homes that were  $\pm 80-90\%$  completed, I have considered an average cost amount of 85% of  $\pm \$80.00$  per s.f. direct costs or  $\$68.00$  per s.f. on the average home size of  $\pm 1,870$  s.f., or an amount of  $\pm \$127,000$ . This is added to the estimated finished lot value of  $\$325,000$ , as discussed next, resulting in a total of  $\$452,000$  as an average for these 3 homes.

For the 24 homes that were  $\pm 10\%$  completed, an average cost amount of 10% of  $\pm \$80.00$  per s.f. direct costs or  $\$8.00$  per s.f. on the average home size of  $\pm 1,870$  s.f. indicates an amount of  $\pm \$15,000$ . This is added to the estimated finished lot value of  $\$325,000$ , resulting in a total of  $\$340,000$  as an average for these 24 homes.

### Analysis of Finished Lot Value

This discussion refers to the Tabulation of Residential Land Sales that is in the Addenda section of this report.

**Sale No. 1** is the pending sale by the master developer (Black Mountain Ranch LLC) to Shea Homes of the 55-unit condominium site in the West Ridge area of Del Sur at a price reflecting  $\$300,630$  per finished lot (unit), and due to close in early May 2006. This is a relatively low density for an attached product at 11.2 units per acre, and the planned homes of 1,643 to 2,298 s.f. are relatively large for attached units. It is also noted that the proforma average home pricing when the land sale was negotiated was  $\$550,455$  but the builder's current projection is  $\$589,000$  to  $\$690,000$ , or nearly 18% higher.

In comparison to the subject, these are effectively smaller "lots" for the attached units than the subject 2,450 s.f. minimum lots for detached homes, though the planned homes range from slightly smaller than the subject homes on the low end to significantly larger on the high end. In addition, some of the units will back to open space. However, as an attached product, this is inferior to the subject, as evidenced by the lower projected home pricing at an average of  $\pm \$645,000$  to  $\$650,000$  in

## VALUATION, Continuing

contrast to the subject home pricing from the high \$600,000's to the mid \$700,000's. Overall, the indication at \$300,630 per finished lot supports a firm lower limit for the subject.

**Sale No. 2** represents the purchase of the subject lots by Standard Pacific Corp. in May 2005 at a price reflecting \$316,204 per finished lot. When the sale was negotiated in February 2005, the proforma average home pricing was \$645,000, and the current average pricing of  $\pm$ \$710,000 to \$720,000 indicates an increase of  $\pm$ 11%. Thus, considering the date of sale and at least a minor upward time adjustment, the indication at \$316,204 per finished lot supports a close but firm lower limit for the subject at current date.

**Sale No. 3** is the pending sale by the master developer to Standard Pacific of an 84-lot tract of 2,450 s.f. minimum lots for a continuation of the Bridgewalk product. The price reflects \$320,476 per finished lot, and the proforma average home pricing is \$683,700. The sale was negotiated in October 2005 and is due to close in August 2006. It is noted that the proforma home pricing indicates an increase of 6% over the proforma for Sale No. 3, though it is still about 4% below the current actual pricing, and the sale price of \$320,476 per finished lot reflects an increase of 1.4% over Sale No. 3. Overall, while there could be a minor upward time adjustment since the sale was negotiated 5 to 6 months ago, I have concluded that the price supports a close indication for the subject at \$320,476 per finished lot.

**Sale No. 4** is the pending sale from the master developer to William Lyon Homes of 89 lots, 3,150 s.f. minimum size, at a price reflecting \$363,698 per finished lot. The sale was negotiated in October 2005, with the first takedown of 60 lots to close in July 2006 and the second takedown of 29 lots to close in December 2006. The homes are planned to be 2,020 to 2,349 s.f. in size. The proforma average home pricing was \$720,333 when the land sale was negotiated, and the most recent projected pricing is an average of  $\pm$ \$757,000 or 5% higher.

In comparison to the subject, these are larger lots at 3,150 s.f., resulting in the potential for the larger and higher-priced homes that are planned. Considering also that there could be a minor upward time adjustment since the price was set 5 to 6 months ago, the indication at \$363,698 supports a firm upper limit for the subject.

On the basis of a finished lot ratio (ratio of price per finished lot to proforma average base home pricing), the sales indicate the overall range from 40% to 55%, but mostly 45-50%. Considering a ratio of 46-48% and the current average base home pricing of  $\pm$ \$710,000 to \$720,000, the following indication results:

$$\$710,000 \text{ to } \$720,000 \times .46-.48 = \$326,600 \text{ to } \$345,600/\text{fin. lot}$$

In summary, I have concluded on a value of \$325,000 per finished lot for the subject tract.

**VALUATION, Continuing**

**Deduction for Costs to get to Finished Lots**

Information provided by the builder is that the remaining costs to get the lots from as is condition to finished lots are approximately \$850,000, including the remaining builder fees on lots for which building permits have not yet been pulled.

**Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

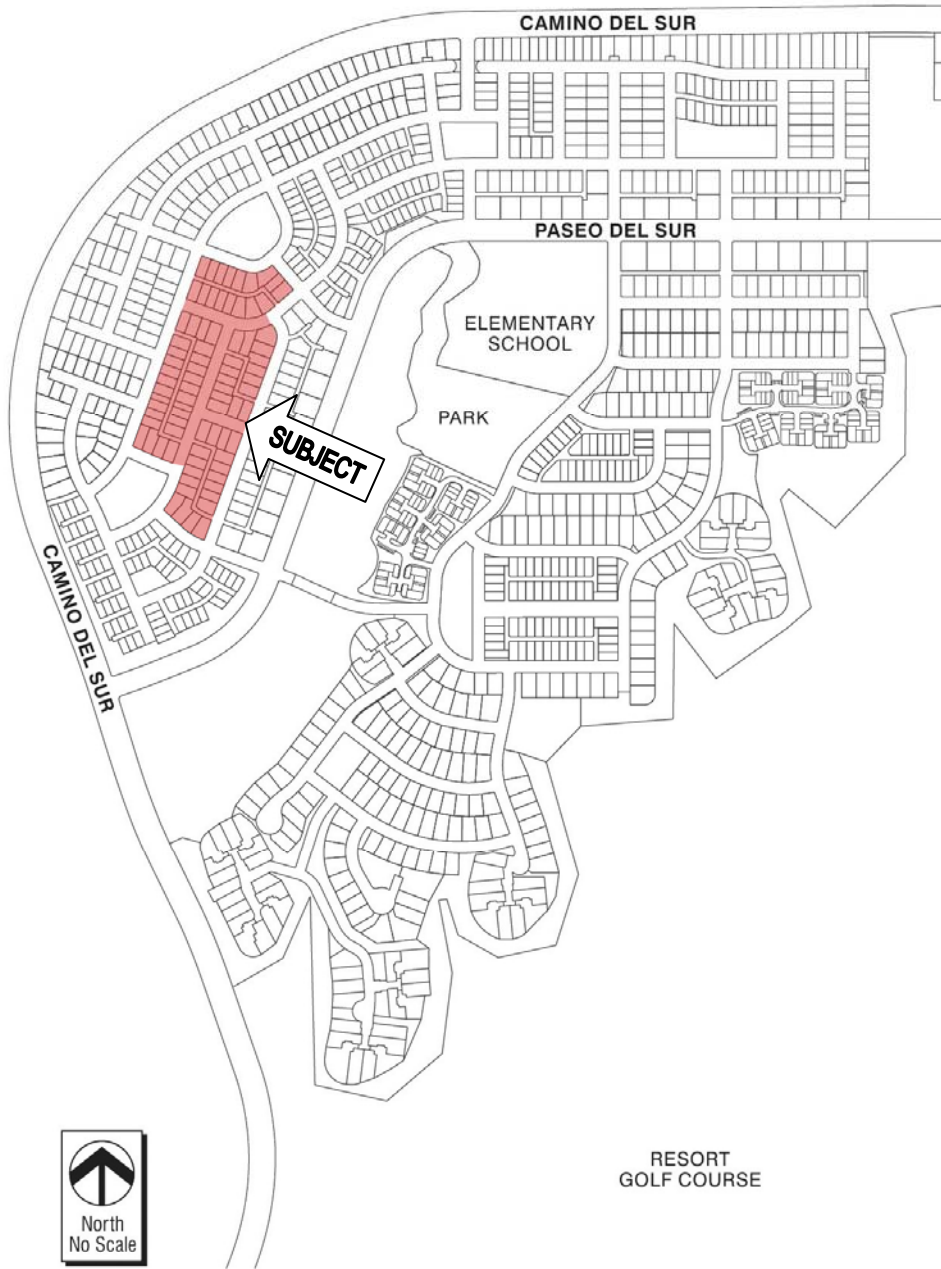
3 homes under construction @ \$452,000 =	\$ 1,356,000
24 homes under construction @ \$340,000 =	\$ 8,160,000
42 vacant lots, if in finished condition @ \$325,000 =	<u>\$13,650,000</u>
	\$23,166,000
Less remaining costs to get to finished lots:	<u>- 850,000</u>
Value Indication, As Is Condition:	\$22,316,000

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 Bridgewalk tract, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$22,300,000**

**(TWENTY-TWO MILLION THREE HUNDRED THOUSAND DOLLARS)**

# MAP OF MADEIRA



## **MADEIRA (SHEA HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is located from New Park Terrace east to Bristol Ridge Terrace, and from Parkside Crescent south to New Park Ln. and Haaland Glen.

#### **Record Owner/Ownership History**

Shea Homes Limited Partnership (known by the builder name of Shea Homes) acquired the vacant lots for this tract from Black Mountain Ranch LLC by deed recorded May 12, 2005, Document No. 0401343, at a price of \$298,455 per lot in blue top condition. They still own all lots in this tract as the first closings of completed homes are not projected to occur until June 2006.

#### **Legal Description**

The 78 residential lots of this tract comprise Lots 104 through 162 and 192 through 210 of Black Mountain Ranch North Village Unit No. 1C, City of San Diego, according to Map No. 15076, recorded August 23, 2005.

#### **Assessor Data-2005/06**

This overall tract comprises Assessor Parcel No. 267-150-22. The current assessed value is \$688,071 for land and \$0 for improvements, which does not reflect the subdivision of the lots or the land development and home construction completed thus far. The tax rate area is 08-050, with a current base tax rate of  $\pm 1.1\%$ , but the overall tax rate to the homebuyers is projected to be  $\pm 1.9\%$  including the special taxes for the CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 78 lots. The lots are a minimum size of  $\pm 3,700$  s.f. ( $\pm 42'$  minimum width), with actual sizes of 3,737 s.f. to 6,742 s.f., or an average of  $\pm 4,700$  s.f.

#### **Planned Development/Status of Construction**

These 78 lots are being developed with a tract of homes called Madeira at Del Sur. As of the April 1, 2006 date of value there were 4 completed-unsold homes (models), 49 homes under construction, and 25 vacant lots. Of the 49 homes under construction, 32 were an average of  $\pm 50-60\%$  completed and 17 were  $\pm 10\%$  completed.

## PROPERTY DATA

There are five floor plans which are described as follows:

**Residence One:** 1,785 s.f., two-story, with 3 bedrooms, 2½ baths, great room, dining room, covered front porch and side patio, and a 2-car garage; optional loft in lieu of bedroom 3.

**Residence Two:** 1,938 s.f., two-story, with 3 bedrooms, 3½ baths, great room, dining room and a 2-car garage with options of loft and study.

**Residence Three:** 2,000 s.f., two-story, with 4 bedrooms, 3 baths, great room, dining room, covered interior courtyard and a 2-car garage with options of media room and office.

**Residence Four:** 2,131 s.f., two-story, with 4 bedrooms, 3½ baths, great room, dining room, upstairs balcony, covered interior courtyard and a 2-car garage.

**Residence Five:** 2,269 s.f., two-story, with 3 bedrooms, 3 baths, great room, dining room, covered side patio and a 2-car garage with options of bedroom 4 and bonus room.

The base pricing from the first sales release for Phase 1A in September 2005 was \$715,000 for Plan 1, \$730,000 for Plan 2, \$743,000 for Plan 3, \$755,000 for Plan 4 and \$765,000 for Plan 5. The base pricing for the most recent release of Phase 2B in January 2006 was \$715,000 for Plan 1, \$737,000 for Plan 2, \$745,000 for Plan 3, \$777,000 for Plan 4 and \$769,000 for Plan 5. In addition, the lot premiums have ranged from \$2,000 to \$13,000 and the typical options/upgrades average ±\$30,000. The actual sale prices for homes in escrow have ranged from \$741,065 to \$873,177.

As of the April 1, 2006 date of value there had been 32 homes released for sale, with 21 homes sold and 11 still available. The models are due to open by early May 2006 and the first escrows are due to close in June 2006.

### **Title Report**

A preliminary report by Chicago Title Company dated August 23, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Bridgewalk tract. Thus, these exceptions are fairly typical for a subdivision such as the subject, and it has been assumed that there are no exceptions to title which would affect the continuing development of the lots as planned.

## VALUATION

### **Method of Analysis**

This is similar to the previous subject Bridgewalk tract, with the Sales Comparison Approach also used in the valuation of the completed-sold homes.

## VALUATION, Continuing

### **Analysis of Completed-Unsold Homes**

These are the 4 completed model homes which include Plans 1, 3, 4 and 5. As previously indicated, the most recent base pricing for these four plans is \$715,000 for Plan 1, \$745,000 for Plan 3, \$777,000 for Plan 4 and \$769,000 for Plan 5, which indicates a total of \$3,006,000 or an average of  $\pm$ \$751,000. In addition, there would be the minor lot premiums as well as the typical options/upgrades of  $\pm$ \$30,000.

It is also noted that the actual sale prices for 17 of the 21 homes in escrow range from \$741,065 to \$873,177, or an average of  $\pm$ \$813,000. Furthermore, many of these sales were negotiated about 3 to 6 months ago, and the base pricing has increased at least slightly since then. Thus, the actual pricing is supported by the sales activity in the subject tract, and this pricing is also supported by the pricing for the other new homes in the West Village of Del Sur, as previously discussed and as discussed in later pages.

In addition, it is noted that a discount to the value could be considered due to the bulk ownership of these homes by the builder. However, such a discount would be more than offset by a premium or addition due to the significant model upgrades.

I have concluded on a conservative average for these 4 completed-unsold homes of \$800,000.

### **Analysis of Homes Under Construction**

For the 32 homes that were  $\pm$ 50-60% completed, I have considered an average cost amount of 55% of  $\pm$ \$80.00 per s.f. direct costs or \$44.00 per s.f. on the average home size of  $\pm$ 2,025 s.f., or an amount of  $\pm$ \$89,000. This is added to the estimated finished lot value of \$360,000, as discussed next, resulting in a total of \$449,000 as an average for these 32 homes.

For the 17 homes that were  $\pm$ 10% completed, an average cost amount of 10% of  $\pm$ \$80.00 per s.f. direct costs or \$8.00 per s.f. on the average home size of  $\pm$ 2,025 s.f. indicates an amount of  $\pm$ \$16,000. This is added to the estimated finished lot value of \$360,000, resulting in a total of \$376,000 as an average for these 17 homes.

### **Analysis of Finished Lot Value**

**Sale Nos. 2 and 3** support far lower limits for the subject property at \$316,204 and \$320,476 per finished lot due to the much smaller lots at 2,450 s.f. minimum, which results in the much smaller and lower-priced homes that are being built or are planned for those lots.



## VALUATION, Continuing

**Sale No. 4** reflects a price of \$363,698 per finished lot for 3,150 s.f. minimum lots. However, it is noted that most of the lots are  $\pm 3,400$  s.f. and larger, and these lots are planned to be developed with homes that are slightly larger than the homes being built on the subject lots, though the proforma home pricing is slightly lower than the subject. It is also noted that this sale was negotiated as two takedowns, with the second takedown not occurring until December 2006, which could have resulted in a slightly higher price per lot. Overall, it is concluded that the price reflecting \$363,698 per finished lot supports a close upper limit for the subject.

**Sale No. 5** represents the purchase of the subject lots by Shea Homes in May 2005 at a price reflecting \$355,354 per finished lot. When the sale was negotiated in January 2005, the proforma average home pricing was  $\pm \$730,000$ , and the current average base pricing of  $\pm \$750,000$  indicates an increase of  $\pm 3\%$ . Thus, considering the date of sale and at least a minor upward time adjustment, the indication at \$355,354 per finished lot would tend to support a close but firm lower limit for the subject at current date.

**Sale No. 6** is the pending sale by the master developer to Shea Homes of a 58-lot tract of  $\pm 3,700$  s.f. minimum lots for a continuation of the Madeira product. The price reflects \$361,324 per finished lot, and the proforma average home pricing is \$773,963. The sale was negotiated in October 2005 and is due to close in August 2006. It is noted that the proforma home pricing indicates an increase of 6% over the proforma for Sale No. 5, but is about \$25,000 or 3.4% higher than the current pricing. It is also noted that the sale price of \$361,324 per finished lot reflects an increase of only 1.7% over Sale No. 5. Overall, while there could be a minor upward time adjustment since the sale was negotiated 5 to 6 months ago, it is also noted that the price reflects much higher proforma home pricing than the current home pricing. Thus, I have concluded that the indication of \$361,324 per finished lot supports a close indication to close upper limit for the subject.

**Sale No. 7** was a sale of 83 lots, 4,000 s.f. minimum size, that was negotiated in January 2005 and closed in May 2005 from the master developer to William Lyon Homes at a price of \$375,562 per finished lot. These are slightly larger lots than the subject and are being developed with larger and higher-priced homes. This is more than offsetting to an upward time adjustment, resulting in a firm upper limit for the subject at \$375,562 per finished lot.

**Sale No. 11** also supports a firm upper limit for the subject at \$375,262 per finished lot due to the much larger lots at 5,000 s.f. minimum size, which are planned for much larger and higher-priced homes than the subject.

Considering a finished lot ratio of 46-48%, as previously discussed for the subject Bridgewalk tract, and the current average base home pricing of  $\pm \$749,000$ , the following indication results:

## VALUATION, Continuing

$\$749,000 \times .46-.48 = \$344,540 \text{ to } \$359,520/\text{fin. lot}$

In summary, I have concluded on a value of \$360,000 per finished lot for the subject tract.

### Deduction for Costs to get to Finished Lots

Information was not provided by the builder as to the remaining costs to get from as is condition to finished lots. However, it is noted that the in-tract utilities appear to be mostly completed, all in-tract streets have been paved, and builder fees would be remaining on only the vacant lots for which the building permits have not yet been pulled. Thus, the remaining costs would be for minor street improvements and utilities, tract fencing and landscaping, fees, consultants and miscellaneous. Based on information from other tracts, and for conservative valuation purposes, I have concluded on an average remaining cost of \$15,000 per lot, which results in a total of \$1,170,000 for the 78 lots.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

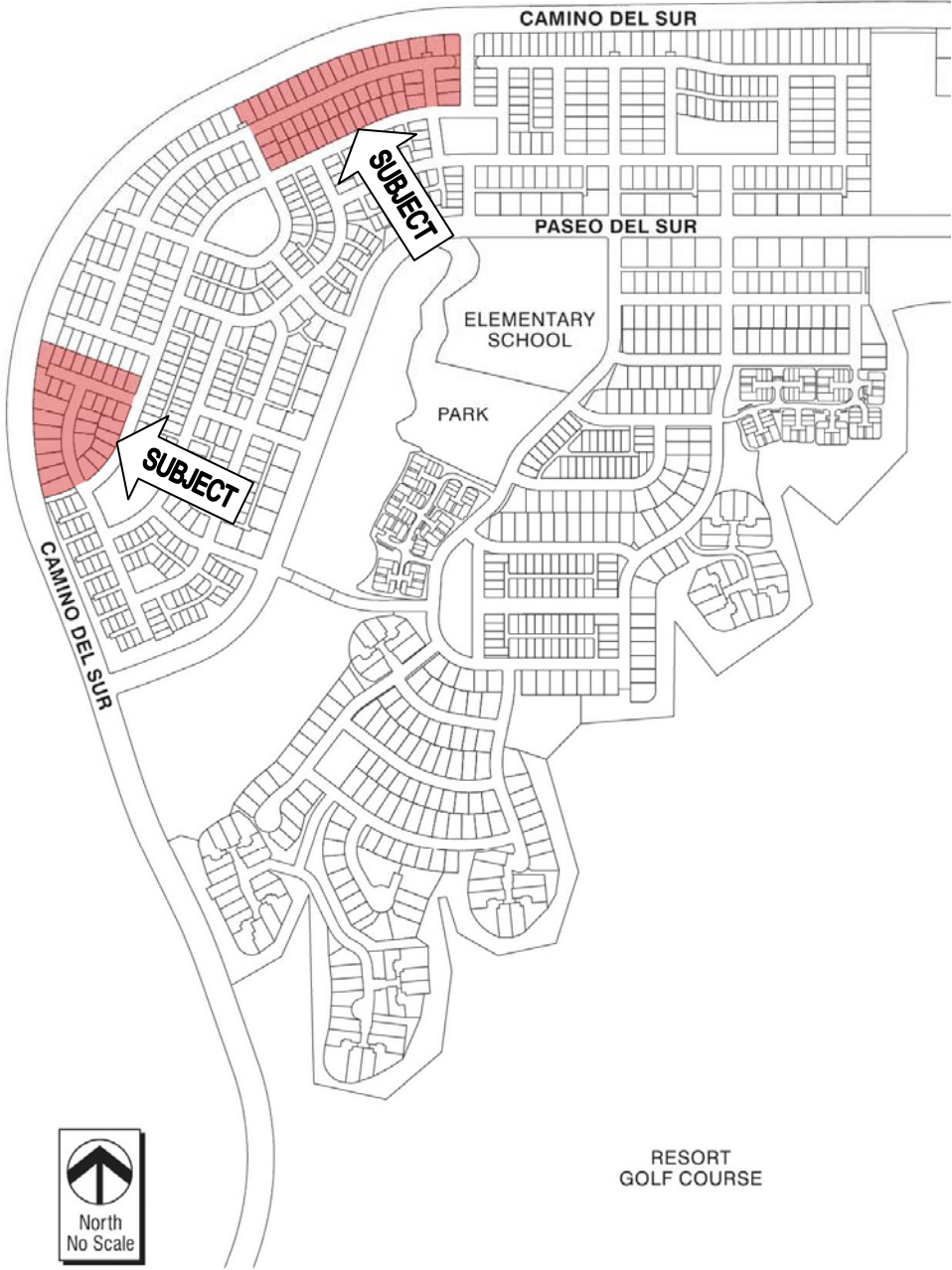
4 completed/unsold homes @ \$800,000 =	\$ 3,200,000
32 homes under construction @ \$449,000 =	\$14,368,000
17 homes under construction @ \$376,000 =	\$ 6,392,000
25 vacant lots, if in finished condition @ \$360,000 =	<u>\$ 9,000,000</u>
	\$32,960,000
Less remaining costs to get to finished lots:	<u>- 1,170,000</u>
Value Indication, As Is Condition:	\$31,790,000

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 Madeira tract, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$31,750,000**

**(THIRTY-ONE MILLION SEVEN HUNDRED FIFTY THOUSAND DOLLARS)**

# MAP OF ALCALA



## ALCALA (WILLIAM LYON HOMES)

### PROPERTY DATA

#### Location

This tract is located on the northwest side of New Park Terrace and Katherine Claire Ln. and also at the southwest corner of Camino Del Sur and Casey Glen, extending southerly to New Park Terrace.

#### Record Owner/Ownership History

Hearthstone Multi-Asset Entity B, L.P. (acting as a land bank for William Lyon Homes) acquired the vacant lots for this tract from Black Mountain Ranch LLC by deed recorded May 24, 2005, Document No. 0436862, at a price of \$310,902 per lot in blue top condition. Hearthstone deeded 19 of the lots to William Lyon Homes, Inc. in August 2005, and deeded 15 more lots to them in November 2005. Thus, Hearthstone still owns 49 of the lots and William Lyon Homes owns 34 of the lots. The first sale closings of completed homes are anticipated to occur in June 2006.

#### Legal Description

This tract comprises Lots 32 through 62 of Black Mountain Ranch North Village Unit No. 1E, according to Map No. 15082, County of San Diego, and Lots 13 through 34 and 171 through 200 of Black Mountain Ranch North Village Unit No. 2E, according to Map No. 15123, County of San Diego.

#### Assessor Data-2005/06

This tract comprises Assessor Parcel Nos. 267-230-05 and 267-150-24. The current assessed values total \$805,396 for land and \$0 for improvements, which does not reflect the subdivision of the lots, the land development or the home construction completed thus far. The tax rate area is 08-050, with a current base tax rate of  $\pm 1.1\%$ , but the overall tax rate to the homebuyers is projected to be  $\pm 1.9\%$  including the special taxes for the CFD.

#### No. of Lots/Lot Sizes

This tract comprises a total of 83 lots. The lots are described as a minimum size of 4,000 s.f. ( $\pm 50'$  minimum width), with actual sizes of 4,112 s.f. to 12,354 s.f., or an average of 5,577 s.f.

#### Planned Development/Status of Construction

These 83 lots are being developed with a tract of homes called Alcala at Del Sur. As of the April 1, 2006 date of value there were 19 homes under construction and 64

## PROPERTY DATA, Continuing

vacant lots. Of the 19 homes under construction, 3 (the models) were about 80-90% completed and 16 were an average of  $\pm$ 50-60% completed. The vacant lots were in a partially finished condition, with the in-tract streets paved.

There are three floor plans which are described as follows:

**Plan 1 (Barona):** 2,463-2,504 s.f., two story, with 4 bedrooms, 2½ baths, living room, dining room, nook, family room, upstairs deck and a 2-car garage with options of loft, retreat and office.

**Plan 2 (Mariner):** 2,460-2,473 s.f., two story, with 4 bedrooms, library, parlor, great room, dining room, covered patio and a 2-car garage with optional loft in lieu of bedroom 4.

**Plan 3 (Serra):** 2,593-2,613 s.f., two story, with 4 bedrooms, 3 baths, living room, formal dining room, super family room, nook, upstairs deck and a 2-car garage with options of office and bedroom 5.

The base pricing from the first sales release in November 2005 was \$763,900 for Plan 1, \$768,900 for Plan 2 and \$783,900 for Plan 3. The base pricing from the third and most recent sales release in February 2006 was \$769,900 for Plan 1, \$774,900 for Plan 2 and \$791,900 for Plan 3, and the current pricing is from \$780,900 for Plan 1, \$792,900 to \$795,900 for Plan 2 and \$810,900 to \$835,400 for Plan 3. The lot premiums on many of the lots range from \$1,000 to \$30,000 and typical options/upgrades range from \$5,000 to \$60,000.

As of the April 1, 2006 date of value, 24 homes had been released for sale with 22 sold and 2 still available. The models were due to open by early May 2006, and the first sale closings were projected to be in June 2006.

### **Title Report**

A preliminary report by Chicago Title Company dated January 23, 2006 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Bridgewalk tract, though a note indicates that the pending assessment and Notice of Special Tax Lien for CFD No. 8 of the Poway Unified School District was deleted on February 17, 2006. Similar to previous discussion, the remaining exceptions are fairly typical for a subdivision such as the subject, and it has been assumed that there are no exceptions to title which would affect the continuing development of the lots as planned.

## VALUATION

### **Method of Analysis**

This is similar to previous analyses.

## VALUATION, Continuing

### Analysis of Homes Under Construction

For the 3 homes that were  $\pm 80-90\%$  completed, I have considered an average cost amount of 85% of  $\pm \$80.00$  per s.f. direct costs or  $\$68.00$  per s.f. on the average base home size of  $\pm 2,500$  s.f., or an amount of  $\pm \$170,000$ . This is added to the estimated finished lot value of  $\$380,000$ , as discussed next, resulting in a total of  $\$550,000$  as an average for these 3 homes.

For the 16 homes that were  $\pm 50-60\%$  completed, an average cost amount of 55% of  $\pm \$80.00$  per s.f. direct costs or  $\$44.00$  per s.f. on the average home size of  $\pm 2,500$  s.f. indicates an amount of  $\pm \$110,000$ . This is added to the estimated finished lot value of  $\$380,000$ , resulting in a total of  $\$490,000$  as an average for these 16 homes.

### Analysis of Finished Lot Value

**Sale No. 7** represents the purchase of the subject lots by William Lyon Homes in May 2005 at a price reflecting  $\$375,562$  per finished lot. When the sale was negotiated in January 2005, the proforma average home pricing was  $\$749,096$ , and the current average base pricing of  $\pm \$776,000$  indicates an increase of  $\pm 4\%$ . Thus, considering the date of sale and at least a minor upward time adjustment, the indication at  $\$375,562$  per finished lot supports a close but firm lower limit for the subject at current date.

**Sale Nos. 5 and 6** are smaller lots at  $\pm 3,700$  s.f. minimum that are being developed and planned for smaller and lower-priced homes than the subject homes. Thus, the indications at  $\$355,354$  and  $\$361,324$  per finished lot support a firm lower limit for the subject.

**Sale Nos. 10 and 11** are larger lots at 5,000 s.f. minimum that are being developed and planned for larger and higher-priced homes than the subject homes. It is noted that the proforma pricing for Sale No. 10 as of January 2005 was an average of  $\$775,000$  and the more recent proforma pricing as of October 2005 (for Sale No. 11) was an average of  $\$821,500$ . However, as discussed later, the current average base pricing is  $\pm \$835,000$ . Thus, an upward time adjustment of at least 5% to Sale No. 10 at  $\$368,766$  per finished lot results in a current indication at  $\$387,000$  per finished lot, and an upward time adjustment of  $\pm 2\%$  to Sale No. 11 at  $\$375,262$  per finished lot results in a current indication at  $\$383,000$  per finished lot, both indications of which support close upper limits for the subject.

**Sale Nos. 12 and 13** are also larger lots at 5,000 s.f. minimum that are planned for much larger and higher-priced homes than the subject homes. Thus, these sales would support firm upper limits for the subject at  $\$382,934$  and  $\$391,698$  per finished lot.

## VALUATION, Continuing

**Sale No. 19** is located nearby to the northeast in Neighborhood 3 of the master-planned community of 4S Ranch. This was a sale from the master developer to John Laing Homes of 96 lots, 4,200 s.f. minimum size, that was negotiated in May 2004 and closed in May 2005 at a price reflecting \$340,000 per finished lot. An upward time adjustment of at least 15% results in a current indication at ±\$391,000 per finished lot, and this supports a firm upper limit for the subject due to the slightly larger lots which are being developed with larger and higher-priced homes.

**Sale No. 20** is also located in Neighborhood 3 of 4S Ranch and was a sale of 101 lots, 4,500 s.f. minimum size that was negotiated in September 2004 and closed in December 2005 at the price reflecting \$355,000 per finished lot. An upward time adjustment of ±10-15% results in a current indication at ±\$400,000 per finished lot. This also supports a firm upper limit for the subject due to the larger lots which were targeted for larger and higher-priced homes than the subject homes.

Considering a finished lot ratio of 46-48%, as previously discussed, and the current average base home pricing of ±\$795,000, the following indication results:

$$\$795,000 \times .46-.48 = \$365,700 \text{ to } \$381,600/\text{fin. lot}$$

In summary, I have concluded on a value of \$380,000 per finished lot for the subject tract.

### **Deduction for Costs to get to Finished Lots**

Information provided by the builder is that the remaining costs to get the lots from the as is condition to finished lot condition are a total of \$1,276,610. These costs include the primary items of engineering/consultants, street improvements, utilities, retaining walls, fencing, slope landscaping, park site, miscellaneous items, fees and contingency.

### **Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

3 homes under construction @ \$550,000 =	\$ 1,650,000
16 homes under construction @ \$490,000 =	\$ 7,840,000
64 vacant lots, if in finished condition @ \$380,000 =	<u>\$24,320,000</u>
	\$33,810,000
Less remaining costs to get to finished lots:	<u>- 1,276,610</u>
Value Indication, As Is Condition:	\$32,533,390

**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 Alcala tract, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$32,500,000**

**(THIRTY-TWO MILLION FIVE HUNDRED THOUSAND DOLLARS)**



# MAP OF CASSERO



## **CASSERO (STANDARD PACIFIC HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is located along the northwest side of Paseo Del Sur from Haaland Glen to Reagan Glen, and also along the north side of Paseo Del Sur from Tierney Glen to Paseo Montenero.

#### **Record Owner/Ownership History**

Standard Pacific Corp. (known by the builder name of Standard Pacific Homes) acquired the vacant lots for this tract from Black Mountain Ranch LLC by deed recorded May 19, 2005, Document No. 0423464, at a price of \$279,605 per lot in blue top condition. They still own all lots in this tract as the first closings of completed homes are not projected to occur until September or October 2006.

#### **Legal Description**

This tract comprises Lots 172 through 183 of Black Mountain Ranch North Village Unit No. 1B, according to Map No. 15094, County of San Diego, and Lots 80 through 86 of Black Mountain Ranch North Village Unit No. 2B, according to Map No. 15100, County of San Diego.

#### **Assessor Data-2005/06**

This tract comprises portions of Assessor Parcel Nos. 267-150-21 and 267-230-02. Thus, current assessed values are not available for just the subject property. The tax rate area is 08-050, with a current base tax rate of  $\pm 1.1\%$ , but the overall tax rate to the homebuyers is projected to be  $\pm 1.9\%$  including the special taxes for the CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 19 lots, and since the product is paired homes there will be a total of 38 homes, and thus effectively 38 lots. The overall or larger lots are a minimum size of  $\pm 10,000$  s.f., resulting in lots for the individual homes of  $\pm 5,000$  s.f. minimum. The actual overall or larger lot sizes range from 9,975 s.f. to 14,600 s.f. or an average of 11,514 s.f., resulting in lots for the homes of  $\pm 4,988$  s.f. to 7,300 s.f. or an average of  $\pm 5,760$  s.f.

#### **Planned Development/Status of Construction**

These lots are being developed with a tract of paired homes called Cassero at Del Sur. As of the April 1, 2006 date of value there were 16 homes under construction and 22 vacant lots (11 overall lots for the 22 remaining paired homes). Of the 16

## PROPERTY DATA, Continuing

homes under construction, 4 were  $\pm 90\%$  completed (including the 3 models) and 12 were just underway with forming for foundations. The vacant lots were in a partially finished condition with not all in-tract streets yet paved.

There are three floor plans which are described as follows:

**Plan One (Serra):** 2,079-2,142 s.f., two-story, with 3 bedrooms, 2½ baths, living room, family room, dining room, nook, covered front porch and a 2-car garage with storage.

**Plan Two (Ponte):** 2,424-2,479 s.f., two-story, with 3 bedrooms, 2½ baths, tech center, living room, dining room, family room, nook and a 2-car garage.

**Plan Three (Sentiero):** 2,569-2,623 s.f., two-story, with 4 bedrooms, 3 baths, living room, dining room, family room, nook, upstairs deck and a 2-car garage with optional den in lieu of bedroom 4.

The current base pricing is \$759,900 for Plan 1, \$793,900 for Plan 2 and \$818,900 for Plan 3, or an average of  $\pm \$791,000$ . The pricing from the first sales releases totaling 12 homes was \$759,900 to \$793,900 for Plan 1, \$781,900 and \$798,900 for Plan 2, and \$794,900 to \$832,900 for Plan 3, or an overall average of  $\pm \$792,000$ .

As of the April 1, 2006 date of value, of the 12 homes that had been released there were 2 sold and 10 still available. The models were due to open by early May 2006, and the first sale closings are projected to be in September or October 2006.

### **Title Report**

A preliminary report by Chicago Title Company dated April 6, 2006 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Bridgewalk tract. Thus, these exceptions are fairly typical for a subdivision such as the subject, and it has been assumed that there are no exceptions to title which would affect the continuing development of the lots as planned.

## VALUATION

### **Method of Analysis**

This is similar to previous analyses.

### **Analysis of Homes Under Construction**

For the 4 homes that were  $\pm 90\%$  completed, I have considered an average cost amount of 90% of  $\pm \$80.00$  per s.f. direct costs or \$72.00 per s.f. on the average base home size of  $\pm 2,360$  s.f., or an amount of  $\pm \$170,000$ . This is added to the estimated finished lot value of \$350,000, as discussed next, resulting in a total of \$520,000 as an average for these 4 homes.

## VALUATION, Continuing

For the 12 homes that were just underway, a lump sum of \$10,000 is added to reflect fees paid and the minor amount of work completed. This is added to the estimated finished lot value of \$350,000, resulting in a total of \$360,000 as an average for these 12 homes.

### Analysis of Finished Lot Value

**Sale No. 1** is similar as an attached product, though it is a much higher density project with much smaller and lower-priced homes, and much smaller yard areas. Thus, this sale supports a far lower limit for the subject at \$300,630 per finished lot. **Sale Nos. 2 and 3** consist of much smaller lots at 2,450 s.f. minimum, which are planned for much smaller and much lower-priced homes, though these are superior as detached homes. Overall, the indications at \$316,204 and \$320,476 per finished lot support far lower limits for the subject.

**Sale No. 4** consists of much smaller lots at 3,150 s.f. minimum, but the homes are fairly similar to the subject homes in terms of size, they are superior as detached homes, but the projected pricing is slightly lower than the subject. Overall, the indication at \$363,698 per finished lot supports a close indication to close upper limit for the subject. **Sale Nos. 5 and 6** consist of much smaller lots at  $\pm 3,700$  s.f. minimum, and the homes being built are smaller than the subject but superior as detached homes and with only slightly lower pricing. Overall, the indications at \$355,354 and \$361,324 per finished lot support close indications for the subject. **Sale No. 7** also consists of slightly smaller lots at 4,000 s.f. minimum, but the homes are larger and higher-priced than the subject. Thus, the indication at \$375,562 per finished lot supports a firm upper limit for the subject.

**Sale No. 8** represents the purchase of the subject lots by Standard Pacific in May 2005 at a price reflecting \$318,263 per finished lot. When the sale was negotiated in January 2005, the proforma average home pricing was \$685,000, and the current average base pricing of  $\pm \$791,000$  indicates an increase of  $\pm 15\%$ . **Sale No. 9** is the pending sale from the master developer to Standard Pacific for 42 lots that will be a continuation of the Cassero product. This sale was negotiated in October 2005 and is due to close in August 2006 at the price reflecting \$321,938 per finished lot. The proforma home pricing when this sale was negotiated was an average of \$726,100 which is still far below the current average pricing. Thus, the level of the land pricing did not reflect the level of home pricing that would ultimately be achieved, though only two home sales have taken place thus far. Overall, the indications at \$318,263 and \$321,938 per finished lot support far lower limits for the subject at current date.

**Sale Nos. 10 through 13** were sales of 5,000 s.f. minimum lots for detached product that will be much larger and much higher-priced than the subject paired homes.

## VALUATION, Continuing

Thus, these sales support far upper limits for the subject at \$368,766 to \$391,698 per finished lot.

Considering a finished lot ratio of 46-48%, as previously discussed, and the current average base home pricing of ±\$791,000, the following indication results:

$$\$791,000 \times .46-.48 = \$363,860 \text{ to } \$379,680/\text{fin. lot}$$

In summary, I have concluded on a value of \$350,000 per finished lot for the subject tract.

### Deduction for Costs to get to Finished Lots

Information provided by the builder is that the remaining costs to get the lots from as is condition to finished lots are approximately \$300,000, including the remaining builder fees on lots for which building permits have not yet been pulled.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

4 homes under construction @ \$520,000 =	\$ 2,080,000
12 homes under construction @ \$360,000 =	\$ 4,320,000
22 vacant lots, if in finished condition @ \$350,000 =	<u>\$ 7,700,000</u>
	\$14,100,000
Less remaining costs to get to finished lots:	<u>- 300,000</u>
Value Indication, As Is Condition:	\$13,800,000

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 Cassero tract, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$13,800,000**

**(THIRTEEN MILLION EIGHT HUNDRED THOUSAND DOLLARS)**

**MAP OF CABRILLO**



## **CABRILLO (STANDARD PACIFIC HOMES)**

### **PROPERTY DATA**

#### **Location**

This tract is located along the southeast side of Bristol Ridge Terrace southerly from Kern Crescent and southerly from Bristol Ridge Ln., and also along the south side of Concord Ridge Terrace east from Tierney Glen.

#### **Record Owner/Ownership History**

Standard Pacific Corp. (known by the builder name of Standard Pacific Homes) acquired the vacant lots for this tract from Black Mountain Ranch LLC by deed recorded May 19, 2005, Document No. 0423464, at a price of \$330,108 per lot in blue top condition. They still own all lots in this tract as the first closings of completed homes are not projected to occur until September or October 2006.

#### **Legal Description**

This tract comprises Lots 163 through 171 and 184 through 191 of Black Mountain Ranch North Village Unit No. 1B, according to Map No. 15094, County of San Diego, and Lots 71 through 79 of Black Mountain Ranch North Village Unit No. 2B, according to Map No. 15100, County of San Diego.

#### **Assessor Data-2005/06**

This tract comprises portions of Assessor Parcel Nos. 267-150-21 and 267-230-02. Thus, current assessed values are not available for just the subject property. The tax rate area is 08-050, with a current base tax rate of  $\pm 1.1\%$ , but the overall tax rate to the homebuyers is projected to be  $\pm 1.9\%$  including the special taxes for the CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 26 lots. The minimum lot size is described as 5,000 s.f. ( $\pm 50'$  by  $100'$ ), and the actual lot sizes range from 5,189 s.f. to 7,299 s.f., or an average of 5,610 s.f.

#### **Planned Development/Status of Construction**

These 26 lots are being developed with a tract of homes called Cabrillo at Del Sur. As of the April 1, 2006 date of value there were 12 homes under construction and 14 vacant lots. Of the 12 homes under construction, 3 (the models) were about 70-80% completed and 9 were in the early stage and being formed for foundations. The vacant lots were in a partially finished condition, with some of the in-tract streets paved.

## PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

**Residence One (Prado):** 2,420-2,460 s.f., two story, with 3 bedrooms, 2½ baths, tech center, living room, dining room, family room, nook and a 2-car garage with storage.

**Residence Two (Spreckels):** 2,772-2,781 s.f., two story, with 4 bedrooms, 3 baths, living room, dining room, family room, nook and a 2-car garage with storage; optional loft in lieu of bedroom 2 and optional den in lieu of bedroom 4.

**Residence Three (Presidio):** 3,000-3,022 s.f., two story, with 4 bedrooms, bonus room, tech center, living room, dining room, family room, nook and a 2-car garage with options of den and bedroom 5.

The current base pricing is \$790,900 for Plan 1, \$848,900 for Plan 2 and \$863,900 for Plan 3, or an average of ±\$835,000. The pricing from the first sales releases totaling 24 homes was \$785,900 to \$842,900 for Plan 1, \$820,900 to \$878,900 for Plan 2, and \$845,900 to \$888,900 for Plan 3, or an overall average of ±\$843,000.

As of the April 1, 2006 date of value, of the 24 homes that had been released for sale there were 21 sold and 3 still available. It is noted that 6 of the homes that had been released for sale are to be on lots that will not be taken down or acquired by the builder from the master developer until August 2006. The models were due to open by early May 2006, and the first sale closings are projected to be in September or October 2006.

### **Title Report**

A preliminary report by Chicago Title Company dated April 4, 2006 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Bridgewalk tract. Thus, these exceptions are fairly typical for a subdivision such as the subject, and it has been assumed that there are no exceptions to title which would affect the continuing development of the lots as planned.

## VALUATION

### **Method of Analysis**

This is similar to previous analyses.

### **Analysis of Homes Under Construction**

For the 3 homes that were ±70-80% completed, I have considered an average cost amount of 75% of ±\$80.00 per s.f. direct costs or \$60.00 per s.f. on the average base home size of ±2,730 s.f., or an amount of ±\$164,000. This is added to the estimated finished lot value of \$380,000, as discussed next, resulting in a total of \$544,000 as an average for these 3 homes.



## VALUATION, Continuing

For the 9 homes that were just underway, a lump sum of \$10,000 is added to reflect fees paid and the minor amount of work completed. This is added to the estimated finished lot value of \$380,000, resulting in a total of \$390,000 as an average for these 9 homes.

### Analysis of Finished Lot Value

**Sale No. 10** represents the purchase of the subject lots by Standard Pacific in May 2005 at a price reflecting \$368,766 per finished lot. When the sale was negotiated in January 2005, the proforma average home pricing was \$775,000, and the current average base pricing of  $\pm$ \$835,000 indicates an increase of  $\pm$ 8%. **Sale No. 11** is the pending sale from the master developer to Standard Pacific for 36 lots that will be a continuation of the Cabrillo product. This sale was negotiated in October 2005 and is due to close in August 2006 at the price reflecting \$375,262 per finished lot. The proforma home pricing when this sale was negotiated was an average of \$821,500 which is still slightly below the current average pricing. Overall, the indication at \$368,766 per finished lot supports a firm lower limit and the indication at \$375,262 per finished lot supports a closer but firm lower limit for the subject at current date.

**Sale No. 6** supports a firm lower limit at \$361,324 per finished lot due to being much smaller lots at  $\pm$ 3,700 s.f. minimum size. **Sale No. 7** would tend to support a lower limit at \$375,562 per finished lot due to being smaller lots at 4,000 s.f. minimum size and due to the date of sale with the closing in May 2005. However, the targeted homes on those lots were only slightly smaller and lower-priced than the subject homes.

**Sale No. 13** supports a firm upper limit for the subject at \$391,698 per finished lot due to being similar size lots at 5,000 s.f. minimum, but targeted for much larger and higher-priced homes than the subject homes and being in more of a tract or neighborhood environment than the subject homes which are somewhat scattered. **Sale No. 14** supports a far upper limit for the subject at \$409,183 per finished lot due to being larger lots at 5,800 s.f. minimum, and which are planned for much larger and higher-priced homes than the subject.

Considering a finished lot ratio of 46-48%, as previously discussed, and the current average base home pricing of  $\pm$ \$835,000, the following indication results:

$$\$835,000 \times .46-.48 = \$384,100 \text{ to } \$400,800/\text{fin. lot}$$

In summary, I have concluded on a value of \$380,000 per finished lot for the subject tract.

## VALUATION, Continuing

### Deduction for Costs to get to Finished Lots

Information provided by the builder is that the remaining costs to get the lots from as is condition to finished lots are approximately \$200,000, including the remaining builder fees on lots for which building permits have not yet been pulled.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

3 homes under construction @ \$544,000 =	\$ 1,632,000
9 homes under construction @ \$390,000 =	\$ 3,510,000
14 vacant lots, if in finished condition @ \$380,000 =	<u>\$ 5,320,000</u>
	\$10,462,000
Less remaining costs to get to finished lots:	<u>- 200,000</u>
Value Indication, As Is Condition:	\$10,262,000

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 Cabrillo tract, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$10,250,000**

**(TEN MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS)**

**MAP OF KENSINGTON**



## **KENSINGTON (DAVIDSON COMMUNITIES)**

### **PROPERTY DATA**

#### **Location**

This tract is located between Camino Del Sur and New Park Terrace, extending southerly from Parkside Crescent to Austin Hill Ct.

#### **Record Owner/Ownership History**

DW La Jolla Valley L.P. (known by the builder name of Davidson Communities) acquired the vacant lots for this tract from Black Mountain Ranch LLC by deed recorded June 1, 2005, Document No. 0458497, at a price of \$331,046 per lot in blue top condition. They still own all lots in this tract as the first closings of completed homes are not projected to occur until June or July 2006.

#### **Legal Description**

This tract comprises Lots 63 through 103 of Black Mountain Ranch North Village Unit No. 1A, according to Map No. 15093, County of San Diego, and Lots 1 through 12 and 201 through 217 of Black Mountain Ranch North Village Unit No. 2A, according to Map No. 15099, County of San Diego.

#### **Assessor Data-2005/06**

This tract comprises Assessor Parcel Nos. 267-150-20 and 267-230-01. The current assessed values total \$771,875 for land and \$0 for improvements, which does not reflect the subdivision of the lots, the land development or the home construction completed thus far. The tax rate area is 08-050, with a current base tax rate of  $\pm 1.1\%$ , but the overall tax rate to the homebuyers is projected to be  $\pm 1.9\%$  including the special taxes for the CFD.

#### **No. of Lots/Lot Sizes**

This tract comprises a total of 70 lots. The lots are described as a minimum size of 5,000 s.f. (50' by 100'), and the actual sizes range from 4,950 s.f. to 11,872 s.f. or an average of  $\pm 5,950$  s.f.

#### **Planned Development/Status of Construction**

These 70 lots are being developed with a tract of homes called Kensington at Del Sur. As of the April 1, 2006 date of value there were 30 homes under construction and 40 vacant lots. Of the 30 homes under construction, 3 (the models) were about 90% completed, 13 were an average of  $\pm 50-60\%$  completed and 14 were an average

## PROPERTY DATA, Continuing

of ±20-30% completed. The vacant lots were in a partially finished condition, with most of the in-tract streets not yet paved.

There are five floor plans which are described as follows:

**Residence 1:** 2,660-2,843 s.f., two story, with 3 bedrooms plus loft or optional bedroom 4, 2½ to 3½ baths, and a 2-car garage.

**Residence 1X:** 2,766-2,949 s.f., two story, with 3 bedrooms plus loft or optional bedroom 4, 2½ to 3½ baths, outdoor room, kitchen nook, and 2-car garage with side entry.

**Residence 2:** 2,861-3,044 s.f., two story, with 3 bedrooms plus loft or optional bedroom 4, 2½ to 3½ baths, interior courtyard, kitchen nook, and a 2-car garage.

**Residence 3:** 3,037 s.f., two story, with 4 bedrooms plus bonus room, family sized dining room, 3 baths, interior courtyard, kitchen nook, and a 2-car plus tandem garage.

**Residence 3X:** 3,156 s.f., two story, with 4 bedrooms plus bonus room, 3 baths, reading room, kitchen nook, and a 2-car plus tandem garage.

The pricing for the first three sales releases has been \$816,900 to \$885,900 for Plan 1, \$861,900 to \$947,900 for Plan 2, \$888,900 to \$916,900 for Plan 3, and \$904,900 to \$975,900 for Plan 3X. The low end of the ranges is approximately the base pricing, with the higher pricing including lot premiums and pre-plotted options.

As of the April 1, 2006 date of value, 13 homes had been released for sale, all of which had been sold. The models were expected to be open by early May 2006, and the first sale closings of completed homes are expected in June or July 2006.

### **Title Report**

A preliminary report by Chicago Title Company dated June 1, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Bridgewalk tract. Thus, these exceptions are fairly typical for a subdivision such as the subject, and it has been assumed that there are no exceptions to title which would affect the continuing development of the lots as planned.

## VALUATION

### **Method of Analysis**

This is similar to previous analyses.

### **Analysis of Homes Under Construction**

For the 3 homes that were ±90% completed, I have considered an average cost amount of 90% of ±\$80.00 per s.f. direct costs or \$72.00 per s.f. on the average base

## VALUATION, Continuing

home size of  $\pm 2,900$  s.f., or an amount of  $\pm \$209,000$ . This is added to the estimated finished lot value of  $\$395,000$ , as discussed next, resulting in a total of  $\$604,000$  as an average for these 3 homes.

For the 13 homes that were  $\pm 50-60\%$  completed, an average cost amount of 55% of  $\pm \$80.00$  per s.f. direct costs or  $\$44.00$  per s.f. on the average home size of  $\pm 2,900$  s.f. indicates an amount of  $\pm \$128,000$ . This is added to the estimated finished lot value of  $\$395,000$ , resulting in a total of  $\$523,000$  as an average for these 13 homes.

For the 14 homes that were  $\pm 20-30\%$  completed, an average cost amount of 25% of  $\pm \$80.00$  per s.f. direct costs or  $\$20.00$  per s.f. on the average home size of  $\pm 2,900$  s.f. indicates an amount of  $\pm \$58,000$ . This is added to the estimated finished lot value of  $\$395,000$ , resulting in a total of  $\$453,000$  as an average for these 14 homes.

### Analysis of Finished Lot Value

**Sale No. 12** represents the purchase of the subject lots by Davidson Communities in June 2005 at a price reflecting  $\$382,934$  per finished lot. When the sale was negotiated in February 2005, the proforma average home pricing was  $\pm \$825,000$ , and the current average base pricing of  $\pm \$868,000$  indicates an increase of  $\pm 5\%$ .

**Sale No. 13** is the pending sale from the master developer to Davidson Communities for 70 lots that will be a continuation of the Kensington product. This sale was negotiated in October 2005 and is due to close in August 2006 at the price reflecting  $\$391,698$  per finished lot. The proforma home pricing when this sale was negotiated was an average of  $\pm \$875,000$  which is still slightly higher than the current base pricing. Overall, the indication at  $\$382,934$  per finished lot supports a close but firm lower limit and the indication at  $\$391,698$  per finished lot supports a close indication for the subject at current date.

**Sale No. 10** supports a firm lower limit at  $\$368,766$  per finished lot due to being smaller lots at 4,000 s.f. minimum, and planned for smaller and lower-priced homes than the subject homes. **Sale No. 11** supports a firm lower limit at  $\$375,262$  per finished lot due to being similar size lots at 5,000 s.f. minimum, but being targeted for smaller and lower-priced homes than the subject homes.

**Sale No. 14** supports a close but firm upper limit for the subject at  $\$409,183$  per finished lot due to being larger lots at 5,800 s.f. minimum, and which are planned for slightly larger and higher-priced homes than the subject. **Sale No. 15** supports a far upper limit for the subject at  $\$440,816$  per finished lot due to being much larger lots at 6,500 s.f. minimum, and planned for much larger and higher-priced homes than the subject homes.

As previously discussed, **Sale No. 20** can be adjusted up for time to a current indication at  $\pm \$400,000$  per finished lot. These are smaller lots than the subject at

## VALUATION, Continuing

4,500 s.f. minimum, but are planned for similar size homes to the subject which will be similar in price. Thus, this is a close indication for the subject. **Sale Nos. 21, 22 and 23** are also located in 4S Ranch, and were sales of 5,000 s.f. and 5,150 s.f. minimum lots at prices of \$390,000 to \$400,000 per finished lot. While these lots are similar in size to the subject, they were planned for larger and higher-priced homes. Thus, this factor is offsetting to an upward time adjustment, resulting in close indications for the subject at \$390,000 to \$400,000 per finished lot.

Considering a finished lot ratio of 46-48%, as previously discussed for the subject Bridgeway tract, and the current average base home pricing of  $\pm$ \$868,000, the following indication results:

$$\$868,000 \times .46-.48 = \$399,280 \text{ to } \$416,640/\text{fin. lot}$$

In summary, I have concluded on a value of \$395,000 per finished lot for the subject tract.

### **Deduction for Costs to get to Finished Lots**

Information provided by the builder is that the remaining costs to get the lots from as is condition to finished lots are estimated at \$2,572,495. These costs include the primary items of fees, grading, sewer, storm drain, water, dry utilities, street improvements, SWPP, landscaping and walls.

### **Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

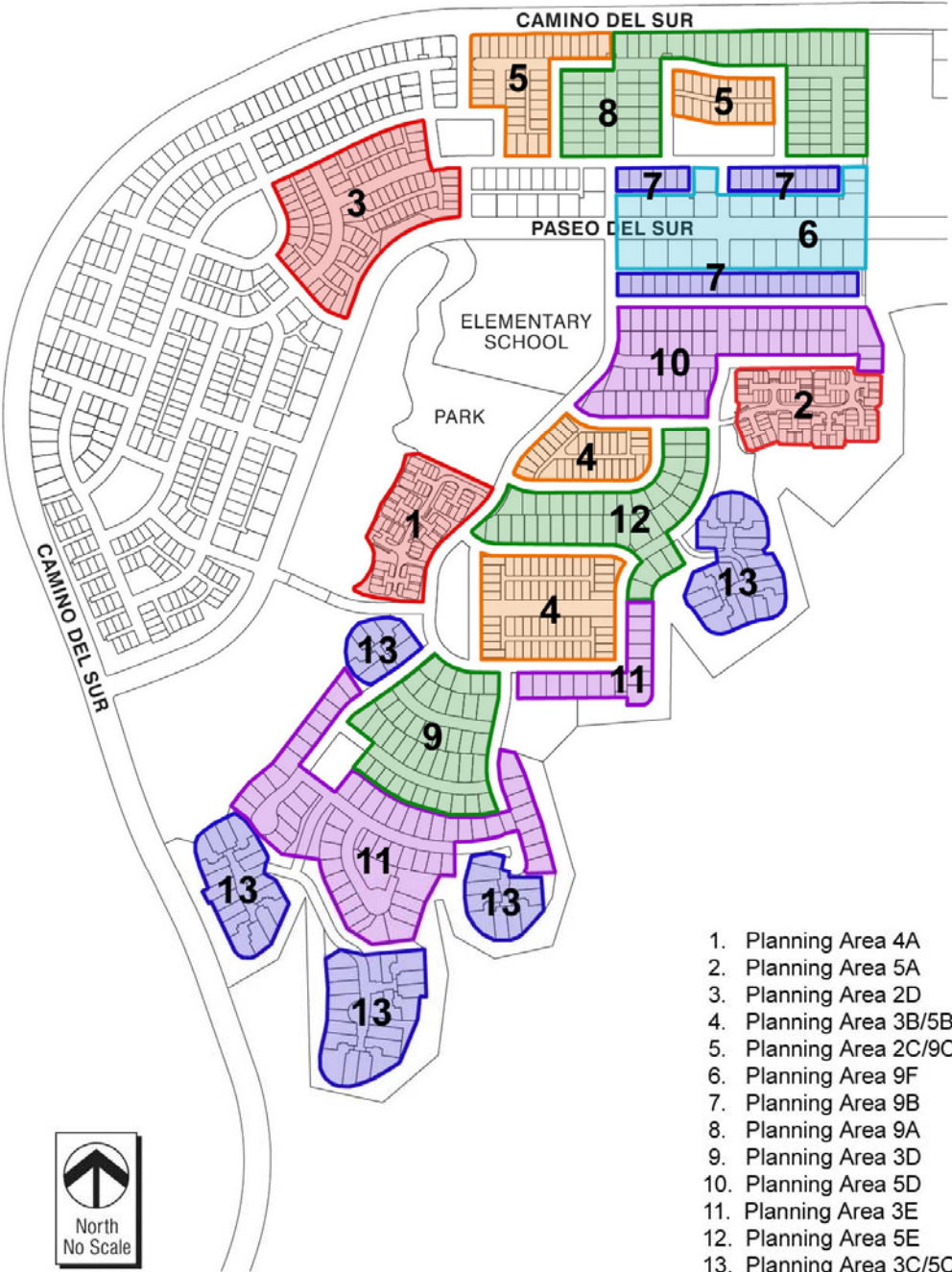
3 homes under construction @ \$604,000 =	\$ 1,812,000
13 homes under construction @ \$523,000 =	\$ 6,799,000
14 homes under construction @ \$453,000 =	\$ 6,342,000
40 vacant lots, if in finished condition @ \$395,000 =	<u>\$15,800,000</u>
	\$30,753,000
Less remaining costs to get to finished lots:	<u>- 2,572,495</u>
Value Indication, As Is Condition:	\$28,180,505

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 Kensington tract, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$28,150,000**

**(TWENTY-EIGHT MILLION ONE HUNDRED FIFTY THOUSAND DOLLARS)**

# BLACK MOUNTAIN RANCH LLC OWNERSHIP





## BLACK MOUNTAIN RANCH LLC OWNERSHIP

### PROPERTY DATA

#### Location

This ownership comprises all of the easterly and most of the northerly portions of Del Sur, also referred to as all of the West Ridge area and the northeasterly portion of the West Village area. The West Ridge area is to the east and south of Paseo Del Sur, and the West Village areas are to the northwest and north of Paseo Del Sur.

#### Record Owner/Ownership History

All of this land is owned by Black Mountain Ranch LLC, and is part of a large bulk ownership which was acquired a number of years ago. However, it is noted that there are pending sales on the bulk of this land (10 of 13 tracts) to five different merchant builders and the estimated closing dates for these sales range from late April 2006 through October 2007. The three remaining tracts are not yet under contracts for sale.

#### Legal Description

The 13 separate tracts or groupings of lots for different product types that are part of this master developer ownership are identified by Planning Area and legal description as follows:

<u>Planning Area</u>	<u>Legal Description</u>
2C/9C	Lots 35 to 70 of BMRNV Unit No. 2C, Map No. 15149 and Lots 86 to 107 of BMRNV Unit No. 9C, Map No. 15165
2D	Lots 87 to 170 of BMRNV Unit No. 2D, Map No. 15150
3B/5B	Lots 1 to 60 of BMRNV Unit No. 3, Map No. 15207 and Lots 55 to 83 of BMRNV Unit No. 5
3C/5C	Lots 79 to 86, 144 to 153, 175 to 211 of BMRNV Unit No. 3, Map No. 15207 and Lots 123 to 143 of BMRNV Unit No. 5
3D	Lots 74 to 78 & 87 to 123 of BMRNV Unit No. 3, Map No. 15207
3E	Lots 61 to 73, 124 to 143, 154 to 174 & 212 to 226 of BMRNV Unit No. 3, Map No. 15207
4A	Lot 1 of BMRNV Unit No. 4
5A	Lot 144 of BMRNV Unit No. 5
5D	Lots 1 to 54 of BMRNV Unit No. 5
5E	Lots 84 to 122 of BMRNV Unit No. 5
9A	Lots 58 to 85 & 108 to 149 of BMRNV Unit No. 9A, Map No. 15148
9B	Lots 1 to 18, 39 to 50 & 52 to 57 of BMRNV Unit No. 9B, Map No. 15164
9F	Lots 19 to 38 & 51 of BMRNV Unit No. 9B, Map No. 15164

(Note: BMRNV is Black Mountain Ranch North Village)

**PROPERTY DATA, Continuing**

It is noted that the final maps for Unit Nos. 2C, 2D, 3B, 3C, 3D, 3E, 9A, 9B, 9C and 9F were recorded in October through December 2005, and the final maps for Unit Nos. 4A, 5A, 5B, 5C, 5D and 5E are approved but not yet recorded.

**Assessor Data-2005/06**

Planning Area 2D comprises Assessor Parcel No. 267-230-04; Planning Area 2C/9C comprises Assessor Parcel Nos. 267-230-03 & 04; Planning Area 9A comprises Assessor Parcel Nos. 267-270-01, 02 & 03; Planning Areas 9B and 9F together comprise Assessor Parcel Nos. 267-270-05, 06 & 07; and the remaining Planning Areas each comprise small portions of Assessor Parcel No. 267-150-29. Thus, assessed values are not available for most of the subject tracts, and where they are available they do not reflect the current status of the subdivision or land development work completed. The tax rate area is 08-050 with a base tax rate of ±1.1%, but the projected tax rate to future homeowners is a maximum of 1.9% including the special taxes for this CFD.

**No. of Lots/Lot Sizes/Planned Development**

There are a total of 784 lots (including 125 “lots” for attached housing) comprising this ownership, and these lots are allocated into the 13 separate tracts or groupings of lots by Planning Area for the different product types. As previously indicated, 10 of the 13 Planning Areas have pending sales to merchant builders, and 3 are as yet uncommitted or not under contract.

The following table indicates the builder, number of lots (or dwelling units for the three attached product sites), minimum lot size or density, projected home size and pricing for each Planning Area, and in ascending order by lot size:

<u>Plan. Area</u>	<u>Builder/(Tract Name)</u>	<u>No. of Lots/DU</u>	<u>Min. Lot Density</u>	<u>Home Size</u>	<u>Avg. Pricing</u>
4A	Shea Homes (Del Sur Clusters)	55	11.2/ac	1,643-2,298 sf	\$648,808
5A	n/a	70	11.8/ac	1,643-2,298 sf	\$648,808
2D	Standard Pacific (Bridgewalk II)	84	2,450 sf	1,702-1,969 sf	\$710,429
3B/5B	Wm. Lyon Homes (Pasado)	89	3,150 sf	2,020-2,349 sf	\$756,685
2C/9C	Shea Homes (Madeira II)	58	3,700 sf	1,785-2,269 sf	\$750,517
9F	Standard Pacific (Cassero II)	42	5,000 sf	2,079-2,569 sf	\$791,388
9B	Standard Pacific (Cabrillo II)	36	5,000 sf	2,420-3,000 sf	\$830,468
9A	Davidson Communities (Kensington II)	70	5,000 sf	2,660-3,156 sf	\$866,214
3D	Standard Pacific (n/a)	42	5,800 sf	2,825-3,150 sf	\$904,271
5D	n/a	54	5,800 sf	2,825-3,150 sf	\$904,271
3E	Standard Pacific (n/a)	69	6,500 sf	3,000-3,600 sf	\$987,870
5E	n/a	39	6,500 sf	3,000-3,600 sf	\$987,870
3C/5C	Laing Homes (Sentinels)	<u>76</u>	6,500 sf	2,800-3,250 sf	\$1,072,974
		784			

## **PROPERTY DATA, Continuing**

It is noted that the products on Planning Areas 2D, 2C/9C, 9F, 9B and 9A will be continuations of tracts of homes that are currently under construction in Del Sur and were previously discussed in this report. The planned products for Planning Areas 4A, 3B/5B, 3D, 3E and 3C/5C will be different from the tracts of homes currently under construction. It is also noted that the home size is per the existing products under construction or is from information provided in the Market Absorption Study dated March 17, 2006 by Empire Economics, Inc., and the average pricing is also per information provided in the study by Empire Economics, Inc.

### **Current Status/Timing of Development**

As of the April 1, 2006 date of value, all of the lots were vacant and in or near a graded blue-top condition and some of the infrastructure of streets and utilities had been completed. The pending land sales to the merchant builders mostly have estimated closing dates from April through August 2006, with additional takedowns of lots on two of the Planning Areas estimated to close from October 2006 through October 2007. The lots are to be delivered by the master developer to the merchant builders in a finished lot condition (except for builder fees), thus the home construction will likely start shortly after the land sales close.

### **Title Report**

Preliminary title reports have been reviewed on three of the Planning Areas. The exceptions to title are fairly similar to those discussed for the previous subject Bridgeway tract. Thus, these exceptions are fairly typical for subdivisions such as the subject Planning Areas, and it has been assumed that there are no exceptions to title which would affect the development of the lots as planned.

## **VALUATION**

### **Method of Analysis**

The analysis is based on a discounted cash flow, to reflect the bulk ownership of the 784 vacant lots by the master developer, and since the pending land sales are estimated to close over a period of at least 1½ years from the April 1, 2006 date of value. Furthermore, it is estimated that closed sales on the three remaining Planning Areas that are not yet committed would not occur for well over a year. Lastly, the remaining land development work to be completed and costs to be expended by the master developer will occur over a ±2½-year period. Thus, a discounted cash flow is concluded to be the appropriate method of analysis for the Black Mountain Ranch Ownership.

The discounted cash flow is on a quarterly basis and will reflect the land sales taking place (closed sales) from the 1<sup>st</sup> quarter of the cash flow and thereafter, as discussed

## VALUATION, Continuing

later. These closed sales are based on the value of the lots as if in finished condition, except for the builder fees, also discussed later. The remaining costs to the master developer to complete the land development work (grading, backbone infrastructure, in-tracts, etc.) are estimated and allocated over time, and all of these cash flows (revenues and expenses) are discounted to present value by an appropriate discount rate.

### Analysis of Finished Lot Values

**Planning Area 4A: Sale No. 1** is the pending sale to Shea Homes of this site for 55 attached condominiums at a price of \$300,630 per finished lot. The sale was negotiated in February 2006 and is due to close in early May 2006. It is noted that the proforma average home pricing was \$550,455, however the current projection by Shea Homes is the much higher range of \$589,000 to \$690,000 or an average of ±\$649,000. The proforma pricing reflects a finished lot ratio of 55% which is at the high end of the range indicated by the other sales data, but the current projection of \$649,000 average indicates a finished lot ratio of 46% which is well in line with the other data. Since this pending sale is in escrow with a 15% non-refundable deposit, and it is due to close in the near future, this is the best indicator of value for the subject property at \$300,630 per finished lot.

**Sale Nos. 2 and 3** support firm upper limits for the subject at \$316,204 and \$320,476 per finished lot due to being superior as 2,450 s.f. minimum lots for detached homes, though it is noted that the homes are slightly smaller and only slightly higher-priced than the planned homes on the subject.

**Sale No. 18** is located in 4S Ranch and was a sale of a site in superpad condition for 326 attached homes. The buyer, William Lyon Homes, planned to build two different products, one of detached courtyard-style homes and one of attached townhomes, at an overall density of 13.0 units per acre. The sale closed in March 2004 at a price reflecting \$167,200 per finished lot. In comparison to the subject, the overall density is slightly higher, and both planned products were smaller and lower-priced. In addition, the overall size of the site at 326 units is much larger than the subject and would tend to result in a lower price per unit. Considering an upward time adjustment of at least 40-50% since the price was set well over two years ago results in a far lower limit for the subject at ±\$245,000 per finished lot.

Considering a finished lot ratio of 46-48%, as previously discussed, and the current projected average home pricing of ±\$649,000, the following indication results:

$$\$649,000 \times .46-.48 = \$298,540 \text{ to } \$311,520/\text{fin. lot}$$

In summary, I have concluded that the pending sale price which reflects \$300,630 per finished lot is supportable, and representative of market value.

## VALUATION, Continuing

Planning Area 5A: This site for 70 attached homes does not yet have a pending sale, but it is currently planned to be a continuation of the Del Sur Clusters product that is to be built on Planning Area 4A. Thus, the value of this Planning Area is concluded to be the same as 4A, or based on \$300,630 per finished lot.

Planning Area 2D: Sale No. 3 is the pending sale of these 84 lots to Standard Pacific for a continuation of the Bridgewalk product. The sale was negotiated in October 2005 and is due to close in August 2006 based on a price reflecting \$320,476 per finished lot. The previous analysis of the subject Bridgewalk tract concluded on a value of \$325,000 per finished lot, thus the pending sale price reflecting \$320,476 per finished lot is supportable and representative of market value.

Planning Area 3B/5B: Sale No. 4 is the pending sale of these 89 lots to William Lyon Homes for a new product to be called Pasado. The land sale was negotiated in October 2005, and the first takedown of 60 lots is due to close in July 2006 with the second takedown of 29 lots to close in December 2006. The price reflects \$363,698 per finished lot. Based on the previous analyses of the subject Bridgewalk, Madeira and Alcalá tracts, it is concluded that this price is supportable, considering the relatively small lots at 3,150 s.f. minimum but also the relatively large size of homes targeted for these lots resulting in the projected average home pricing of ±\$757,000. In addition, the price reflects that the second takedown of the lots is delayed by 5 months with no price increase.

Thus, it is concluded that the indication at \$363,698 per finished lot is supportable for these lots, and is representative of market value.

Planning Area 2C/9C: Sale No. 6 is the pending sale of these 58 lots to Shea Homes for a continuation of the Madeira product. The sale was negotiated in October 2005 and is due to close in August 2006 based on a price reflecting \$361,324 per finished lot. The previous analysis of the subject Madeira tract concluded on a value of \$360,000 per finished lot. However, it is noted that the pending sale of these lots reflects a closing date that is 4 months beyond the date of value for the appraisal, and also that the buyer has the benefit of cost savings by using models from the first part of the tract. In addition, this pending sale reflects that there is a 15% non-refundable deposit.

Thus, it is concluded that the indication of \$361,324 per finished lot is supportable for these lots, and is representative of market value.

Planning Area 9F: Sale No. 9 is the pending sale of these 42 lots to Standard Pacific for a continuation of the Cassero product. The sale was negotiated in October 2005 and is due to close in August 2006 based on a price reflecting \$321,938 per finished lot. The previous analysis of the subject Cassero tract concluded on a value of \$350,000 per finished lot, supporting that the pending sale price reflecting \$321,938

## VALUATION, Continuing

per finished lot is below market. However, the contract price is used in this analysis, reflecting the position of the master developer.

Planning Area 9B: **Sale No. 11** is the pending sale of these 36 lots to Standard Pacific for a continuation of the Cabrillo product. The sale was negotiated in October 2005 and is due to close in August 2006 based on a price reflecting \$375,262 per finished lot. The previous analysis of the subject Cabrillo tract concluded on a value of \$380,000 per finished lot, thus the slightly lower pending sale price is concluded to be supportable and representative of market value.

Planning Area 9A: **Sale No. 13** is the pending sale of these 70 lots to Davidson Communities for a continuation of the Kensington product. The sale was negotiated in October 2005 and is due to close in August 2006 based on a price reflecting \$391,698 per finished lot. The previous analysis of the subject Kensington tract concluded on a value of \$395,000 per finished lot, thus the pending sale price is concluded to be supportable and representative of market value.

Planning Area 3D: **Sale No. 14** is the pending sale of these 42 lots, 5,800 s.f. minimum size, to Standard Pacific for a new product that is not yet named. The land sale has been negotiated though the contract has not yet been signed as Standard Pacific is still finalizing their internal financing. The sale is due to close in June 2006, and the price reflects \$409,183 per finished lot. The lots are planned for product sizing of 2,825 to 3,150 s.f., with projected average home pricing of ±\$904,000.

**Sale No. 13** supports a firm lower limit at \$391,698 per finished lot due to the smaller lots at 5,000 s.f. minimum that are planned for smaller and lower-priced homes. **Sale Nos. 15 and 16** support firm to far upper limits at \$440,816 and \$461,955 per finished lot due to being larger lots at 6,500 s.f. minimum that are planned for larger and higher-priced homes.

Considering a finished lot ratio of 46-48%, as previously discussed, and the current projected average home pricing of ±\$904,000, the following indication results:

$$\$904,000 \times .46-.48 = \$415,840 \text{ to } \$433,920/\text{fin. lot}$$

In summary, I have concluded that the pending sale price which reflects \$409,183 per finished lot is supportable, and representative of market value.

Planning Area 5D: These 54 lots, 5,800 s.f. minimum size, do not yet have a pending sale, but are currently planned to be a continuation of the product that is to be built on Planning Area 3D. Thus, the value of this Planning Area is concluded to be the same as 3D, or based on \$409,183 per finished lot.

## VALUATION, Continuing

Planning Area 3E: **Sale No. 16** is the pending sale of these 69 lots, 6,500 s.f. minimum size, to Standard Pacific for a new product that is not yet named. The land sale has been negotiated though the contract has not yet been signed as Standard Pacific is still finalizing their internal financing. The sale is due to close in June 2006, and the price reflects \$461,955 per finished lot. The lots are planned for product sizing of 3,000 to 3,600 s.f., with projected average home pricing of ±\$988,000.

**Sale No. 14** supports a far lower limit at \$409,183 per finished lot due to the smaller lots at 5,800 s.f. that are planned for smaller and lower-priced homes. **Sale No. 15** is the pending sale that is discussed later as Planning Area 3C/5C. Considering the similar lot sizes at 6,500 s.f. minimum, but the targeted home size that is smaller than that targeted for the subject lots, the indication at \$440,816 per finished lot supports a close but firm lower limit for the subject. **Sale No. 17** is located just west of Camino Del Sur from the subject Del Sur community, and consists of 9,000 s.f. minimum lots that were targeted for homes at an average price of ±\$1,250,000. The first takedown closed in October 2005 at a price reflecting \$585,000 per finished lot. This supports a far upper limit for the subject due to the much larger lots with the potential for much larger and higher-priced homes.

**Sale Nos. 21, 22 and 23** can be adjusted up by at least 15-20% since they were negotiated in September 2004 to current indications at ±\$460,000 to \$470,000 per finished lot. At 5,000 s.f. and 5,150 s.f. minimum, these are smaller lots than the subject, but were targeted for fairly similar sized homes with likely similar pricing. Thus, these sales would support the range of \$460,000 to \$470,000 per finished lot for the subject.

Considering a finished lot ratio of 46-48%, as previously discussed, and the current projected average home pricing of ±\$988,000, the following indication results:

$$\$988,000 \times .46-.48 = \$454,480 \text{ to } \$474,240/\text{fin. lot}$$

In summary, I have concluded that the pending sale price which reflects \$461,955 per finished lot is supportable, and representative of market value.

Planning Area 5E: These 39 lots, 6,500 s.f. minimum, do not yet have a pending sale, but are currently planned to be a continuation of the product that is to be built on Planning Area 3E. Thus, the value of this Planning Area is concluded to be the same as 3E, or based on \$461,955 per finished lot.

Planning Area 3C/5C: **Sale No. 15** is the pending sale of these 76 lots to Laing Homes for a new product to be called Sentinels. The land sale was negotiated in January 2006, and the first takedown of 25 lots is due to close in April 2006 at a price reflecting \$440,816 per finished lot. The second takedown of 20 lots is due to close in October 2006 at the same price, the third takedown of 20 lots is due to close

## VALUATION, Continuing

in April 2007 at the increased price reflecting \$464,556 per finished lot, and the fourth takedown of 10 lots is due to close in October 2007 at the slightly increased price reflecting \$464,756 per finished lot. The proforma average home pricing of \$917,473 indicates a finished lot ratio of 48% based on the price for the first two takedowns. However, it is noted that the projected pricing as shown on table on a previous page indicated the much higher average of  $\pm$ \$1,073,000.

Based on the previous analyses of Planning Areas 3D and 3E, it is concluded that the pending sale price is supportable. Thus, it is concluded that the indication at \$440,816 per finished lot is supportable for the first two takedowns, and the prices of \$464,556 and \$464,756 per finished lot are supportable for the third and fourth takedowns.

### **Deduction to Finished Condition Less Builder Fees**

It is noted that the conclusions of finished lot value are inclusive of the builder fees which are estimated at \$11,630 per lot and are primarily for sewer and water fees. Since the master developer will deliver finished lots but excluding these fees to the merchant builders, these fees are deducted from the estimates of finished lot value. This results in the revised values for the Planning Areas reflecting the condition at which the lots will be delivered by the master developer, as follows:

<u>Planning Area</u>	<u>Est. Value/ Finished Lot</u>	<u>Less Builder Fees</u>	<u>Value/Lot as Delivered By Master Devel.</u>
4A	\$300,630	\$11,630	\$289,000
5A	\$300,630	\$11,630	\$289,000
2D	\$320,476	\$11,630	\$308,846
3B/5B	\$363,698	\$11,630	\$352,068
2C/9C	\$361,324	\$11,630	\$349,694
9F	\$321,938	\$11,630	\$310,308
9B	\$375,262	\$11,630	\$363,632
9A	\$391,698	\$11,630	\$380,068
3D	\$409,183	\$11,630	\$397,553
5D	\$409,183	\$11,630	\$397,553
3E	\$461,955	\$11,630	\$450,325
5E	\$461,955	\$11,630	\$450,325
3C/5C	\$440,816	\$11,630	\$429,186
“	\$464,556*	\$11,630	\$452,926
“	\$464,756*	\$11,630	\$453,126

\*3<sup>rd</sup>/4<sup>th</sup> takedowns

### **Absorption/Rate of Land Sales**

As previously indicated, 10 of the 13 tracts have pending sales with estimated closing dates, per the master developer, that range from April 2006 through October 2007 for the last takedown. In addition, the master developer estimates that the 3



## VALUATION, Continuing

remaining tracts will be under contract in the first quarter of 2007, with closed sales to take place in the third quarter of 2007. The following table indicates the estimated closing dates, per information provided by the master developer, for the pending sales on the 10 tracts:

<u>Planning Area</u>	<u>No. of Lots</u>	<u>Est. Sale Closing Date</u>
4A	55	5/2/06
2D	84	8/1/06
3B/5B	60	7/5/06
“*“	29	12/6/06
2C/9C	58	8/1/06
9F	42	8/1/06
9B	36	8/1/06
9A	70	8/1/06
3D	42	6/1/06
3E	69	6/1/06
3C/5C	25	4/12/06
“*“	20	10/1/06
“**“	10	4/1/07
“***“	21	10/1/07

\*2<sup>nd</sup> takedown; \*\*3<sup>rd</sup> takedown; \*\*\*4<sup>th</sup> takedown

It is noted that the closing date for the first takedown of Planning Area 3C/5C is shown as April 12, 2006, but this was delayed until at least April 24.

However, for purposes of this appraisal, the estimated timing of closed land sales is based on the estimated absorption of completed homes (closed sales) per the Market Absorption Study on CFD No. 14 by Empire Economics that was dated March 17, 2006. A copy of the table titled “Estimated Absorption Schedules for CFD No. 14 (Del Sur) is in the Addenda section of this report. On that schedule, it is noted that the project called Del Sur Unit 9A corresponds to Planning Area 9A, Product P-6 corresponds to Planning Areas 3D and 5D and Product P-5 corresponds to Planning Areas 3E and 5E. For the projects and Planning Areas comprising the Black Mountain Ranch LLC ownership, the Empire Economics study estimates the absorption or closed home sales to commence in the first quarter of 2007 and be completed in the fourth quarter of 2009.

Typically, there is at least a 9 to 12-month or more period of time from the closing of the land sale to a builder until the first closed sales of production homes in that tract. For the tracts/Planning Areas where the product is planned to be a continuation of an existing product being built, I have concluded on a ±9-month lead time for the land sale to close prior to the first home sale closings, since no model homes will be necessary. However, for the tracts/Planning Areas for which a new product is planned, I have concluded on a ±12-month lead time to reflect the greater amount of time for model homes, marketing a new product, etc.

**VALUATION, Continuing**

Thus, in the discounted cash flow analysis, the land sales would close in the third or fourth quarter prior to the estimated absorption or closed sales of completed homes per the Empire Economics study. For example, for Planning Area 4A, the Del Sur Clusters product planned by Shea Homes is a new product, thus the land sale is estimated to close in the fourth quarter prior to the first closed homes sales. Since this is estimated by the Empire Economics study to be in the second quarter of 2007, the land sale is estimated to close in the second quarter of 2006.

It is noted that this results in estimated closing dates for the land sales that mostly range from similar to later than the estimated closing dates per the information provided by the master developer. The exception is Planning Area 2C/9C for which the land sale would be estimated to close in the second quarter of 2006 per the Empire Economics study, but for which the actual pending sale is estimated to close in the third quarter of 2006. Thus, the third quarter of 2006 is used in this analysis. It is also noted that, per the Empire Economics study, the land sale for Planning Area 9F would close in the fourth quarter of 2006 and the land sale for Planning Area 9B would close in the third quarter of 2006. Since these two Planning Areas are part of the same transaction, both have been put in the third quarter of 2006.

The following table indicates the estimated closing dates for the land sales for each of the Planning Areas by quarter and year:

<u>Planning Area</u>	<u>No. of Lots</u>	<u>Est. Sale Closing Date</u>
4A	55	2Q-'06
5A	70	4Q-'07
2D	84	1Q-'07
3B/5B	60	3Q-'06
***	29	2Q-'08
2C/9C	58	3Q-'06
9F	42	3Q-'06
9B	36	3Q-'06
9A	70	2Q-'07
3D	42	2Q-'06
5D	54	3Q-'07
3E	69	2Q-'06
5E	39	1Q-'08
3C/5C	25	2Q-'06
**	20	2Q-'07
***	10	4Q-'07
****	<u>21</u>	2Q-'08
	784	

\*2<sup>nd</sup> takedown; \*\*3<sup>rd</sup> takedown; \*\*\*4<sup>th</sup> takedown

## VALUATION, Continuing

### **Deduction for Master Developer Costs to Complete**

A deduction is made to reflect the estimated costs to the master developer to complete all remaining items of grading, infrastructure, common area improvements and amenities, in-tract improvements, etc. Effectively, these costs for the land development result in the condition at which the lots are delivered to the merchant builders, which is blue-top condition for Units 1, 2 and 9, and finished lot condition (except builder fees) for Units 3, 4 and 5.

The remaining costs have been provided by GCI Advisors, Inc. and a copy of the pertinent two-page spreadsheet titled "Detailed Cost Schedule: Project Total" is included in the Addenda section of this report. It is noted that these costs are a best and conservative estimate of an appropriate allocation to the subject property in CFD No. 14, since the overall master developer costs include additional land in Del Sur that is also being developed.

As shown on the spreadsheet, there are the primary cost categories of Land Purchase, PFFP/FBA (Public Facilities Financing Plan/Facilities Benefit Assessment) Facilities, Bonds/Fees/Permits, Site Improvements, Engineering & Other Consultants, Common Area Improvements, Sales & Marketing, Property Taxes and G&A (General & Administrative). For purposes of this appraisal, the costs for the land purchase are not included. For the other categories, it is noted that the total costs were estimated at \$240,869,898, and through 3/31/06 the expenditures were estimated at \$156,759,522. This results in total remaining costs estimated at \$84,110,376 as of the April 1, 2006 date of value.

It is noted that these costs do not include the fees for school facilities since those facilities are to be funded by CFD No. 14 bond proceeds. However, it is also noted that these costs include a total amount of \$25,835,542 for the PFFP/FBA Facilities category, and all of this cost amount will be funded by CFD No. 14 Improvement Area A bond proceeds. It is projected that the bond proceeds to fund these costs will be approximately \$33,106,000. Thus, all of the remaining cost amount of \$25,835,542 will be funded by the bond proceeds, and the balance of the bond proceeds will be a reimbursement to the master developer for PFFP/FBA Facilities completed prior to April 1, 2006.

In summary, the net remaining master developer costs to complete are \$84,110,376 less \$25,835,542 or \$58,274,834, and these are summarized on a quarterly basis as follows:

## VALUATION, Continuing

<u>Cost Amount</u>	<u>Time Period</u>	<u>Quarter of Cash Flow</u>
\$20,034,021	4/1/06-6/30/06	1 <sup>st</sup>
\$13,395,579	7/1/06-9/30/06	2 <sup>nd</sup>
\$6,883,149	10/1/06-12/31/06	3 <sup>rd</sup>
\$4,894,117	1/1/07-3/31/07	4 <sup>th</sup>
\$4,757,356	4/1/07-6/30/07	5 <sup>th</sup>
\$3,296,972	7/1/07-9/30/07	6 <sup>th</sup>
\$3,399,717	10/1/07-12/31/07	7 <sup>th</sup>
(\$190,358)	1/1/08-3/31/08	8 <sup>th</sup>
\$544,420	4/1/08-6/30/08	9 <sup>th</sup>
\$599,502	7/1/08-9/30/08	10 <sup>th</sup>
<u>\$660,359</u>	10/1/08-12/31/08	11 <sup>th</sup>
\$58,274,834		

A second cost factor in the discounted cash flow analysis is typically for Overhead and Marketing, and this reflects the master developer costs of overhead, administration, marketing, sales, etc. However, it is noted that cost amounts for these factors have already been included in the costs noted above, thus no additional amounts are deducted.

### **Discount Rate/Internal Rate of Return**

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. In my experience, this rate typically ranges from just under 20% up to nearer 30%, depending on the size and status of the project, the length of the projected build-out, the location, the perceived risk, etc. The Korpacz Real Estate Investor Survey for the fourth quarter of 2005 indicates a range of rates from 12.0% to 25.0% or an average of 18.15%, inclusive of developer's profit. However, this includes all types of development, and primarily much smaller projects than the subject such as a single tract of homes.

The subject property has the positive factors of the north San Diego location, and in a desirable area with much nearby recent and ongoing successful residential development. These developments include the Santaluz project nearby to the south and the 4S Ranch community nearby to the east and northeast. In addition, the first six tracts of homes are well underway and with good pre-sales activity evidencing good market acceptance of the subject Del Sur community. It is also noted that there are 4 major builders involved in the current development of Del Sur, and all 4 plus a fifth major builder are committed to tracts in the future areas that comprise the master developer ownership. There are also the desirable factors of the shopping facilities, schools and recreational amenities that are to be provided in Del Sur, as well as the significant amount of surrounding open space.

## VALUATION, Continuing

However, there are also the risk factors that the land development is not yet complete with a net cost of ±\$58,275,000 remaining to the master developer, though all entitlements are in place and the majority of the grading plus part of the infrastructure has been completed. It is also significant that while the master developer ownership is fairly sizable at 784 lots (including attached units), it is diversified into 13 separate tracts that are planned for 10 different product types. In addition, the length of the absorption for the land sales is only eight quarters or 2 years, based on the market absorption study prepared by Empire Economics, Inc.

Based on the foregoing, I have concluded on a discount rate toward the lower end of the overall range of ±18-30%, or a rate of 20%.

### **Conclusion of Value**

The discounted cash flow analysis is shown on the following two pages, which incorporates the foregoing factors. As indicated, this analysis results in a present value indication of \$191,768,100.

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 Black Mountain Ranch LLC ownership, subject to the Assumptions and Limiting Conditions, and as of April 1, 2006:

**\$191,750,000**

**(ONE HUNDRED NINETY-ONE MILLION  
SEVEN HUNDRED FIFTY THOUSAND DOLLARS)**

## DISCOUNTED CASH FLOW ANALYSIS

Quarterly	2Q-2006	3Q-2006	4Q-2006	1Q-2007	2Q-2007	3Q-2007	4Q-2007
<b>REVENUES (Land Sales)</b>							
Planning Area 4A	\$15,895,000	\$0	\$0	\$0	\$0	\$0	\$0
Planning Area 5A	\$0	\$0	\$0	\$0	\$0	\$0	\$20,230,000
Planning Area 2D	\$0	\$0	\$0	\$25,943,064	\$0	\$0	\$0
Planning Area 3B/5B	\$0	\$21,124,080	\$0	\$0	\$0	\$0	\$0
Planning Area 2C/9C	\$0	\$20,282,252	\$0	\$0	\$0	\$0	\$0
Planning Area 9F	\$0	\$13,032,936	\$0	\$0	\$0	\$0	\$0
Planning Area 9B	\$0	\$13,090,752	\$0	\$0	\$0	\$0	\$0
Planning Area 9A	\$0	\$0	\$0	\$0	\$26,604,760	\$0	\$0
Planning Area 3D	\$16,697,226	\$0	\$0	\$0	\$0	\$0	\$0
Planning Area 5D	\$0	\$0	\$0	\$0	\$0	\$21,467,862	\$0
Planning Area 3E	\$31,072,425	\$0	\$0	\$0	\$0	\$0	\$0
Planning Area 5E	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Planning Area 3C/5C	\$10,729,650	\$0	\$0	\$0	\$8,583,720	\$0	\$4,529,260
<b>Total</b>	<b>\$74,394,301</b>	<b>\$67,530,020</b>	<b>\$0</b>	<b>\$25,943,064</b>	<b>\$35,188,480</b>	<b>\$21,467,862</b>	<b>\$24,759,260</b>
<b>PROJECT COSTS</b>							
Land Development	\$20,034,021	\$13,395,579	\$6,883,149	\$4,894,117	\$4,757,356	\$3,296,972	\$3,399,717
<b>NET CASH FLOWS</b>	<b>\$54,360,280</b>	<b>\$54,134,441</b>	<b>-\$6,883,149</b>	<b>\$21,048,947</b>	<b>\$30,431,124</b>	<b>\$18,170,890</b>	<b>\$21,359,543</b>
<b>DISCOUNT FACTOR</b>	<b>20%</b>	<b>0.952381</b>	<b>0.909091</b>	<b>0.833333</b>	<b>0.800000</b>	<b>0.769231</b>	<b>0.740741</b>
<b>PV OF CASH FLOWS</b>	<b>\$51,771,695</b>	<b>\$49,213,128</b>	<b>-\$5,985,347</b>	<b>\$17,540,789</b>	<b>\$24,344,899</b>	<b>\$13,977,608</b>	<b>\$15,821,884</b>
<b>PRESENT VALUE</b>	<b>\$191,768,100</b>						

**DISCOUNTED CASH FLOW ANALYSIS, Continuing**

1Q-2008	2Q-2008	3Q-2008	4Q-2008	Total
\$0	\$0	\$0	\$0	\$15,895,000
\$0	\$0	\$0	\$0	\$20,230,000
\$0	\$0	\$0	\$0	\$25,943,064
\$0	\$10,209,972	\$0	\$0	\$31,334,052
\$0	\$0	\$0	\$0	\$20,282,252
\$0	\$0	\$0	\$0	\$13,032,936
\$0	\$0	\$0	\$0	\$13,090,752
\$0	\$0	\$0	\$0	\$26,604,760
\$0	\$0	\$0	\$0	\$16,697,226
\$0	\$0	\$0	\$0	\$21,467,862
\$0	\$0	\$0	\$0	\$31,072,425
\$17,562,675	\$0	\$0	\$0	\$17,562,675
\$0	\$9,515,646	\$0	\$0	\$33,358,276
\$17,562,675	\$19,725,618	\$0	\$0	\$286,571,280
-\$190,358	\$544,420	\$599,502	\$660,359	\$58,274,834
\$17,753,033	\$19,181,198	-\$599,502	-\$660,359	\$228,296,446
0.714286	0.689655	0.666667	0.645161	
\$12,680,738	\$13,228,412	-\$399,668	-\$426,038	

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## **ADDENDA**

## TABULATION OF RESIDENTIAL LAND SALES

<u>No.</u>	<u>Location/Project Name</u>	<u>Seller/Buyer</u>	<u>Rec. Date</u>	<u>No. Lots</u>	<u>Min. Lot Size or Density</u>	<u>Product</u>	<u>Price/Lot Finished Lot</u>	<u>Fin. Lot Ratio</u>	<u>Remarks</u>
1	NWC Paseo Montenero & Haaland Glen, San Diego (Del Sur Clusters)	Black Mountain Ranch LLC Shea Homes Ltd. Ptnshp.	Escrow	55	11.2/ac	1,643-2,298 s.f. \$550,455 avg.	\$289,000 \$300,630	55%	Part of Unit 4 of Del Sur, West Ridge; delivered as finished lots except builder fees; ±1.9% tax rate; to close 5/06
2	NE 1/2 corner Camino Del Sur & Paseo Del Sur, San Diego (Bridgeway)	Black Mountain Ranch LLC Standard Pacific Corp.	5/05	69	2,450	1,702-1,969 s.f. \$645,000 avg.	\$262,978 \$316,204	49%	PA 1D of Del Sur, West Village; lots delivered in blue-top condition; ±1.8-1.9% tax rate
3	NW 1/2 Paseo Del Sur, Reagan Glen to Tierney Glen, San Diego (Bridgeway II)	Black Mountain Ranch LLC Standard Pacific Corp.	Escrow	84	2,450	1,702-1,969 s.f. \$683,700 avg.	\$308,846 \$320,476	47%	PA 2D of Del Sur, West Village; delivered as finished lots except builder fees; ±1.9% tax rate; to close 8/06
4	W/S Kristen Glen, Blackburn Ln. south to Paseo Montenero, San Diego (Pasado)	Black Mountain Ranch LLC William Lyon Homes	Escrow	60 29 89	3,150	2,020-2,349 s.f. \$720,333 avg.	\$352,068 \$363,698	50%	PA 3B of Del Sur, West Ridge; delivered as finished lots except builder fees; ±1.9% tax rate; to close 7/06 & 12/06
5	S 1/2 corner Parkside Crescent & New Park Terrace, San Diego (Madeira)	Black Mountain Ranch LLC Shea Homes Ltd. Ptnshp.	5/05	78	±3,700	1,785-2,269 s.f. \$730,154 avg.	\$298,455 \$355,354	49%	PA 1C of Del Sur, West Village; lots delivered in blue-top condition; ±1.9% tax rate
6	SEC Camino Del Sur & Casey Glen and SEC Oxford Hill & Via Montenero, San Diego (Madeira II)	Black Mountain Ranch LLC Shea Homes Ltd. Ptnshp.	Escrow	58	±3,700	1,785-2,269 s.f. \$773,963	\$349,694 \$361,324	47%	PA 2C & 9C of Del Sur, West Village; delivered as finished lots except builder fees; ±1.9% tax rate; to close 8/06
7	SWC Camino Del Sur & Casey Glen and NW/S New Park Terrace at Katherine Claire Ln./Ct., San Diego (Alcala)	Black Mountain Ranch LLC Hearthstone/Wm Lyon Homes	5/05	83	4,000	2,463-2,593 s.f. \$749,096 avg.	\$310,902 \$375,562	50%	PA 1E & 2E of Del Sur, West Village; lots delivered in blue-top condition; ±1.9% tax rate
8	NWC Paseo Del Sur & Haaland Glen and NWC Paseo Del Sur & Paseo Montenero, San Diego (Cassero)	Black Mountain Ranch LLC Standard Pacific Corp.	5/05	38	5,000	2,079-2,569 s.f. \$685,000	\$279,605 \$318,263	46%	PA 1F & 2F of Del Sur, West Village; lots delivered in blue-top condition; ±1.9% tax rate
9	Both sides Paseo Del Sur, E/O & W/O Kristen Glen, San Diego (Cassero II)	Black Mountain Ranch LLC Standard Pacific Corp.	Escrow	42	5,000	2,079-2,569 s.f. \$726,100 avg.	\$310,308 \$321,938	44%	PA 9F of Del Sur, West Village; delivered as finished lots except builder fees; ±1.9% tax rate; to close 8/06
10	E/S Bristol Ridge Terrace S 1/2 of Kern Crescent and SEC Tierney Glen & Concord Ridge Terrace, S. Diego (Cabrillo)	Black Mountain Ranch LLC Standard Pacific Corp.	5/05	26	5,000	2,420-3,000 s.f. \$775,000 avg.	\$330,108 \$368,766	48%	PA 1B & 2B of Del Sur, West Village; lots delivered in blue-top condition; ±1.9% tax rate
11	S/S Concord Ridge Terrace & N/S Monte Alto Terrace, E/O Paseo Montenero, San Diego (Cabrillo II)	Black Mountain Ranch LLC Standard Pacific Corp.	Escrow	36	5,000	2,420-3,000 s.f. \$821,500 avg.	\$363,632 \$375,262	46%	PA 9B of Del Sur, West Village; delivered as finished lots except builder fees; ±1.9% tax rate; to close 8/06
12	NW/S New Park Terrace, SW/O Parkside Crescent, San Diego (Kensington)	Black Mountain Ranch LLC DW La Jolla Vly/Davidson	6/05	70	5,000	2,660-3,156 s.f. \$825,143 avg.	\$331,046 \$382,934	46%	PA 1A & 2A of Del Sur, West Village; lots delivered in blue-top condition; ±1.9% tax rate

## TABULATION OF RESIDENTIAL LAND SALES

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
13	N/S Concord Ridge Terrace, E/O Newton Hill, San Diego (Kensington II)	Black Mountain Ranch LLC DW La Jolla Vly/Davidson	Escrow	70	5,000	2,660-3,156 s.f. \$874,652 avg.	\$380,068 \$391,698	45%	PA 9A of Del Sur, West Village; delivered as finished lots except builder fees; ±1.9% tax rate; to close 8/06
14	S/S Paseo Montenero, Beltaire Ln. E to South Chevy Chase, San Diego (n/a)	Black Mountain Ranch LLC Standard Pacific Corp.	Escrow	42	5,800	2,825-3,150 s.f. \$904,405 avg.	\$397,553 \$409,183	45%	PA 3D of Del Sur, West Ridge; delivered as finished lots except builder fees; ±1.9% tax rate; to close 6/06
15	4 sites S/O Paseo Montenero and 1 site E/O Kristen Glen, San Diego (Sentinels)	Black Mountain Ranch LLC Laing Luxury/Baywood	4/06 Escrow	25 51 76	6,500	2,800-3,250 s.f. \$917,473 avg.	\$429,186 \$440,816	48%	PA 3C of Del Sur, West Ridge; delivered as finished lots except builder fees; ±1.9% tax rate; bal. to close 10/06-10/07
16	Both sides Lower Scarborough Ln. to Paseo Montenero/Kristen Glen, San Diego (n/a)	Black Mountain Ranch LLC Standard Pacific Corp.	Escrow	69	6,500	3,000-3,600 s.f. \$988,101 avg.	\$450,325 \$461,955	47%	PA 3E of Del Sur, West Ridge; delivered as finished lots except builder fees; ±1.9% tax rate; to close 6/06
17	NW/S Camino Del Sur at Bing Crosby Blvd., San Diego (Avaron)	Black Mountain Ranch LLC Standard Pacific Corp.	10/05 Escrow	13 46 59	9,000	3,959-4,430 s.f. ±\$1,250,000 avg.	n/a \$585,000	47%	North Cluster of Del Sur; lots delivered in blue-top condition; 1.7-1.9% tax rate
18	NEC Rancho Bernardo Rd. & Town Square Pkwy, San Diego (Amante & Ravenna)	4S Kelwood Gen'l Ptnshp 4S Ranch Planning Area 38	3/04	326	13.0/ac	1,405-1,914 s.f. \$413,000 avg.	\$119,632 \$167,200	40%	PA 38 of 4S Ranch, Neighborhood 3; delivered as mass graded superpad
19	N/S Paseo De Linda, 4S Ranch Pkwy to Albert Ave., San Diego (Silhouette)	4S Kelwood Gen'l Ptnshp WL 4S Ranch Assoc.	5/05	96	4,200	2,559-3,192 s.f. \$750,000 avg.	\$321,000 \$340,000	45%	PA 42 of 4S Ranch, Neighborhood 3; delivered as blue-top lots; ±1.8-1.9% tax rate
20	SEC 4S Ranch Pkwy & Monterey Ridge Dr., San Diego (n/a)	4S Kelwood Gen'l Ptnshp Buire Communities	12/05	101	4,500	2,696-3,047 s.f. \$755,000 avg.	\$331,000 \$355,000	47%	PA 46 of 4S Ranch, Neighborhood 3; to be delivered as blue-top lots; ±1.8-1.9% tax rate
21	N/S Monterey Ridge Dr. at 4S Ranch Pkwy., San Diego (Maybeck)	4S Kelwood Gen'l Ptnshp Hearthstone Multi-Asset Entity	8/05 2/06	60 60 120	5,150	2,797-3,481 s.f. \$825,000 avg.	\$361,000 \$390,000	47%	PA 44 & 45 of 4S Ranch, Neighborhood 3; delivered as blue-top lots; ±1.8-1.9% tax rate
22	NEC 4S Ranch Pkwy & Eagle Canyon Rd., San Diego (SilverCrest)	4S Kelwood Gen'l Ptnshp Fieldstone Communities	12/05	70	5,000	±2,900-3,450 s.f. \$775,000 avg.	\$377,000 \$400,000	52%	PA 47A of 4S Ranch, Neighborhood 3; to be delivered as blue-top lots; ±1.8-1.9% tax rate
23	NWC 4S Ranch Pkwy & Eagle Canyon Rd., San Diego (Evergreen)	4S Kelwood Gen'l Ptnshp K. Hovnanian Homes	1/06	64	5,000	±2,900-3,450 s.f. \$775,000 avg.	\$377,000 \$400,000	52%	PA 47B of 4S Ranch, Neighborhood 3; to be delivered as blue-top lots; ±1.8-1.9% tax rate

**Note: Home pricing is original proforma or earliest available**

BLACK MOUNTAIN RANCH

DETAILED COST SCHEDULE: PROJECT TOTAL

2006 BUSINESS PLAN  
PUSD CFD No. 14 PROPERTY ONLY

Period Ending:	Through 12/31/05	3/31/2006	6/30/2006	9/30/2006	12/31/2006	3/31/2007	6/30/2007	9/30/2007	12/31/2007	3/31/2008	6/30/2008	9/30/2008	12/31/2008
<b>TOTALS</b>													
<b>LAND PURCHASE</b>													
Item:													
Land Purchase: Guaranteed Payments to BMRLP	30,000,000	0	0	0	10,000,000	0	0	0	10,000,000	0	0	0	10,000,000
Escrow Fees and Other Closing Costs	378,967	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: LAND PURCHASE</b>	<b>30,378,967</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,000,000</b>
<b>PFFP/FBA FACILITIES</b>													
Item:													
FBA # T-5: Camino del Sur, South	13,246,838	2,832,548	0	0	0	0	0	0	0	0	0	0	0
FBA # T-7: Camino del Sur, South Bridge	9,483,463	2,741,602	0	0	0	0	0	0	0	0	0	0	0
FBA # T-47.1: Paseo del Sur	3,855,883	5,724,967	0	0	0	0	0	0	0	0	0	0	0
FBA # T-34: Camino del Sur (Eastbound 2 Lanes)	10,064,441	1,669,646	0	2,808,440	2,808,440	0	0	0	0	0	0	0	0
FBA # T-25: Carmel Valley Road	3,500,000	1,128,175	1,140,711	1,153,246	0	0	0	0	0	0	0	0	0
FBA # T-32: Via de la Valle Widening	59,933	0	0	0	0	0	0	0	0	0	0	0	0
FBA # T-10: Camino Ruiz Widening	132,803	0	0	0	0	0	0	0	0	0	0	0	0
FBA # T-12: Camino Ruiz Wildlife Crossing (Bridge)	21,891	0	0	0	0	0	0	0	0	0	0	0	0
FBA # P-1: South Community Park (Dev't Agreement)	1,000,000	154,835	166,667	168,488	0	0	0	0	0	0	0	0	0
FBA # P-5: North Community Park	6,248	0	0	0	0	0	0	0	0	0	0	0	0
FBA # T-4: Rancho Peninsulas Intersections	900,000	74,004	0	0	0	0	0	0	0	0	0	0	0
FBA # F-2: North Fire Station	4,816	0	0	0	0	0	0	0	0	0	0	0	0
FBA # U-1: Carmel Valley Trunk Sewer	1,000,000	0	994,289	0	0	0	0	0	0	0	0	0	0
FBA # S: T-9.3, T-32.2, T-54.1, T-56 & T-60	2,258,603	0	2,149,652	0	0	0	0	0	0	0	0	0	0
FBA # S: T-38, T-46 & T-55	9,319,000	0	0	0	9,319,000	0	0	0	0	0	0	0	0
Sub-Total	66,203,036	12,716,132	7,229,232	4,130,185	12,127,440	0	0	0	0	0	0	0	0
Contingency	3,620,299	1,271,613	722,923	413,018	1,212,744	0	0	0	0	0	0	0	0
<b>TOTAL: PFFP/FBA FACILITIES</b>	<b>69,823,335</b>	<b>13,987,745</b>	<b>7,952,155</b>	<b>4,543,203</b>	<b>13,340,184</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>BONDS, FEES &amp; PERMITS</b>													
Item:													
L/C Fees for Land Payment Guarantee	2,984,312	187,500	187,500	187,500	187,500	125,000	125,000	125,000	125,000	62,500	62,500	62,500	62,500
Entitlement/Processing Fees	4,525,853	389,409	136,616	106,350	106,350	104,038	105,194	106,350	0	0	0	0	0
Water Fees	1,908,381	759,027	146,137	291,743	147,743	144,531	146,137	147,743	0	0	0	0	0
Transit Program	1,700,000	0	0	0	0	0	0	0	0	0	0	0	0
Golf Course Fee	500,000	0	0	0	0	0	0	0	0	0	0	0	0
Improvement Bond Premiums	778,912	139,428	(106,600)	0	0	0	0	0	0	0	0	0	0
Sierra Club Agreement	600,000	300,000	0	300,000	0	0	0	0	0	0	0	0	0
Fairbanks Ranch Agreement	2,200,000	0	1,100,000	0	0	0	1,100,000	0	0	0	0	0	0
Fair Share Reimbursements	1,168,382	652,423	259,405	0	0	0	0	0	0	0	0	0	0
Sub-Total	17,865,840	8,279,687	1,731,918	1,723,058	885,593	441,593	1,476,331	379,083	125,000	62,500	62,500	62,500	631,227
Contingency	958,615	173,192	172,306	88,559	44,159	87,357	147,633	37,909	12,500	6,250	6,250	6,250	63,123
<b>TOTAL: BONDS, FEES &amp; PERMITS</b>	<b>18,824,455</b>	<b>1,955,110</b>	<b>1,895,363</b>	<b>974,152</b>	<b>485,752</b>	<b>960,926</b>	<b>1,623,964</b>	<b>417,002</b>	<b>137,500</b>	<b>68,750</b>	<b>68,750</b>	<b>68,750</b>	<b>694,350</b>
<b>SITE IMPROVEMENTS</b>													
Item:													
Rough Grading	10,790,551	1,274,384	75,414	0	0	0	0	0	0	0	0	0	0
Environmental Mitigation	1,859,407	297,903	0	0	0	0	0	0	0	0	0	0	0
SWPPP & CAO Compliance	7,220,975	1,403,602	241,648	227,010	227,010	0	0	0	0	0	0	0	0
Storm Drain	4,464,713	2,246,470	148,945	0	0	0	0	0	0	0	0	0	0
Pump Station	4,591,954	555,862	0	0	0	0	0	0	0	0	0	0	0
Sewer	2,153,711	950,459	18,049	10,512	0	0	0	0	0	0	0	0	0
Water Systems	3,094,541	1,371,830	388,033	27,799	0	0	0	0	0	0	0	0	0
Trenching/Utilities	2,142,744	552,104	916,499	130,513	0	0	0	0	0	0	0	0	0
Roadway Improvements	7,283,891	2,121,905	2,107,184	2,524,424	530,378	0	0	0	0	0	0	0	0
SDCWA Crossings	3,361,493	951,226	320,409	0	0	0	0	0	0	0	0	0	0
Haaland Glen Bridge	2,301,462	1,019,627	0	0	0	0	0	0	0	0	0	0	0
SDG & E Deposits	2,563,368	1,252,728	110,278	0	0	0	0	0	0	0	0	0	0
Sub-Total	51,828,810	12,933,721	4,337,123	2,920,258	757,388	0	0	0	0	0	0	0	0
Contingency	2,094,849	1,293,372	433,712	292,026	75,739	0	0	0	0	0	0	0	0
<b>TOTAL: SITE IMPROVEMENTS</b>	<b>53,923,659</b>	<b>14,227,093</b>	<b>4,770,836</b>	<b>3,212,284</b>	<b>833,127</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

BLACK MOUNTAIN RANCH

DETAILED COST SCHEDULE: PROJECT TOTAL

Period Ending:	Through	3/31/2006	6/30/2006	9/30/2006	12/31/2006	3/31/2007	6/30/2007	9/30/2007	12/31/2007	3/31/2008	6/30/2008	9/30/2008	12/31/2008
<b>TOTALS</b>	<b>12/31/05</b>												
2,696,690	1,047,933	272,334	274,681	277,699	277,699	271,662	274,681	0	0	0	0	0	0
12,099,345	10,707,180	945,572	282,071	211,059	211,059	35,113	35,503	35,893	35,893	0	0	0	0
3,481,948	2,257,701	681,243	275,545	208,676	208,676	1,958	1,990	2,002	2,002	0	0	0	0
1,173,573	642,795	112,170	63,872	64,574	64,574	55,225	56,243	56,861	56,861	0	0	0	0
3,853,191	936,614	764,841	357,633	300,651	300,651	294,115	297,383	300,651	300,651	0	0	0	0
3,224,809	1,937,954	316,134	225,851	185,333	185,333	92,269	93,294	94,320	94,320	0	0	0	0
767,877	640,107	56,226	18,304	18,506	18,506	4,001	4,046	4,090	4,090	0	0	0	0
897,712	264,302	146,346	92,766	77,599	77,599	58,957	59,612	60,267	60,267	0	0	0	0
5,194,121	2,769,734	394,320	298,958	294,619	294,619	281,557	284,686	287,814	287,814	0	0	0	0
5,164,829	2,350,732	522,204	357,071	360,969	360,969	299,067	302,390	305,713	305,713	0	0	0	0
38,554,096	23,555,052	3,811,390	2,246,753	1,999,684	1,841,949	1,394,326	1,409,819	1,147,812	1,147,812	0	0	0	0
1,499,904	0	381,139	224,675	199,968	184,185	139,433	140,982	114,761	114,761	0	0	0	0
<b>TOTAL: ENGINEERING &amp; OTHER CONSULTANTS</b>	<b>3.88%</b>	<b>4,192,529</b>	<b>2,471,428</b>	<b>2,199,652</b>	<b>2,026,034</b>	<b>1,533,759</b>	<b>1,550,800</b>	<b>1,262,373</b>	<b>1,262,373</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

COMMON AREA IMPROVEMENTS

9,245,334	914,511	2,135,782	3,806,741	2,241,192	147,108	0	0	0	0	0	0	0	0
1,489,290	344,717	254,146	532,255	323,255	34,608	0	0	0	0	0	0	0	0
9,246,793	1,226,078	1,511,611	1,660,957	2,278,029	1,768,625	801,493	0	0	0	0	0	0	0
19,981,417	2,696,571	3,743,090	5,947,137	4,842,785	1,950,342	801,493	0	0	0	0	0	0	0
1,728,485	0	374,309	594,714	484,278	195,034	80,149	0	0	0	0	0	0	0
<b>TOTAL: COMMON AREA IMPROVEMENTS</b>	<b>8.65%</b>	<b>4,117,399</b>	<b>6,541,851</b>	<b>5,327,063</b>	<b>2,145,376</b>	<b>881,642</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

SALES & MARKETING

4,000,000	1,862,570	1,062,810	1,074,620	0	0	0	0	0	0	0	0	0	0
14,115,114	3,931,028	1,227,246	2,137,109	940,619	787,069	1,273,011	1,273,011	1,273,011	1,273,011	0	0	0	0
<b>(10,096,638)</b>	<b>(1,519,289)</b>	<b>(1,053,660)</b>	<b>(1,346,488)</b>	<b>(1,018,512)</b>	<b>(1,140,427)</b>	<b>(1,021,405)</b>	<b>(993,698)</b>	<b>(967,835)</b>	<b>(458,034)</b>	<b>(259,280)</b>	<b>(160,319)</b>	<b>(112,223)</b>	<b>(51,367)</b>
864,912	96,142	121,017	300,975	108,524	46,384	0	34,546	134,676	22,648	0	0	0	0
8,883,388	4,376,451	1,357,413	2,166,216	30,630	<b>(306,974)</b>	251,606	313,859	439,751	837,625	<b>(259,280)</b>	<b>(160,319)</b>	<b>(112,223)</b>	<b>(51,367)</b>
<b>8,883,388</b>	<b>4,376,451</b>	<b>1,357,413</b>	<b>2,166,216</b>	<b>30,630</b>	<b>(306,974)</b>	<b>251,606</b>	<b>313,859</b>	<b>439,751</b>	<b>837,625</b>	<b>(259,280)</b>	<b>(160,319)</b>	<b>(112,223)</b>	<b>(51,367)</b>

PROPERTY TAXES

2,029,437	1,215,335	296,450	201,540	91,884	73,356	73,356	69,575	7,941	0	0	0	0	0
2,029,437	1,215,335	296,450	201,540	91,884	73,356	73,356	69,575	7,941	0	0	0	0	0
<b>2,029,437</b>	<b>1,215,335</b>	<b>296,450</b>	<b>201,540</b>	<b>91,884</b>	<b>73,356</b>	<b>73,356</b>	<b>69,575</b>	<b>7,941</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

G&A

5,124,664	2,131,034	1,013,311	666,397	425,237	485,751	113,108	108,069	70,685	63,697	156	15,626	15,796	15,796
12,685,545	5,506,140	885,132	894,967	904,802	904,802	885,132	894,967	904,802	904,802	0	0	0	0
1,857,748	1,279,299	71,316	72,108	72,900	72,900	71,316	72,108	72,900	72,900	0	0	0	0
2,110,446	1,990,126	14,834	14,999	15,164	15,164	14,834	14,999	15,164	15,164	0	0	0	0
2,717,101	2,326,732	232,670	157,699	0	0	0	0	0	0	0	0	0	0
24,495,504	13,233,331	2,217,263	1,806,169	1,418,103	1,478,617	1,064,390	1,090,143	1,063,550	1,056,563	156	15,626	15,796	15,796
1,126,217	0	221,726	180,617	141,810	147,862	108,439	109,014	106,355	105,656	16	1,563	1,580	1,580
<b>25,621,721</b>	<b>13,233,331</b>	<b>2,438,989</b>	<b>1,986,786</b>	<b>1,559,913</b>	<b>1,626,478</b>	<b>1,192,829</b>	<b>1,199,157</b>	<b>1,169,905</b>	<b>1,162,219</b>	<b>172</b>	<b>17,189</b>	<b>17,376</b>	<b>17,376</b>

TOTAL: LAND DEVELOPMENT COSTS

301,248,865	144,615,760	42,522,729	27,986,176	17,938,782	30,223,333	4,894,117	4,757,356	3,296,972	13,399,717	<b>(190,358)</b>	544,420	599,502	10,660,359
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ESTIMATED ABSORPTION SCHEDULES FOR CFD NO. 14  
(DEL SUR)

. MARCH 17, 2006; SUBJECT TO REVISION .

Market Segments >>> Projects >>>	Attached Del Sur Clusters	Cassero	Madera	Bridgewalk	Alcala	Madera II	Pasada	Kensington Court	Cabrillo	Del Sur Unit 9A	Product P-6	Product P-5	Above \$1,000,000 Scenarios	Annually	Cumulatively
Planning Areas	4	11	1C	N/A	1E & 2E	2C & 9C	10A	1A & 2A	9	9A	3 & 5	3 & 5	3 & 5		
Tract/Map	Attached	Attached	15006	15005	Detached	15149 & 15165	Detached	15093 & 15099	N/A	Detached	Detached	Detached	Detached		
Product Types	Attached	Attached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached		
Lot Sizes	N/A	N/A	3600	2450	4200	3600	3300	6027	9000	6027	7000	8000	8000		
Builders	Shea Homes	Standard Pacific Homes	Shea Homes	Standard Pacific Homes	William Lyon Homes	Shea Homes	William Lyon Homes	Davidson Construction	Standard Pacific Homes	Davidson Construction	Standard Pacific	Standard Pacific	Laing Luxury		
Number of Homes Occupied	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	
Future Occupancies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Number of Units	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	
Plan # 1	12	26	23	48	23	12	26	14	20	16	30	21	17		
Plan # 2	17	27	31	54	31	7	30	6	19	6	32	26	41		
Plan # 3	35	27	21	51	29	11	33	17	23	23	34	30	18		
Plan # 4	31	4	4	8	8	22	21	22	21	21	31	31			
Plan # 5	30	23	23	11	4	20	11	4							
Totals	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	
Living Areas															
Plan # 1	1,643	2,079	1,785	1,702	2,463	1,785	2,020	2,660	2,420	2,660	2,825	3,000	2,800		
Plan # 2	1,800	2,424	1,939	1,930	2,460	1,939	2,200	2,766	2,772	2,766	3,000	3,200	2,975		
Plan # 3	1,842	2,569	2,000	1,961	2,593	2,000	2,349	3,000	3,000	2,861	3,150	3,400	3,250		
Plan # 4	2,192	2,111	2,111	2,111	2,131	2,131	3,017	3,017		3,037	3,600	3,600			
Plan # 5	2,298	2,269	2,269	2,269	2,269	3,156	3,156			3,156					
Averages	2,013	2,261	2,017	1,869	2,507	2,059	2,203	2,914	2,743	2,877	2,998	3,331	3,001	2,490	
Prices - Estimated															
Plan # 1	\$589,000	\$760,000	\$715,000	\$686,900	\$769,900	\$715,000	\$743,000	\$827,000	\$791,000	\$827,000	\$880,000	\$947,000	\$1,027,500		
Plan # 2	\$599,000	\$794,000	\$737,000	\$713,900	\$774,900	\$737,000	\$755,000	\$853,000	\$839,000	\$853,000	\$905,000	\$972,000	\$1,063,500		
Plan # 3	\$635,000	\$819,000	\$745,000	\$728,900	\$791,900	\$745,000	\$769,000	\$857,000	\$866,000	\$857,000	\$925,000	\$996,000	\$1,137,500		
Plan # 4	\$675,000	\$777,000	\$777,000	\$777,000	\$777,000	\$777,000	\$885,000	\$900,000	\$885,000	\$885,000	\$1,021,000	\$1,021,000			
Plan # 5	\$690,000	\$789,000	\$789,000	\$789,000	\$789,000	\$789,000	\$900,000	\$900,000	\$900,000	\$900,000					
Averages	\$648,808	\$791,388	\$750,651	\$718,429	\$779,454	\$750,517	\$756,685	\$866,214	\$838,468	\$866,657	\$904,271	\$987,870	\$1,072,574	\$814,199	
Value Ratio: Price/Living Area	\$322	\$335	\$372	\$380	\$311	\$365	\$344	\$297	\$303	\$299	\$302	\$297	\$338	\$327	
Homeowners Commence Occupancies	2nd-2007	4th-2006	2nd-2006	3rd-2006	3rd-2006	1st-2007	3rd-2007	2nd-2006	4th-2006	1st-2008	2nd-2007	2nd-2007	2nd-2007		
Absorption Occupancies															
2006	0	15	40	25	25	0	0	25	10	0	0	0	0	140	
2007	30	40	38	45	35	40	15	40	40	0	30	30	25	408	548
2008	45	25	0	45	23	18	40	5	12	40	35	40	30	358	906
2009	50	0	0	38	0	0	34	0	0	30	31	38	21	242	1,148
2010	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,148
Totals	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	

**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, 2006.

**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:** mobilehome 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  
Bowie, Arneson, Kadi, Wiles & Giannone  
Bradshaw, John  
Bye, Hatcher & Piggott  
Callahan, McCune & Willis  
Cooksey, Coleman & Howard  
Hamilton & Samuels  
Horgan, Rosen, Beckham & Coren  
Kent, John  
Kirkland & Ellis  
Lathan & Watkins  
McKee, Charles C.  
Mosich, Nicholas J.  
Long, David M.

Nossaman, Guthner, Knox & Elliott  
Oliver, Barr & Vose  
Ollestad, Freedman & Taylor  
Palmieri, Tyler, Wiener, Wilhelm & Waldron  
Paul, Hastings, Jonofsky & Walker  
Piggott, George B.  
Pothier, Rose  
Rosenthal & Zimmerman  
Rutan & Tucker  
Sikora & Price, Inc.  
Smith & Politiski  
Williams, Gerold G.  
Woodruff, Spradlin & Smart  
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 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 Unified 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**  
**MARKET ABSORPTION STUDY**

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**MARKET ABSORPTION STUDY**

**COMMUNITY FACILITIES DISTRICT NO. 14  
(DEL SUR)**

**POWAY UNIFIED SCHOOL DISTRICT  
SAN DIEGO COUNTY, CALIFORNIA**



**DEVELOPMENT ACTIVITY IN A PORTION OF CFD NO. 14**

**BY EMPIRE ECONOMICS, INC.**

**\* MARCH 17, 2006 \***

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## CERTIFICATION OF INDEPENDENCE

The Securities & Exchange Commission has recently taken action against Wall Street firms that have utilized their research analysts to promote companies with whom they conduct business, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence. Specifically, the Certificate states that Empire performs consulting services for **public entities only** in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developer/builders. For example, if a research firm for a specific Community Facilities District or Assessment District were to provide consulting services to both the public entity as well as the property owner/developer/builder, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

Accordingly, Empire Economics certifies that the Market Absorption Study for the CFD No. 14 (Del Sur) of the Poway Unified School District was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the Poway Unified School District, not the District's developer, Black Mountain Ranch, LP, or the various builders.
- Empire has not performed any consulting services for the District's property owner or the developer/builders during at least the past five years.
- Empire will not perform any consulting services for the District's property owner or the developer/builders during at least the next three years.
- Empire's compensation for performing the Market Absorption Study for the District is not contingent upon the issuance of Bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 14 (Del Sur) of the Poway Unified School District was performed in an independent professional manner.

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Empire Economics, Inc.  
Joseph T. Janczyk, President

## INTRODUCTION TO THE BOND FINANCING PROGRAM

The Planned Community of Del Sur is located some seven miles from the Pacific Ocean, northerly of SR-56 between Interstates 5 and 15, in San Diego County, California. Del Sur is expected to have a copious amenity package, including neighborhood parks, private pools, community parks and trails as well as a golf course. According to Black Mountain Ranch, LP, the developer, Del Sur is expected to have some 3,000 homes in more than fifteen projects by various builders, such as Standard Pacific Homes, Davidson Construction, William Lyon Homes, Shea Homes and Laing Luxury.

Del Sur's products are expected to consist of single-family detached and attached homes with a broad range of prices and living areas. The prices of the homes are expected to be some \$814,000, on the average, and they have a range of \$589,000 for the smallest attached products to \$1,137,500 for the largest single-family home. The sizes of living area are expected to be some 2,490 sq.ft., on the average, and they have a range of 1,643 sq.ft. for the smallest attached product to 3,600 sq.ft. for the largest single-family detached home.

The Poway Unified School District was petitioned by Black Mountain Ranch, LP to form Community Facilities District (CFD) No. 14 for the Planned Community of Del Sur as a means of funding a portion of the "public" infrastructure that is required to support the development of its residential projects, particularly school facilities.

The Poway Unified School District has retained Empire Economics, Inc., an economic and real estate consulting firm, to perform a Market Absorption Study for the properties/projects that are expected to be included in CFD No. 14 (Del Sur). The purpose of the Market Study for CFD No. 14 is to perform a comprehensive analysis of the relevant economic and real estate factors in order to arrive at an estimate of the probable absorption schedules for the forthcoming residential projects.

Specifically, from the viewpoint of Bond Purchasers, the particular components of the infrastructure should be time-phased and location-phased in a manner that approximately coincides with the expected marketability/absorption of the projects in CFD No. 14. Otherwise, to the extent that the infrastructure is not appropriately phased, then the following types of market inefficiencies may occur:

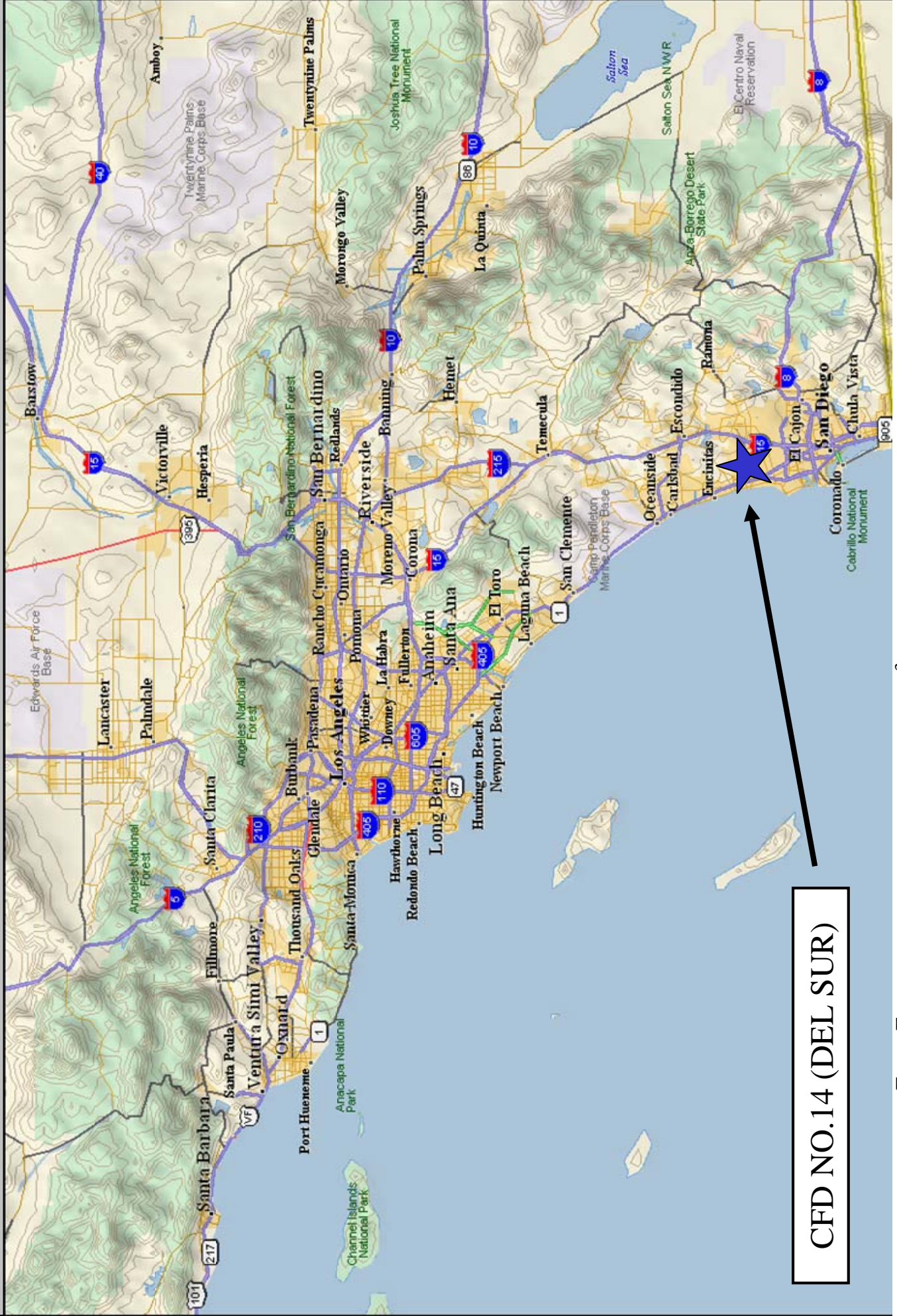
*On the one hand, if certain projects do not have the infrastructure that is required to support their development in a timely manner, then they would not be able to respond to the demand in the marketplace, resulting in a market shortage.*

*On the other hand, if too much infrastructure is built, then projects for which there is not presently a market demand would incur high carrying costs due to the market surplus, and this could adversely impact their financial feasibility.*

Thus, the Market Absorption Study assists in the formulation of the appropriate or optimal time-phasing and location-phasing of the infrastructure for the properties/projects located in CFD No. 14.



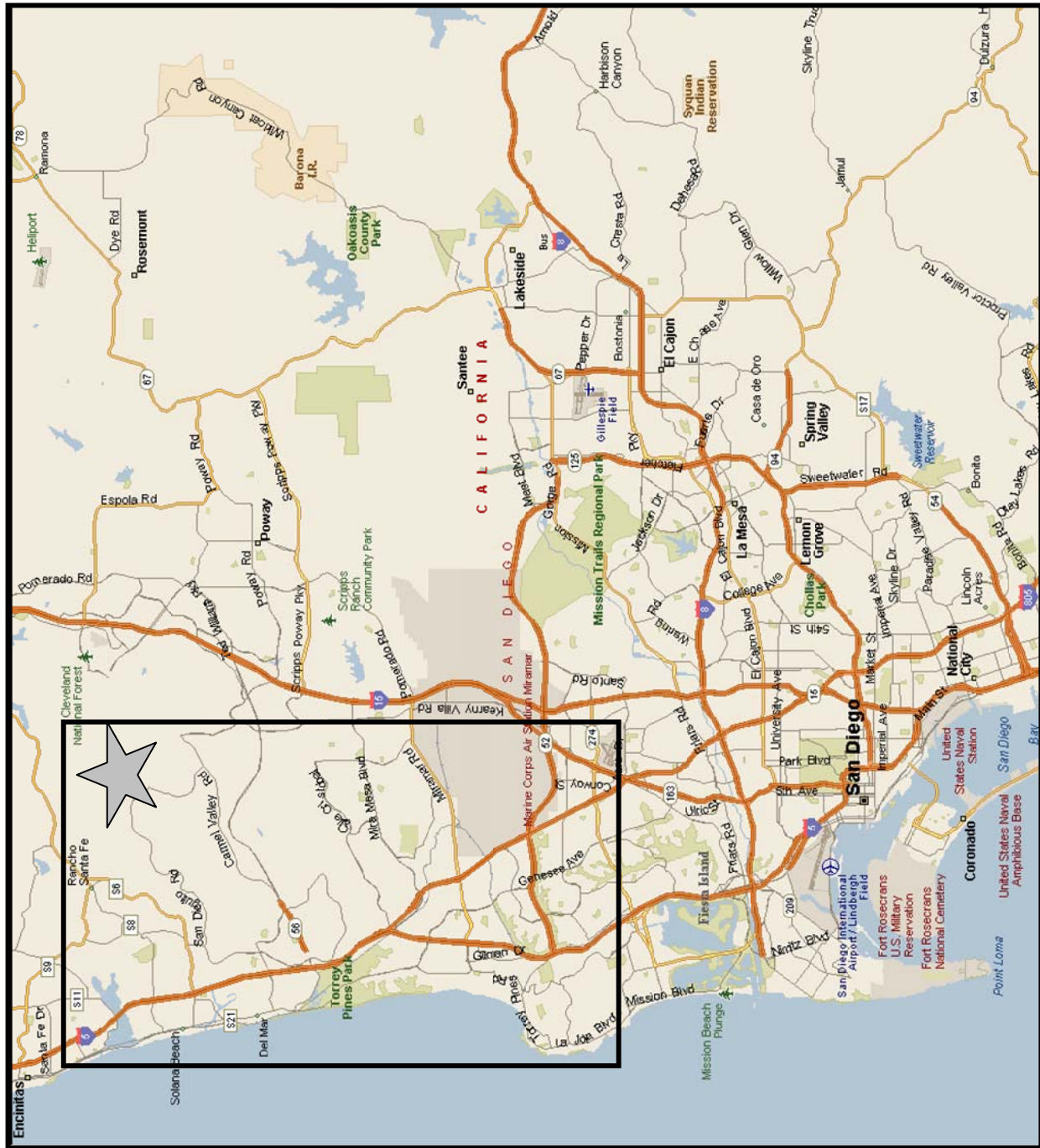
# SOUTHERN CALIFORNIA MARKET REGION



CFD NO.14 (DEL SUR)



# HOUSING MARKET AREA FOR CFD NO. 14 (DEL SUR)



## CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR CFD NO. 14 (DEL SUR)

CFD No. 14 is expected to have thirteen projects, two with attached homes and eleven with single-family detached homes that are oriented primarily towards the move-up housing market segments. The specific characteristics of the active/forthcoming projects in CFD No. 14, based upon information provided by the various builders, are as follows:

### Attached:

- **Del Sur Clusters** by Shea Homes is expected to have 125 attached homes with prices ranging from \$589,000 to \$690,000, an average of \$648,808, for some 1,643 to 2,298 sq.ft. of living area, an average of 2,013 sq.ft., for a value ratio (price/living area) of \$322, and escrow closings to homeowners are expected to commence during 2<sup>nd</sup>-quarter of 2007.
- **Cassero** by Standard Pacific Homes is expected to have 80 attached homes with prices ranging from \$760,000 to \$819,000, an average of \$791,388, for some 2,079 to 2,569 sq.ft. of living area, an average of 2,361 sq.ft., for a value ratio of \$335, and escrow closings to homeowners are expected to commence during 4<sup>th</sup>-quarter of 2006.

### Single-Family Detached: \$700,000 to \$799,999

- **Madeira** by Shea Homes is expected to have 78 single-family detached homes with prices ranging from \$715,000 to \$789,000, an average of \$750,051, for some 1,785 to 2,269 sq.ft. of living area, an average of 2,017 sq.ft., for a value ratio of \$372, and escrow closings to homeowners are expected to commence during 2<sup>nd</sup>-quarter of 2006.
- **Bridgewalk** by Standard Pacific Homes is expected to have 153 single-family detached homes with prices ranging from \$686,900 to \$728,900, an average of \$710,429, for some 1,702 to 1,961 sq.ft. of living area, an average of 1,869 sq.ft., for a value ratio of \$380, and escrow closings to homeowners are expected to commence during 3<sup>rd</sup>-quarter of 2006.
- **Alcala** by William Lyon Homes is expected to have 83 single-family detached homes with prices ranging from \$769,900 to \$791,900, an average of \$779,454, for some 2,463 to 2,593 sq.ft. of living area, an average of 2,507 sq.ft., for a value ratio of \$311, and escrow closings to homeowners are expected to commence during 3<sup>rd</sup>-quarter of 2006.
- **Madeira II** by Shea Homes is expected to have 58 single-family detached homes with prices ranging from \$715,000 to \$769,000, an average of \$750,517, for some 1,785 to 2,269 sq.ft. of living area, an average of 2,059 sq.ft., for a value ratio of \$365, and escrow closings to homeowners are expected to commence during 1<sup>st</sup>-quarter of 2007.
- **Pasado** by William Lyon Homes is expected to have 89 single-family detached homes with prices ranging from \$743,000 to \$769,000, an average of \$756,685, for some 2,020 to 2,349 sq.ft. of living area, an average of 2,203 sq.ft., for a value ratio of \$344, and escrow closings to homeowners are expected to commence during 3<sup>rd</sup>-quarter of 2007.

### **Single-Family Detached: \$800,000 to \$899,999**

- **Kensington Court** by Davidson Construction is expected to have 70 single-family detached homes with prices ranging from \$827,000 to \$900,000, an average of \$866,214, for some 2,660 to 3,156 sq.ft. of living area, an average of 2,914 sq.ft., for a value ratio of \$297, and escrow closings to homeowners are expected to commence during 2<sup>nd</sup>-quarter of 2006.
- **Cabrillo** by Standard Pacific Homes is expected to have 62 single-family detached homes with prices ranging from \$791,000 to \$866,000, an average of \$830,468, for some 2,420 to 3,000 sq.ft. of living area, an average of 2,743 sq.ft., for a value ratio of \$303, and escrow closings to homeowners are expected to commence during 4<sup>th</sup>-quarter of 2006.
- **Del Sur 9A** by Davidson Construction is expected to have 70 single-family detached homes with prices ranging from \$827,000 to \$900,000, an average of \$860,657, for some 2,660 to 3,156 sq.ft. of living area, an average of 2,877 sq.ft., for a value ratio of \$299, and escrow closings to homeowners are expected to commence during 1<sup>st</sup>-quarter of 2008.

### **Single-Family Detached: \$900,000 to \$999,999**

- **Product P-6** by Standard Pacific is expected to have 96 single-family detached homes with prices ranging from \$880,000 to \$925,000, an average of \$904,271, for some 2,825 to 3,150 sq.ft. of living area, an average of 2,998 sq.ft., for a value ratio of \$302, and escrow closings to homeowners are expected to commence during 2<sup>nd</sup>-quarter of 2007.
- **Product P-5** by Standard Pacific is expected to have 108 single-family detached homes with prices ranging from \$947,000 to \$1,021,000, an average of \$987,870, for some 3,000 to 3,600 sq.ft. of living area, an average of 3,331 sq.ft., for a value ratio of \$297, and escrow closings to homeowners are expected to commence during 2<sup>nd</sup>-quarter of 2007.

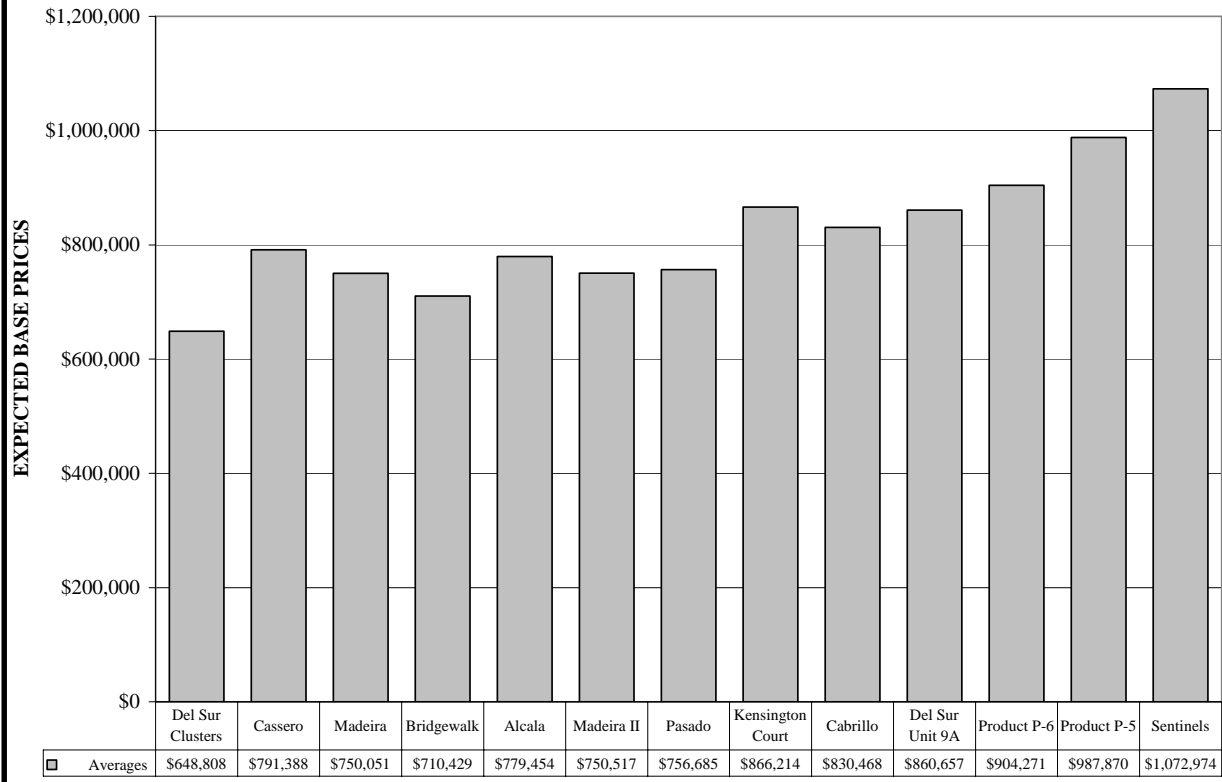
### **Single-Family Detached: Above \$1,000,000**

- **Sentinels** by Laing Luxury is expected to have 76 single-family detached homes with prices ranging from \$1,027,500 to \$1,137,500, an average of \$1,072,974, for some 2,800 to 3,250 sq.ft. of living area, an average of 3,001 sq.ft., for a value ratio of \$358, and escrow closings to homeowners are expected to commence during 2<sup>nd</sup>-quarter of 2007.

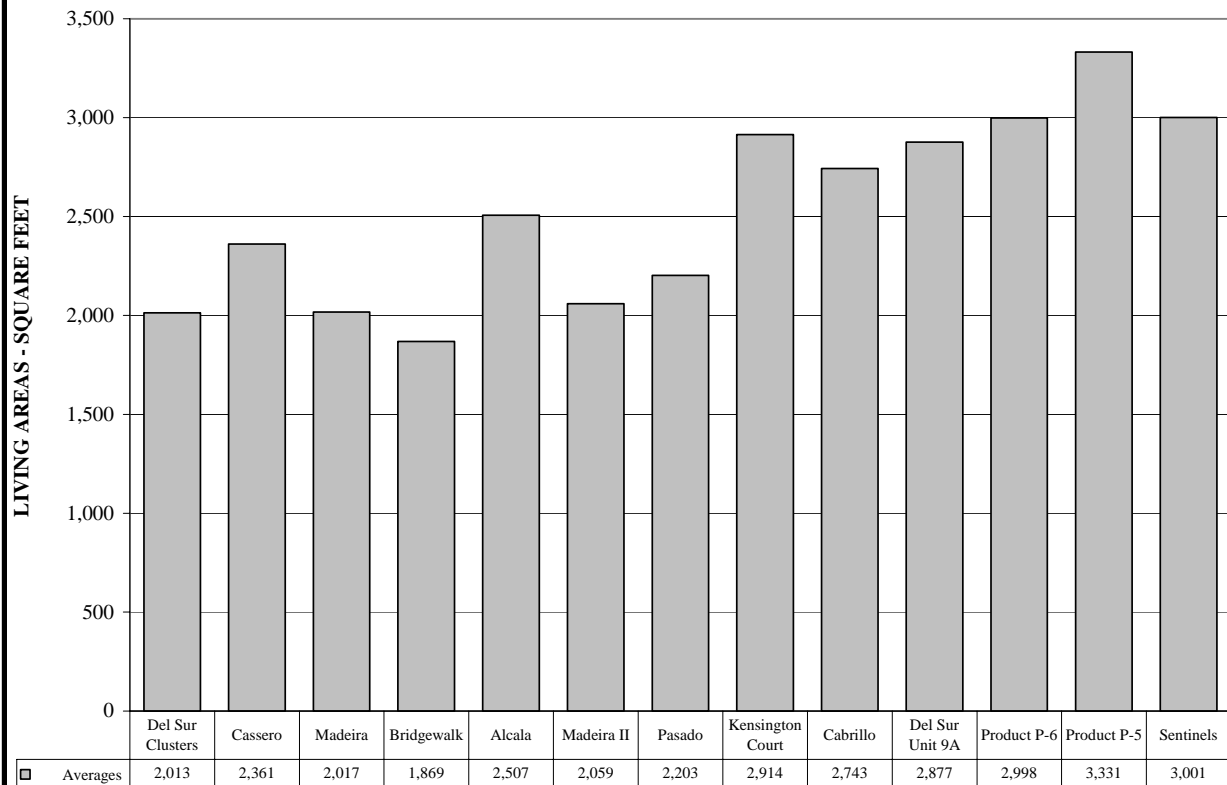
So, for CFD No. 14 (Del Sur), as a whole, there are expected to be 1,148 homes, 205 attached and 943 single-family detached, that have a price range of some \$589,000 to \$1,137,500, an overall average of some \$814,109 with a range of living area from 1,643 to 3,600, an overall average of 2,490 square feet.

For additional information on the characteristics of the forthcoming projects in CFD No. 14, please refer to the following graphs.

**CHARACTERISTICS OF THE PRODUCT MIX FOR CFD NO. 14 (DEL SUR)  
AVERAGE BASE PRICES OF THE PROJECTS/PLANS**



**CHARACTERISTICS OF THE PRODUCT MIX FOR CFD NO. 14 (DEL SUR)  
AVERAGE LIVING AREAS OF THE PROJECTS/PLANS**



# ROLE OF THE MARKET STUDY IN THE BOND FINANCING CFD NO. 14 (DEL SUR)

The Market Absorption Study for CFD No. 14 (Del Sur) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the  
Various Products Types  
  
Official Statement  
  
Prospective Bond Purchasers

Aggregate Levels of  
Special Tax Revenues

Maximum Special Taxes  
for the Residential Projects/Products  
Conforming to the Issuer's Policies

Share of Payments:  
Developer/Builders vs. Final-Users  
Determined by the Absorption Schedules

Appraisal of Property  
  
Discounted Cash Flow – Present Value  
  
Absorption Schedules

The Issuing Agency for the Bond Issue, CFD No. 14 of the Poway Unified School District, along with the Finance Team, can utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue.

# **METHODOLOGY UNDERLYING THE MARKET STUDY FOR CFD NO. 14**

To perform a comprehensive analysis of the macroeconomic and microeconomic factors that are expected to influence the absorption of the residential single-family detached as well as attached housing products in CFD No. 14, Empire's Market Absorption Study conducts a systematic analysis of the following factors:

## **MACROECONOMIC FACTORS FOR CFD NO. 14 MARKET AREA**

- \*Market Supply  
Planning Projections
- \* Market Demand  
Economic Conditions
- \* Reconciliation  
Growth Potential for the  
Market Area

## **MICROECONOMIC FACTORS FOR CFD NO. 14**

- Regional Development Patterns
- Socioeconomic: School and Crime
- Housing Price Trends and Patterns
- Competitive Market Analysis – Product Types
- Residential Projects
  - \*Location
  - \*Product Types
  - \*Prices
- \*Special Taxes/Assessments
- \*Features/Amenities

## **ESTIMATED ABSORPTION SCHEDULES**

- Each of the Projects**
  - \*Residential
  - Single-Family Detached Homes
  - Attached Homes
- \*Market Entry to Build-Out

Therefore, the Market Absorption Study systematically proceeds from the macroeconomic analysis of the Market Region's future housing, industrial and commercial growth to the microeconomic analysis of the estimated absorption schedules for the residential single-family detached as well as attached housing projects/products in CFD No. 14 (Del Sur).

# RECENT/EXPECTED ECONOMIC TRENDS/PATTERNS

The purpose of this section is to discuss the recent/expected economic trends/patterns for the United States (US), California (CA), and San Diego County (SD), including Gross Domestic Product, employment, housing starts and mortgage rates.

## Recent /Expected Real Gross Domestic Product Trends/Patterns

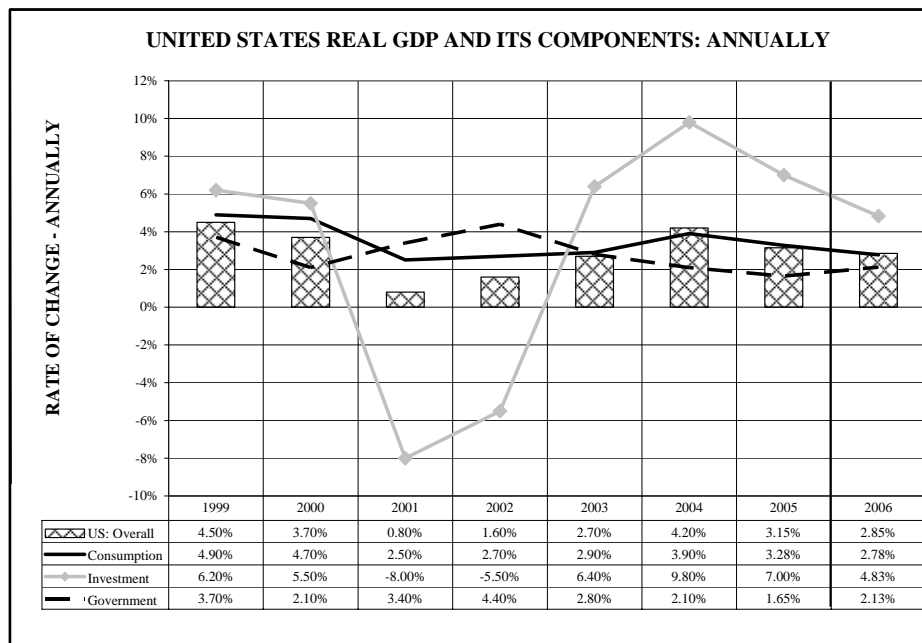
With regards to the recent/expected growth rates for Gross Domestic Product (GDP) for the United States economy, they are as follows:

- During 1999 and 2000, real GDP increased at strong rates of by 4.50% and 3.70%, respectively.
- Then, in 2001 and 2002, as the economy slowed, real GDP increased by only 0.80% and 1.60%, respectively.
- In 2003 and 2004, as the economy rebounded, real GDP increased by some 2.70% and 4.20%, respectively.
- For 2005, real GDP growth moderated somewhat to a rate of 3.15%.
- For 2006, real GDP is expected to moderate further to a rate of some 2.85%.

Next, with respect to the actual/expected rates of change for the various components of real GDP for 2005 as compared to 2006 are as follows:

- Consumption, which increased at some 3.28% in 2005 is expected to moderate to a rate of some 2.78% in 2006.
- Business investment, which increased at some 7.00% in 2005 is expected to moderate to 4.83% in 2006.
- Finally, with respect to government purchases, which grew at a rate of 1.65% in 2005 are expected to increase by 2.13% in 2006.

Therefore, comparing the rates of growth for the various components of real GDP for 2006 as compared to 2005 reveals that the overall rate of growth is expected to moderate somewhat while among the various sectors, consumption and investment are expected to moderate while the rate of growth for government spending rises.





## Recent/Expected Employment Trends/Patterns

With regards to the recent/expected growth rates for employment, these are now discussed for the United States, California, and San Diego County economies, both on an annual as well as a quarterly basis.

For the United States economy, the recent trends/patterns for employment have been as follows:

- In 1999 and 2000, employment growth was strong, some 2.44% and 2.20%, respectively.
- Then, in 2001, due to the economic slowdown, employment was virtually stable.
- For 2002, employment declined by -1.13%., followed by a decrease of -0.26% in 2003.
- In 2004, as the economy moved into its recovery phase, employment rose by some 1.13%.
- For 2005, as the economy expanded further, employment rose by 1.39%.
- For 2006, as the economy slows, employment growth is expected to moderate to 1.16%

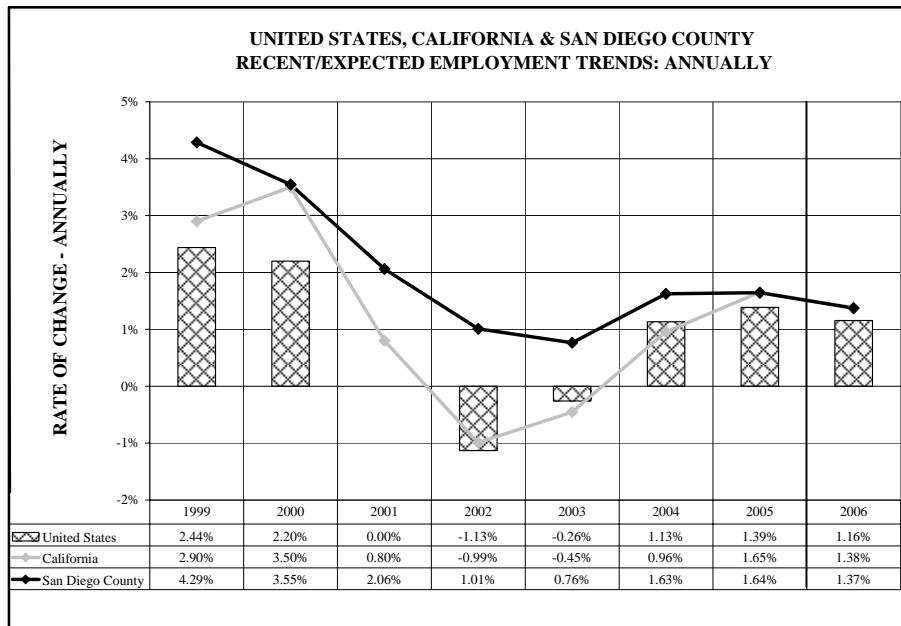
California's employment followed a generally similar pattern:

- Strong rates of employment growth in 1999 and 2000 of 2.90% and 3.50%, respectively.
- Then in 2001, employment rose only moderately, some 0.80%.
- However, in 2002 to 2003, employment declined to -0.99% and -0.45%, respectively.
- For 2004, the economy moved into a recovery, with an employment gain of 0.96%.
- In 2005, the economy had stronger growth, with employment rising at a rate of 1.65%.
- For 2006, as the economy slows, employment growth is expected to moderate to 1.38%

San Diego County, on a comparative basis, has performed favorably:

- San Diego County experienced strong, though diminishing, rates of employment growth during 1999-2001, from 4.29% in 1999 to 2.06% in 2001.
- Then, in 2002, the rate of employment moderated to some 1.01%.
- In 2003, the rate of growth declined further to some 0.76%
- For 2004, the rate of employment growth rose to 1.63%.
- In 2005, the employment growth was stable at some 1.64%.
- For 2006, as the economy slows, employment growth is expected to amount to 1.37%.

Therefore, during 2006, the United States, California and San Diego County economies are all expected to experience lower rates of employment growth.

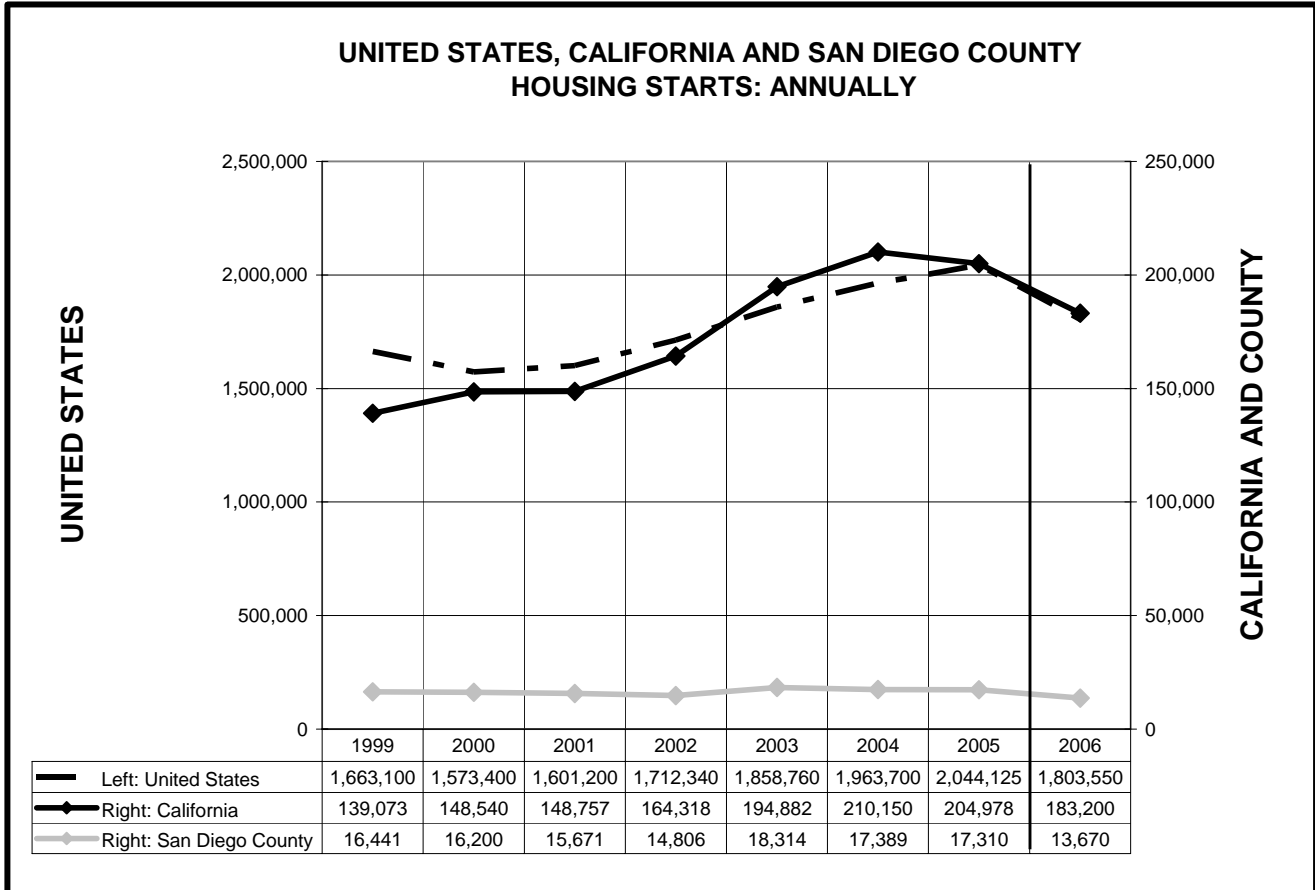


## Recent/Expected Trends/Patterns for Housing Starts

With regards to the recent trends and patterns for housing starts, they are as follows:

- The United States housing market experienced a strong growth during the 2000 to 2005 time period, with the number of new homes rising from 1,573,400 in 2000 to 2,044,125 in 2005. For 2006, the United States housing market is expected to moderate to some 1,803,550 new homes, due to the combined impacts of a slowing economy as well as higher mortgage rates.
- For the California housing market, housing starts have had strong growth during 1999 to 2005, as the number of new homes rose from 139,073 in 1999 to 204,978 in 2005. The California housing market is expected to decrease somewhat in 2006 to some 183,200 new homes, also as a result of a slowing economy and higher mortgage rates.
- Finally, with respect to San Diego County, housing starts declined during the 1999-2002 time period, from 16,441 homes in 1999 to 14,806 homes in 2002, but rose during 2003 to some 18,314 homes, then stabilized at some 17,300 homes per year for 2004 and 2005. However, for 2006, the level of activity is expected to decline to some 13,670 homes, due to higher mortgage rates.

So, for 2006, the United States, California and San Diego County housing markets are expected to decrease from their 2005 levels of activity, due primarily to higher levels of mortgage rates as well as slower employment growth.

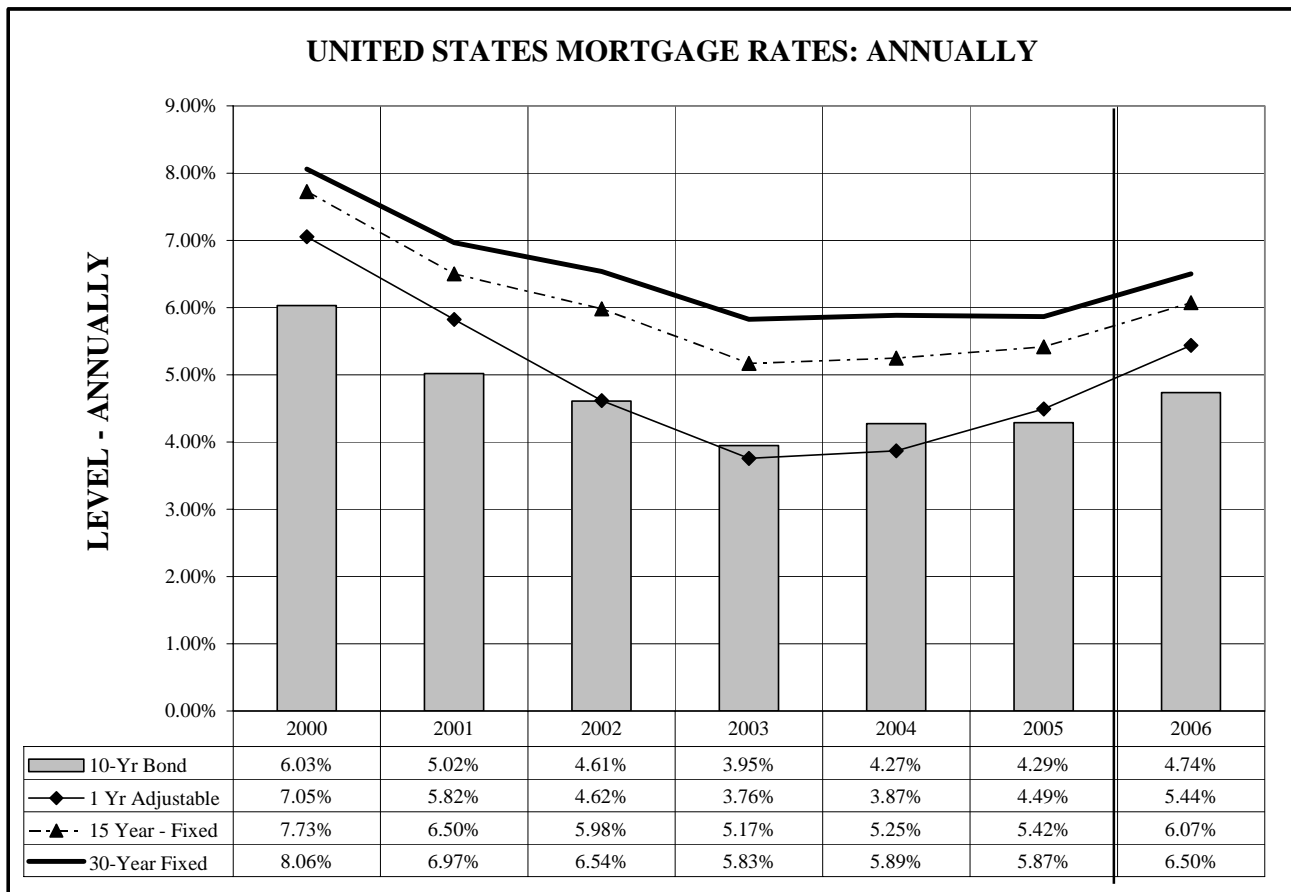


## Recent/Expected Trends in Mortgage Rates

The recent/expected trends/patterns for mortgage rates, including the 15 year fixed rate mortgage, as well as the 10-year Treasury Bond which influences the 15 year fixed rate mortgage, and the 1 year adjustable, are now discussed:

- During the 2000 to 2003 time period, the rates on the 10-year Treasury Bond, 15 year fixed mortgage and the 1 year adjustable mortgage all declined: the 10-year Treasury Bond from 6.03% to 3.95% (-2.08%), the 15 year fixed mortgage from 7.73% to 5.17% (-2.56%), and the 1 year adjustable mortgage from 7.05% to 3.76% (-3.29%).
- From 2003 to 2005, the rates started to rise: on the 10-year Treasury Bond from 3.95% to 4.29% (+0.34%), the 15 year fixed mortgage from 5.17% to 5.42% (+0.25%), and the 1 year adjustable mortgage from 3.76% to 4.49% (+0.73%).
- For 2006 as compare to 2005, the rates are expected to rise further, the 10-year Treasury Bond from 4.29% to 4.74% (+0.45%), the 15 year mortgage from 5.42% to 6.07% (+0.65%), and the 1 year adjustable mortgage from 4.49% to 5.44% (+0.95%).

So, during 2006, financial rates are expected to rise at a faster pace, with an increase in the 10-year Treasury Bond driving up the 15 year fixed rates by some 0.65% while the increases in the federal fund rate by the Federal Reserve Board drives up the 1 year adjustable rate mortgages by some 0.95%.



# SOCIOECONOMICS CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location (relative to their place of employment) and price (within their income/affordability levels). Furthermore, secondary socioeconomic factors that are significant include the safety of the neighborhood as well as the quality of the schools; accordingly, these are now discussed

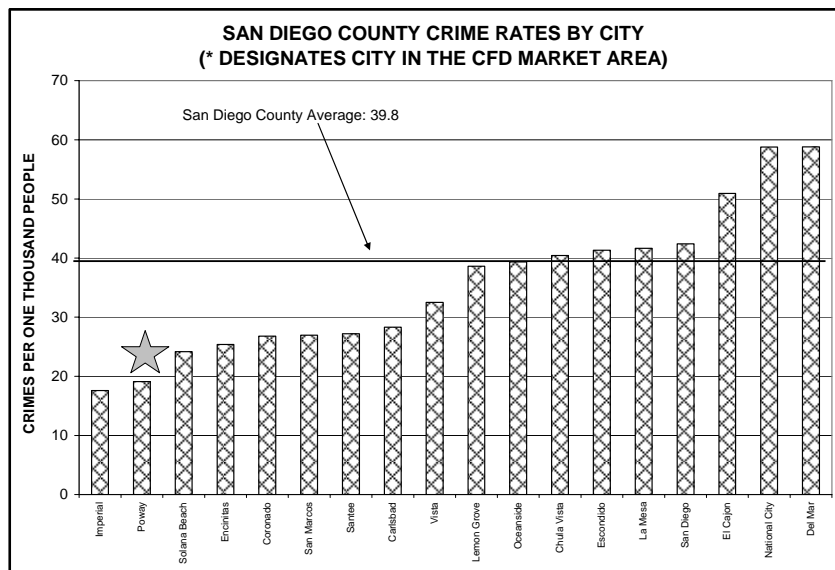
## Crime Levels and Neighborhood Safety

To gauge the safety of San Diego County and the CFD No. 14 Neighborhood Area, information on crime levels was obtained utilizing the most recent data available from the Federal Bureau of Investigation (FBI).

The FBI Crime Index represents a compilation of crime data using the Uniform Crime Reporting system to ensure reliability and consistency among various geographical areas. The FBI Crime Index has two components for crime: violent crime and property crime. Violent crime consists of murder and non-negligent man-slaughter, forcible rape, robbery, and aggravated assault. Property crime consists of burglary, larceny-theft, motor vehicle theft and arson. For the State of California, approximately 88% of all crimes are property crimes whereas 12% are violent crimes. However, it should be noted that these statistics do not measure the “human or emotional” reactions of individuals to different types of crime. To adjust for the population differences of various geographical areas, Empire Economics divides the crime levels by the population to represent the number of crimes per 1,000 people.

For California, as a whole, the average crime rate is approximately 40.2 per 1,000 people per year. For Southern California the rate is 39.1, slightly lower than the state, while for San Diego County, the rate is similar, 39.8.

According to the FBI index, San Diego County has a crime rate of about 39.8 per 1,000 people per year. With respect to the CFD No. 14 Neighborhood Area, whose nearby City is Poway, the crime rate is comparatively low, some 19.1.

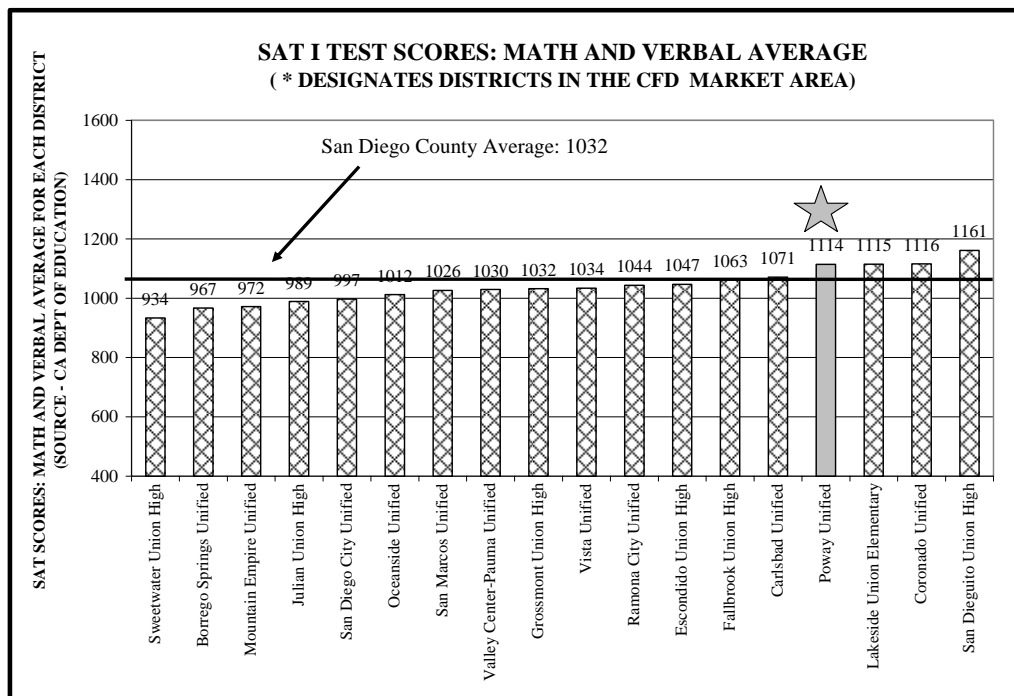


## Quality of Schools and Education

To gauge the quality of schools in San Diego County and the CFD No. 14 Neighborhood Area, information was compiled on educational achievement, specifically the SAT I scores.

For the Southern California counties, as a whole, the SAT I scores (with 1600 being the highest possible) were at a level of 1014 and this is similar to the scores for California as a whole, some 1015. While for San Diego County, in particular, the SAT I scores amount to 1032, somewhat higher than the overall averages for California and also Southern California.

For San Diego County, the average SAT I score was 1032. For the school district in the CFD No. 14 Neighborhood Area, the Poway Unified School District, their SAT I score amounts to 1,114, and this is significantly higher than for San Diego County as a whole.

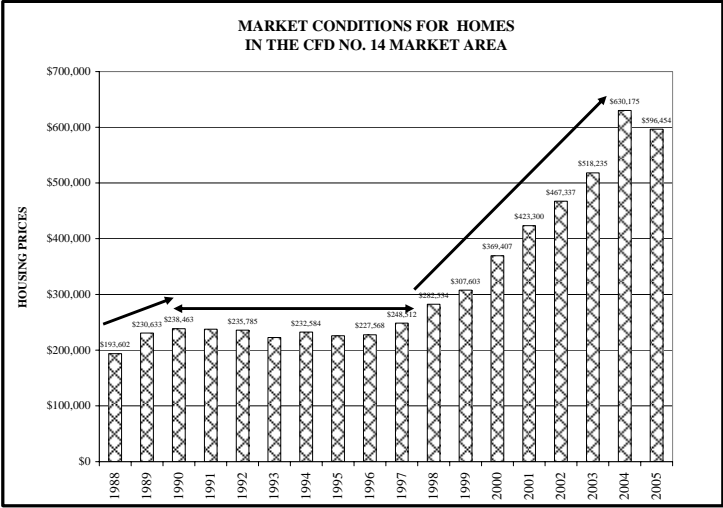


Therefore, from a socioeconomic perspective, San Diego County has a similar crime rate and a somewhat higher educational achievement level than California and also Southern California, as a whole. Furthermore, within San Diego County, the CFD No. 14 Neighborhood Area has a significantly lower crime rate and a substantially higher educational achievement level than the county as a whole. Therefore, the CFD No. 14 Neighborhood Area and the Poway Unified School District are regarded as being desirable from a socioeconomic perspective.

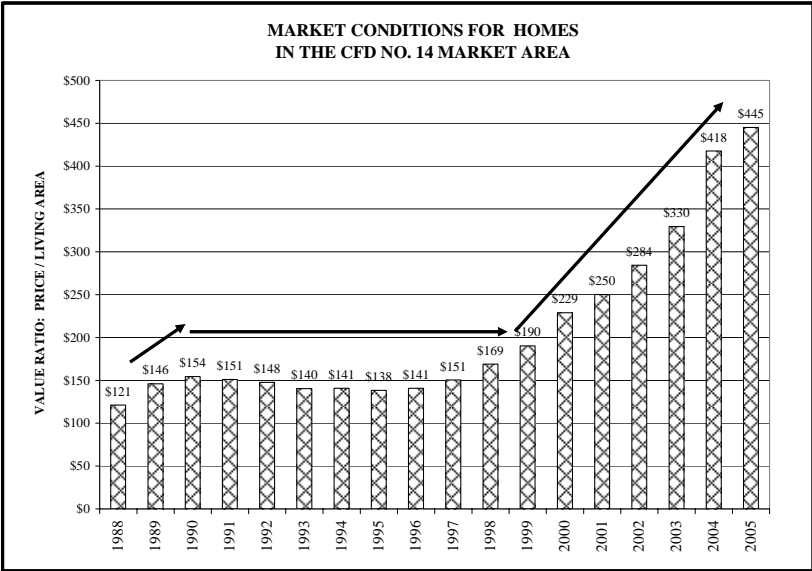
## RECENT PRICE TRENDS FOR HOMES IN THE CFD NO. 14 MARKET AREA

The recent housing price trends for homes in the CFD No. 14 Market Area are analyzed utilizing both the prices of homes as well as their value ratios (price/living area). The changes in their value ratios are regarded as being more accurate indicators of housing price trends since they reflect “real” price ranges, rather than price changes resulting from variations in the sizes of their living areas.

Housing prices decreased from a peak level of some \$238,463 in 1990 to a low of \$225,802 in 1995, a decline of some -5.3%, due to the economic recession. Then, with the economic recovery and subsequent economic expansion, prices then rose to a record level of some \$596,454 in 2005, an increase of some 150% (more than double) above the prior peak level.



With respect to the value ratios, the price per sq.ft. of living area, it declined from a peak level of \$154 in 1990 to a low of some \$138 in 1995, a total decrease of some -10.4%. However, starting in 1996, value ratios increased, reaching a record level of some \$445 in 2005, significantly surpassing their prior peak by some 188% (more than double).

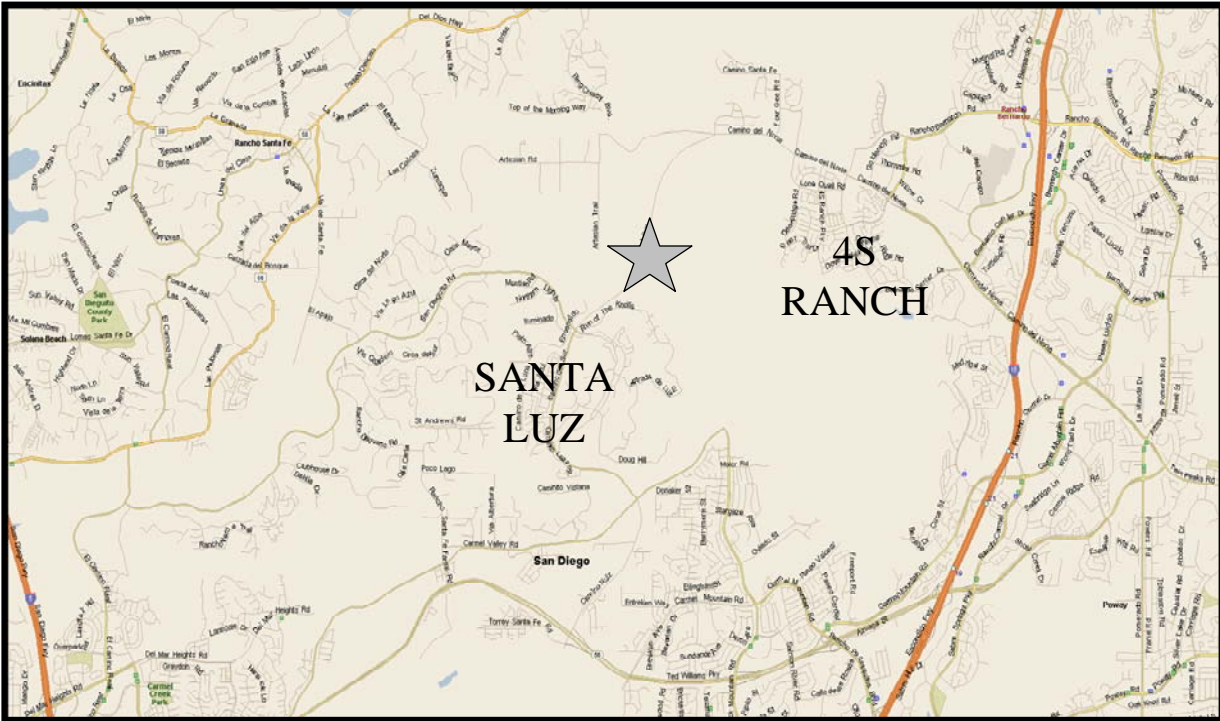


# COMPETITIVE MARKET ANALYSIS OF THE PROJECTS IN THE CFD NO. 14 COMPETITIVE HOUSING MARKET AREA

The purpose of this section is to provide an overview of the currently active Planned Communities/Projects with for-sale housing in the CFD No. 14 Competitive Housing Market Area, and then to compare these with the characteristics of the projects in the Planned Community of CFD No. 14 (Del Sur).

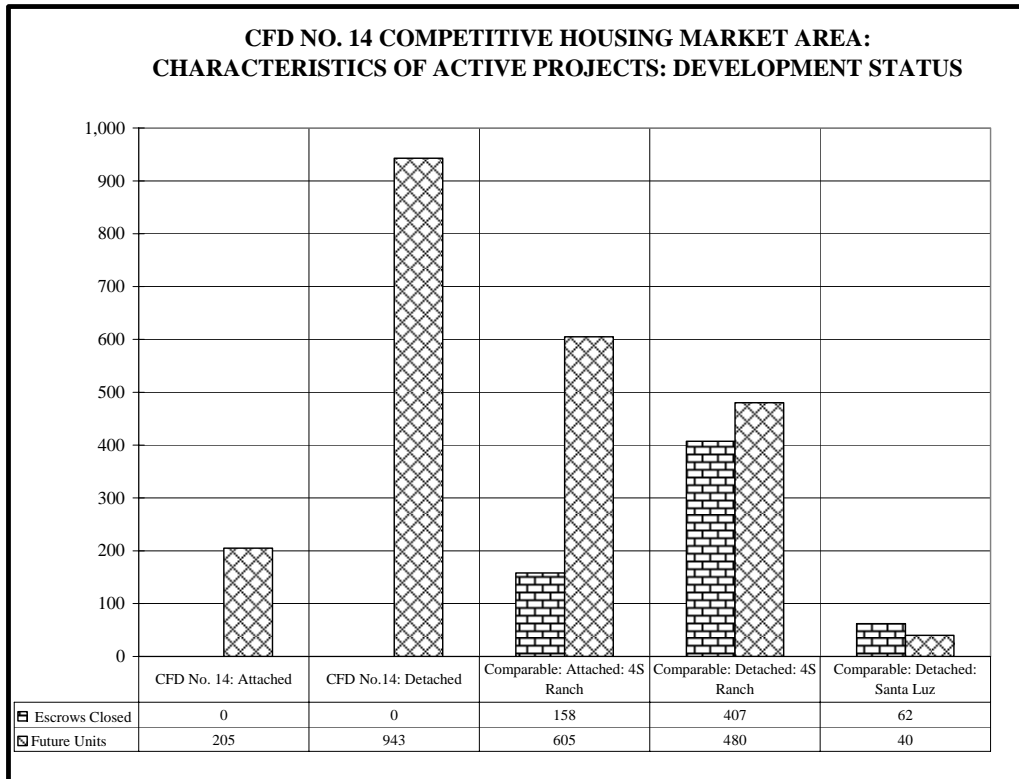
The CFD No. 14 Competitive Housing Market Area currently has two “comparable” Major Planned Communities (PCs): 4S Ranch and Santa Luz. To facilitate the analysis the projects in the various PCs as well as those in CFD No. 14 have each been partitioned into two market segments, those that offer “attached” as compared to “detached” product types.

## COMPETITIVE HOUSING MARKET AREA FOR CFD NO. 14 LOCATIONS OF PLANNED COMMUNITIES



The Planned Communities have a total of 15 currently active projects and there are another 13 active/forthcoming projects in CFD No. 14; together, these have a total of 28 projects with some 2,900 housing units of which 627 have had their escrows closed and so they are considered to be occupied. The distribution of these projects among the various market segments for CFD No. 14 as well as the PCs are as follows:

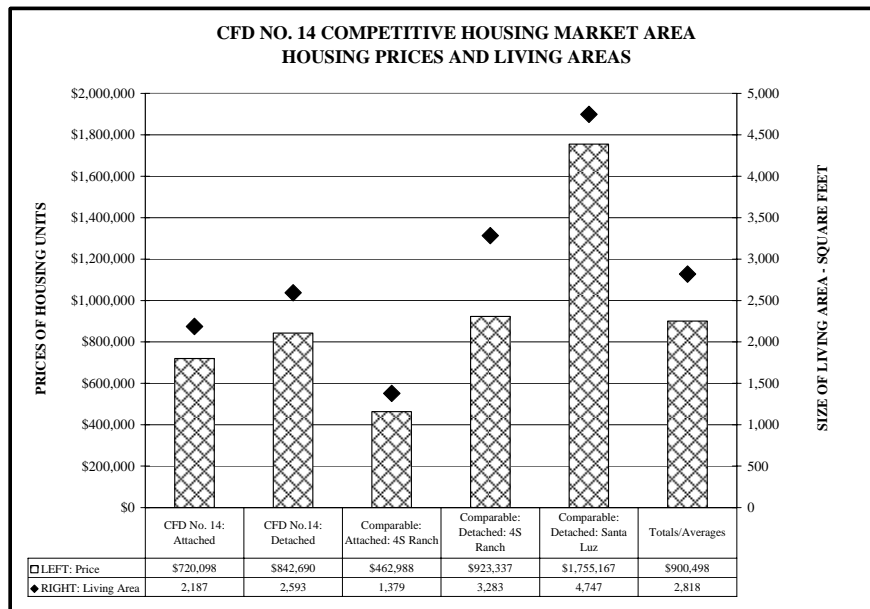
- CFD No. 14 Attached: 2 projects with 205 homes.
- CFD No. 14 Detached: 11 projects with 943 homes.
- Comparable Attached 4S: 4 active projects with 763 homes of which 158 are occupied.
- Comparable Detached 4S: 8 active projects with 887 homes of which 407 are occupied.
- Comparable Detached Santa Luz: 3 active projects with 102 homes of which 62 are occupied.



For the projects in the currently active PCs as well as the active/forthcoming projects in CFD No. 14, their prices amount to some \$900,498 while the living areas amount to some 2,818 sq.ft., on the average; accordingly, the prices and living areas by the various market segments are as follows:

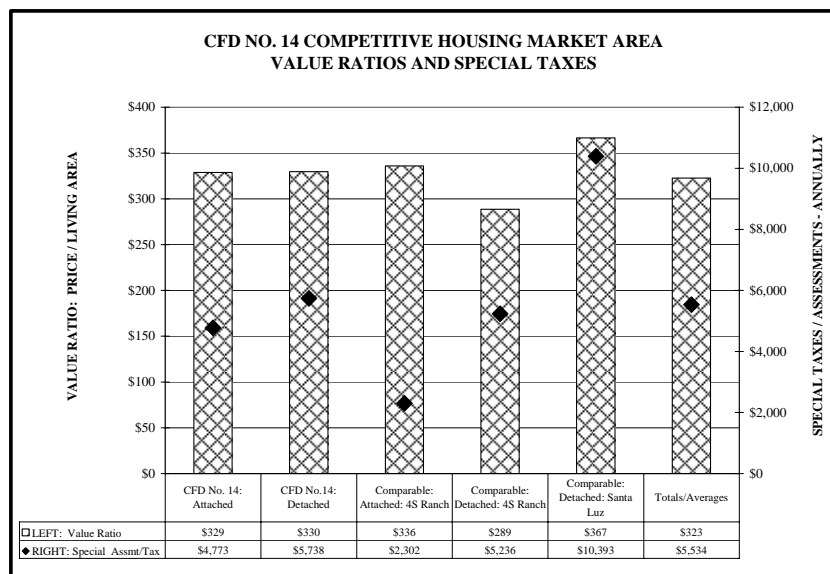
- CFD No. 14 Attached: Prices of some \$720,098 for some 2,187 sq.ft. of living area.
- CFD No. 14 Detached: Prices of some \$842,690 for some 2,593 sq.ft. of living area.
- Comparables Attached 4S: Prices of some \$462,988 for some 1,379 sq.ft. of living area.
- Comparable Detached 4S: Prices of some \$923,337 for some 3,283 sq.ft. of living area.
- Comparable Detached Santa Luz: Prices of some \$1,755,167 for 4,747 sq.ft. of living area.





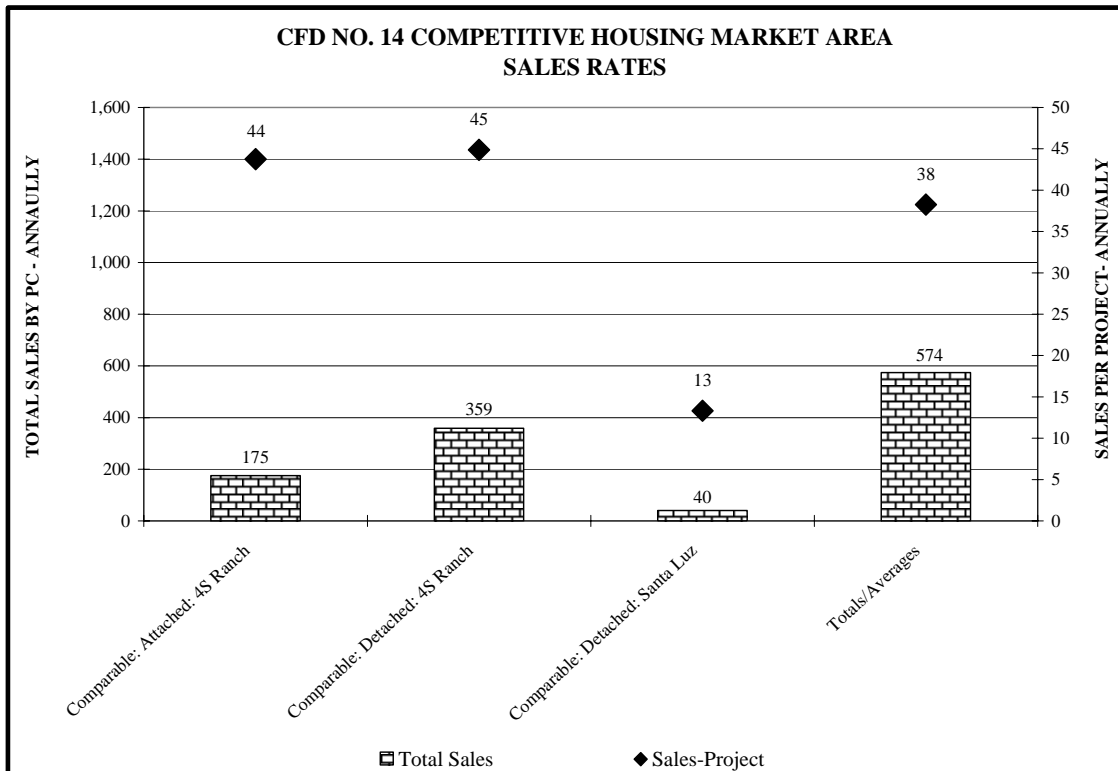
To compare the prices of the projects in these PCs as well as the active/forthcoming projects in CFD No. 14 their value ratios are utilized, the price per sq. ft. of living area, since this effectively makes adjustments for differences in their sizes of living areas. Accordingly, the value ratios amount to \$323 per sq. ft. of living area and their Special Taxes/Assessments amounts to some \$5,534/yr. (0.61% as a ratio to the housing prices); accordingly, the value ratios and Special Tax/Assessment characteristics by the various market segments are as follows:

- CFD No. 14 Attached: Value Ratio of \$329 and Special Taxes of \$4,773/yr. (0.66%).
- CFD No. 14 Detached: Value Ratio of \$330 and Special Taxes of \$5,738/yr. (0.68%).
- Comparables Attached 4S: Value Ratio of \$336 and Special Taxes of \$2,302/yr. (0.50%).
- Comparable Detached 4S: Value Ratio of \$289 and Special Taxes of \$5,236/yr. (0.58%).
- Comparable Detached Santa Luz: Value Ratio \$367 and Special Taxes of \$10,393/yr. (0.59%).



The fifteen currently active comparable projects have an estimated sales rate of some 574 homes per year, for an average of some 38 units per project per year; the distribution of these sales among the various market segments is as follows:

- Comparable Attached 4S: 4 projects with total sales of 175 homes annually, some 44 per project, on the average.
- Comparable Detached 4S: 8 projects with total sales of 359 per year, some 45 per project, on the average.
- Comparable Detached Santa Luz: 3 projects with total sales of 40 per year, some 13 per project, on the average.



Project Locations	Planned Community	Project Names	Builder	Lot Sizes (Averages)	Project Size and Sales			Housing Prices			Size of Living Area			Value Ratio	Special Assessments/Taxes		
					Total	Escrows Closed	Future Sales Rate/Yr.	Lower	Average	Upper	Lower	Average	Upper		Lower	Average	Upper
CFD No. 14: Attached	Del Sur	Del Sur Clusters	Shea Homes	Attached	125	0	125	N/A	\$599,000	\$648,898	\$690,000	1,643	2,013	2,298	\$322	\$4,260	0.66%
CFD No. 14: Attached	Del Sur	Casero	Standard Pacific	Attached	80	0	80	N/A	\$760,000	\$791,388	\$819,000	2,079	2,361	2,869	\$335	\$5,286	0.67%
CFD No. 14: Detached	Del Sur	Madeira	Shea Homes	3,600	78	0	78	N/A	\$715,000	\$750,051	\$780,000	1,785	2,017	2,269	\$372	\$5,130	0.68%
CFD No. 14: Detached	Del Sur	Bridgeway	Standard Pacific	2,450	153	0	153	N/A	\$686,900	\$710,429	\$728,900	1,702	1,869	1,961	\$380	\$4,550	0.64%
CFD No. 14: Detached	Del Sur	Alcala	William Lyon Homes	4,200	83	0	83	N/A	\$769,900	\$779,454	\$791,900	2,463	2,507	2,993	\$311	\$5,324	0.68%
CFD No. 14: Detached	Del Sur	Madeira II	Shea Homes	3,600	58	0	58	N/A	\$715,000	\$750,517	\$769,000	1,785	2,059	2,269	\$365	\$5,130	0.68%
CFD No. 14: Detached	Del Sur	Pseudo	William Lyon Homes	3,300	89	0	89	N/A	\$751,000	\$756,685	\$769,000	2,020	2,203	2,349	\$343	\$5,286	0.70%
CFD No. 14: Detached	Del Sur	Kennington Court	Davidson Construction	6,027	70	0	70	N/A	\$827,000	\$866,214	\$904,000	2,660	2,914	3,156	\$297	\$5,866	0.68%
CFD No. 14: Detached	Del Sur	Cubillo	Standard Pacific	9,000	62	0	62	N/A	\$791,000	\$830,468	\$866,000	2,420	2,743	3,000	\$303	\$5,518	0.66%
CFD No. 14: Detached	Del Sur	Del Sur 9A	Davidson Construction	6,027	70	0	70	N/A	\$827,000	\$866,657	\$904,000	2,660	2,917	3,156	\$299	\$5,866	0.68%
CFD No. 14: Detached	Del Sur	Product P-6	Standard Pacific	7,000	96	0	96	N/A	\$880,000	\$904,271	\$925,000	2,825	2,998	3,150	\$302	\$6,516	0.72%
CFD No. 14: Detached	Del Sur	Product P-5	Standard Pacific	8,000	108	0	108	N/A	\$947,000	\$987,870	\$1,021,000	3,000	3,331	3,600	\$297	\$7,420	0.75%
CFD No. 14: Detached	Del Sur	Seminels	Liang Loumy	8,000	76	0	76	N/A	\$1,027,500	\$1,072,974	\$1,137,500	2,800	3,001	3,250	\$338	\$6,516	0.61%
Comparable: Attached: 48 Ranch	48 Ranch	Bridgeport	Lennar Homes	Attached	218	39	179	30	\$341,000	\$401,750	\$462,500	959	1,199	1,439	\$335	\$2,009	0.50%
Comparable: Attached: 48 Ranch	48 Ranch	San Moritz	Shea Homes	Attached	140	59	81	55	\$447,900	\$476,400	\$504,900	1,218	1,406	1,494	\$339	\$2,525	0.53%
Comparable: Attached: 48 Ranch	48 Ranch	Giami	Standard Pacific	Attached	206	0	206	40	\$436,900	\$479,400	\$531,900	1,211	1,395	1,578	\$344	\$2,301	0.48%
Comparable: Attached: 48 Ranch	48 Ranch	Ravenia	William Lyon Homes	Attached	199	60	139	50	\$467,900	\$494,400	\$520,900	1,405	1,516	1,626	\$326	\$2,373	0.48%
Comparable: Detached: 48 Ranch	48 Ranch	Anaune	William Lyon Homes	2,800	127	67	60	55	\$574,900	\$614,400	\$653,900	1,454	1,684	1,914	\$365	\$2,949	0.48%
Comparable: Detached: 48 Ranch	48 Ranch	Garden Walk	San Country Homes	3,500	136	59	77	80	\$631,990	\$655,990	\$679,990	1,888	2,103	2,317	\$312	\$4,920	0.75%
Comparable: Detached: 48 Ranch	48 Ranch	Rosemary Lane	John Lang Homes	5,000	133	43	90	45	\$739,990	\$809,490	\$868,990	2,461	2,668	3,274	\$282	\$5,424	0.67%
Comparable: Detached: 48 Ranch	48 Ranch	Silvercrest	Feldstone	5,000	197	66	131	40	\$834,990	\$861,615	\$888,240	2,901	3,133	3,365	\$275	\$4,136	0.48%
Comparable: Detached: 48 Ranch	48 Ranch	Travata	Standard Pacific	8,500	65	28	37	30	\$956,000	\$967,900	\$978,900	3,552	3,639	3,726	\$266	\$6,382	0.68%
Comparable: Detached: 48 Ranch	48 Ranch	Reunion	Davidson Communities	7,000	66	49	17	47	\$944,900	\$992,400	\$1,039,900	3,594	3,673	4,151	\$256	\$6,649	0.67%
Comparable: Detached: 48 Ranch	48 Ranch	Palomino	K. Hovnanian	7,500	97	95	2	32	\$1,088,000	\$1,095,450	\$1,102,900	4,152	4,374	4,595	\$250	\$5,238	0.48%
Comparable: Detached: 48 Ranch	48 Ranch	Ivy Gate	Woodbridge Homes	23,000	66	0	66	30	\$1,279,450	\$1,389,450	\$1,499,450	3,820	4,590	5,359	\$303	\$5,975	0.43%
Comparable: Detached: Santa Luz	Santa Luz	Bolsen	Warrington Homes	10,000	65	55	10	28	\$1,240,000	\$1,293,000	\$1,346,000	3,851	4,293	4,735	\$301	\$7,370	0.57%
Comparable: Detached: Santa Luz	Santa Luz	La Venida	McCullough-Ames	43,500	21	7	14	6	\$1,795,000	\$1,920,000	\$2,045,000	4,600	4,948	5,296	\$388	\$11,904	0.62%
Comparable: Detached: Santa Luz	Santa Luz	Baywood Collection	Baywood Builders	65,000	16	0	16	6	\$1,880,000	\$2,052,500	\$2,225,000	4,000	5,000	6,000	\$411	\$11,905	0.58%
<b>Statistical Summary</b>																	
Sales / Year																	
CFD No. 14: Attached		N/A	2		205	0	205	0	\$674,500	\$720,098	\$754,500	1,861	2,187	2,434	\$329	\$4,773	0.66%
CFD No. 14: Detached		N/A	11		943	0	943	0	\$811,755	\$842,690	\$872,882	2,375	2,593	2,796	\$330	\$5,738	0.68%
Comparable: Attached: 48 Ranch		44			703	158	605	175	\$423,425	\$462,988	\$502,550	1,223	1,379	1,534	\$336	\$2,302	0.50%
Comparable: Detached: 48 Ranch		45			887	407	480	359	\$882,640	\$923,337	\$964,034	2,978	3,383	3,888	\$289	\$5,236	0.58%
Comparable: Detached: Santa Luz		13			102	62	40	40	\$1,638,333	\$1,755,167	\$1,872,000	4,150	4,747	5,344	\$367	\$10,393	0.59%
Totals/Averages		38	28		2,900	627	2,273	574	\$855,290	\$900,498	\$944,456	2,536	2,818	3,089	\$323	\$5,534	0.61%

## **ESTIMATED ABSORPTION SCHEDULES FOR THE PRODUCTS/PROJECTS IN CFD NO. 14 (DEL SUR)**

The purpose of this section is to estimate the absorption schedules for the single-family detached as well as attached residential products/projects in CFD No. 14; accordingly, this is based upon a consideration of the following:

First, the potential demand schedules for the residential products/projects for CFD No. 14 were derived, based upon a consideration of the following:

- The growth prospects for the Southern California Market Region, in general, and San Diego County, in particular.
- How much of this growth the CFD No. 14 Market Area, is expected to capture, in particular.
- The proportion of the Market Area demand that is expected to be captured by the products/projects in CFD No. 14, based upon an evaluation of their competitiveness in the marketplace.
- For currently active projects in the Competitive Housing Market Area, their recent sales rates.
- Expected changes in the current sales rate due to anticipated higher levels of mortgage rates during the foreseeable future, when the projects in CFD No. 14 are on the marketplace.

Thus, the result of this analysis is the POTENTIAL demand for the residential products/projects in CFD No. 14.

Next, the ability of the residential products/projects in CFD No. 14 to respond to this demand is estimated. Accordingly, the infrastructure development schedule for the residential products/projects was obtained from Black Mountain Ranch, LP as well as the various builders. Specifically, this represents, from a time perspective, when the products will have the infrastructure in place that is required to support their development. So, the result of this analysis is the INFRASTRUCTURE DEVELOPMENT of the properties in CFD No. 14, and this reflects their ability to respond to the demand in the marketplace.

Then, based upon a consideration of the POTENTIAL demand and the INFRASTRUCTURE DEVELOPMENT, the absorption rate for the residential products/projects in the various market segments are calculated, from the year in which the products/projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units are occupied.

The application of this algorithm results in the absorption schedules for the products/projects in CFD No. 14 (Del Sur); absorption for the homes represents the structure being constructed as well as being occupied by a homeowner.

Accordingly, the estimated absorption schedules for the active/forthcoming single-family detached as well as attached projects/products in CFD No. 14 are as follows:

## Attached:

- **Del Sur Clusters** by Shea Homes is expected to have 125 attached homes with prices ranging from \$589,000 to \$690,000, an average of \$648,808, for some 1,643 to 2,298 sq.ft. of living area, an average of 2,013 sq.ft., for a value ratio (price/living area) of \$322.  
The homes in this project are expected to commence escrow closings during 2<sup>nd</sup>-quarter 2007, and their estimated absorption schedule is for 30 homes in 2007, 45 homes in 2008, and then the remaining 50 homes in 2009.
- **Cassero** by Standard Pacific Homes is expected to have 80 attached homes with prices ranging from \$760,000 to \$819,000, an average of \$791,388, for some 2,079 to 2,569 sq.ft. of living area, an average of 2,361 sq.ft., for a value ratio of \$335.  
The homes in this project are expected to commence escrow closings during 4<sup>th</sup>-quarter 2006, and their estimated absorption schedule is for 15 homes in 2006, 40 homes in 2007, and then the remaining 25 homes in 2008.

## Single-Family Detached: \$700,000 to \$799,999

- **Madeira** by Shea Homes is expected to have 78 single-family detached homes with prices ranging from \$715,000 to \$789,000, an average of \$750,051, for some 1,785 to 2,269 sq.ft. of living area, an average of 2,017 sq.ft., for a value ratio of \$372.  
The homes in this project are expected to commence escrow closings during 2<sup>nd</sup>-quarter 2006, and their estimated absorption schedule is for 40 homes in 2006 and then the remaining 38 homes in 2009.
- **Bridgewalk** by Standard Pacific Homes is expected to have 153 single-family detached homes with prices ranging from \$686,900 to \$728,900, an average of \$710,429, for some 1,702 to 1,961 sq.ft. of living area, an average of 1,869 sq.ft., for a value ratio of \$380.  
The homes in this project are expected to commence escrow closings during 3<sup>rd</sup>-quarter 2006, and their estimated absorption schedule is for 25 homes in 2006, 45 homes per year during 2007 and 2008, and then the remaining 38 homes in 2009.
- **Alcala** by William Lyon Homes is expected to have 83 single-family detached homes with prices ranging from \$769,900 to \$791,900, an average of \$779,454, for some 2,463 to 2,593 sq.ft. of living area, an average of 2,507 sq.ft., for a value ratio of \$311.  
The homes in this project are expected to commence escrow closings during 3<sup>rd</sup>-quarter 2006, and their estimated absorption schedule is for 25 homes in 2006, 35 homes in 2007, and then the remaining 23 homes in 2008.
- **Madeira II** by Shea Homes is expected to have 58 single-family detached homes with prices ranging from \$715,000 to \$769,000, an average of \$750,517, for some 1,785 to 2,269 sq.ft. of living area, an average of 2,059 sq.ft., for a value ratio of \$365.  
The homes in this project are expected to commence escrow closings during 1<sup>st</sup>-quarter 2007, and their estimated absorption schedule is for 40 homes in 2007 and then the remaining 18 homes in 2008.

- **Pasado** by William Lyon Homes is expected to have 89 single-family detached homes with prices ranging from \$743,000 to \$769,000, an average of \$756,685, for some 2,020 to 2,349 sq.ft. of living area, an average of 2,203 sq.ft., for a value ratio of \$344.  
The homes in this project are expected to commence escrow closings during 3<sup>rd</sup>-quarter 2007, and their estimated absorption schedule is for 15 homes in 2007, 40 homes in 2008, and then the remaining 34 homes in 2009.

#### **Single-Family Detached: \$800,000 to \$899,999**

- **Kensington Court** by Davidson Construction is expected to have 70 single-family detached homes with prices ranging from \$827,000 to \$900,000, an average of \$866,214, for some 2,660 to 3,156 sq.ft. of living area, an average of 2,914 sq.ft., for a value ratio of \$297.  
The homes in this project are expected to commence escrow closings during 2<sup>nd</sup>-quarter 2006, and their estimated absorption schedule is for 25 homes in 2006, 40 in 2007 and then the remaining 5 homes in 2008.
- **Cabrillo** by Standard Pacific Homes is expected to have 62 single-family detached homes with prices ranging from \$791,000 to \$866,000, an average of \$830,468, for some 2,420 to 3,000 sq.ft. of living area, an average of 2,743 sq.ft., for a value ratio of \$303.  
The homes in this project are expected to commence escrow closings during 4<sup>th</sup>-quarter 2006, and their estimated absorption schedule is for 10 homes in 2006, 40 homes in 2007, and then the remaining 12 homes in 2008.
- **Del Sur 9A** by Davidson Construction is expected to have 70 single-family detached homes with prices ranging from \$827,000 to \$900,000, an average of \$860,657, for some 2,660 to 3,156 sq.ft. of living area, an average of 2,877 sq.ft., for a value ratio of \$299.  
The homes in this project are expected to commence escrow closings during 1<sup>st</sup>-quarter 2008, and their estimated absorption schedule is for 40 homes in homes in 2008 and then the remaining 30 homes in 2009.

#### **Single-Family Detached: \$900,000 to \$999,999**

- **Product P-6** by Standard Pacific is expected to have 96 single-family detached homes with prices ranging from \$880,000 to \$925,000, an average of \$904,271, for some 2,825 to 3,150 sq.ft. of living area, an average of 2,998 sq.ft., for a value ratio of \$302.  
The homes in this project are expected to commence escrow closings during 2<sup>nd</sup>-quarter 2007, and their estimated absorption schedule is for 30 homes in 2007, 35 homes in 2008, and then the remaining 31 homes in 2009.
- **Product P-5** by Standard Pacific is expected to have 108 single-family detached homes with prices ranging from \$947,000 to \$1,021,000, an average of \$987,870, for some 3,000 to 3,600 sq.ft. of living area, an average of 3,331 sq.ft., for a value ratio of \$297.  
The homes in this project are expected to commence escrow closings during 2<sup>nd</sup>-quarter 2007, and their estimated absorption schedule is for 30 homes in 2007, 40 homes in 2008 and then the remaining 38 homes in 2009.

## **Single-Family Detached: Above \$1,000,000**

- **Sentinels** by Laing Luxury is expected to have 76 single-family detached homes with prices ranging from \$1,027,500 to \$1,137,500, an average of \$1,072,974, for some 2,800 to 3,250 sq.ft. of living area, an average of 3,001 sq.ft., for a value ratio of \$358. The homes in this project are expected to commence escrow closings during 2<sup>nd</sup>-quarter 2007, and their estimated absorption schedule is for 25 homes in 2007, 30 homes in 2008, and then the remaining 21 homes in 2009.

Therefore, the 1,148 attached and single-family detached homes in CFD No. 14 are expected to be absorbed (escrows closed) during Spring 2006 through 2009. The absorption rate starts at 140 homes in 2006 as six projects commence escrow closings to homeowners, increases to 408 homes in 2007 when twelve projects are on the marketplace, and then the absorption rate declines, as some of the projects are closed-out, to 358 homes in 2008 and then the remaining 242 homes in 2009.

The expected absorption schedule for the residential projects in CFD No. 14 can also be expressed as a capture rate of the expected market demand for the CFD No. 14 Market Area, the Central Coastal portion of San Diego County. Specifically, the residential capture rate reflects the percentage of the MA's demand that is fulfilled by the absorption of the homes in CFD No. 14. For the 2006-2009 time period, as a whole, the capture rate amounts to some 18.8%, on the average, and this varies from a low of 9.2% in 2009 to a high of 25.7% in 2007 when most of the projects are on the marketplace.

**The estimated absorption schedules for the residential projects in CFD No. 14 are subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by the developer, Black Mountain Ranch, LP, as well as the various builders.**

Please refer to the section following the tables and graphs of the estimated absorption schedules for the forthcoming residential products in CFD No. 14 for a discussion of the "Potential Financial Risk Factors Underlying Land Secured Financings in Southern California."

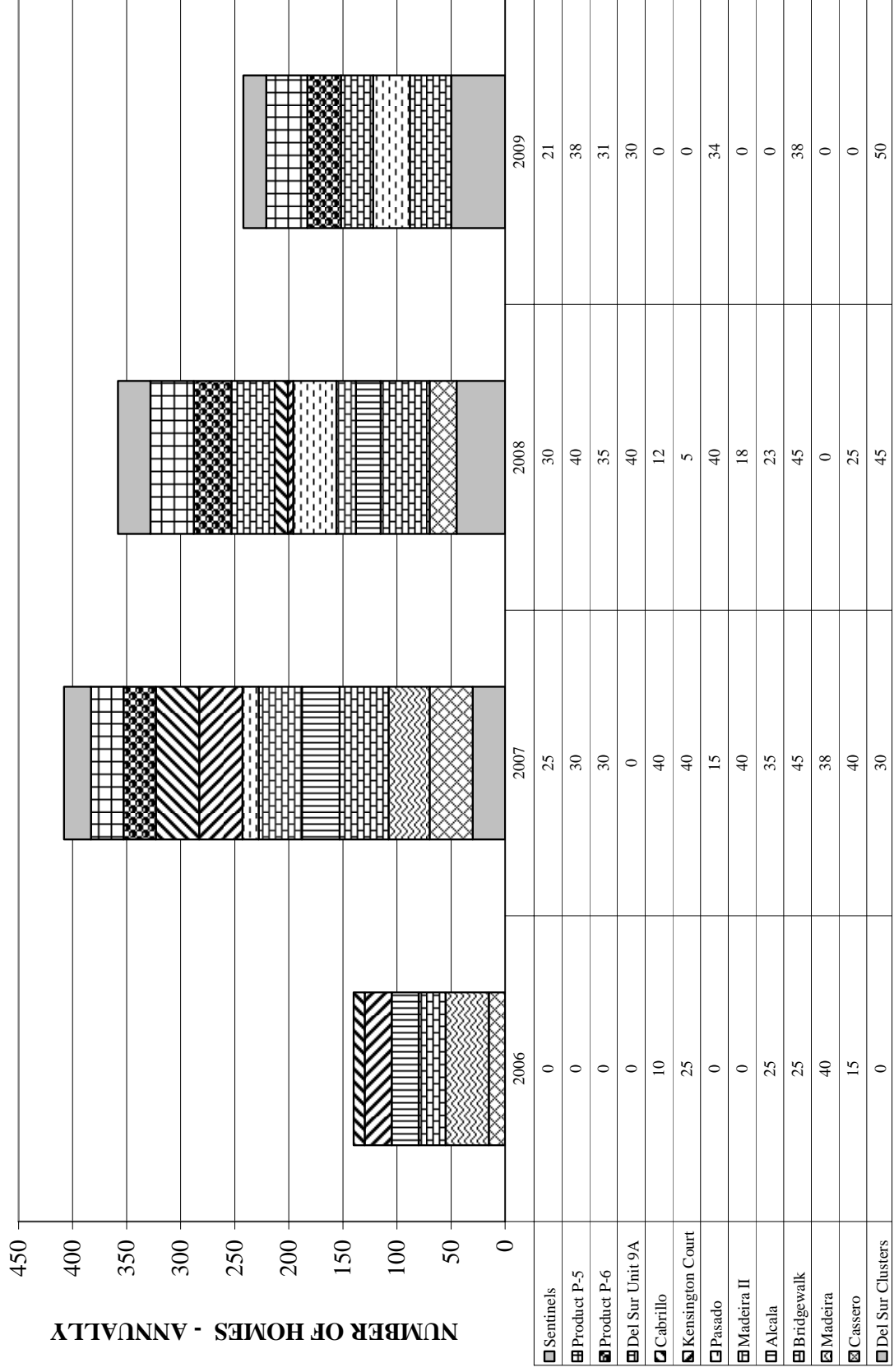
ESTIMATED ABSORPTION SCHEDULES FOR CFD NO. 14  
(DEL SUR)

. MARCH 17, 2006; SUBJECT TO REVISION .

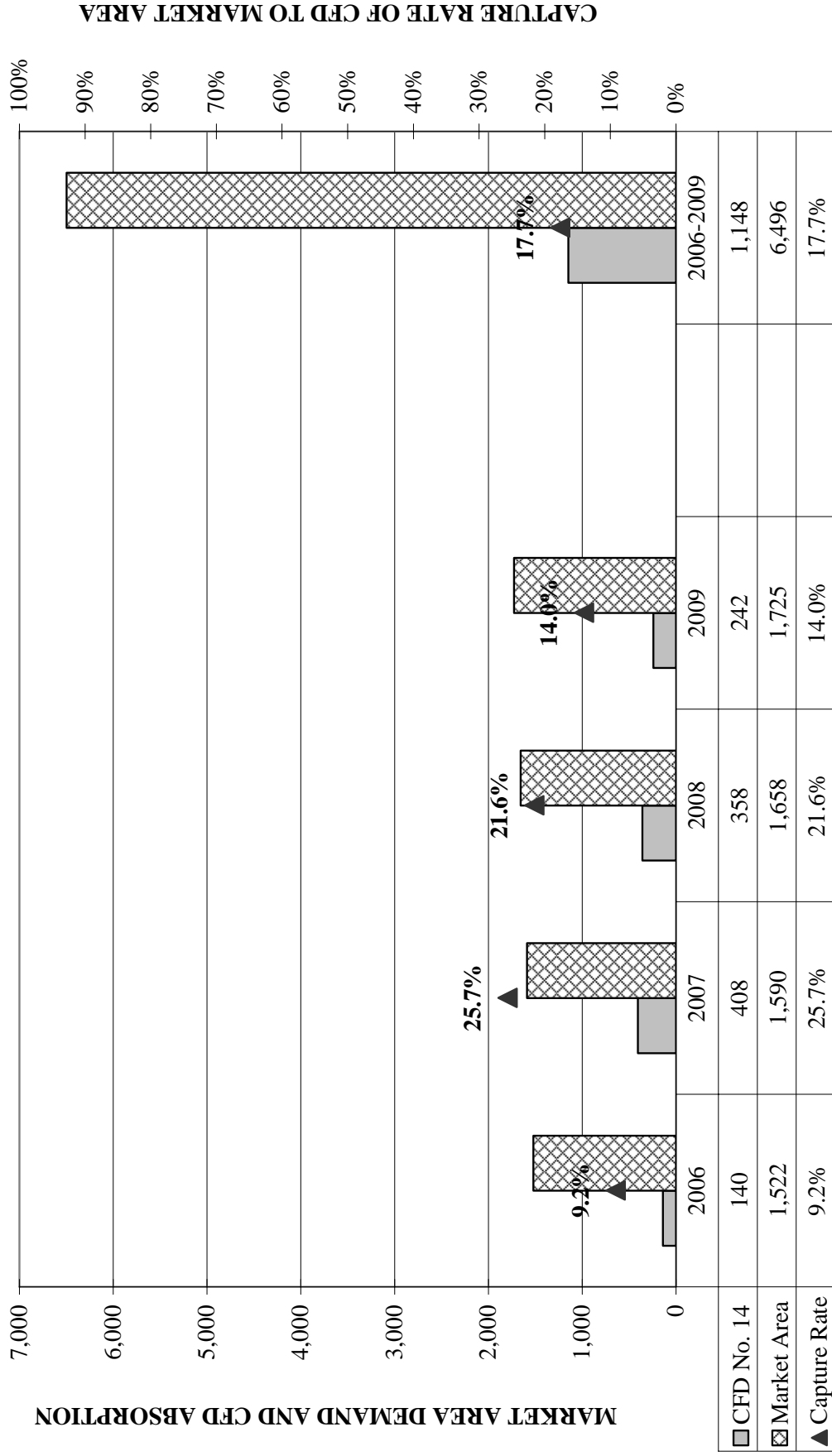
Market Segments >>>	Attached	Cassero	Madera	Bridgevok	Alcala	Madera II	Pavido	Kensington Court	Cabrillo	Del Sur Unit 9A	\$ 900,000 - 999,999	Product P-5	Above \$1,000,000	Annually	Cumulatively
Projects >>>	Del Sur Clusters										Product P-6	Product P-5	Setbacks		
Planning Areas			IC	N/A	1E & 2E	2C & 9C	10A	1A & 2A	9	9A	3 & 5	3 & 5	3 & 5		
Tract/Map			15076	15095	15093 & 15069	15149 & 15165		15093 & 15069	N/A						
Product Types	Attached	Attached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached		
Lot Sizes	N/A	N/A	3600	2450	4200	3600	3300	6027	9000	6027	7000	8000	8000		
Builders	Shea Homes	Standard Pacific Homes	Shea Homes	Standard Pacific Homes	William Lyon Homes	Shea Homes	William Lyon Homes	Davidson Construction	Standard Pacific Homes	Davidson Construction	Standard Pacific	Standard Pacific	Laing Luxury		
Number of Homes	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	
Occupied	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Future Occupancies	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	
Number of Units															
Plan # 1	12	26	23	48	23	12	26	14	20	16	30	21	17		
Plan # 2	17	27	7	54	31	7	30	6	19	6	32	26	41		
Plan # 3	35	27	21	51	29	11	33	17	23	23	34	30	18		
Plan # 4	31	4	4	8	8	8	22	22	21	21	22	31			
Plan # 5	30	23	20	153	83	20	89	11	62	4	96	108	76	1,148	
Totals	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	
Living Areas															
Plan # 1	1,613	2,079	1,785	1,702	2,463	1,785	2,020	2,660	2,420	2,660	2,825	3,000	2,800		
Plan # 2	1,800	2,424	1,939	1,920	2,440	1,939	2,200	2,766	2,772	2,766	3,000	3,200	2,975		
Plan # 3	1,842	2,569	2,000	1,961	2,593	2,000	2,349	2,861	3,000	2,861	3,150	3,400	3,250		
Plan # 4	2,192	2,131	2,131	2,131	2,131	2,131	2,269	3,037	3,037	3,037	3,600	3,600			
Plan # 5	2,298	2,269	2,269	2,269	2,269	2,269	2,269	3,156	2,743	3,156	2,998	3,331	3,001	2,490	
Averages	2,013	2,361	2,017	1,869	2,507	2,059	2,203	2,914	2,743	2,877	2,998	3,331	3,001	2,490	
Prices - Estimated															
Plan # 1	\$390,000	\$760,000	\$715,000	\$686,900	\$769,900	\$715,000	\$745,000	\$827,000	\$791,000	\$827,000	\$880,000	\$947,000	\$1,027,500		
Plan # 2	\$590,000	\$794,000	\$737,000	\$713,900	\$774,900	\$737,000	\$755,000	\$853,000	\$829,000	\$853,000	\$905,000	\$972,000	\$1,065,500		
Plan # 3	\$635,000	\$819,000	\$745,000	\$728,900	\$791,900	\$745,000	\$769,000	\$857,000	\$866,000	\$857,000	\$925,000	\$996,000	\$1,137,500		
Plan # 4	\$675,000	\$777,000	\$777,000	\$777,000	\$777,000	\$777,000	\$777,000	\$885,000	\$885,000	\$885,000	\$900,000	\$1,021,000			
Plan # 5	\$690,000	\$789,000	\$789,000	\$789,000	\$789,000	\$789,000	\$789,000	\$866,214	\$830,468	\$866,214	\$904,271	\$987,870	\$1,072,974	\$814,109	
Averages	\$648,808	\$791,388	\$750,051	\$710,429	\$779,454	\$750,517	\$756,685	\$866,214	\$830,468	\$866,214	\$904,271	\$987,870	\$1,072,974	\$814,109	
Value Ratio: Price/Living Area	\$322	\$335	\$372	\$380	\$311	\$365	\$344	\$297	\$303	\$299	\$302	\$297	\$358	\$327	
Homeowners Commence Occupancies	2nd-2007	4th-2006	2nd-2006	3rd-2006	3rd-2006	1st-2007	3rd-2007	2nd-2006	4th-2006	1st-2008	2nd-2007	2nd-2007	2nd-2007		
Absorption/Occupancies															
2006	0	15	40	25	25	0	0	25	10	0	0	0	0	140	
2007	30	40	38	45	36	40	15	40	40	0	30	30	25	408	548
2008	45	25	0	45	23	18	40	5	40	0	35	40	30	558	906
2009	50	0	0	38	0	0	34	0	0	30	31	38	21	242	1,148
2010	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,148
Totals	125	80	78	153	83	58	89	70	62	70	96	108	76	1,148	



## CFD NO. 14 (DEL SUR) ESTIMATED ABSORPTION SCHEDULES



**CFD NO. 14 (DEL SUR)  
ABSORPTION SCHEDULE AS WELL AS THE CAPTURE RATE**



## **POTENTIAL “FINANCIAL” RISK FACTORS UNDERLYING THE CREDIT QUALITY AND BOND SIZING FOR LAND SECURED FINANCINGS IN SOUTHERN CALIFORNIA**

There has recently been a substantial amount of discussion on the potential for a housing market bubble, including remarks of “froth in some local markets” by the former Federal Reserve Board Chairman, Alan Greenspan, based primarily upon the use of exotic mortgage structures; these remarks have dealt with the housing market on a national as well as a regional level. However, developing Planned Communities have characteristics that differentiate them from broader markets: they represent the marketing of new homes to purchasers at current prices that exclusively utilize current mortgage rates and financing structures, and they are also concentrated in particular geographical locations.

The purpose of this section is to focus specifically on the potential implications of the recent use of adjustable rate and creative financing techniques that are presently available for home purchasers on the credit quality underlying land-secured financings in Southern California.

*There has been a fundamental shift in the driving force underlying the recent rates of housing price appreciation, from the historical role of employment growth as the driving force to the recent role of adjustable rate and creative financing techniques as the driving force. These financial factors have been the primary driving force underling the extraordinary rate of housing price appreciation in Southern California of more than 75% since January 2002. Consequently the current levels of housing prices and land values are subject to potentially substantial downward adjustments, due to mortgage rate resets (as mortgages are adjusted from teaser rates to market rates) as well as higher short-term rates (due to rate hikes by the Federal Reserve Board). These adjustments, in turn, may cause a softening in housing prices and land values that could adversely impact the credit quality underlying land-secured financings.*

Creative financing refers to the use of loan structures other than fixed-rate or 1 year adjustable, including the following: interest only, payment option loans as well as initial teaser rates (below market rates that are offered only for a limited time period) with very low initial payments that result in negative amortizations (higher principal balance), less stringent lending standards such as low/no documentation, and much higher mortgage payment to income ratios, among others.

### **Structural Shift of Factors Underlying Housing Price Appreciation**

Since January 2002 there has been a fundamental shift in the primary factor underlying housing price appreciation in Southern California; the primary driving force was initially declining mortgage rates as well as the extensive use of adjustable and creative financing as compared to the traditional driving force of strong employment growth.

Specifically, the term “driving force” is utilized herein to refer to a SIGNIFICANT CHANGE in a major economic/financial factor that has STRONG DISCERNIBLE IMPACT on housing prices.

- **January 2002 through June 2003:** The rates on fixed 30-year mortgage loans declined to recent historic lows in June 2003, and were a driving force underlying the rate of housing price appreciation of some 13.4% on an annualized basis; however, since June 2003, fixed rate mortgages have been ABOVE their recent historic lows.
- **July 2003 to March 2004:** As fixed mortgage rates rose, purchasers shifted to adjustable rate mortgages which offered significantly lower rates, and these were a driving force underlying the rate of housing price appreciation of some 18.8% on an annualized basis; however, since March 2004, adjustable rates have been ABOVE their recent historic lows.
- **April 2004 – Presently:** As adjustable mortgage rates rose due to the Federal Reserve Board increasing the federal funds rate, home buyers shifted to various types of creative financial structures, and these were a driving force underlying the rate of housing price appreciation of some 24.1% on an annualized basis; however, since Fall-2005, some lenders have started to tighten their qualification standards.

### **Potential Adjustments for Mortgage Payments**

The extensive use of adjustable rate mortgages and also creative mortgage structures since June 2003 means that such homeowners have monthly mortgage payments which are subject to significant upward adjustments due to automatic mortgage rate resets as well as potentially higher interest rates:

- **Mortgage Resets (Stable Mortgage Rates)** reflect the changes in mortgage payments that households with adjustable and creative mortgage structures will incur as the initial “teaser” rates are realigned with the current “market” rates. The dollar volume of mortgages subject to resets for the United States mortgage market is expected to increase from \$83 billion in 2005 to more than \$1 trillion in 2007.
- **Higher Mortgage Rates** would result in even higher monthly payments for homeowners with adjustable rate mortgages as well as creative mortgage structures; the increase in their mortgage payments depends upon the degree to which short-term rates rise.

The recent use of adjustable rate and creative financing techniques by home purchasers is especially significant for residential land secured financings, since these financings are predominately for developing Planned Communities that represent the marketing of new homes to purchasers at current prices that exclusively utilize current mortgage rates and financing structures and they are also concentrated in particular geographical locations.

### **Specific Impacts of Rate Resets and Higher Mortgage Rates on the Land Secured Credit Quality**

To the extent that mortgage payments rise due to various possible combinations of automatic mortgage rate resets as well as potentially higher short-term rates that directly impact adjustable rate and creative mortgages, then the credit quality underlying recent land-secured financings may be diminished in the following ways:

- **Lower housing prices** resulting in a higher Special Tax to Housing Price Burden for homeowners, possibly in excess of the Issuer’s policy of a maximum total tax burden, typically some 1.8% to 2.0% of the initial sales prices, even though these maximums may have been satisfied at the time that the Special Taxes were established.
- **Significantly lower land values** resulting in a reduced Value/Lien ratio, possibly below the Issuer’s policy of typically some 3 to 1 or 4 to 1 when the bonds are sold, thereby diminishing the security for bond holders.  
 (The Appraisal for the Bond Issue is valid only for the stated Date of Value; it is not meant to be a prediction of future values.)
- **Higher levels of Special Tax delinquencies** as monthly payments of owners increase resulting in diminishing the maximum Special Tax to the bond debt service coverage ratios for bond holders that may adversely impact the Issuer’s ability to meet the debt service payments in a timely manner, possibly resulting in the use of the bond reserve fund. Adjustable rate mortgages (some 79% of current mortgages) have significantly higher delinquency rates than fixed rate mortgages; additionally, homeowners that use adjustable rate mortgages also have higher loan to value ratios as well, some 90% as compared to homeowners with fixed rate loans, some 81%.

Accordingly, in arriving at these conclusions, this section systematically discusses the following:

1. Recent Shift in the Primary Factors Underling Housing Price Appreciation
2. Financial Factors “Driving” Recent Housing Price Appreciation
3. Mortgage Rate Resets: Realignment of Adjustable/Creative Loans to Market Rates
4. Mortgage Rate Increases: Potential for Further Federal Reserve Board Rate Hikes
5. Specific Impacts of Higher Mortgage Rates on the Land-Secured Credit Quality

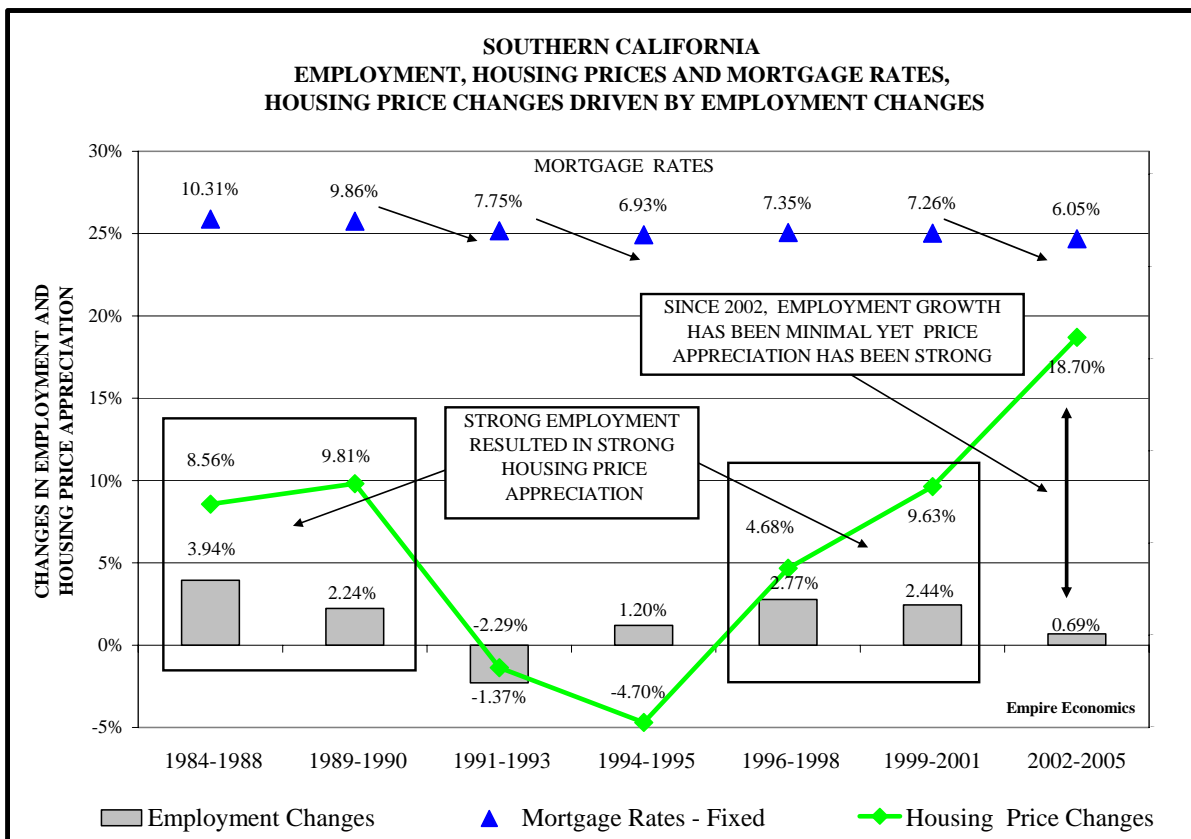
This section should **not** be construed as a forecast that mortgage rates will rise significantly in the foreseeable future; rather, it sets forth the **POTENTIAL** risk factors that mortgage rate resets as well as higher mortgage rates along with the near-term policy of the Federal Reserve Board would have on the credit quality underlying land-secured financings. Empire Economics acknowledges that financial markets, due to their high degree of economic efficiency and complexity, are difficult to forecast, and, as such, the use of the term “Potential” Risk Factor is regarded as being appropriate.

## 1. Recent Shift in the Primary Factors Underlying Housing Price Appreciation

The primary factors underlying housing price appreciation in Southern California since January 2002, declining mortgage rates as well as the extensive use of adjustable and creative financing, represent a fundamental shift from the traditional factor, employment growth.

Specifically, the term “driving force” is utilized herein to refer to a SIGNIFICANT CHANGE in a major economic/financial factor that has STRONG DISCERNIBLE IMPACT on housing prices.

- During 1984-2001 housing price appreciation was driven by employment growth, along with accommodating financial factors, such as stable or somewhat declining mortgage rates. During this time period financial factors played only a secondary role: for instance, during 1991-1993 when employment decreased, housing prices declined, even though mortgage rates fell by more than two percentage points from their 1989-1990 levels.
- However, since January 2002, as housing prices escalated at strong rates, the primary fundamental factor, employment growth, has experienced only minimal growth, less than 1% per year, on the average. Instead, housing price appreciation has been driven primarily by financial factors, particularly the use of adjustable rate mortgages and creative financing techniques.



Sources: Empire Economics, Employment Development Department, Freddie Mac & Office of Federal Housing

During 2002 to 2005 financial factors have been the strong driving force underlying the rates of housing price appreciation. Specifically, the rates of housing price appreciation have been generally similar among all of the Southern California counties, despite their differences in geographic location, employment growth and housing supply.

- The rates of employment growth for the counties varied substantially during 2002 to 2005, from a low of -1.15% per year for Los Angeles County to a high of 4.60% per year for Riverside-San Bernardino counties.
- The supply of new housing has also exhibited a wide variation during 2002 to 2005 as compared to 1999-2001, from declines of -26% in Ventura County and -14% in Orange County to increases of 80% in Riverside-San Bernardino counties.

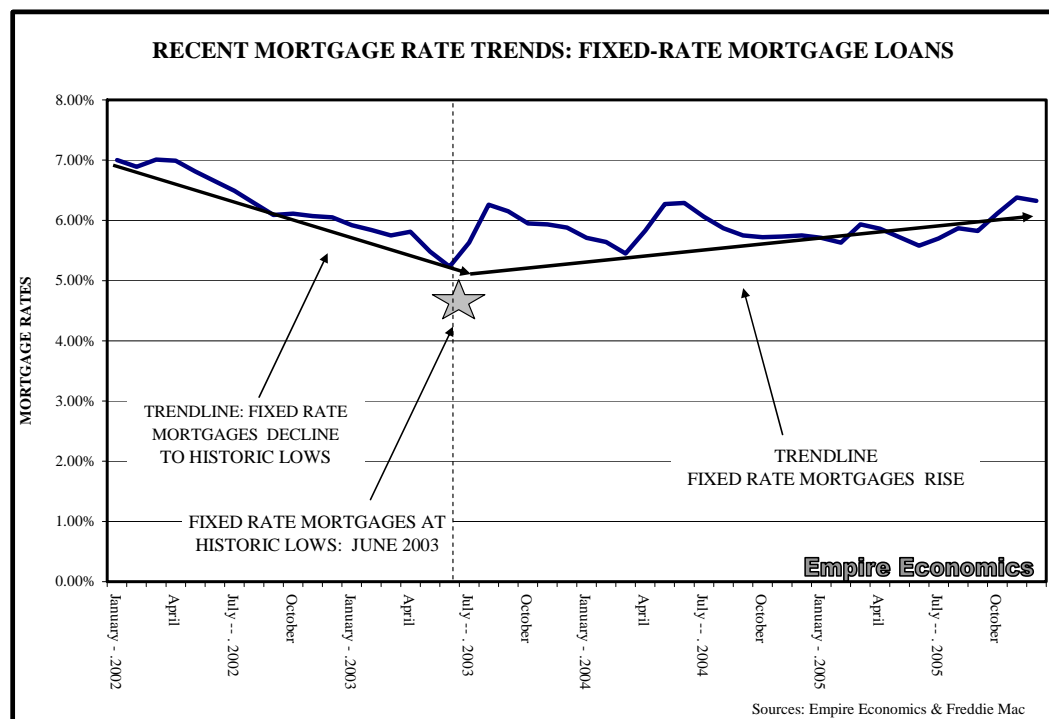
Therefore, the financial factors have been so strong that they have effectively overshadowed other possible explanatory factors such as geographical location, employment growth and housing supply.

## **2. Financial Factors “Driving” Recent Housing Price Appreciation in Southern California**

The particular factors that have been the driving forces underlying recent strong rates of housing price appreciation in Southern California during January 2002 through 2005 are now discussed. Specifically, the factors which have driven housing prices since January 2002 started with fixed mortgage rates declining to recent historic lows, then a shift to adjustable rate mortgages, and, most recently, a shift to “creative” mortgage structures.

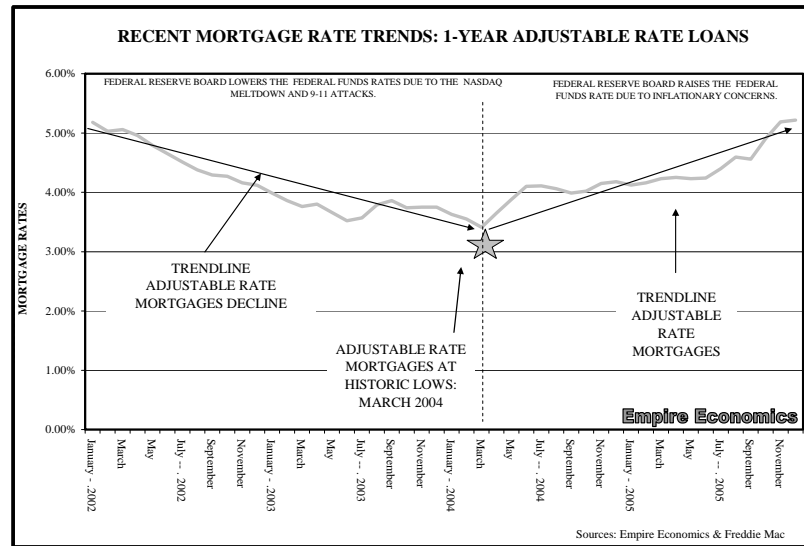
### **January 2002 to June 2003: Prices Driven by Declining Fixed Rates; Fixed Rates Now Higher**

- Fixed-rate 30-year mortgage loans declined from 7.00% in January 2002 to a low of 5.23% in June 2003, and were a driving force underlying the rate of housing price appreciation of some 13.4% on an annualized basis.
- Since June 2003, rates on fixed rate mortgages have been ABOVE their recent historic lows and, as such, they are no longer considered to be a driving force underlying housing price appreciation.

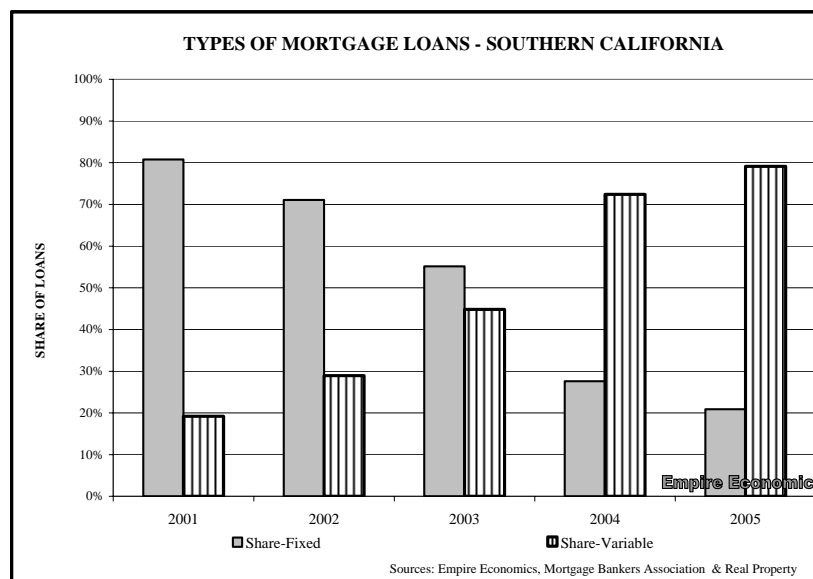


## July 2003 to March 2004: Prices Driven by Adjustable Rate Loans; Adjustable Rates Higher

- Starting in July 2003, as rates on fixed rate mortgages rose, households shifted to adjustable rate mortgages which offered favorable terms, due to the Federal Reserve Board maintaining a low federal funds rate, and these attained a recent historic low of 3.41%. During the July 2003 to March 2004 time period, adjustable rates were significantly below fixed rates of by some 215 basis points. The use of adjustable rates were a driving force underlying the rate of housing price appreciation of some 18.8% on an annualized basis.
- Since March 2004, the rates on adjustable rate mortgages have been ABOVE their recent historic lows, and, as such, they are no longer considered to be a driving force underlying housing price appreciation.

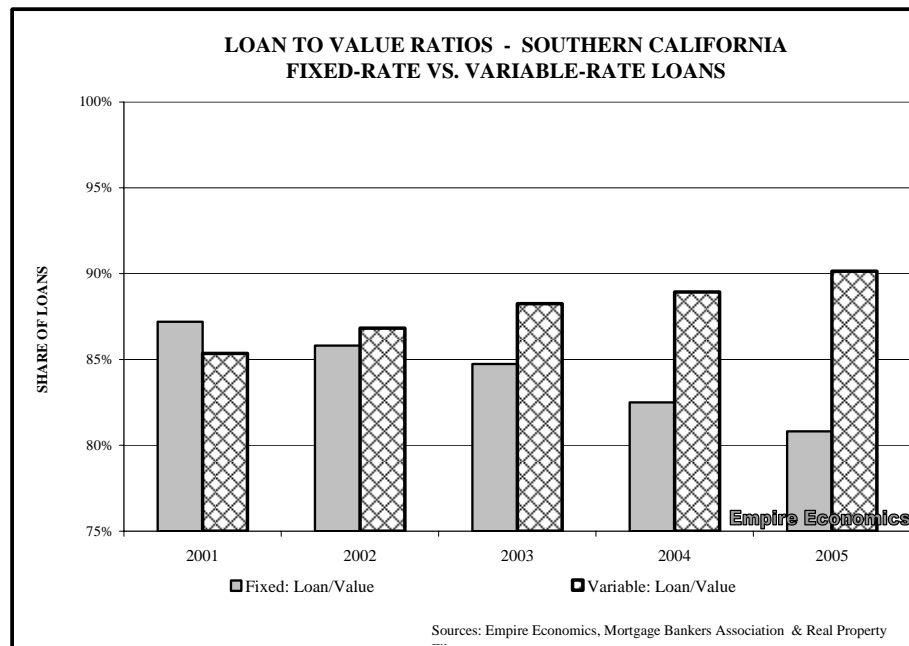


- For Southern California, the percentage of adjustable rate loans has risen dramatically, from 19% in 2001 to 79% during 2005; conversely, fixed rate loans have decreased from 81% in 2001 to only 21% in 2005. Additionally, each of the Southern California counties exhibited a similar pattern in the shift from fixed-rate to adjustable rate mortgages as well.





- Furthermore, for Southern California, the ratio of the mortgage loans (first and seconds) to the housing purchase prices during 2001 to 2005 has risen for homeowners with adjustable rate mortgages as compared to homeowners with fixed-rate loans. For homeowners with adjustable rate loans, the ratio of their loans to the purchase price of the homes has risen from 85% in 2001 to 90% in 2005, a gain of five percentage points. While for homeowners with fixed-rate mortgages the ratio of their loans to the purchase price of their homes has declined from 87% in 2001 to 81% in 2005, a decrease of six percentage points. So, homeowners with adjustable rate mortgages have substantially higher amounts of mortgage debt (90%) as compared to homeowners with fixed rate mortgages (81%).

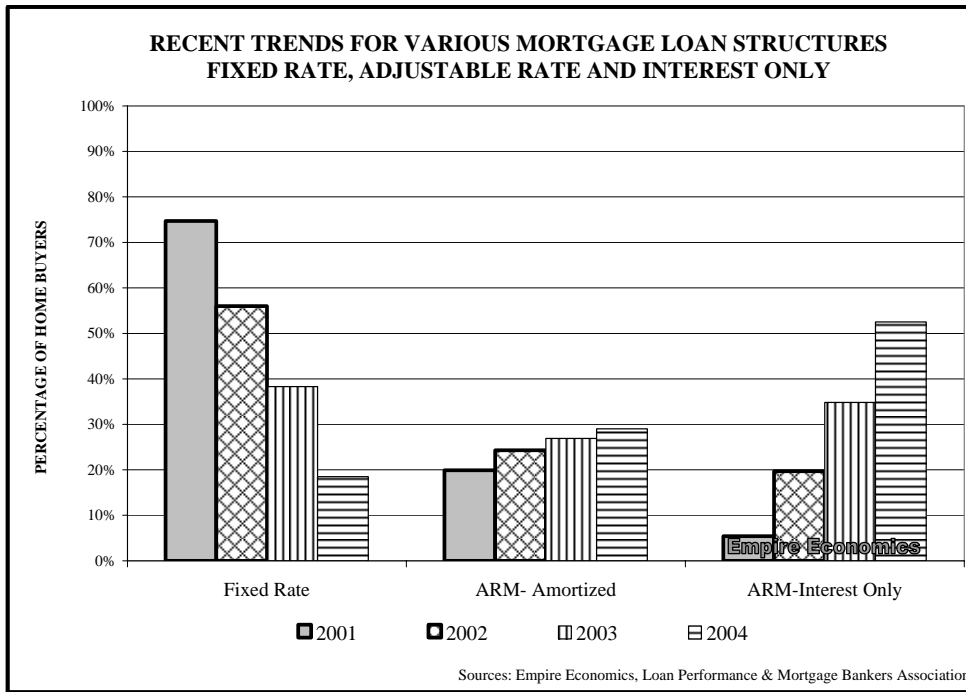


#### **April 2004 to Present: Prices Driven by Shifting to Creative Loan Structures:**

- Since April 2004, as adjustable rates rose due to the Federal Reserve Board increasing the federal funds rate, home buyers shifted to various types of creative financial structures. These have been the driving force underlying the rate of housing price appreciation of some 24.1% on an annualized basis.

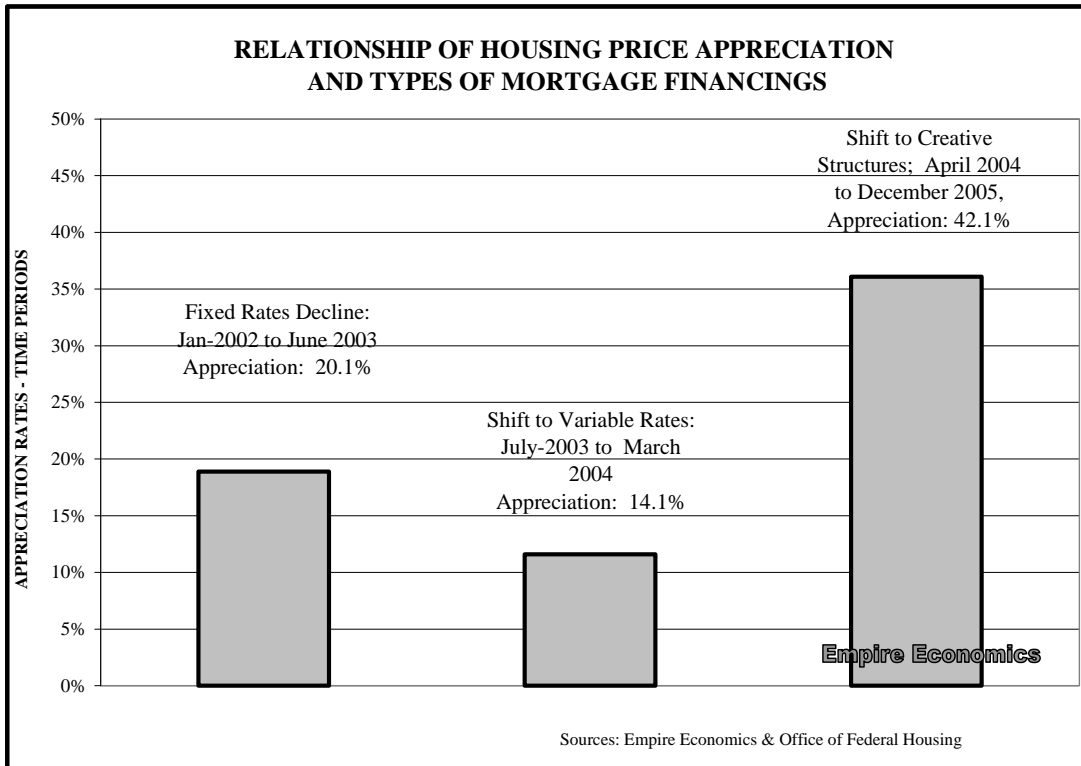
Creative financing refers to the use of loan structures other than fixed-rate or 1 year adjustable, including the following: interest only, payment option loans as well as initial teaser rates such as 1% for the first year that results in negative amortizations (higher principal balance), less stringent lending standards such as low/no documentation, and much higher mortgage payment to income ratios, among others.

During the 2001 to 2004 time period, for the United States as a whole, there has been a dramatic shift from fixed rate to adjustable rate loans: fixed rate mortgage loans declined from 75% in 2001 to only 19% in 2004. Adjustable rates that were amortized (interest and principal) rose from 20% to 29% while adjustable rates that are interest only (no reduction of principal) rose dramatically, from 5% in 2001 to 53% in 2004.



### Conclusions

In conclusion, since January 2002, the primary driving force underlying housing price appreciation has been households initially taking advantage of recent historically low fixed rates through June 2003, then a shift to adjustable rate mortgages through March 2004, and finally, since then, the use of creative financing structures. Specifically, for the same monthly mortgage payment, the use of lower mortgage rates and creative mortgage structures has bolstered housing prices substantially since January 2002.



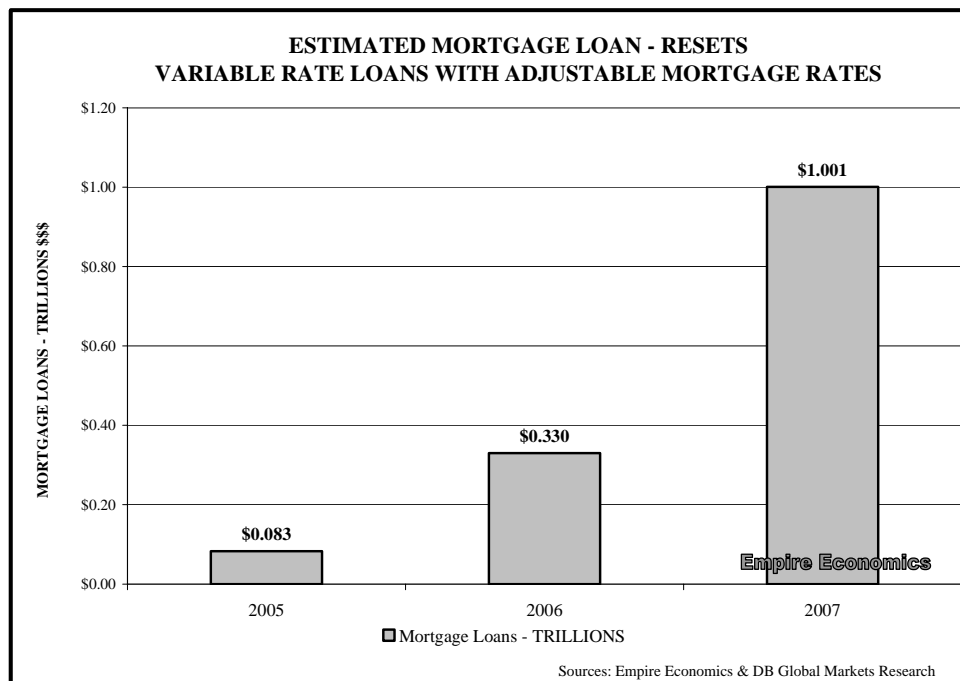
### 3. Mortgage Rate Resets: Realignment of Adjustable/Creative Loans to Market Rates

There may be some softness in housing prices and land values even if mortgage rates remain stable during the foreseeable future, as households with various types of “adjustable rate” and “creative” debt structures have their initial teaser rates realigned to the current market rates.

The resets are expected to generally result in higher monthly payments for homeowners since both the fixed as well as adjustable rate loans attained their recent historical lows in June 2003 and March 2004, respectively, and, since then, these rates have moved upwards:

- **Fixed Rate Loans** were recently at some 6.32%, some 109 basis points above their recent historic low.
- **Adjustable Rate Loans** were recently at some 5.22%, some 181 basis points above their recent historic lows.

With regard to the amount of mortgages that are subject to such resets, based upon data for the United States mortgage market as a whole, these are expected to rise dramatically, from some \$0.83 billion in 2005 to more that \$1.0 trillion in 2007.



The specific types of resets that may occur for adjustable rate and creative loan structures as rates are realigned with the marketplace are as follows:

- **Adjustable Rate Mortgages** are expected to have upward reset adjustments to their monthly payments as a result of the Federal Reserve Board’s policy since June 2004 which has caused the short end of the yield curve to rise significantly. The one-year adjustable loans, which were at their recent historic lows in March 2004, have started to have higher monthly payments, and such loans are now some 181 basis points above their cyclical lows.

For instance, a household that entered into an adjustable rate loan in March 2004 with a rate of 3.41% would encounter an approximate adjustment in March 2005 to a rate of 4.23%. This represents an increase of some 82 basis points which results in the household's mortgage payment rising by some 24%. So, for a household with a monthly mortgage payment of some \$2,000 per month, their payment would increase to some \$2,480 per month.

- **Creative Mortgage Structures** will undergo reset adjustments over time as the starter teaser rates are adjusted to their market rates. Since creative mortgages are typically based upon short-term rates and also have further adjustments due to teaser rates, then the mortgage payments of such households may rise by much more than for adjustable rate mortgages.

So, households with adjustable and creative mortgage structures will encounter higher mortgage payments as their initial teaser rates are realigned to the market rates which have significantly higher mortgage payments due to the recent hikes of the federal funds rate by the Federal Reserve Board.

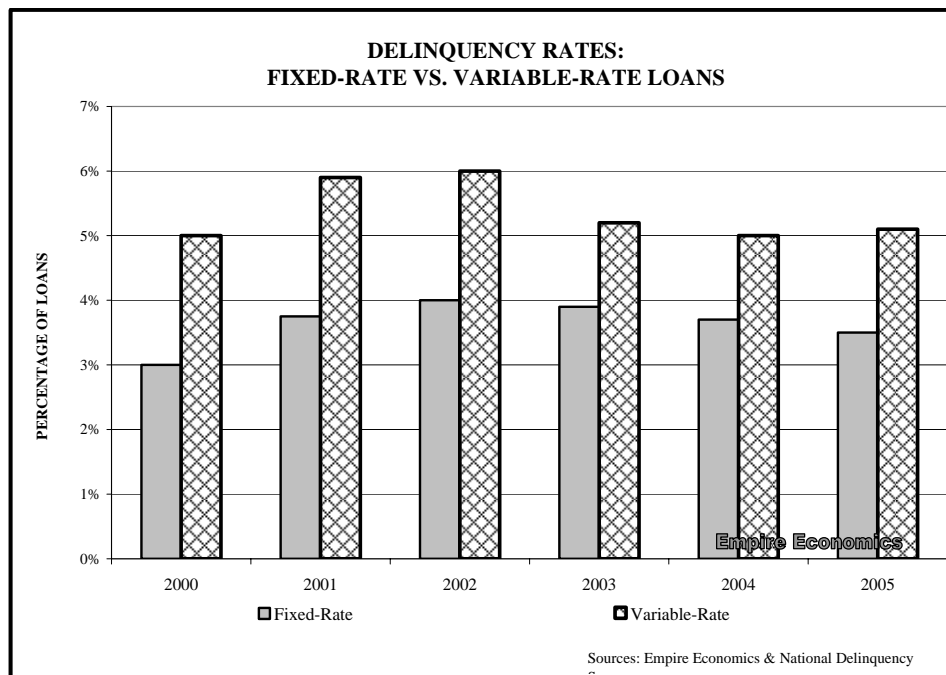
For example, the types of adjustments that may occur for various loan structures can be gauged by comparing their initial payments with their payments at the start of year six, after the five year time span during which rates are fixed at a low level; accordingly, these adjustments for various interest rate scenarios are as follows:

<b>Mortgage Loan of \$500,000</b>	<b>Fixed Rate</b>	<b>Hybrid ARM</b>	<b>Option ARM</b>
	<b>30- Year</b>	<b>Interest Only</b>	<b>Initial Min. Pymts.</b>
<b>Initial Payments - First Five Years</b>	\$2,998	\$2,553	\$1,608
	(Interest & Principal)	(Interest Only)	(Minimum Payments)
			(Negative Amortization)
<b>Rates Decline 100 BP</b>			
Payment: Start of Sixth-Yr.	\$2,998	\$2,960	\$3,289
Change from Initial Pymt.	0%	16%	105%
<b>Rates Stable</b>			
Payment: Start of Sixth-Yr.	\$2,998	\$3,260	\$3,575
Change from Initial Pymt.	0%	28%	122%
<b>Rates Rise 100 BP</b>			
Payment: Start of Sixth-Yr.	\$2,998	\$3,513	\$3,928
Change from Initial Pymt.	0%	38%	144%

- Homeowners with fixed rate mortgages can expect stable mortgage payments of some \$2,998 per year for the entire term of the loan of 30 years, regardless of what happens to mortgage rates after they originate their loans.
- Homeowners with Hybrid ARM Interest Only Loans have lower payments for the initial five years but can then expect higher mortgage payments starting in year six: from \$2,553 to \$3,260 (+28%) if rates are stable or, if rates rise by 100 basis points (one percent), from \$2,553 to \$3,513 (+38%).
- Homeowners with Option ARMs that initially make minimum payments (negative amortization) of some \$1,608 can expect very significant increases in their monthly payments at the start of year six: from the initial payment of \$1,608 to \$3,575 (+122%) if rates are stable, or if rates rise by 100 basis points, from \$1,608 to \$3,928 (+144%).

Additionally, the mortgage delinquency levels for homeowners with adjustable and creative mortgages have traditionally been significantly higher than for homeowners with fixed rate loans. This is typically attributed to homeowners with adjustable rate loans having difficulty with higher mortgage payments as rates rise as well as such households having “low” equity levels (due to higher loan to price ratios as well as negative amortization), and hence less of an incentive to “hold-on” to the home, especially if the rate of appreciation diminishes.

During the 2000-2005 time period, the 5.4% delinquency rate for adjustable rate loans has been above the 3.6% delinquency rate for fixed rate loans by some 50% (5.4% vs. 3.6%).



#### **4. Mortgage Rate Increases: Potential for Further Federal Reserve Board Rate Hikes**

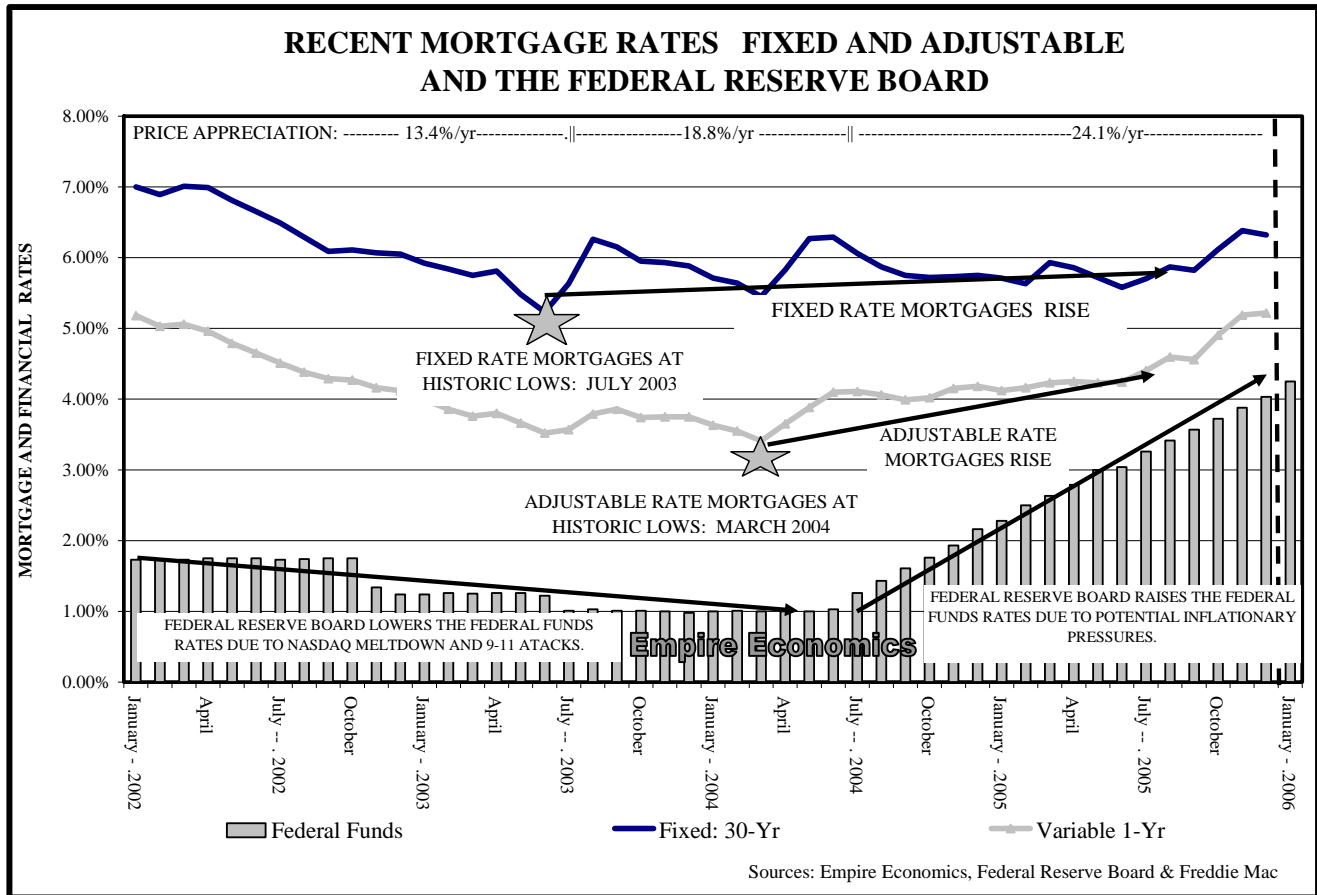
Since the financial markets, being very efficient, are difficult to forecast, especially mid-term and long-term rates, it is not the position of Empire Economics to forecast that mortgage rates will rise. Nevertheless, it is worthwhile to explore the potential implications of the Federal Reserve Board continuing its current policy of increasing the federal funds rate, since this directly impacts the short-end of the yield curve, and, in turn, adjustable rate mortgage rates as well as the creative mortgage structures.

The Federal Reserve Board, according to some analysts, is expected to raise the federal funds rate to some 4.75%, significantly above its prior level of 1.0% in June 2004; the federal funds rate is presently at 4.50%. Consequently, the primary driving forces underlying the strong rates of housing price appreciation, adjustable rates and creative financing structures, will diminish substantially over time.

(Note: Since the recent fixed rate of some 6.32% is some 110 basis points above the recent one-year adjustable rate of 5.22%, even a moderate decline in fixed rates would not become a driving force for further price appreciation because they are significantly higher than adjustable rates.)

Therefore, further increases in the federal funds rate will result in the short-term rates rising, and this, in turn, will cause the following:

- **Existing Borrowers** would have higher monthly payments as adjustable rate mortgages rise and creative teaser rates are realigned to HIGHER market rates, as compared to the current market rates.
- **New Borrowers** would face HIGHER rates, reducing their ability to qualify for loans that support existing prices, thereby placing downward pressure on home prices.



### 5. Specific Impacts of Higher Mortgage Rates on the Land-Secured Credit Quality

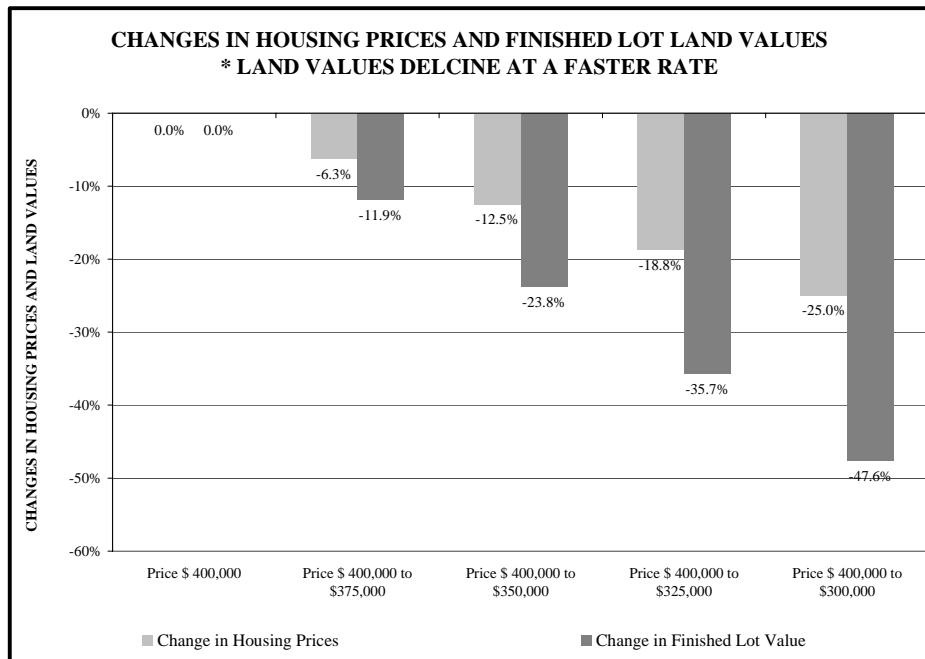
The widespread use of adjustable rate and creative financing for newly developing residential projects has significant implications for the Credit Quality underlying Land Secured Financing:

- **Special Tax Rates** set-forth in the Rate and Method of Apportionment of Special Taxes are based upon current housing prices which have recently realized strong rates of appreciation as a result of the utilization of adjustable and creative financing techniques by home purchasers.

**Appraisals** are based upon current land values, which, in turn, are derived from current housing prices, that have appreciated at a strong rate in recent years, and so they also reflect the use of adjustable and creative financing techniques. Furthermore, since the value of the land is a residual value, that is, the price of the home less the construction costs of building the home, most of the decline in the price of a home is passed through to the land, since construction costs are relatively stable in the short-run.

For example, if a home with an initial price of \$400,000 declines to \$350,000, a reduction of some -\$50,000 or -12.5%, the value of the finished lot for the same sized home declines from \$149,000 to \$113,600, a reduction of -\$35,400 or -23.8%. Similarly, a decline in the price of a home by 25% results in a reduction of the value of a finished lot for the same sized home by some 48%!

(Note: The above discussion focuses on the value of a finished lot which includes entitlements and infrastructure improvements; by comparison, the value of “raw” land, land without any entitlements or infrastructure improvements, may approach zero.)



**Therefore, the Credit Quality underlying Land Secured Financings reflects the use of current prices and land values, and, as such, includes, among other factors, the underlying use of adjustable and creative loan structures by homeowners.**

Consequently, should mortgage rates rise significantly, the Credit Quality of the land secured bonds is subject to substantial weakening due to the following:

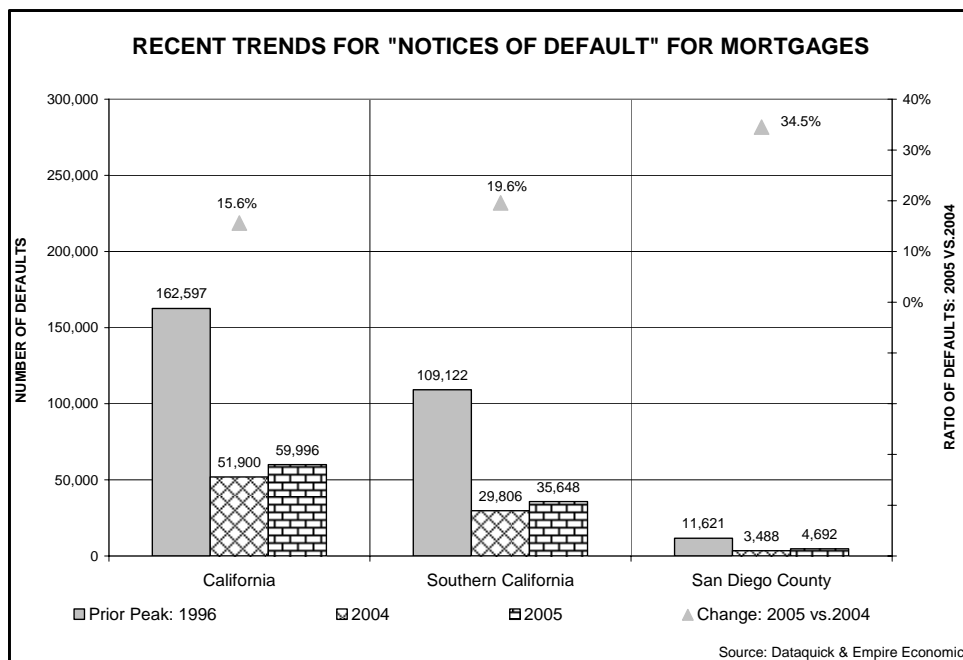
- **Lower housing prices** resulting in a higher Special Tax to Home Price Burden for homeowners, possibly in excess of the Issuer’s policy of a maximum total tax burden, typically some 1.8% to 2.0% of the initial sales prices, even though these maximums may have been satisfied at the time that the Special Taxes were established.

- **Significantly lower land values** resulting in a reduced Value/Lien ratio, possibly below the Issuer’s policy of typically some 3 to 1 or 4 to 1 when the bonds are sold, thereby diminishing the security for bond holders.  
(The Appraisal for the Bond Issue is valid only for the stated Date of Value; it is not meant to be a prediction of future values.)
- **Higher levels of Special Tax delinquencies** as monthly payments of owners increase resulting in diminishing the maximum Special Tax to the bond debt service coverage ratios for bond holders that may adversely impact the Issuer’s ability to meet the debt service payments in a timely manner, possibly resulting in the use of the bond reserve fund. Adjustable rate mortgages (some 79% of current mortgages) have significantly higher delinquency rates than fixed rate mortgages; additionally, homeowners that use adjustable rate mortgages also have higher loan to value ratios as well, some 90% as compared to homeowners with fixed rate loans, some 81%.

Therefore, as mortgage rate resets occur to the current market rates, and furthermore, to the extent that mortgage rates rise further, then the Credit Quality for Land Secured financing may be diminished, resulting in **Higher Tax Burdens** due to lower housing prices, **Lower Value/Lien Ratios** due to lower land values, and **Higher Special Tax Delinquencies** due to higher monthly mortgage payments.

### 6. Recent Trends/Patterns for “Notices of Default” for Mortgages

A “leading” indicator of higher Special Tax delinquency rates may be “notices of default” (NOD) that are recorded against homes that are not making their mortgage payments on a timely basis. The NOD hit a prior peak in 1996, due to the adverse impacts that the economic recession had on the housing market, and then declined thereafter. However, for 2005 as compared to 2004, the level of NODs began to rise, by some 15.6% for California, 19.6% for Southern California and 34.5 for San Diego County. So, although the number of NODs is well below the prior peak levels of 1996, the recent patterns of increases should be monitored carefully.





## ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No. 14 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property  
Property Boundaries  
Accuracy of Information from Others  
Date of Study  
Hidden or Unapparent Conditions  
Opinions of a Legal/Specialized Nature  
Right of Publication of Report  
Soil and Geological Studies  
Earthquakes and Seismic Hazards  
Testimony or Court Attendance  
Maps and Exhibits  
Environmental and Other Regulations  
Required Permits and Other Governmental Authority  
Liability of Market Analyst  
Presence and Impact of Hazardous Material  
Structural Deficiencies of Improvements  
Presence of Asbestos  
Acreage of Property  
Designated Economic Scenario  
Provision of the Infrastructure; Role of Coordinator  
Developer/Builders Responsiveness to Market Conditions  
Financial Strength of the Project Developer/Builder  
Market Absorption Study Timeliness of Results

For additional information on the various assumptions and limiting conditions, please refer to the comprehensive Market Absorption Study.

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**APPENDIX E**

**SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURES**

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## **SUMMARY OF CERTAIN PROVISIONS OF THE CFD BOND INDENTURE RELATED TO THE 2006 CFD BONDS**

The following summary discussion of selected provisions of the CFD Bond Indenture is made subject to all of the provisions of such document. This summary discussion does not purport to be a complete statement of such provisions and prospective purchasers of the 2006 CFD Bonds are referred to the complete text of the CFD Bond Indenture, copies of which are available upon request sent to the Fiscal Agent. As used in this summary, the term "Bonds" refers to the 2006 CFD Bonds and the term "Indenture" refers to the 2006 CFD Bonds.

### *Definitions*

"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 Expenses" means the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the 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 the arbitrage rebate requirements; 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 the Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Special Tax; and the costs of any credit enhancement obtained by the School District or the District. Administrative Expenses shall also include Delinquency Collection Expenses.

"Administrative Expense Requirement" means an annual amount equal to \$50,000 which amount shall escalate by 2% in each Bond Year beginning September 2, 2007.

"Annual Debt Service" means, 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, including from mandatory sinking fund payments.

"Authorized Representative" of the District means the Superintendent, or the Deputy Superintendent, or any other person designated in writing by the Superintendent or the Deputy Superintendent acting on behalf of the District under or with respect to the Indenture and all other agreements related hereto.

"Average Annual Debt Service" means, as of the date of any calculation, the average annual debt service on the Bonds based upon a Bond Year during the current or any future Bond Year.

"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.

“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 Bond which shall at the time be registered.

“Bonds” means the \$51,515,000 Poway Unified School District Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds, issued pursuant to the Indenture.

“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 which shall be the period from the Delivery Date to September 1, 2006.

“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 Sub-Account” means the account by that name established within the Interest Account of the Bond Service Fund pursuant to the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended.

“Comptroller of the Currency” means the Comptroller of the Currency of the United States.

“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 Special Taxes.

“Costs of Issuance” means all of the costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, the 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 the 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, special tax consultant and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

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

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent 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 Special Tax resulting from the delinquency in the payment of 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 the date on which the Bonds are issued and delivered to the initial purchaser thereof.

“Depository” means DTC and its successors and assigns or if (1) the then Depository resigns from its functions as securities depository of the Bonds, or (2) 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 Bonds and which is selected by the District.

“Deputy Superintendent” means the Deputy Superintendent of the School District, acting for and on behalf of the District

“District” means Community Facilities District No. 14 (Del Sur) of the Poway Unified School District.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“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.

“Government Obligations” means obligations described in Paragraph 1 of the definition of Permitted Investments.

“Gross Proceeds” has the meaning ascribed to such term in Section 148(f)(6) of the Code.

“Indenture” means the 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.

“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 September 1, 2006 as to the Bonds.

“Investment Agreement” means any investment satisfying the requirements of Paragraph 11 of the definition of Permitted Investments.

“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.

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

“Net Special Tax Revenues” means Special Tax Revenues minus amounts applied to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

“Outstanding” means as to the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the provisions of the Indenture;
2. 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 Fiscal Agent pursuant to the terms the Indenture; and
3. Bonds for the payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds); provided that, if such 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.

“Participant” means a member of or participant in the Depository.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the District as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

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

- C. The Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- D. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or 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 District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

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 District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
  - B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;
  - C. the District and the Fiscal Agent receives 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 District, the Fiscal Agent 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);
- 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 District or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, and
  - (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("Event of Insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, 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 Fiscal Agent.

"Prepayments" means Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Special Tax.

"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 South 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.

"Rebate Fund" means the fund by that name established pursuant to the Indenture.

"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.

"Reserve Fund" means the fund by that name established pursuant to the Indenture.

"Reserve Requirement" means an amount initially equal to \$4,600,987.30 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 less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

“School District” means the Poway Unified School District.

“School Facilities” means the types of facilities described in Exhibit A to Resolution No. 41-2006 of the Board of Education of the School District.

“School Facilities Fund” means the fund by that name established pursuant to the Indenture.

“Special Tax” means the special tax authorized to be levied in the District to finance the acquisition or construction of the School Facilities pursuant to the Act and the Special Taxes RMA.

“Special Tax Consultant” means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas and/or the administration of special taxes levied for community facilities districts. 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 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 by 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.

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

“Special Tax Revenues” means (a) the proceeds of the Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

“Special Tax RMA means the rate and method of apportionment of the Special Tax approved at the special election held in the District on January 17, 2006, 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 to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized pursuant to the Indenture.

“Supplement to Mitigation Agreement” means the Supplement to Subarea I Black Mountain Ranch Phase II School Impact Mitigation Agreement dated January 1, 2006, by and between the School District and Black Mountain Ranch Limited Partnership.

“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.

“Term Bonds” means the Bonds maturing on September 1, 2018, the Bonds maturing on September 1, 2026, and the Bonds maturing on September 1, 2036.

“Yield” has the meaning assigned to such term for purposes of Section 148(f) of the Code.

### ***Establishment of Funds and Accounts***

#### **Special Tax Fund.**

- (a) The District shall, no later than the tenth (10th) Business Day after which Special Tax Revenues, as applicable, have been received by the District and in any event not later than February 15th and August 15th of each year, transfer such Special Tax Revenues to the Fiscal Agent and, except as set forth in the following sentence, 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 clause (c) below, the Special Tax Revenues deposited in the Special Tax Fund shall be held in trust or 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 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 Bonds or to be paid on the 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 Bonds shall be payable, pursuant to the Indenture, 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 Bonds coming due and payable on such Interest Payment Date, or required to be redeemed on such date pursuant to the Indenture.
  - (4) On or after March 2 and September 2 of each year after making the transfer and deposits required under (1) through (3) above, the Fiscal Agent shall transfer the amount, if any, necessary to replenish the amount then on deposit in the Reserve Fund to an amount equal to the Reserve Requirement.
  - (5) On or after September 2 of each year after making the deposits and transfers required under (1) through (4) above, upon receipt of written instructions from an

Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to the Rebate Fund the amount specified in such request.

- (6) On or after September 2 of each year after making the deposits and transfers required under (1) through (5) above, 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 those Administrative Expenses which the District reasonably expects (a) will become due and payable during such Fiscal 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, and (b) the cost of which Administrative Expenses will be in excess of the Administrative Expense Requirement for such Fiscal Year.
  - (7) If, on or after September 2 of each year, after making the deposits and transfers required under (1) through (6) above, monies remain in the Special Tax Fund, such monies shall remain on deposit in the Special Tax and shall be subsequently deposited or transferred pursuant to the provisions of (1) through (6) above, provided, however, that if the District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Special Tax Requirement (as defined in the Special Tax RMA), the excess monies may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation, and improvement of School Facilities.
- (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 Bonds to be redeemed pursuant to the provisions of the Indenture. The Fiscal Agent may conclusively rely upon such instructions.
  - (d) When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Special Tax Fund shall be transferred to the District and used for any lawful purpose under the Act.

Bond Service Fund.

Interest Account. All moneys in the Interest Account, including the proceeds of the Bonds deposited in the Capitalized Interest Sub-Account, pursuant to the Indenture to fund interest on the Bonds through September 1, 2007, shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity).

Principal Account. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof pursuant to the Indenture.

Costs of Issuance Fund.

The Fiscal Agent shall, upon the written requisition of the District executed by an Authorized Representative, disburse money from the Costs of Issuance Fund, if any, on such dates and in such amounts as specified in such requisition to pay the Costs of Issuance related to the Bonds. Any amounts remaining on deposit in the Costs of Issuance Fund on the earlier of the date on which all Costs of Issuance have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date shall be transferred to the School Facilities Fund.

School Facilities Fund

The Fiscal Agent shall, from time to time, disburse monies from the School Facilities Fund to pay School Facilities Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture, the Fiscal Agent shall pay the School Facilities Costs from amounts in the School Facilities Fund directly to the contractor or such other person, corporation or entity entitled to payment thereunder (including reimbursements, if any, to the District) unless the District 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 Fiscal Agent 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 to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the School Facilities Fund to the Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture. Upon such transfer, the School Facilities Fund shall be closed.

Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the School Facilities Fund, upon written instruction from the District, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Reserve Fund

Moneys on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as such amounts shall become due and payable in the event that the moneys in the Special Tax Fund and the Bond Service Fund for such purpose are insufficient therefor or redeeming Bonds as described below. The Fiscal Agent shall, when and to the extent necessary, withdraw money from the Reserve Fund and transfer such money to the Bond Service Fund or the Redemption Fund for such purpose.

All Authorized Investments in the Reserve Fund shall be valued at their fair market value at least semi-annually on March 1 and September 1. On any date after the transfers to the Administrative Expense Fund and the Interest Account of the Bond Service Fund have been made for any Bond Year, if the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Fiscal Agent shall transfer to the Reserve Fund from the first available monies in the Special Tax Fund, an amount necessary to increase the balance therein to the Reserve Requirement. If on March 1 or on September 1, or on the first Business Day thereafter if March 1 or September 1 is not a Business Day, of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement, the Fiscal Agent shall transfer such excess (a) to the School Facilities Fund until the earlier of (i) the final payment or reimbursement of



all School Facilities Costs or (ii) June 1, 2009 and (b) thereafter to the Interest Account of the Bond Service Fund. In connection with any optional redemption of Bonds, amounts on deposit in the Reserve Fund which would be in excess of the Reserve Requirement following such redemption shall be transferred to the Redemption Fund or the Interest Account of the Bond Service Fund, as applicable, prior to such redemption and applied to such redemption of Bonds pursuant to written instructions of the District executed by an Authorized Representative.

Upon receipt of written instructions of the District executed by an Authorized Representative instructing the Fiscal Agent to transfer certain moneys representing a Reserve Fund credit for a Prepayment pursuant to the Special Tax RMA, the Fiscal Agent shall transfer the amount specified in such instructions from the Reserve Fund to the Redemption Fund for the purpose of redeeming Bonds pursuant to such instructions.

Whenever the balance in the Reserve Fund and the Bond Service Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall transfer the amount in the Reserve Fund to the Redemption Fund to be applied, on the next succeeding interest payment date, to the payment and redemption of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Redemption Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the District to be used for any lawful purpose of the District as set forth in the Act.

#### Rebate Fund.

The District shall calculate Excess Investment Earnings as defined in, and in accordance with, the Tax Certificate, and shall, in writing, direct the Fiscal Agent to transfer funds to the Rebate Fund from funds furnished by the District as provided for in the Indenture and the Tax Certificate. Moneys in the Rebate Fund shall be used to pay rebate to the United States government upon written instruction from the District or as otherwise directed in writing by the District.

Notwithstanding the foregoing, the Tax Certificate may be modified, in whole or in part, without the consent of the Owners of the Bonds, upon receipt by the District of an opinion of Bond Counsel to the effect that such modification shall not adversely affect the exclusion from gross income of interest on the Bonds then Outstanding for federal income tax purposes.

The Fiscal Agent shall not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Fiscal Agent shall be deemed conclusively to have complied with the provisions of the Indenture regarding calculation and payment of rebate if it follows the directions of the District and it shall have no independent duty to review such calculations or enforce the compliance by the District with such rebate requirements.

#### Redemption Fund

Monies shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the provisions of the Indenture and shall be set aside and used solely for the purpose of redeeming Bonds in accordance with written instructions of the District executed by an Authorized Representative given in accordance with the Indenture. Following the redemption of any 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 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 specifying the name and address of the payee and the amount of the Administrative Expense and a description thereof and further stating that such request has not formed the basis of any prior request for payment.

***Investment of Funds.***

Unless otherwise specified in the Indenture, monies in the Special Tax Fund, as applicable, the Bond Service Fund, the School Facilities Fund, the Reserve Fund, the Costs of Issuance Fund, and 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). Monies in the Redemption Fund and the Rebate Fund shall, at the written direction of District executed by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations and rated in the highest rating category of S&P. Notwithstanding anything in the Indenture 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.

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 pursuant to the Indenture. The Fiscal Agent shall not be required to provide statements for accounts with zero balances.

Obligations purchased as investments of monies in any fund or account shall be deemed at all times to be a part of such fund or account. Except as 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.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent pursuant to the Indenture, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Authorized 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. With respect to amounts in the Reserve Fund, if such investments may be redeemed without penalty or premium on the business day prior to each Interest Payment Date, 100% of the amount on deposit in the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds. Authorized Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Authorized 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 monies 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 authorized, in making or disposing of any investment permitted by the Indenture, 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.

***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 herein which may be inconsistent with any other provision herein, 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 Bondholders;
- (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 Bondholders; or
- (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.

Exclusive of the Supplemental Indenture hereto provided for in the preceding paragraph, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indenture 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 herein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond, or (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon without the consent of the affected Bondholder(s), or permit, or be construed as permitting, (x) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (y) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (z) creating of a pledge of or lien or charge upon the Special Tax Revenues, as applicable, superior to the pledge provided for of the Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which shall require the consent of the Bondholders, 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 Bondholders 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 Bondholders. The failure of any Bondholder to receive such notice shall not

affect the validity of such Supplemental Indenture when consented to and approved as provided for 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 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 Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the approval of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the 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 Bonds in instances where such consent is required, 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 Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, 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 under the Indenture, without the prior written consent of the Fiscal Agent.

#### ***Ownership of Bonds.***

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal and redemption premium, if any, of any such Bond, and the interest on any such Bond, shall be made only to or upon the order of the registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the redemption premium, if any, and interest thereon, to the extent of the sum or sums so paid.

#### ***Mutilated, Lost, Destroyed or Stolen Bonds.***

If any Bond shall become mutilated, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor, date and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if an indemnity satisfactory to the Fiscal Agent shall be given, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor and maturity, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to have been lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. The Fiscal Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same.

### ***Covenants.***

***General.*** As long as the Bonds are Outstanding and unpaid, the District, acting on behalf of 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 Special Tax Revenues, as applicable.

***Covenant to Foreclose.*** 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 Improvement Area B Special Tax, as applicable, levied in such Fiscal Year to determine the amount of such Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to such Special Tax is delinquent in the payment of such Special Taxes in the aggregate of \$5,000 or more or (b) any single parcel or parcels under common ownership subject to such Special Tax are delinquent in the payment of such 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 this section and for which such Special Taxes remain delinquent. With respect to aggregate delinquencies throughout the District, if the District determines that it has collected less than 95% of such 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 this section and for which such Special Taxes remain delinquent.

***Protection of Security.*** The District shall preserve and protect the security of the 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 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 Bond issued under the Indenture.

***No Senior or Parity Liens.*** The District will not issue any other obligations payable, principal or interest, from the Special Taxes which have, or purport to have, any lien upon such Special Taxes superior to or on a parity with the lien of the Bonds herein authorized. 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 such Special Taxes on a parity with the Outstanding 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 Bonds and such refunding bonds or other refunding obligations taken together.

***Levy of Special Taxes.*** The District shall comply with all requirements of the Act so as to assure the timely collection of the Special Taxes. The District shall annually ascertain the parcels on which the 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 such 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 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 such 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 Special Tax on the next real property tax roll.

To the maximum extent that the law permits it to do so, the District covenants, that it shall not initiate proceedings to reduce the Maximum Special Tax, unless, in connection therewith, (i) the District receives a certificate from one or more Special Tax 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 (as such term is defined in the Special Tax RMA) 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 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 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 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, the District shall, from funds available hereunder, commence and pursue legal action in order to preserve the authority and power of the District to levy such Special Taxes pursuant to such Special Tax RMA.

Proper Books and Records. 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 Special Tax Revenues, as applicable, and other funds provided for by the Indenture.

Tax Covenants. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District or take or omit to take any action that would cause the 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 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 Bonds to any non-governmental units.

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 Bonds under Section 103 of the Code. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District, or take or omit to take any action, that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 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 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 monies 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) the Code and any temporary, proposed, or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds.

Notwithstanding any provision of this covenant, 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 Bonds pursuant to the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant under the Indenture shall be deemed to be modified to that extent.

Extension of Maturity of the Bonds. The District shall not directly or indirectly extend the maturity dates of the Bonds or the time of payment of interest with respect thereto.

Adoption of Policy Regarding Tender of Bonds. The District covenants that it will not adopt any policy pursuant to the Act permitting tender of Bonds in full payment or partial payment of any Special Taxes, as applicable, unless it first receives a certificate of a Special Tax Consultant that accepting such tender will not result in the District having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds when due.

***Defeasance.***

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond 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 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 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, noncallable Permitted Investments of the type described in subparagraph 1 of the definition thereof, 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 Independent Accountant stating its opinion as to the sufficiency of the moneys or securities 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, together with the interest to accrue thereon 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 the preceding paragraph (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.

***Provisions Constitute a Contract.***

The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Indenture shall be enforceable by any Bondowner for the equal benefit and protection of all Bondowners similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may hereafter be authorized under the laws of the State in any court of competent jurisdiction. Said contract is made under and is to be construed in accordance with the laws of the State.

No remedy conferred by the Indenture upon any Bondowner is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law of the State. No waiver of any default or breach of duty or contract by any Bondowner shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondowner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondowners may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and the Bondowner shall prevail, said Bondowner shall be entitled to receive from the Special Tax Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees, and should said suit, action or proceeding be abandoned or be determined adversely to the Bondowners then, and in every such case, the District and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

***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 30-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 (30) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or
- (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 the 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 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 herein provided, out of the applicable Net Special Tax Revenue 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.

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 this article 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 herein 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 hereunder 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.

**SUMMARY OF CERTAIN PROVISIONS OF THE 2006 IMPROVEMENT AREA A BOND  
INDENTURE RELATED TO THE 2006 IMPROVEMENT AREA A BONDS**

The following summary discussion of selected provisions of the 2006 Improvement Area A Bond Indenture is made subject to all of the provisions of such document. This summary discussion does not purport to be a complete statement of such provisions and prospective purchasers of the 2006 Improvement Area A Bonds are referred to the complete text of the 2006 Improvement Area A Bond Indenture, copies of which are available upon request sent to the Fiscal Agent. As used in this summary, the term "Bonds" refers to the 2006 Improvement Area A Bonds and the term "Indenture" refers to the Improvement Area A Indenture.

*Definitions*

"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.

"Actual Cost" or "Actual Costs" shall have the meaning given to such term in the Supplement to Mitigation Agreement.

"Administrative Expense Fund" means the fund by that name established pursuant to the Indenture.

"Administrative Expenses" means the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Improvement Area A Special Taxes and preparing the annual Improvement Area A Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Improvement Area A Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Improvement Area A 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 the arbitrage rebate requirements; 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 Improvement Area A Special Tax disclosure statements and responding to public inquiries regarding the Improvement Area A Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area A Special Tax; and the costs of any credit enhancement obtained by the School District or the District. Administrative Expenses shall also include Delinquency Collection Expenses.

"Administrative Expense Requirement" means an annual amount equal to \$50,000 for Fiscal Year 2006-2007 and escalating at 2% each Fiscal Year thereafter commencing in Fiscal Year 2007-2008.

"Affiliate" means any entity owned, controlled or under common ownership or control by or with, as applicable, a Property Owner and includes all general partners of any entity which is a partnership. Control shall mean ownership of fifty percent (50%) or more of the voting power of or ownership interest in the respective entity.

"Annual Debt Service" means, 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, including from mandatory sinking fund payments.

"Annual Special Tax Requirement" shall have the meaning given such term in the Improvement Area A Special Tax RMA.

“Assessor’s Parcel” means an Assessor’s Parcel as defined in the Improvement Area A Special Tax RMA.

“Authorized Representative” of the District means the Superintendent, or the Deputy Superintendent, or any other person designated in writing by the Superintendent or the Deputy Superintendent acting on behalf of the District under or with respect to the Indenture and all other agreements related hereto.

“Average Annual Debt Service” means, as of the date of any calculation, the average annual debt service on the Bonds based upon a Bond Year during the current or any future Bond Year.

“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.

“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 Bond which shall at the time be registered.

“Bonds” means the \$51,495,000 Poway Unified School District Community Facilities District No. 14 (De Sur) Improvement Area A 2006 Special Tax Bonds, issued pursuant to the Indenture.

“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 which shall be the period from the Delivery Date to September 1, 2007.

“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.

“CalTrans Improvements” shall have the meaning given to such term in the Supplement to Mitigation Agreement.

“CalTrans Improvements Account” means the account by that name established pursuant to the Indenture.

“Capitalized Interest Sub-Account” means the account by that name established within the Bond Service Fund pursuant to the Indenture.

“Cash Deposit” means a deposit of good funds by a Property Owner with the Fiscal Agent in the applicable Stated Amount in lieu of depositing a Letter of Credit or Substitute Letter of Credit pursuant to the Supplement to Mitigation Agreement.

“City” means the City of San Diego, California.

“City Improvements” shall have the meaning given to such term in the Supplement to Mitigation Agreement.

“City Improvements Account” means the account established by that name pursuant to the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended.

“Comptroller of the Currency” means the Comptroller of the Currency of the United States.

“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 Improvement Area B Special Taxes.

“Costs of Issuance” means, as to the Bonds, all of the costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, the 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 the 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, special tax consultant and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

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

“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 Improvement Area A Special Taxes.

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Improvement Area A 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 Improvement Area A Special Tax resulting from the delinquency in the payment of Improvement Area A 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 the date on which the Bonds are issued and delivered to the initial purchaser thereof.

“Depository” means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the 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 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

“Developed Property” shall have the meaning given such term in the Improvement Area A Special Tax RMA.

“Discreet Component” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“District” means Poway Unified School District Community Facilities District No. 14 (Del Sur).

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“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.

“Government Obligations” means obligations described in Paragraph 1 of the definition of Permitted Investments.

“Gross Proceeds” has the meaning ascribed to such term in Section 148(f)(6) of the Code.

“Improvement Area A” means Improvement Area A of the District.

“Improvement Area A Improvement Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area A Special Tax” means the Special Tax authorized to be levied in Improvement Area A to finance the acquisition or construction of the City Improvements and CalTrans Improvements pursuant to the Act, the Supplement to Mitigation Agreement, and the Improvement Area A Special Tax RMA.

“Improvement Area A Special Tax Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area A Special Tax RMA” means the rate and method of apportionment of the Improvement Area A Special Tax approved at the special election held in Improvement Area A of the District on January 17, 2006, as may be modified from time to time in accordance with the Act.

“Improvement Area A Special Tax Revenues” means (a) the proceeds of the Improvement Area B Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

“Indenture” means the 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
1. 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.

“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 September 1, 2006.

“Investment Agreement” means any investment satisfying the requirements of Paragraph 11 of the definition of Permitted Investments.

“Legislative Body” means the Board of Education of the School District, acting as the legislative body of the District.

“Letter of Credit” means a Letter of Credit issued pursuant to the Supplement to the Mitigation Agreement by a Letter of Credit Bank, or any reissuance or extension thereof, which Letter of Credit shall be in the Stated Amount therefor.

“Letter of Credit Bank” means the issuer from time to time of a Letter of Credit and the respective successors and assigns of the business thereof and any surviving, resulting or transferee banking association or corporation with or into which it may be consolidated or merged or to which it may transfer all of its banking business, provided that the short-term and long-term ratings of such entity are at least investment grade, such entity must have a minimum Moody’s long-term rating of “A” and short-term rating of “P-1,” as evidenced by proof provided by such Letter of Credit Bank to the District and the Fiscal Agent.

“Letter of Credit Fund” means the fund by that name established pursuant to the Indenture.

“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.

“Maximum Special Tax” shall have the meaning given such term in the Improvement Area A Special Tax RMA.

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

“Net Improvement Area A Special Tax Revenues” means Improvement Area A Special Tax Revenues excluding (a) the amount necessary to annually fund the Administrative Expense Requirement, and (b) Surplus Special Taxes.

“Nominee” means the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

“Outstanding” means as to the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the provisions of the Indenture;
2. 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 Fiscal Agent pursuant to the terms of the Indenture; and
3. Bonds for the payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such bonds); provided that, if such 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.

“Participant” means a member of or participant in the Depository.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the District as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

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” 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 Fiscal Agent or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);
- A. 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);
- B. 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 District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

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 District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make

payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

- C. the District and the Fiscal Agent receives 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 District, the Fiscal Agent 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);
  - 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 District or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, and
    - (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("Event of Insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, 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 Fiscal Agent.

“Prepayments” means Improvement Area A Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area A Special Tax.

“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 South 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.

“Project Area” shall have the meaning given to such term in the Supplement to Mitigation Agreement.

“Property Owner” shall have the same meaning given the term “Owner” in the Supplement to Mitigation Agreement.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“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.

“Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Reserve Requirement” means an amount initially equal to \$4,599,096.73 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 less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

“School District” means the Poway Unified School District.

“School Facilities” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Special Tax Consultant” means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas and/or the administration of special taxes levied for community facilities districts. 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 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 by 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.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Rating Services, its successors and assigns.

“State” means the State of California.

“Stated Amount” means the amount available to be drawn under any Letter of Credit or Cash Deposit or Letters of Credit from time to time, as such amount is set forth in the initial Letter of Credit delivered on the Closing Date and as such amount shall be stated in such Letters of Credit thereafter delivered to the Fiscal Agent. During each Fiscal Year in which such Letter of Credit is in effect, the Stated Amount of each Letter of Credit shall equal the estimated amount of Special Taxes to be levied secured by such Letter of Credit during that Fiscal Year.

“Substitute Letter of Credit” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Superintendent” means the Superintendent of the School District, acting for and on behalf of the District.

“Supplement to Mitigation Agreement” means that Supplement to Subarea I Black Mountain Ranch Phase II School Impact Mitigation Agreement made and entered into as of January 1, 2006, by and among the School District, the District, and Black Mountain Ranch Limited Partnership, as it may be amended or supplemented from time to time.

“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 to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Supplemental School Facilities” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Surplus Special Taxes” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“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.

“Term Bonds” means the Bonds maturing on September 1, 2018, the Bonds maturing on September 1, 2026, and the Bonds maturing on September 1, 2036.

“Transferee” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Yield” has the meaning assigned to such term for purposes of Section 148(f) of the Code.

### ***Establishment of Funds and Accounts***

#### ***Improvement Area A Special Tax Fund.***

- (a) The District shall, no later than the tenth (10th) Business Day after which Improvement Area A Special Tax Revenues have been received by the District and in any event not later than February 15th and August 15th of each year, transfer such Improvement Area A Special Tax Revenues to the Fiscal Agent, and except as set forth in the following sentence, such amounts shall deposited in the Improvement Area A Special Tax Fund.

- (b) With the exception of Improvement Area A Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of Paragraph C below, the Improvement Area A Special Tax Revenues deposited in the Improvement Area A Special Tax Fund shall be held in trust or transferred to the following other funds and accounts on the dates and in the amounts set forth 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 Improvement Area A 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 of redemption of the 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 Bonds or to be paid on the 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 Bonds shall be payable, pursuant to Paragraph C below, 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 Bonds coming due and payable on such interest Payment Date, or required to be redeemed on such date pursuant to Paragraph C below.
  - (4) On or after March 2 and September 2 of each year after making the transfers and deposits required under (1) and (3) above, the Fiscal Agent shall transfer the amount, if any, necessary to replenish the amount then on deposit in the Reserve Fund to an amount equal to the Reserve Requirement.
  - (5) On or after September 2 of each year after making the deposits and transfers required under (1) through (4) above, upon receipt of a written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area A Special Tax Fund to the Rebate Fund the amount specified in the request.
  - (6) On or after September 2 of each year after making the deposits and transfers required under (1) through (5) above, upon receipt of a written request of an Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area A Special Tax Fund to the Administrative Expense Fund the amounts specified in the request to pay (a) those Administrative Expenses which the District reasonably expects will become due and payable during such Fiscal Year in excess of the Administrative Expense requirement for such Fiscal Year; and (b) any Administrative Expenses that have previously been incurred and paid by the District from funds other than the Administrative Expense Fund.

- (7) If, on or after September 2 of each year, after making the deposits and transfers required under (1) through (6) above, monies remain in the Improvement Area A Special Tax Fund, such monies shall remain on deposit in the Improvement Area A Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of (1) through (6) above; provided, however, that if at any time and from time to time the District determines, pursuant to the Supplement to Mitigation Agreement, that all or any portion of such monies constitute the proceeds of Surplus Special Taxes, the District may, by written instructions executed by an Authorized Representative, direct the Fiscal Agent to transfer that amount of such monies constituting Surplus Special Taxes to the School District to be utilized pursuant to the provisions of the Supplement to Mitigation Agreement to finance acquisition or construction of Supplemental School Facilities or School Facilities.
- (c) The Fiscal Agent shall, upon receipt of Improvement Area A 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, the Redemption Fund and the Administrative Expense Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Bonds to be redeemed pursuant to the provisions of the Indenture and to defray the costs of redeeming the Bonds.
- (d) When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Improvement Area A Special Tax Fund shall be transferred to the District to be utilized to finance the acquisition or construction of Supplemental School Facilities pursuant to the provisions of the Supplement to Mitigation Agreement.

Bond Service Fund.

Interest Account. All moneys in the Interest Account, including the Capitalized Interest Subaccount, shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All funds on deposit in the Capitalized Interest Subaccount shall be used and withdrawn to pay interest on the Bonds through September 1, 2007 prior to using any other funds on deposit in the Interest Account for such purpose.

Principal Account. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof pursuant to the Indenture.

Costs of Issuance Fund.

The Fiscal Agent shall, upon the written requisition of the District executed by an Authorized Representative, in substantially the form attached to the Indenture, disburse money from the Costs of Issuance Fund, if any, on such dates and in such amounts as specified in such requisition to pay Costs of Issuance related to the Bonds. Any amounts remaining on deposit in the Costs of Issuance Fund on the earlier of the date on which all Costs of Issuance have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date of the Bonds shall be transferred to the Improvement Area A Improvement Fund. Upon such transfer, the Costs of Issuance Fund shall be closed.

Improvement Area A Improvement Fund

City Improvements Account

The Fiscal Agent shall, from time to time, disburse monies from the City Improvements Account to pay Actual Costs of City Improvements. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture (which payment request shall not exceed the corresponding payment request provided to the School District under the Supplement to Mitigation Agreement), the Fiscal Agent shall pay the Actual Costs from amounts in the City Improvements Account directly to the contractor or such other person, corporation or entity entitled to payment hereunder (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said Actual Costs of City Improvements shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all Actual Costs of City Improvements as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the City Improvements Account to the Improvement Area A Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture. Upon such transfer, the City Improvements Account shall be closed.

Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the City Improvements Account, upon written instruction from the District, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

CalTrans Improvements Account

The Fiscal Agent shall, from time to time, disburse monies from the CalTrans Improvements Account to pay Actual Costs of CalTrans Improvements. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture (which payment request shall not exceed the corresponding payment request provided to the School District under the Supplement to Mitigation Agreement), the Fiscal Agent shall pay the Actual Costs from amounts in the CalTrans Improvements Account directly to the contractor or such other person, corporation or entity entitled to payment hereunder (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said Actual Costs of CalTrans Improvements shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all Actual Costs of CalTrans Improvements as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the CalTrans Improvements Account to the Improvement Area A Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture. Upon such transfer, the CalTrans Improvements Account shall be closed.



Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the CalTrans Improvements Account, upon written instruction from the District, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

#### Reserve Fund

Moneys on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as such amounts shall become due and payable in the event that the moneys in the Improvement Area A Special Tax Fund, the Bond Service Fund, and the Letter of Credit Fund for such purpose are insufficient therefore or redeeming Bonds as described below. The Fiscal Agent shall, when and to the extent necessary, withdraw money from the Reserve Fund and transfer such money to the Bond Service Fund or the Redemption Fund for such purpose.

All Authorized Investments in the Reserve Fund shall be valued at their fair market value at least semi-annually on March 1 and September 1. On any date after the transfers to the Administrative Expense Fund, the Interest Account, and the Principal Account have been made for any Bond Year, if the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Fiscal Agent shall transfer to the Reserve Fund from the first available monies in the Improvement Area A Special Tax Fund, an amount necessary to increase the balance therein to the Reserve Requirement. If on March 1 or on September 1, or on the first Business Day thereafter if March 1 or September 1 is not a Business Day, of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement inclusive of interest earnings and exclusive of excess created by optional redemption, the Fiscal Agent shall transfer such excess to the Interest Account of the Bond Service Fund. In connection with any optional redemption of Bonds pursuant to the Indenture, amounts on deposit in the Reserve Fund which would be in excess of the Reserve Requirement following such redemption shall be transferred to the Redemption Fund or the Interest Account of the Bond Service Fund, as applicable, prior to such redemption and applied to such redemption of Bonds pursuant to the written instructions of the District executed by an authorized Representative

Upon receipt of written instructions of the District executed by an Authorized Representative instructing the Fiscal Agent to transfer certain moneys representing a Reserve Fund credit for a Prepayment pursuant to the Improvement Area A Special Tax RMA, the Fiscal Agent shall transfer the amount specified in such instructions from the Reserve Fund to the Redemption Fund for the purpose of redeeming Bonds pursuant to such instructions.

Whenever the balance in the Reserve Fund and the Bond Service Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall transfer the amount in the Reserve Fund and the Bond Service Fund to the Redemption Fund to be applied, on the next succeeding interest payment date, to the payment and redemption of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund and the Bond Service Fund to the Redemption Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the District to be used for any lawful purpose of the District as set forth in the Act.

#### Rebate Fund.

The District shall calculate Excess Investment Earnings as defined in, and in accordance with, the Tax Certificate, and shall, in writing, direct the Fiscal Agent to transfer funds to the Rebate Fund from

funds furnished by the District as provided for in the Indenture and the Tax Certificate. Moneys in the Rebate Fund shall be used to pay rebate to the United States government upon written instruction from the District or as otherwise directed in writing by the District.

Notwithstanding the foregoing, the Tax Certificate may be modified, in whole or in part, without the consent of the Owners of the Bonds, upon receipt by the District of an opinion of Bond Counsel to the effect that such modification shall not adversely affect the exclusion from gross income of interest on the Bonds then Outstanding for federal income tax purposes.

#### Redemption Fund

Moneys shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the provisions of the Indenture and shall be set aside and used solely for the purpose of redeeming Bonds in accordance with the written instructions of the District executed by an Authorized Representative given in accordance with the Indenture. Following the redemption of any Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Improvement Area A 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 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, in substantially the form attached to the Indenture, specifying the name and address of the payee and the amount of the Administrative Expense and a description thereof and further stating that such request has not formed the basis of any prior request for payment.

#### Letter of Credit Fund

Letter of Credit; Purpose; Duration. As a condition precedent to issuance of the Bonds, the District shall cause each applicable Property Owner to provide a Letter of Credit or Cash Deposit pursuant to the provisions of the Supplement to Mitigation Agreement in the applicable Stated Amount therefor for each Project Area within Improvement Area A and having the Fiscal Agent as beneficiary. The Fiscal Agent shall deposit any Letter of Credit, Substitute Letter of Credit, or Cash Deposit provided pursuant to the Supplement to Mitigation Agreement in the Letter of Credit Fund.

#### Deposits into the Letter of Credit Funds; Transfers from the Letter of Credit Fund.

1. Draws Prior to an Interest Payment Date. Ten Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund for that Interest Payment Date will be sufficient to pay principal of and interest on the Bonds that will be due and payable on such Interest Payment Date and notify the District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on the Bonds and such insufficiency is attributable to the delinquency in the payment of Improvement Area A Special Taxes levied on properties owned by the Property Owner that provided a Letter of Credit or Cash Deposit pursuant to the Supplement to Mitigation Agreement or an Affiliate of such Property Owner, the Fiscal Agent shall upon the receipt of written direction of an Authorized Representative (prior to any withdrawals from the Reserve Fund) draw upon such Letter of Credit or withdraw money from the Cash Deposit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Representative) shall be no greater than the delinquent Improvement Area A Special Taxes levied on such Properties. The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the Letter of Credit Fund. On the day preceding the Interest Payment Date, and prior to any

transfers from the Reserve Fund, the Fiscal Agent shall transfer the amount of such draw on the Letter of Credit or an equivalent amount from any Cash Deposit from the Letter of Credit Fund to the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a Cash Deposit, the Fiscal Agent shall, upon receipt of Delinquency Proceeds representing the Improvement Area A Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a Cash Deposit, reimburse (a) the applicable Letter of Credit Provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit; or (b) deposit an amount not to exceed such transfer from such Cash Deposit in the Letter of Credit Fund to replenish such Cash Deposit

2. Draws Prior to Termination of the Letter of Credit. If a Letter of Credit is not renewed, or a Substitute Letter of Credit or Cash Deposit not provided within fifteen (15) days prior to stated expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the District. In the event the Fiscal Agent makes such a draw upon a Letter of Credit, the Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described above, such proceeds shall be invested and reinvested by the Fiscal Agent in Permitted Investments described in paragraph 7 of the definition thereof. At no time shall the District direct that the proceeds of a draw on any Letter of Credit or any Cash Deposit held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the yield on the Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund until such time as the Letter of Credit Fund is no longer required and at such time all interest earnings shall be paid over to the Property Owner.

Letter of Credit Requirements. Except as otherwise provided in the Indenture, the provisions of the Supplement to Mitigation Agreement shall establish and govern all requirements related to any Letter of Credit provided thereunder or under the Indenture including but not limited to applicability of the requirement to provide a Letter of Credit, determination of the Stated Amount thereof, renewal, substitution, reduction and termination thereof. No amendment may be made to any provision of the Supplement to Mitigation Agreement pertaining to the provision of a Letter of Credit that would be materially adverse to the interests of the Bondowners without the consent of the Bondowners obtained pursuant to the provisions of the Indenture.

Receipt by District of any Letter of Credit, Substitute Letter of Credit or Cash Deposit. If the District shall receive a Letter of Credit or a Substitute Letter of Credit provided pursuant to the terms of the Supplement to Mitigation Agreement or a Cash Deposit, the District shall immediately transfer such Letter of Credit, Substitute Letter of Credit, or Cash Deposit to the Fiscal Agent. The District shall provide written instructions to the Fiscal Agent to return any Letter of Credit to the Letter of Credit Provider thereof for which a Substitute Letter of Credit or Cash Deposit is being provided upon the effective date of such Substitute Letter of Credit or upon receipt by the Fiscal Agent of such Cash Deposit.

Termination or Release of a Letter of Credit, Substitute Letter of Credit or Cash Deposit. If any Letter of Credit or Substitute Letter of Credit is terminated pursuant to the provisions of the Supplement to Mitigation Agreement the District shall provide written notice of such termination to the Fiscal Agent together with instructions directing the Fiscal Agent to return such Letter of Credit to the Letter of Credit Provider thereof.

If the requirement to provide a Letter Credit is terminated pursuant to the provisions of the Supplement to Mitigation Agreement in any case where a Cash Deposit has been provided, the District shall provide written notice of such termination to the Fiscal Agent together with instructions directing the Fiscal Agent

to return such Cash Deposit to the Property Owner, and any interest earnings thereon, who provided such Cash Deposit.

Actions by the District. In the event any Letter of Credit Bank wrongfully refuses to honor any drawing made on any Letter of Credit, the District, on behalf of the owners of the Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling the Letter of Credit Bank to honor such drawing and to enforce the provisions of the Letter of Credit.

***Investment of Funds.***

Unless otherwise specified in the Indenture, monies in the Improvement Area A Special Tax Fund, the Bond Service Fund, the Improvement Area A Improvement Fund, the Reserve Fund, the Costs of Issuance Fund, and 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). Monies in the Redemption Fund and the Rebate Fund shall, at the written direction of the District by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations rated in the highest rating category of S&P. 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 Fiscal Agent.

Obligations purchased as investments of monies in any fund or account shall be deemed at all times to be a part of such fund or account. Except as 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 Permitted Investments except when it is necessary to segregate a fund or account or portion thereof for purposes of restricting the Yield on the investment of such funds.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent 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 Fiscal Agent for the purposes specified in the Indenture. With respect to amounts in the Reserve Fund, if such investments may be redeemed without penalty or premium on the business day prior to each Interest Payment Date, 100% of the amount on deposit in the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds. 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 monies 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.

### ***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 herein which may be inconsistent with any other provision the Indenture, 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; or
- (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.

Exclusive of the Supplemental Indentures hereto provided for in the preceding paragraph, the Owners of not less than 60% in aggregate principal amount of the 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 in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond; or (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon without the consent of the affected Bondowner(s), or permit, or be construed as permitting, (x) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (y) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (z) creating of a pledge of or lien or charge upon the Improvement Area A Special Tax Revenues, as applicable, superior to the pledge provided for of the Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which 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 for 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 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 Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the approval of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the 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 Bonds in instances where such consent is required, 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 Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, 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 under the Indenture, without the prior written consent of the Fiscal Agent.

#### ***Ownership of Bonds.***

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal and redemption premium, if any, of any such Bond, and the interest on any such Bond, shall be made only to or upon the order of the registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the redemption premium, if any, and interest thereon, to the extent of the sum or sums so paid.

#### ***Mutilated, Lost, Destroyed or Stolen Bonds.***

If any Bond shall become mutilated, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor, date and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if an indemnity satisfactory to the Fiscal Agent shall be given, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor and maturity, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to have been lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. The Fiscal Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same.

#### ***Covenants.***

General. As long as the Bonds are Outstanding and unpaid, the School District, acting on behalf of 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 Improvement Area A Special Tax Revenues, as applicable.

*Covenant to Foreclose.* 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 Improvement Area A Special Tax levied in such Fiscal Year to determine the amount of such Improvement Area A Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to such Improvement Area A Special Tax is delinquent in the payment of such Improvement Area A Special Taxes in the aggregate of \$5,000 or more; or (b) any single parcel or parcels under common ownership subject to such Improvement Area A Special Tax are delinquent in the payment of such Improvement Area A 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 this section and for which such Improvement Area A 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 h Improvement Area A 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 this section and for which Improvement Area A Special Taxes remain delinquent.

*Protection of Security.* The District shall preserve and protect the security of the 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 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 Bond issued under the Indenture.

*No Senior or Parity Liens.* The District will not issue any other obligations payable, principal or interest, from the Improvement Area A Special Taxes which have, or purport to have, any lien upon the Improvement Area A Special Taxes superior to or on a parity with the lien of the Bonds herein authorized. 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 Improvement Area A Special Taxes on a parity with the Outstanding 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 Bonds and such refunding bonds or other refunding obligations taken together.

*Levy of Improvement Area A Special Taxes.* The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area A Special Taxes, as applicable. The District shall annually ascertain the parcels on which the Improvement Area A 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 Improvement Area A Special Tax in accordance with the Improvement Area A 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 Improvement Area A 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 Improvement Area A 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 Improvement Area A Special Tax on the next real property tax roll.

To the maximum extent that the law permits it to do so, the District covenants, that it shall not initiate proceedings to reduce the Maximum Special Tax (as defined in the Improvement Area A Special Tax RMA), unless, in connection therewith, (i) the District receives a certificate from one or more Special Tax 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, such Maximum Special Tax which may be levied on all Assessor's Parcels (as such term is defined in the Improvement Area A Special Tax RMA, as applicable) of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all 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 Legislative Body finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the 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 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 Improvement Area A Special Tax RMA or to limit the power or authority of the District to levy Improvement Area A Special Taxes pursuant to the Improvement Area A Special Tax RMA, the District shall, from funds available hereunder, commence and pursue legal action in order to preserve the authority and power of the District to levy Improvement Area A Special Taxes pursuant to the Improvement Area A Special Tax RMA.

Proper Books and Records. 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 Improvement Area A Special Tax Revenues, as applicable, and other funds provided for by the Indenture.

Tax Covenants. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District or take or omit to take any action that would cause the 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 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 Bonds to any non-governmental units.

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 Bonds under Section 103 of the Code. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District, or take or omit to take any action, that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 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 Bonds. In the event that at any time the District is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any monies 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 Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds.



Notwithstanding any provision of this covenant, 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 Bonds pursuant to the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant under the Indenture shall be deemed to be modified to that extent.

Extension of Maturity of the Bonds. The District shall not directly or indirectly extend the maturity dates of the Bonds or the time of payment of interest with respect thereto.

Adoption of Policy Regarding Tender of Bonds. The District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting tender of Bonds in full payment or partial payment of any Improvement Area A Special Taxes unless it first receives a certificate of a Special Tax Consultant that accepting such tender will not result in the District having insufficient Improvement Area A Special Tax Revenues to pay the principal of and interest on the Bonds when due.

***Defeasance.***

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond 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 Improvement Area A 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, 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 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, noncallable Permitted Investments of the type described in subparagraph 1 of the definition thereof, 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 Independent Accountant stating its opinion as to the sufficiency of the moneys or securities 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, together with the interest to accrue thereon 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 the preceding paragraph (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.

***Provisions Constitute a Contract.***

The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Indenture shall be enforceable by any Bondowner for the equal benefit and protection of all Bondowners similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may hereafter be authorized under the laws of the State in any court of competent jurisdiction. Said contract is made under and is to be construed in accordance with the laws of the State.

No remedy conferred by the Indenture upon any Bondowner is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law of the State. No waiver of any default or breach of duty or contract by any Bondowner shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondowner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondowners may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and the Bondowner shall prevail, said Bondowner shall be entitled to receive from the Special Tax Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees, and should said suit, action or proceeding be abandoned or be determined adversely to the Bondowners then, and in every such case, the District and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

***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 30-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 (30) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or
- (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 the 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 the Indenture 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 herein provided, out of the applicable Net Special Tax Revenue 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.

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 this article 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 herein 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 hereunder 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 F

### FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and entered into as of June 1, 2006, by and among the Poway Unified School District, on behalf of Community Facilities District No. 14 (Del Sur) of the Poway Unified School District (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 of America (the “Bank”) in its capacity as Fiscal Agent (the “Fiscal Agent”), and David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance of the Poway Unified School District Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds (the “2006 CFD Bonds”) and Poway Unified School District Community Facilities District No. 14 (Del Sur) Improvement Area A 2006 Special Tax Bonds (the “Improvement Area A Bonds” and together with the 2006 CFD Bonds, the “2006 Bonds”);

#### W I T N E S S E T H :

**WHEREAS**, pursuant to the Community Facilities District Bond Indenture, dated as of June 1, 2006 (the “CFD Bond Indenture”), by and between the Community Facilities District and the Fiscal Agent, and the Improvement Area A Bond Indenture, by and between the Community Facilities District and the Fiscal Agent (the “Improvement Area A Bond Indenture” and together with the CFD Bond Indenture, the “Bond Indentures”), the Community Facilities District has issued the 2006 CFD Bonds in the aggregate principal amount of \$51,515,000 and the Improvement Area A Bonds in the aggregate principal amount of \$51,495,000; and

**WHEREAS**, the 2006 Bonds are 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. The Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2006 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 each Bond Indenture 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 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 Community Facility District’s fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

“Community Facilities District” means Community Facilities District No. 14 (Del Sur) of the Poway Unified School District.

“Disclosure Representative” shall mean the Deputy Superintendent of the School District.

“Dissemination Agent” shall mean David Taussig & Associates, Inc., or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District a written acceptance of such designation.

“Improvement Area A” shall mean Improvement Area A of Community Facilities District No. 14 (Del Sur) of the Poway Unified School District.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at [sec.gov/info/municipal/nrmsir.htm](http://sec.gov/info/municipal/nrmsir.htm).

“Participating Underwriter” shall mean Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

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

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

### Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2007, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School 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 Community Facilities District of such failure to receive the Annual Report. The Community Facilities District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Community Facilities District and shall have no duty or obligation to review such Annual Report. The Annual Report may be provided in electronic format to each Repository and the Participating Underwriter and may be provided through the services of a “central post office” approved by the Securities and Exchange Commission. For example, any filing under the Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at

<http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

(b) If the Community Facilities District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

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

(ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter as provided herein; and

(iii) if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of the Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the School District 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.

(b) The following information regarding the 2006 Bonds and any refunding bonds:

(i) Principal amount of 2006 Bonds and any refunding bonds outstanding as of a date within 30 days preceding the date of the Annual Report;

(ii) Balance in the 2006 Bond Service Funds as of a date within 30 days preceding the date of the Annual Report;

(iii) Balance in the Reserve Funds and statement of Reserve Requirements as of a date within 30 days preceding the date of the Annual Report;

(iv) Balance in the School Facilities Fund and the Improvement Area A Improvement Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (i), (ii), (iii) or (iv) hereof;

(v) A table summarizing assessed value-to-lien ratios for the property in the Community Facilities District and by each 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 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 2 next preceding the Annual Report Date. The lien values in such table will include all 2006 Bonds and any refunding bonds with respect to either the Community Facilities District or Improvement Area A and all other debt secured by a tax or assessments levied on parcels within the Community Facilities District;

- (vi) Information regarding the annual special taxes levied in the Community Facilities District and in Improvement Area A, amounts collected, delinquent amounts and percents delinquent for the most recent fiscal year;
  - (vii) Status of foreclosure proceedings of parcels within the Community Facilities District and summary of results of foreclosure sales, if available;
  - (viii) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy 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 owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
  - (ix) Concerning delinquent parcels as of the immediately preceding August 15;
    - number of parcels delinquent in payment of Special Tax,
    - total of such delinquency and percentage of delinquency in relation to total Special Tax levy, and
    - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties;
  - (x) 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;
  - (xi) A copy of any report for or concerning the Community Facilities District as of the immediately preceding October 31 required under State law; and
  - (xii) Any changes to the Rate and Method of Apportionment of Special Tax for either the Community Facilities District or Improvement Area A approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report.
- (c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Community Facilities District 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 Community Facilities District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Community Facilities District shall clearly identify each such other document so included by reference.

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached as Exhibit B.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2006 Bonds and any Additional Bonds, 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 uncheduled 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 Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). 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 corporate trust office of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Community Facilities District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Community Facilities District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, 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 (f). 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 Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Community Facilities District determines that the Listed Event would not be material under applicable federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository 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 2006 Bonds pursuant to each Bond Indenture.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District's obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the 2006 Bonds, (ii) prior redemption of the 2006 Bonds or (iii) payment in full of all the 2006 Bonds. If such determination occurs prior to the final maturity of the 2006 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its 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 David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination 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 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 Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), 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 2006 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 2006 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 2006 Bonds in the manner provided in the applicable Bond Indenture for amendments to such Bond 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 2006 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 Community Facilities District to meet its 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 Repositories in the same manner as for a Listed Event under Section 5(f).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent 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 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 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 Community Facilities District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2006 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2006 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent 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 applicable Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Section 6.08 of each Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the applicable Bond Indenture, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent 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 Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the 2006 Bonds, 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 Fiscal Agent under the applicable Bond 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 Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the applicable Bond Indenture and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the 2006 Bonds 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 Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent 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 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 in the performance of its duties hereunder. The 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 2006 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2006 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 Community Facilities District: Community Facilities District No. 14 (Del Sur) of the Poway Unified School District  
13626 Twin Peaks Road  
Poway, California 92064-3034  
Telephone: (858) 679-2517  
Telecopier: (858) 679-2642  
Attention: Deputy Superintendent

If to the Dissemination Agent: David Taussig & Associates, Inc.  
1301 Dove Street, Suite 600  
Newport Beach, California 92660  
Telephone: (949) 955-1500  
Telecopier: (949) 955-1590

If to the Fiscal Agent: Zions First National Bank  
550 S. Hope Street, Suite 2650  
Los Angeles, California 90071  
Telephone: (213) 593-3152  
Telecopier: (213) 593-3160

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 Securities Exchange Commission 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 Community Facilities District to meeting 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 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 Purchase 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.

**IN WITNESS WHEREOF**, the parties hereto have executed this Disclosure Agreement as of the date first above written.

POWAY UNIFIED SCHOOL DISTRICT,  
on behalf of Community Facilities District No. 14  
(Del Sur) of the Poway Unified School District

By: \_\_\_\_\_  
Authorized Officer

ZIONS FIRST NATIONAL BANK,  
as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

DAVID TAUSSIG & ASSOCIATES, INC.,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 14 (Del Sur) of the Poway Unified School District

Name of Bond Issue: Poway Unified School District Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds and Poway Unified School District Community Facilities District No. 14 (Del Sur) Improvement Area A 2006 Special Tax Bonds

Date of Issuance: June 22, 2006

NOTICE IS HEREBY GIVEN that Community Facilities District No. 14 (Del Sur) of the Poway Unified School District (the "Community Facilities District") 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, 2006, by and among the Community Facilities District, Zions First National Bank, as Fiscal Agent and David Taussig & Associates, Inc. as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_, 20\_\_

David Taussig & Associates, Inc., as  
Dissemination Agent, on behalf of the Community  
Facilities District

cc: Community Facilities District No. 14 (Del Sur)  
Stone & Youngberg LLC  
Zions First National Bank

**EXHIBIT B**

# Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission Rule 15c2-12 or any analogous state statute.

See [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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**IF THIS FILING RELATES TO A SINGLE BOND ISSUE:**

Provide name of bond issue exactly as it appears on the cover of the Official Statement  
(please include name of state where Issuer is located):

**\$51,515,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**2006 SPECIAL TAX BONDS**

**(California)**

Provide nine-digit CUSIP® numbers\* if available, to which the information relates:

<b>Maturity</b>	<b>CUSIP®</b>	<b>Maturity</b>	<b>CUSIP®</b>
2008	738855QF5	2016	738855QP3
2009	738855QG3	2019	738855QS7
2010	738855QH1	2020	738855QT5
2011	738855QJ7	2021	738855QU2
2012	738855QK4	2018	738855QR9
2013	738855QL2	2026	738855QV0
2014	738855QM0	2036	738855QW8
2015	738855QN8		

**\$51,495,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**IMPROVEMENT AREA A 2006 SPECIAL TAX BONDS**

**(California)**

Provide nine-digit CUSIP® numbers\* if available, to which the information relates:

<b>Maturity</b>	<b>CUSIP®</b>	<b>Maturity</b>	<b>CUSIP®</b>
2008	738855QX6	2016	738855RF4
2009	738855QY4	2019	738855RJ6
2010	738855QZ1	2020	738855RK3
2011	738855RA5	2021	738855RL1
2012	738855RB3	2018	738855RH0
2013	738855RC1	2026	738855RM9
2014	738855RD9	2036	738855RN7
2015	738855RE7		



**IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:**

Issuer's Name (please include name of state where Issuer is located): \_\_\_\_\_

Other Obligated Person's Name (if any): \_\_\_\_\_  
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP® number(s)\*, if available, of Issuer: \_\_\_\_\_

\*(Contact CUSIP®'s Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP® numbers.)

**TYPE OF FILING:**

Electronic (number of pages attached) \_\_\_\_\_  Paper (number of pages attached) \_\_\_\_\_

If information is also available on the Internet, give URL: \_\_\_\_\_

**WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)**

**A.  Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

(Financial information and operating data should not be filed with the MSRB.)

**Fiscal Period Covered:** \_\_\_\_\_

**B.  Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

**Fiscal Period Covered:** \_\_\_\_\_

**C.  Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)**

- |  |  |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies                                 | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security   |
| 2. <input type="checkbox"/> Non-payment related defaults   | 7. <input type="checkbox"/> Modifications to the rights of security holders                                  |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls   |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties   | 9. <input type="checkbox"/> Defeasances  |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform   | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
|  | 11. <input type="checkbox"/> Rating changes  |

**D.  Notice of Failure to Provide Annual Financial Information as Required**

**E.  Other Secondary Market Information (Specify):** \_\_\_\_\_

**I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:**

**Issuer Contact:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Employer \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone \_\_\_\_\_ Fax \_\_\_\_\_

Email Address \_\_\_\_\_ Issuer Web Site Address \_\_\_\_\_

**Dissemination Agent Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Employer \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone \_\_\_\_\_ Fax \_\_\_\_\_

Email Address \_\_\_\_\_ Relationship to Issuer \_\_\_\_\_

**Obligor Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Employer \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone \_\_\_\_\_ Fax \_\_\_\_\_

Email Address \_\_\_\_\_ Obligor Web site Address \_\_\_\_\_

**Investor Relations Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Telephone \_\_\_\_\_ Email Address \_\_\_\_\_

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## APPENDIX G

### FORM OF MAJOR DEVELOPER CONTINUING DISCLOSURE AGREEMENTS

*A separate Major Developer Continuing Disclosure Agreement will be provided by Black Mountain Ranch LLC and Standard Pacific Corp.*

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of June 1, 2006, by and between Zions First National Bank, a national banking association organized and existing under and by virtue of the laws of the United States of America (the “Bank”), in its capacity as dissemination agent (the “Dissemination Agent”) and in its capacity as Fiscal Agent (the “Fiscal Agent”) with respect to the Poway Unified School District Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds and Poway Unified School District Community Facilities District No. 14 (Del Sur) Improvement Area A 2006 Special Tax Bonds (collectively the “2006 Bonds”), and [Black Mountain Ranch LLC][Standard Pacific Corp.] organized and existing under and by virtue of the laws of the State of [California] [Delaware] (the “Property Owner”);

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Property Owner for the benefit of the owners and beneficial owners of the 2006 Bonds.

Section 2. Definitions. In addition to the definitions set forth above and in the Fiscal Agent Agreement, 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:

“*Affiliate*” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person, (b) any Person, 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person. For purposes hereof, “control” means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“*Assumption Agreement*” means an agreement of a Major Developer or an Affiliate thereof, the Dissemination Agent, and the Fiscal Agent for the benefit of the owners and beneficial owners of the 2006 Bonds containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide semi-annual reports and notices of significant events, setting forth the information described in Sections 4 and 5 hereof, respectively, with respect to the portion of the property in the Community Facilities District owned by, or under option to, such Major Developer and its Affiliates and agrees to indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

“*Community Facilities District*” means Community Facilities District No. 14 of the Poway Unified School District.

“*Dissemination Agent*” means Zions First National Bank, or any successor Dissemination Agent designated in writing by the Property Owner, and which has filed with the Property Owner, the Community Facilities District and the Fiscal Agent a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Agreement.

“*Improvement Area A*” means Improvement Area A of Community Facilities District No. 14 of the Poway Unified School District.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Agreement.

“*Major Developer*” means, as of any Report Date, an owner of land responsible in the aggregate for 15% or more of the Special Taxes in the Community Facilities District actually levied at any time during the then-current fiscal year.

“*National Repository*” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Securities and Exchange Commission’s Internet site at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

“*Official Statement*” means the final official statement executed by the Community Facilities District in connection with the issuance of the 2006 Bonds.

“*Participating Underwriter*” means Stone & Youngberg LLC, the original underwriter of the 2006 Bonds required to comply with the Rule in connection with offering of the 2006 Bonds.

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“*Property*” means the property owned by, or under option to, the Property Owner in the Community Facilities District.

“*Report Date*” means April 1 and October 1 of each calendar year.

“*Repository*” means each National Repository and each State Repository, if any.

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

“*Semi-Annual Report*” means any Semi-Annual Report provided by the Property Owner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Special Taxes*” means the special taxes levied on taxable property within Improvement Area A and within the Community Facilities District used to pay debt service on the 2006 Bonds.

“*State Repository*” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### Section 3. Provision of Semi-Annual Reports.

(a) The Property Owner shall, or upon written direction shall cause the Dissemination Agent to, not later than the Report Date, commencing October 1, 2006, provide to each Repository a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Fiscal Agent (if different from the Dissemination Agent), the Participating Underwriter and the Community Facilities District. Not later than 15 Business Days prior to the Report Date, the Property Owner shall provide the Semi-Annual Report to the Dissemination Agent. The Property Owner shall provide a written certification with (or included as a part of) each Semi-Annual Report furnished to the Dissemination Agent, the Fiscal Agent (if different from the Dissemination Agent), the Participating Underwriter and the Community Facilities District to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it under this Disclosure Agreement. The Dissemination Agent, the Fiscal Agent, the Participating Underwriter and the Community Facilities District may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review the Semi-Annual Report. The Semi-Annual Report may be submitted as a single document or as separate documents

comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Agreement. The Semi-Annual Report may be provided in electronic format to each Repository and the Participating Underwriter and may be provided through the services of a “central post office” approved by the Securities and Exchange Commission. For example, any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004. The Dissemination Agent may utilize the reminder system offered by MAC to notify the Developer to file its Semi-Annual disclosure reports in addition to the notice provided by the Dissemination Agent pursuant to Section 3(b) below.

(b) If the Dissemination Agent does not receive a Semi-Annual Report by 15 days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Property Owner that the Semi-Annual Report has not been provided as required under Section 3(a) above. The reminder notice shall instruct the Property Owner to determine whether its obligations under this Disclosure Agreement have terminated (pursuant to Section 6 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Property Owner does not provide, or cause the Dissemination Agent to provide, a Semi-Annual Report to the Repositories by the Report Date as required in subsection (a) above, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and appropriate State Repository, if any, in substantially the form attached hereto as Exhibit A, with a copy to the Fiscal Agent (if other than the Dissemination Agent), the Community Facilities District, the Participating Underwriter and the Property Owner.

(c) The Dissemination Agent shall:

(i) determine prior to each Report Date the name and address of each National Repository and each State Repository, if any; and

(ii) to the extent the Semi-Annual Report has been furnished to it, file a report with the Property Owner (if the Dissemination Agent is other than the Property Owner), the Community Facilities District and the Participating Underwriter certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Semi-Annual Reports. The Property Owner’s Semi-Annual Report shall contain or incorporate by reference the information set forth in Exhibit B, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Property Owner shall clearly identify each such other document so included by reference. With respect only to the Semi-Annual Report that is required to be provided no later than April 1 of each Fiscal Year, if audited financial statements of the Property Owner or its parent company (the “Financial Statements”) are prepared, attach the audited Financial Statements. If such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed, the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby. If the financial information or operating data to be provided in a Semi-Annual Report is amended pursuant to the provisions hereof, the first Semi-Annual Report containing the operating data or financial information in accordance with such amendment 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.

In addition to any of the information expressly required to be provided in Exhibit B, the Property Owner’s Semi-Annual Report shall include 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.

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached as Exhibit C.

Section 5. Reporting of Significant Events.

(a) The Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2006 Bonds, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner;

(ii) failure of the Property Owner or, if known, an Affiliate, to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property;

(iii) filing of a lawsuit against the Property Owner (of which the Property Owner has notice, such as through service of process) or, if known, an Affiliate of the Property Owner, seeking damages which could have a material impact on the Property Owner's or an Affiliate's ability to pay Special Taxes or to sell or develop the Property;

(iv) material damage to or destruction of any of the improvements on the Property;

(v) any uncured material payment default or other material default by the Property Owner (or, if known, an Affiliate of the Property Owner) on any loan with respect to the construction of improvements on the Property;

(vi) any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that could have a material adverse affect on such Property Owner's most recently disclosed financing plan or development plan or on the ability of such Property Owner, or any Affiliate of such Property Owner that owns any portion of the Property, to pay Special Taxes within the Community Facilities District when due;

(vii) any materially adverse significant amendments to land use entitlements for such Property Owner's Property, or if known, an Affiliate's Property if material to the Development plan;

(viii) any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Property Owner's Property, or if known, an Affiliate's Property if material to the Development plan;

(ix) any previously undisclosed legislative, administrative or judicial challenges to development on such Property Owner's Property, or if known, an Affiliate's Property, if material to the Development plan; and

(x) any changes, if materially adverse to the development plan, in the alignment, design or likelihood of completion of significant public improvements affecting such Property Owner's Property or, if known, an Affiliates' Property, including major thoroughfares, sewers, water conveyance systems and similar facilities;

(b) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable federal securities law; and

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, if any, with a copy to the Fiscal Agent, the Community Facilities District and the Participating Underwriter.

Section 6. Duration of Reporting Obligation.

(a) All of the Property Owner's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 11) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the 2006 Bonds, or

(ii) at such time as property owned by, or under option to, the Property Owner and its Affiliates is no longer responsible for payment of 15% or more of the Special Taxes, or

(iii) the date on which the Property Owner prepays in full all of the Special Taxes attributable to the Property;

*provided, however,* that notwithstanding that the Property owned by, or under option to, the Property Owner is no longer responsible for payment of 15% or more of the Special Taxes, in the event the Property Owner shall transfer any portion of its Property to another Person which, taking into account such transfer shall be a Major Developer, the Property Owner's obligations hereunder shall continue with respect to the Property transferred and the other property owned by, or under option to, such Major Developer until such time as the transferee shall have assumed the obligations of the Property Owner hereunder or such transferee shall have the disclosure obligations set forth herein with respect to such Property pursuant to a Major Developer Continuing Disclosure Agreement executed in connection with issuance of the 2006 Bonds or an Assumption Agreement.

The Property Owner shall give notice of the termination of its obligations under this Disclosure Agreement in the same manner as for a Listed Event under Section 5.

(b) If a portion of the Property in the Community Facilities District owned by, or under option to, the Property Owner, or any Affiliate of the Property Owner, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Property Owner hereunder with respect to the Property in the Community Facilities District owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof and the Property Owner's obligations hereunder will be terminated. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement in form and substance reasonably satisfactory to the Community Facilities District and the Participating Underwriter.

Section 7. Dissemination Agent. The Property Owner may, from time to time, appoint or engage a Dissemination Agent to assist the Property Owner in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Zions First National Bank. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District, the Property Owner and the Fiscal Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Property Owner may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied (*provided, however*, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(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 2006 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 2006 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 2006 Bonds in the manner provided in the applicable Bond Indenture(s) 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 2006 Bonds.

If an amendment is made to the accounting principles followed in preparing the Financial Statements, the 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 Statements or information, in order to provide information to investors to enable them to evaluate the ability of the Major Developer to generally meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A qualitative analysis in accordance with Generally Accepted Accounting Principles (GAAP) shall be deemed to satisfy this requirement. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5 hereof.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Property Owner 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 Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Property Owner chooses to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Property Owner shall have no obligation under this Disclosure Agreement to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Property Owner to comply with any provision of this Disclosure Agreement, the Fiscal Agent shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and any owner or beneficial owner of the 2006 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner 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 Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Property Owner to comply with this Disclosure Agreement shall be an action to compel performance. Neither the Property Owner nor the Dissemination Agent shall have any liability to the owners of the 2006 Bonds or any other party for monetary damages or financial liability of any kind whatsoever relating to or arising from this Disclosure Agreement.



Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Property Owner agrees to indemnify and save the Dissemination Agent, including its officers, directors, employees and agents, harmless against any loss, expense and liability which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any such claim of liability, but excluding liabilities, costs and expenses due to the Dissemination Agent's, including its officers, directors, employees and agents, negligence or willful misconduct or failure to perform its duties hereunder. The Dissemination Agent shall be paid compensation for its services provided hereunder in accordance with its schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Community Facilities District, the Property Owner, the Fiscal Agent, the 2006 Bond owners, or any other party. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2006 Bonds.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

If to the Community Facilities District: Community Facilities District No.14 (Del Sur) of the Poway Unified School District  
13626 Twin Peaks Road  
Poway, California 92064-3034  
Telephone: 858-679-2517  
Telecopier: 858-679-2642  
Attention: Deputy Superintendent

If to the Dissemination Agent: Zions First National Bank  
550 South Hope Street, Suite 2650  
Los Angeles, California 90071  
Telephone: 213/593-3152  
Telecopier: 213/593-3160

If to the Fiscal Agent: Zions First National Bank  
550 South Hope Street, Suite 2650  
Los Angeles, California 90071  
Telephone: 213/593-3152  
Telecopier: 213/593-3160

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

If to the Property Owner: [Black Mountain Ranch LLC  
16010 Camino Del Sur  
San Diego, California 92127  
Telephone: 858/792-7061  
Telecopier: 858/792-7625]

[Standard Pacific Corp.  
5750 Fleet Street, Suite 200  
Carlsbad, California 92008  
Telephone: 760/602-6818  
Telecopier: 760/602-6819]

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Property Owner (its successors and assigns), the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2006 Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Section 15. 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]

Section 16. 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 17. 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.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

Dated: June 1, 2006

**[BLACK MOUNTAIN RANCH LLC,**  
a California limited liability company

By: BMR Communities LLC  
a California limited liability company  
its managing member

By: Standard Pacific Corp.,  
a Delaware corporation  
its managing member

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**[STANDARD PACIFIC CORP., a Delaware corporation**

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

By: \_\_\_\_\_  
Its: \_\_\_\_\_]

AGREED AND ACCEPTED:  
Zions First National Bank,  
as Dissemination Agent

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

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 14 (Del Sur) of the Poway Unified School District

Name of Bond Issue: Poway Unified School District Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds and Poway Unified School District Community Facilities District No. 14 (Del Sur) Improvement Area A 2006 Special Tax Bonds

Date of Issuance: June 22, 2006

NOTICE IS HEREBY GIVEN that \_\_\_\_\_ (the "Property Owner") has not provided a Semi-Annual Report with respect to the above-named bonds as required by that certain Major Developer Continuing Disclosure Agreement, dated June 1, 2006. [The Property Owner anticipates that the Semi-Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

DISSEMINATION AGENT:  
Zions First National Bank

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

cc: Community Facilities District No. 14 (Del Sur)  
of the Poway Unified School District  
[Property Owner]

**EXHIBIT B**  
**SEMI-ANNUAL REPORT**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**2006 SPECIAL TAX BONDS**

This Semi-Annual Report is hereby submitted under Section 4 of the Major Developer Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 2006, executed by the undersigned (the "Property Owner") in connection with the issuance of the above-captioned bonds by Community Facilities District No. 14 (Del Sur) of the Poway Unified School District (the "Community Facilities District").

Capitalized terms used in this Semi-Annual Report but not otherwise defined have the meanings given to them in the Disclosure Agreement.

**I. Property Ownership and Development**

The information in this section is provided as of \_\_\_\_\_ (this date must be not more than 60 days before the date of this Semi-Annual Report).

A. Property currently owned by, or under option to, the Property Owner in the Community Facilities District (the "Property"):

Development Name(s) \_\_\_\_\_

Total Lots and Homes in the Development	Total Homes Completed (_____, 200__)	Total Homes Sold (Closed Escrow) (_____, 200__)	Property Sold (Closed Escrow) Since the Last Semi-Annual Report (Report dated __, 200__)
Acres* ____	Acres* ____	Acres* ____	Acres* ____
Lots ____	Lots ____	Lots ____	Lots ____
Homes ____	Homes ____	Homes ____	Homes ____

\* For bulk land sales only (excluding sales of finished lots for completed homes).

B. Status of land development or home construction activities with regard to the Property:

\_\_\_\_\_  
 \_\_\_\_\_

C. Status of building permits and any significant amendments to land use or development entitlements with regard to the Property:

\_\_\_\_\_  
 \_\_\_\_\_

D. Status of any land purchase contracts with regard to the Property, whether acquisition of land by the Property Owner or sales of land to other property owners (other than individual homeowners):

\_\_\_\_\_

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E. Any changes, if material, to the development plan, in the alignment, design or likelihood of completion of significant public improvements affecting such Property Owner’s Property, including major thoroughfares, sewers, water conveyance systems and similar facilities:

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**II. Legal and Financial Status of Property Owner**

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner that is materially different from the legal structure, financial condition or financing plan described in the Official Statement that would materially and adversely interfere with its ability to complete its proposed development of the Property. With respect only to the Semi-Annual Report that is required to be provided no later than April 1 of each Fiscal Year, if audited financial statements of the Property Owner are prepared or if the Property Owner’s financial statements are consolidated with the Property Owner’s parent company and audited financial statements of the parent company are prepared (the “Financial Statements”), attach or incorporate by reference to materials on file with the Repositories or Securities and Exchange Commission, the audited Financial Statements of the Property Owner or its parent company. If such audited Financial Statements are prepared but not available by the time such Semi-Annual Report is required to be filed, the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

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**III. Change in Development or Financing Plans**

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any development plans or financing plans relating to the Property owned by or under option to the Property Owner or an Affiliate *that are materially different from* the proposed development and financing plan described in the Official Statement. Describe any change in the provider of the Letter of Credit or provide information regarding a cash deposit in lieu of the Letter of Credit.

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**IV. Status of Tax Payments**

Describe status of payment of taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property owned by, or under option to, the Property Owner or an Affiliate.

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**V. Official Statement Updates**

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any other significant changes in the information relating to the Property Owner or the Property contained in the Official Statement under the headings “CONTINUING DISCLOSURE – Developers,” “THE DEL SUR PROJECT AND PROPERTY OWNERSHIP – Background,” “ – Environmental Permits,” and “Black Mountain Ranch LLC and the Merchant Builders” that would materially

and adversely interfere with the Property Owner's ability to develop and sell the Property as described in the Official Statement.

\_\_\_\_\_  
\_\_\_\_\_

**VI. Other Material Information**

In addition to any of the information expressly required above, 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.

\_\_\_\_\_  
\_\_\_\_\_

**Certification**

The undersigned Property Owner hereby certifies that this Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Property Owner under the Continuing Disclosure Agreement dated as of June 1, 2006, executed by the Property Owner in connection with the issuance of the above-captioned bonds.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER'S FINANCING PLAN OR FINANCIAL CONDITION, OR THE 2006 BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE OR NEWSPAPER OF GENERAL CIRCULATION, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD OR A NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORY, ARE NOT AUTHORIZED BY THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS SEMI-ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE AGREEMENT.

Dated: \_\_\_\_\_, 20\_\_

**[BLACK MOUNTAIN RANCH LLC,**  
a California limited liability company

By: BMR Communities LLC  
a California limited liability company  
its managing member

By: Standard Pacific Corp.,  
a Delaware corporation  
its managing member

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**[STANDARD PACIFIC CORP., a Delaware corporation**

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

By: \_\_\_\_\_  
Its: \_\_\_\_\_]



EXHIBIT C

# Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission Rule 15c2-12 or any analogous state statute.

See [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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**IF THIS FILING RELATES TO A SINGLE BOND ISSUE:**

Provide name of bond issue exactly as it appears on the cover of the Official Statement  
(please include name of state where Issuer is located):

**\$51,515,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**2006 SPECIAL TAX BONDS**

(California)

Provide nine-digit CUSIP® numbers\* if available, to which the information relates:

Maturity	CUSIP®	Maturity	CUSIP®
2008	738855QF5	2016	738855QP3
2009	738855QG3	2019	738855QS7
2010	738855QH1	2020	738855QT5
2011	738855QJ7	2021	738855QU2
2012	738855QK4	2018	738855QR9
2013	738855QL2	2026	738855QV0
2014	738855QM0	2036	738855QW8
2015	738855QN8		

**\$51,495,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**IMPROVEMENT AREA A 2006 SPECIAL TAX BONDS**

(California)

Provide nine-digit CUSIP® numbers\* if available, to which the information relates:

Maturity	CUSIP®	Maturity	CUSIP®
2008	738855QX6	2016	738855RF4
2009	738855QY4	2019	738855RJ6
2010	738855QZ1	2020	738855RK3
2011	738855RA5	2021	738855RL1
2012	738855RB3	2018	738855RH0
2013	738855RC1	2026	738855RM9
2014	738855RD9	2036	738855RN7
2015	738855RE7		

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**IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:**

Issuer's Name (please include name of state where Issuer is located): \_\_\_\_\_

Other Obligated Person's Name (if any): \_\_\_\_\_  
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP® number(s) \*, if available, of Issuer: \_\_\_\_\_

\*(Contact CUSIP®'s Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP® numbers.)

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**TYPE OF FILING:**

Electronic (number of pages attached) \_\_\_\_\_  Paper (number of pages attached) \_\_\_\_\_

If information is also available on the Internet, give URL: \_\_\_\_\_

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**WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)**

A.  **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**  
(Financial information and operating data should not be filed with the MSRB.)

**Fiscal Period Covered:** \_\_\_\_\_

B.  **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

**Fiscal Period Covered:** \_\_\_\_\_

C.  **Notice of a Material Event pursuant to Rule 15c2-12** (Check as appropriate)

- |  |  |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies                                 | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security   |
| 2. <input type="checkbox"/> Non-payment related defaults   | 7. <input type="checkbox"/> Modifications to the rights of security holders                                  |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls   |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties   | 9. <input type="checkbox"/> Defeasances  |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform   | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
|  | 11. <input type="checkbox"/> Rating changes  |

D.  **Notice of Failure to Provide Annual Financial Information as Required**

E.  **Other Secondary Market Information** (Specify): \_\_\_\_\_

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**I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:**

**Issuer Contact:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Employer \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone \_\_\_\_\_ Fax \_\_\_\_\_

Email Address \_\_\_\_\_ Issuer Web Site Address \_\_\_\_\_

**Dissemination Agent Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Employer \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone \_\_\_\_\_ Fax \_\_\_\_\_

Email Address \_\_\_\_\_ Relationship to Issuer \_\_\_\_\_

**Obligor Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Obligor Web site Address \_\_\_\_\_

**Investor Relations Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Telephone \_\_\_\_\_ Email Address \_\_\_\_\_

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## APPENDIX H

### FORMS OF OPINION OF BOND COUNSEL

*Upon delivery of the Bonds, Best, Best & Krieger, San Diego, California, Bond Counsel to Community Facilities District No. 14 (Del Sur) of the Poway Unified School District, proposes to render their final approving opinions with respect to 2006 CFD Bonds and 2006 Improvement Area A Bonds in substantially the following forms:*

June 22, 2006

Board of Education  
Poway Unified School District  
13626 Twin Peaks Road  
Poway, CA 92064-3034

**\$51,515,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**2006 SPECIAL TAX BONDS**

#### **BOND OPINION**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Poway Unified School District (the "District") of Community Facilities District No. 14 (Del Sur) 2006 Special Tax Bonds in the aggregate principal amount of \$51,515,000 ("2006 CFD Bonds"). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) and Resolution No. 76-2006 adopted by the Board of Education of the Poway Unified School District (the "School District") acting in its capacity as the Legislative Body of the District on May 15, 2006, and the Bond Indenture executed in connection therewith dated as of April 1, 2006, by and between the District and Zions First National Bank, as Fiscal Agent (the "Bond Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District and the issuance of the 2006 CFD Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the District and the School District, the underwriter, certain Property Owners and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the 2006 CFD Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Bond Indenture and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any 2006 CFD Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2006 CFD Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Indenture, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the 2006 CFD Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the 2006 CFD Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the 2006 CFD Bonds.

It is to be understood that the rights and obligations under the 2006 CFD Bonds and the Bond Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the 2006 CFD Bonds. The 2006 CFD Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The District has the full right, power and authority to levy and pledge the 2006 CFD Special Taxes to the Owners of the 2006 CFD Bonds. The 2006 CFD Bonds are limited obligations of the District payable solely from and secured by an irrevocable first lien on the Special Tax Revenues, and from certain other funds and accounts pursuant to the Bond Indenture and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).

2. The Bond Indenture has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.

3. Interest on the 2006 CFD Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the 2006 CFD Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although it should be noted that with respect to corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We

express no opinion regarding other tax consequences related to the 2006 CFD Bonds or to the accrual or receipt of the interest on the 2006 CFD Bonds.

We express no opinion as to any matter other than as expressly set forth above.

Respectfully submitted,

BEST BEST & KRIEGER LLP

June 22, 2006

Board of Education  
Poway Unified School District  
13626 Twin Peaks Road  
Poway, CA 92064-3034

**\$51,495,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 14 (DEL SUR)**  
**IMPROVEMENT AREA A 2006 SPECIAL TAX BONDS**

**BOND OPINION**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Poway Unified School District (the "District") of Community Facilities District No. 14 (Del Sur) Improvement Area A 2006 Special Tax Bonds in the aggregate principal amount of \$51,495,000 (the "Improvement Area A Bonds"). The Improvement Area A Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) and Resolution No. 76-2006 adopted by the Board of Education of the Poway Unified School District (the "School District") acting in its capacity as the Legislative Body of the District on May 15, 2006, and the Bond Indenture executed in connection therewith dated as of April 1, 2006, by and between the District and Zions First National Bank, as Fiscal Agent (the "Bond Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District and the issuance of the Improvement Area A Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the District and the School District, the underwriter, certain Property Owners and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the Improvement Area A Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Bond Indenture and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any Improvement Area A Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Improvement Area A Bonds.



The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Indenture, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Improvement Area A Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the Improvement Area A Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Improvement Area A Bonds.

It is to be understood that the rights and obligations under the Improvement Area A Bonds and the Bond Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the Improvement Area A Bonds. The Improvement Area A Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The District has the full right, power and authority to levy and pledge the Special Taxes to the Owners of the Improvement Area A Bonds. The Improvement Area A Bonds are limited obligations of the District payable solely from and secured by an irrevocable first lien on the Special Tax Revenues, and from certain other funds and accounts pursuant to the Bond Indenture and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).

2. The Bond Indenture has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.

3. Interest on the Improvement Area A Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Improvement Area A Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although it should be noted that with respect to corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences related to the Improvement Area A Bonds or to the accrual or receipt of the interest on the Improvement Area A Bonds.

We express no opinion as to any matter other than as expressly set forth above.

Respectfully submitted,

BEST BEST & KRIEGER LLP

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## APPENDIX I

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2006 Bonds, payment of principal of and interest on the 2006 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2006 Bonds, confirmation and transfer of beneficial ownership interests in the 2006 Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2006 Bonds is based solely on information furnished by DTC to the Community Facilities District which the Community Facilities District believes to be reliable, but the Community Facilities District, 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, New York, will act as securities depository for the 2006 Bonds. The 2006 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 2006 Bond will be issued for each maturity of the 2006 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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has 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 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2006 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 2006 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 2006 Bonds, except in the event that use of the book-entry system for the 2006 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 2006 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 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 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 2006 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2006 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2006 Bonds documents. For example, Beneficial Owners of the 2006 Bonds may wish to ascertain that the nominee holding the 2006 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 Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2006 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 2006 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Community Facilities District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the 2006 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 Community Facilities District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the Community Facilities District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Community Facilities District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 2006 Bonds at any time by giving reasonable notice to the Community Facilities District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2006 Bond certificates are required to be printed and delivered.

The Community Facilities District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2006 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 Community Facilities District believes to be reliable, but the Community Facilities District 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 2006 Bonds, or (b) the Community Facilities District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the Community Facilities District will discontinue the Book-Entry System with DTC for the 2006 Bonds. If the Community Facilities District determines to replace DTC with another qualified securities depository, the Community Facilities District will prepare or direct the preparation of a new single separate, fully-registered Bond for each maturity of the 2006 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2006 Bonds, then the 2006 Bonds shall no longer be restricted to being registered in the 2006 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 2006 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2006 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2006 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2006 Bonds will be transferable and exchangeable as provided in the Indenture.

*The Community Facilities District and the Fiscal Agent 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 2006 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 2006 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 2006 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2006 Bonds or the Indenture. The Community Facilities District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2006 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 Community Facilities District and the Fiscal Agent 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 2006 Bonds or any error or delay relating thereto.*

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**APPENDIX J**

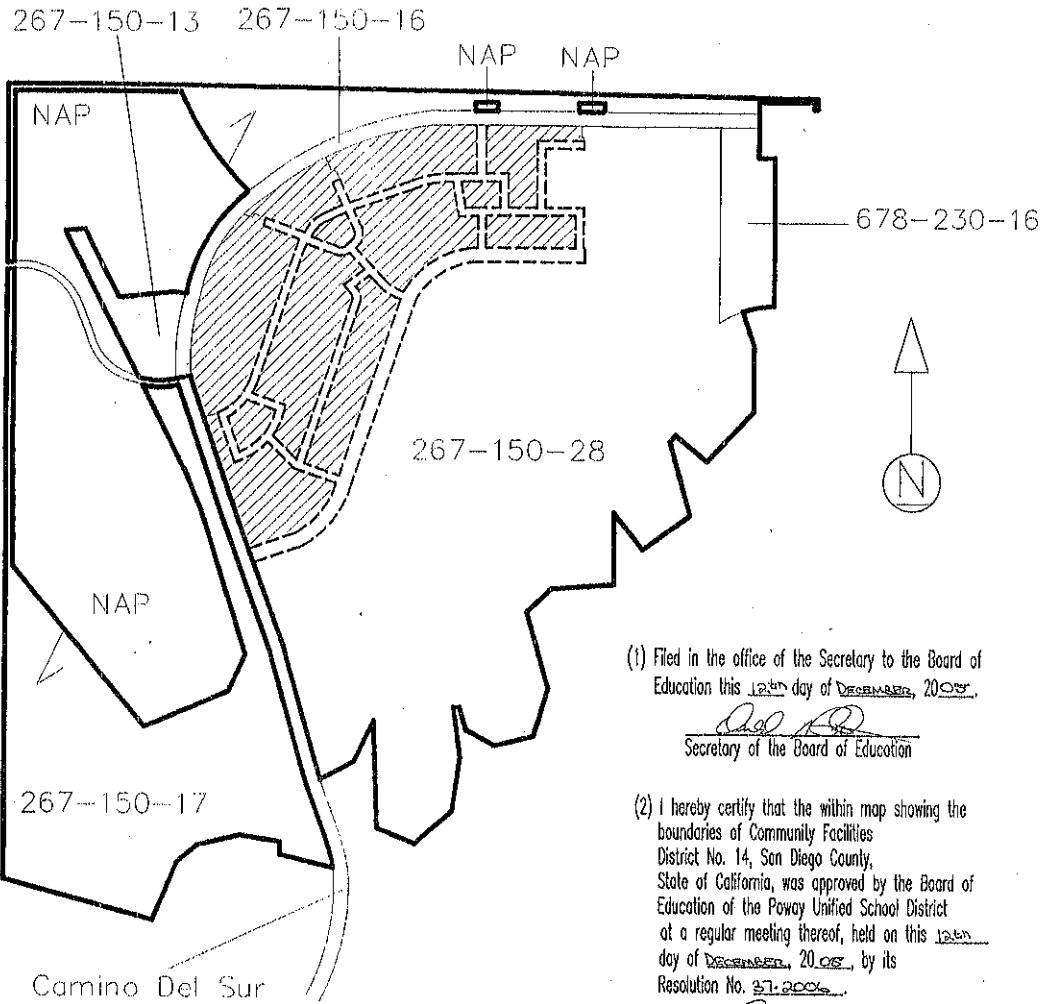
**COMMUNITY FACILITIES DISTRICT BOUNDARY MAP**

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PROPOSED BOUNDARIES OF  
 POWAY UNIFIED SCHOOL DISTRICT  
 COMMUNITY FACILITIES DISTRICT NO. 14  
 SAN DIEGO COUNTY  
 STATE OF CALIFORNIA

THE ORIGINAL OF THIS DOCUMENT  
 WAS RECORDED ON: DEC 29 2005  
 DOCUMENT NUMBER: 2005117528  
 GREGORY J. SMITH COUNTY RECORDER  
 SAN DIEGO COUNTY RECORDER'S OFFICE  
 TIME: 4:49 PM



(1) Filed in the office of the Secretary to the Board of Education this 12<sup>th</sup> day of December, 2005.  
*[Signature]*  
 Secretary of the Board of Education

(2) I hereby certify that the within map showing the boundaries of Community Facilities District No. 14, San Diego County, State of California, was approved by the Board of Education of the Poway Unified School District at a regular meeting thereof, held on this 12<sup>th</sup> day of December, 2005, by its Resolution No. 27-2005.  
*[Signature]*  
 Secretary of the Board of Education

(3) Filed this 29 day of Dec., 2005, at the hour of 4:49 o'clock P.M., in Book 40 of Maps of Assessment and Community Facilities Districts at page 11 and as Instrument No. 05-117528 in the office of the County Recorder of San Diego County, State of California.  
*[Signature]*  
 County Recorder of San Diego County

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

LEGEND

	Boundaries of Community Facilities District No. 14
	Road Easements (Not a part of CFD No. 14)
	Assessor's Parcel Line
	San Diego County Assessor's Parcel Number
	Not a Part of CFD No. 14
	Exhibit A

PREPARED BY  
 DAVID TAUSSIG & ASSOCIATES, INC.

EXHIBIT "A"  
BOUNDARIES OF  
POWAY UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 14

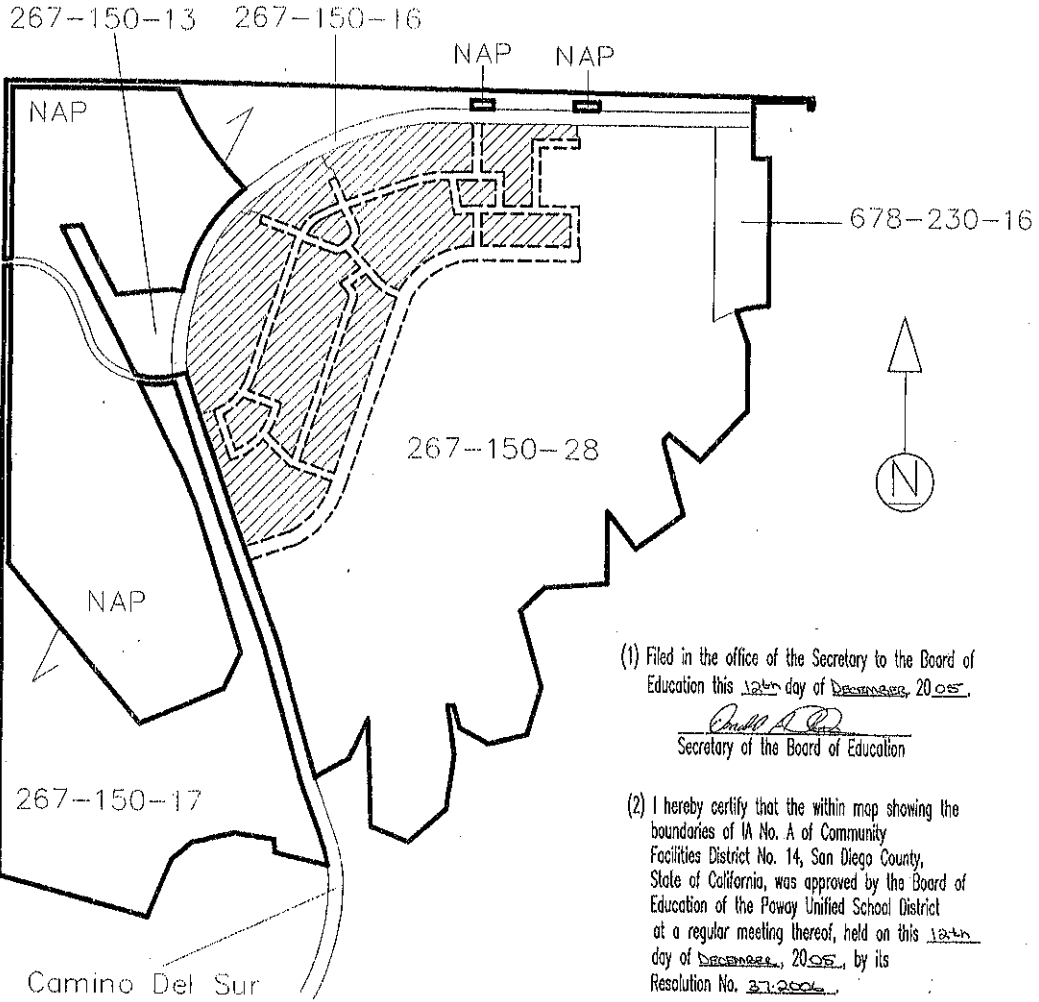
Assessor's Parcel Numbers\*

267-150-20  
267-150-21  
267-150-22  
267-150-23  
267-150-24  
267-150-25  
267-230-01  
267-230-02  
267-230-03  
267-230-04  
267-230-05  
267-230-06  
267-230-07

\*Current as of equalized  
tax Role of the Assesor of  
the County of San Diego  
for Fiscal Year 2005-06

PROPOSED BOUNDARIES OF  
POWAY UNIFIED SCHOOL DISTRICT  
IMPROVEMENT AREA NO. A OF  
COMMUNITY FACILITIES DISTRICT NO. 14  
SAN DIEGO COUNTY  
STATE OF CALIFORNIA

THE ORIGINAL OF THIS DOCUMENT  
WAS RECORDED ON DEC 29 2005  
DOCUMENT NUMBER: 2005-1117527  
GREGORY J. SMITH, COUNTY RECORDER  
SAN DIEGO COUNTY RECORDER'S OFFICE  
TIME: 4:49 PM



LEGEND

	Boundaries of IA No. A of Community Facilities District No. 14
	Road Easements (Not a part of IA No. A of CFD No. 14)
	Assessor's Parcel Line
	San Diego County Assessor's Parcel Number
NAP	Not a Part of IA No. A of CFD No. 14
	Exhibit A

(1) Filed in the office of the Secretary to the Board of Education this 12th day of December, 2005.  
*Chad A. [Signature]*  
Secretary of the Board of Education

(2) I hereby certify that the within map showing the boundaries of IA No. A of Community Facilities District No. 14, San Diego County, State of California, was approved by the Board of Education of the Poway Unified School District at a regular meeting thereof, held on this 12th day of December, 2005, by its Resolution No. 37-2005.  
*[Signature]*  
Secretary of the Board of Education

(3) Filed this 29 day of Dec., 2005, at the hour of 4:49 o'clock P.m., in Book 40 of Maps of Assessment and Community Facilities Districts at page 10 and as instrument No. 05-1117527, in the office of the County Recorder of San Diego County, State of California.  
*[Signature]*  
County Recorder of San Diego County

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

PREPARED BY  
DAVID TAUSSIG & ASSOCIATES, INC.

EXHIBIT "A"  
BOUNDARIES OF  
POWAY UNIFIED SCHOOL DISTRICT  
IMPROVEMENT AREA NO. A OF  
COMMUNITY FACILITIES DISTRICT NO. 14

Assessor's Parcel Numbers\*

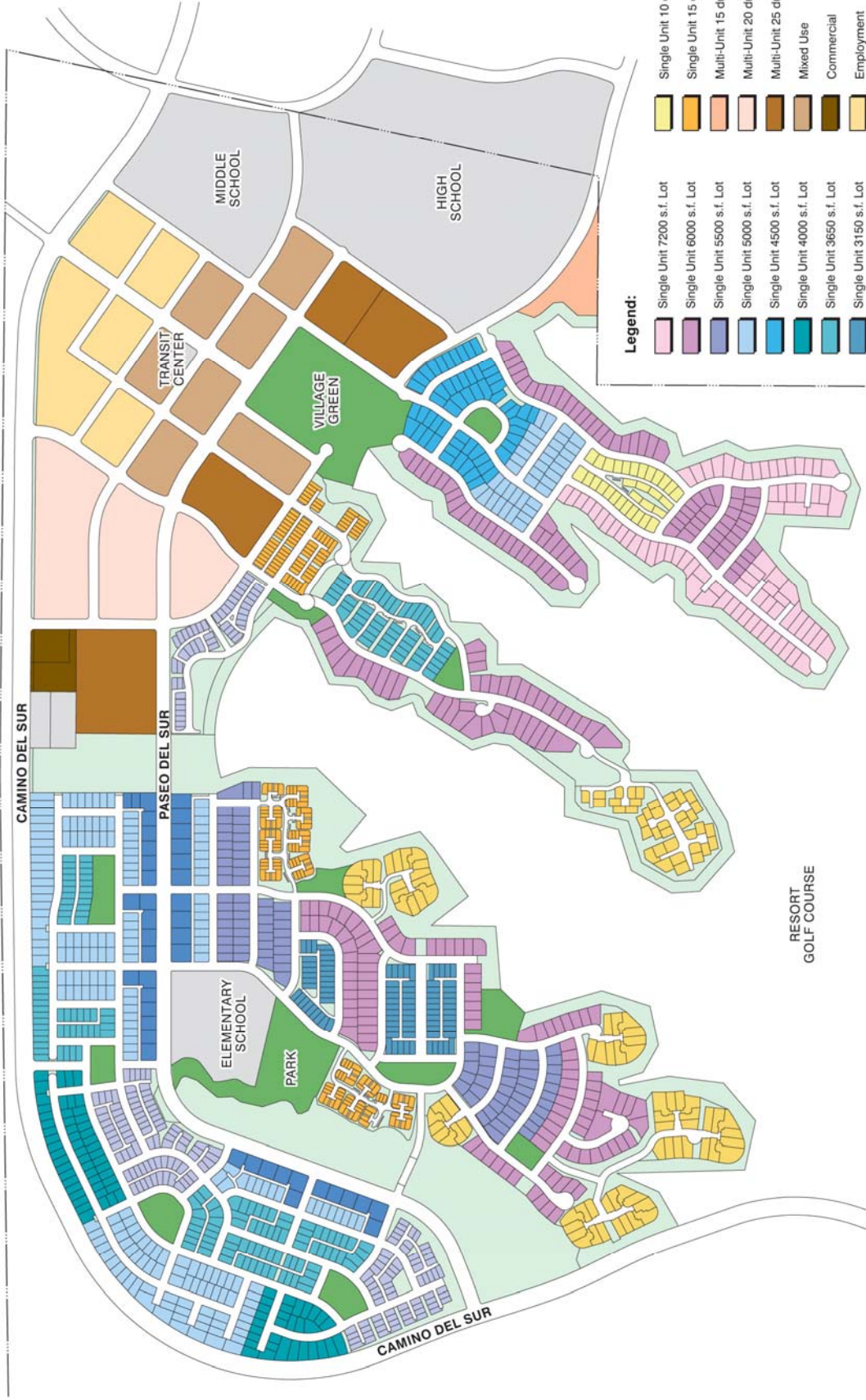
267-150-20  
267-150-21  
267-150-22  
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267-150-25  
267-230-01  
267-230-02  
267-230-03  
267-230-04  
267-230-05  
267-230-06  
267-230-07

\*Current as of equalized  
tax Role of the Assesor of  
the County of San Diego  
for Fiscal Year 2005-06

**APPENDIX K**

**LAND USE PLAN AND UNIT AREAS MAPS**

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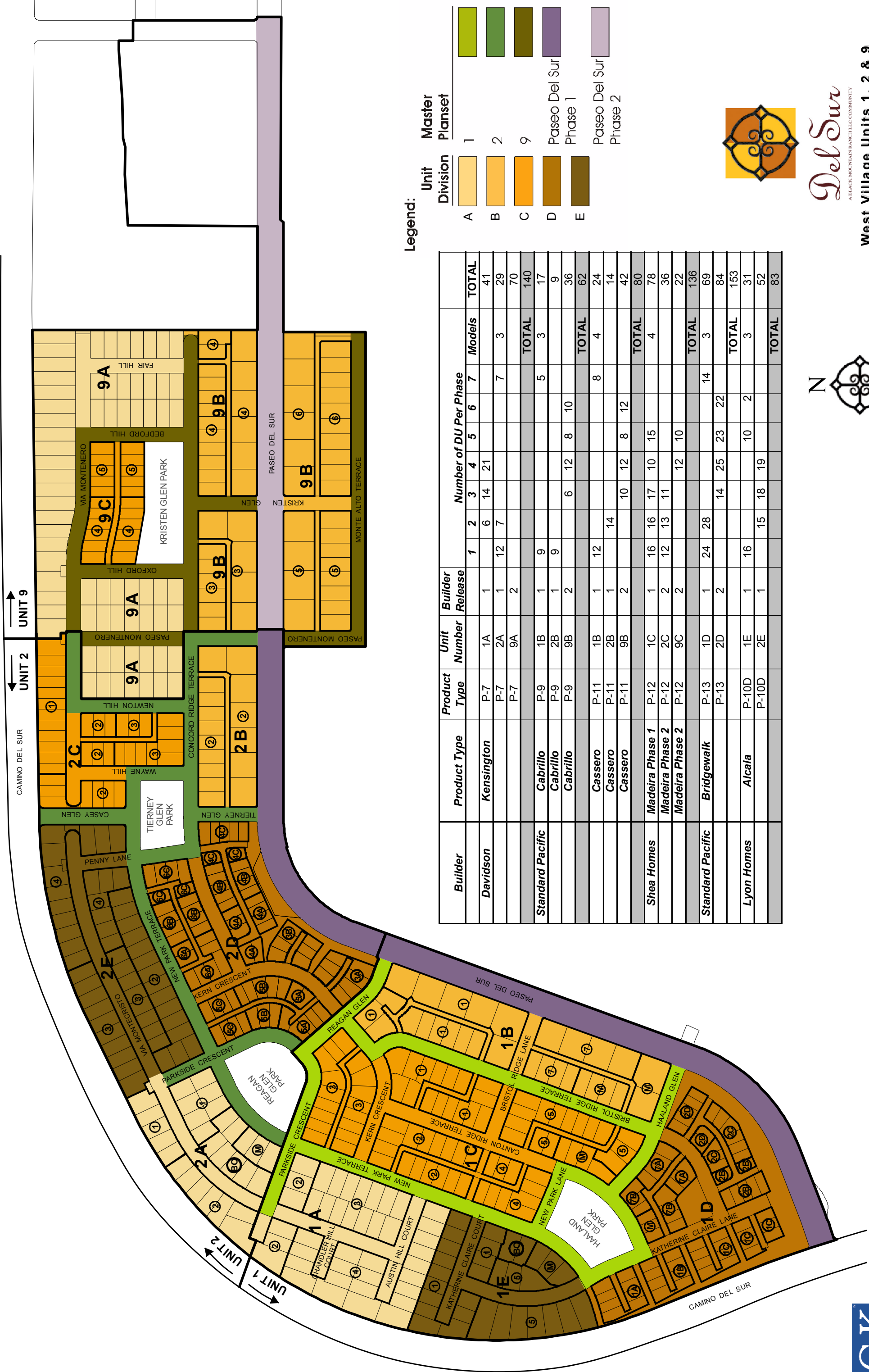
**Legend:**

- Single Unit 7200 s.f. Lot
- Single Unit 10 du/ac.
- Single Unit 6000 s.f. Lot
- Single Unit 15 du/ac.
- Single Unit 5500 s.f. Lot
- Multi-Unit 15 du/ac.
- Single Unit 5000 s.f. Lot
- Multi-Unit 20 du/ac.
- Single Unit 4500 s.f. Lot
- Multi-Unit 25 du/ac.
- Single Unit 4000 s.f. Lot
- Mixed Use
- Single Unit 3650 s.f. Lot
- Commercial
- Single Unit 3150 s.f. Lot
- Employment
- Single Unit 2450 s.f. Lot
- Public Facilities
- Single Unit Attached
- Parks
- Single Unit 5 du/ac.
- Open Space

**Land Use Plan - North Village (Phase II-B)**

**Black Mountain Ranch**

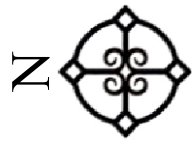




Legend:

Unit Division	Master Planset
A	1
B	2
C	9
D	Paseo Del Sur Phase 1
E	Paseo Del Sur Phase 2

Builder	Product Type	Product Type	Unit Number	Builder Release	Number of DU Per Phase							TOTAL
					1	2	3	4	5	6	7	
Davidson	Kensington	P-7	1A	1	6	14	21					41
			2A	1	12	7					3	29
			9A	2								70
Standard Pacific	Cabrillo	P-9	1B	1	9							140
			2B	1	9						17	
			9B	2	6	12	8	10			36	
											TOTAL	62
	Cassero	P-11	1B	1	12							24
			2B	1	14						14	
			9B	2	10	12	8	12			42	
											TOTAL	80
Shea Homes	Madeira Phase 1	P-12	1C	1	16	16	17	10	15			78
			2C	2	12	13	11				36	
			9C	2							22	
											TOTAL	136
Standard Pacific	Bridgewalk	P-13	1D	1	24	28					69	
			2D	2	14	25	23	22			84	
											TOTAL	153
Lyon Homes	Alcala	P-10D	1E	1	16	15	18	19				52
			2E	1								83
											TOTAL	83



Not to Scale



Del Sur  
A BLACK MOUNTAIN RANCH LLC COMMUNITY

West Village Units 1, 2 & 9  
**BUILDER RELEASE 1 & 2**  
1-24-06





**Legend:**

- Unit Division
- 6,000 s.f.
- 5,500 s.f.
- Alley
- Cluster
- Motor Courts
- Master Unit 3 & 4
- Master Unit 5
- Master Utilities
- Reclaimed Water
- Potable Water
- North Arrow

**Product Type Summary:**

Product Type	Minimum <sup>1</sup> Pad Size	Minimum Lot Size	Number of DU Unit 3	Number of DU Unit 4	Number of DU Unit 5	Total DU
6,000 s.f.	60 x 100	60 x 100	69		39	108
5,500 s.f.	55 x 100	55 x 100	42		54	96
Alley	35 x 90	35 x 90	60		29	89
Cluster <sup>2</sup>	Varies	Varies	55		21	76
Motor Courts <sup>3</sup>	Varies	Varies		55	70	125
<b>Total DU</b>			<b>226</b>	<b>55</b>	<b>213</b>	<b>494</b>

1. Minimum Pad Size is the graded area created for the dwelling unit and yards. Excludes required building setbacks.
2. Product configuration varies, see Improvement Plans.
3. Motor courts are attached units. Also see Note 2.



Not to Scale



*Del Sur*  
A BLACK MOUNTAIN RANCH LLC COMMUNITY

**West Ridge  
PRODUCT TYPES  
BY UNIT**

11-15-04

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