

NEW ISSUE

NOT RATED

*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 2005 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.*

**\$44,305,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**SPECIAL TAX BONDS, SERIES 2005**

**\$30,000,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**IMPROVEMENT AREA B**  
**2005 SPECIAL TAX BONDS**

**Dated: Date of Delivery**

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

The Community Facilities District No. 6 (4S Ranch) Special Tax Bonds, Series 2005 (the "2005 CFD Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Bond Indenture, dated as of August 1, 2002 (the "Original Bond Indenture"), by and between the Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the "Community Facilities District") and Zions First National Bank, successor to State Street Bank and Trust Company of California, N.A., as fiscal agent (the "Fiscal Agent"), as amended and supplemented by the First Supplemental Indenture, dated as of November 1, 2005, by and between the Community Facilities District and the Fiscal Agent (the "First Supplemental Indenture" and together with the Original Bond Indenture, the "CFD Bond Indenture"). The 2005 CFD Bonds are issued on a parity with the Community Facilities District No. 6 (4S Ranch) Special Tax Bonds, Series 2002 (the "2002 CFD Bonds") and any additional parity bonds issued under the CFD Bond Indenture. The Improvement Area B 2005 Special Tax Bonds (the "Improvement Area B Bonds" and together with the 2005 CFD Bonds, the "2005 Bonds") are being issued under the Act and the Bond Indenture, dated as of November 1, 2005 (the "Improvement Area B Bond Indenture" and together with the CFD Bond Indenture, the "Bond Indentures"), by and between the Community Facilities District and the Fiscal Agent. The 2005 CFD Bonds and the Improvement Area B Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within the Community Facilities District and Improvement Area B, respectively, according to the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the Community Facilities District and Improvement Area B 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 2005 CFD Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school facilities (the "School Facilities"), (ii) to increase the reserve fund for the CFD Bonds, and (iii) to pay the costs of issuing the 2005 CFD Bonds. The Improvement Area B Bonds are being issued (i) to 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 Improvement Area B Bonds, (iii) to pay the costs of issuing the Improvement Area B Bonds and (iv) in the case of the Improvement Area B Bonds, to pay interest on the 2005 Bonds through September 1, 2006 and Administrative Expenses. See "ESTIMATED SOURCES AND USES OF FUNDS" and "SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS" herein.

Interest on the 2005 Bonds is payable on March 1, 2006 and semiannually thereafter on each March 1 and September 1. The 2005 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2005 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 2005 Bonds as described herein under "THE 2005 BONDS — Book-Entry and DTC."

*The 2005 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein.*

**THE 2005 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2005 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 2005 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 2005 BONDS. OTHER THAN THE COMMUNITY FACILITIES DISTRICT SPECIAL TAXES AND IMPROVEMENT AREA B SPECIAL TAXES, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2005 BONDS. THE 2005 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 THE IMPROVEMENT AREA B SPECIAL TAXES LEVIED 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 2005 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 2005 Bonds.*

The 2005 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 2005 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about November 22, 2005.

**STONE & YOUNGBERG LLC**

Dated: November 4, 2005

**MATURITY SCHEDULE****\$44,305,000****POWAY UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)  
\$13,120,000 SERIAL BONDS****SPECIAL TAX BONDS, SERIES 2005**

Base CUSIP® No. 738855†

<b>Maturity (September 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield/ Price</b>	<b>CUSIP® No.†</b>	<b>Maturity (September 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield/ Price</b>	<b>CUSIP® No.†</b>
2006	\$ 80,000	3.00%	2.95%	PY5	2016	\$ 610,000	4.70%	100.00%	PK5
2007	60,000	3.25	3.05	PA7	2017	695,000	4.80	100.00	PL3
2008	105,000	3.50	3.40	PB5	2018	780,000	4.80	4.85	PM1
2009	155,000	3.75	3.65	PC3	2019	875,000	4.80	4.90	PN9
2010	205,000	4.00	3.85	PD1	2020	975,000	4.85	4.95	PP4
2011	265,000	4.25	4.05	PE9	2021	1,080,000	5.00	100.00	PQ2
2012	320,000	4.25	4.20	PF6	2022	1,200,000	5.00	5.04	PR0
2013	390,000	4.50	4.35	PG4	2023	1,315,000	5.00	5.08	PS8
2014	455,000	4.50	100.00	PH2	2024	1,445,000	5.00	5.10	PT6
2015	530,000	4.60	100.00	PJ8	2025	1,580,000	5.00	5.12	PU3

\$5,650,000 5.125% 2005 CFD Term Bonds due September 1, 2028 Yield 5.17% CUSIP® No. 738855PX7†

\$25,535,000 5.125% 2005 CFD Term Bonds due September 1, 2035 Yield 5.21% CUSIP® No. 738855PZ2†

**MATURITY SCHEDULE****\$30,000,000****POWAY UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)  
\$9,380,000 SERIAL BONDS****IMPROVEMENT AREA B 2005 SPECIAL TAX BONDS**

Base CUSIP® No. 738855†

<b>Maturity (September 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield/ Price</b>	<b>CUSIP® No.†</b>	<b>Maturity (September 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield/ Price</b>	<b>CUSIP® No.†</b>
2007	\$ 50,000	3.25%	3.05%	MU6	2017	\$ 500,000	4.80%	100.00%	NE1
2008	85,000	3.50	3.40	MV4	2018	560,000	4.75	4.85	NF8
2009	120,000	3.75	3.65	MW2	2019	625,000	4.80	4.90	NG6
2010	160,000	4.00	3.85	MX0	2020	695,000	4.85	4.95	NH4
2011	200,000	4.25	4.05	MY8	2021	770,000	5.00	100.00	NJ0
2012	240,000	4.25	4.20	MZ5	2022	850,000	5.00	5.04	NK7
2013	285,000	4.50	4.35	NA9	2023	935,000	5.00	5.08	NL5
2014	335,000	4.50	100.00	NB7	2024	1,025,000	5.00	5.10	NM3
2015	385,000	4.60	100.00	NC5	2025	1,120,000	5.00	5.12	NN1
2016	440,000	4.70	100.00	ND3					

\$4,000,000 5.125% Improvement Area B 2005 Term Bonds due September 1, 2028 Price 5.17% CUSIP® No. 738855NR2†

\$16,620,000 5.125% Improvement Area B 2005 Term Bonds due September 1, 2036 Price 5.23% CUSIP® No. 738855NZ4†

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**POWAY UNIFIED SCHOOL DISTRICT**

**BOARD OF EDUCATION**

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

**DISTRICT CHIEF ADMINISTRATORS**

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

**BOND COUNSEL/DISTRICT SPECIAL COUNSEL**

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San Diego, California

**SCHOOL DISTRICT COUNSEL**

Best Best & Krieger LLP  
San Diego, California

**DISCLOSURE COUNSEL**

McFarlin & Anderson LLP  
Lake Forest, California

**APPRAISER**

Stephen G. White, MAI  
Fullerton, California

**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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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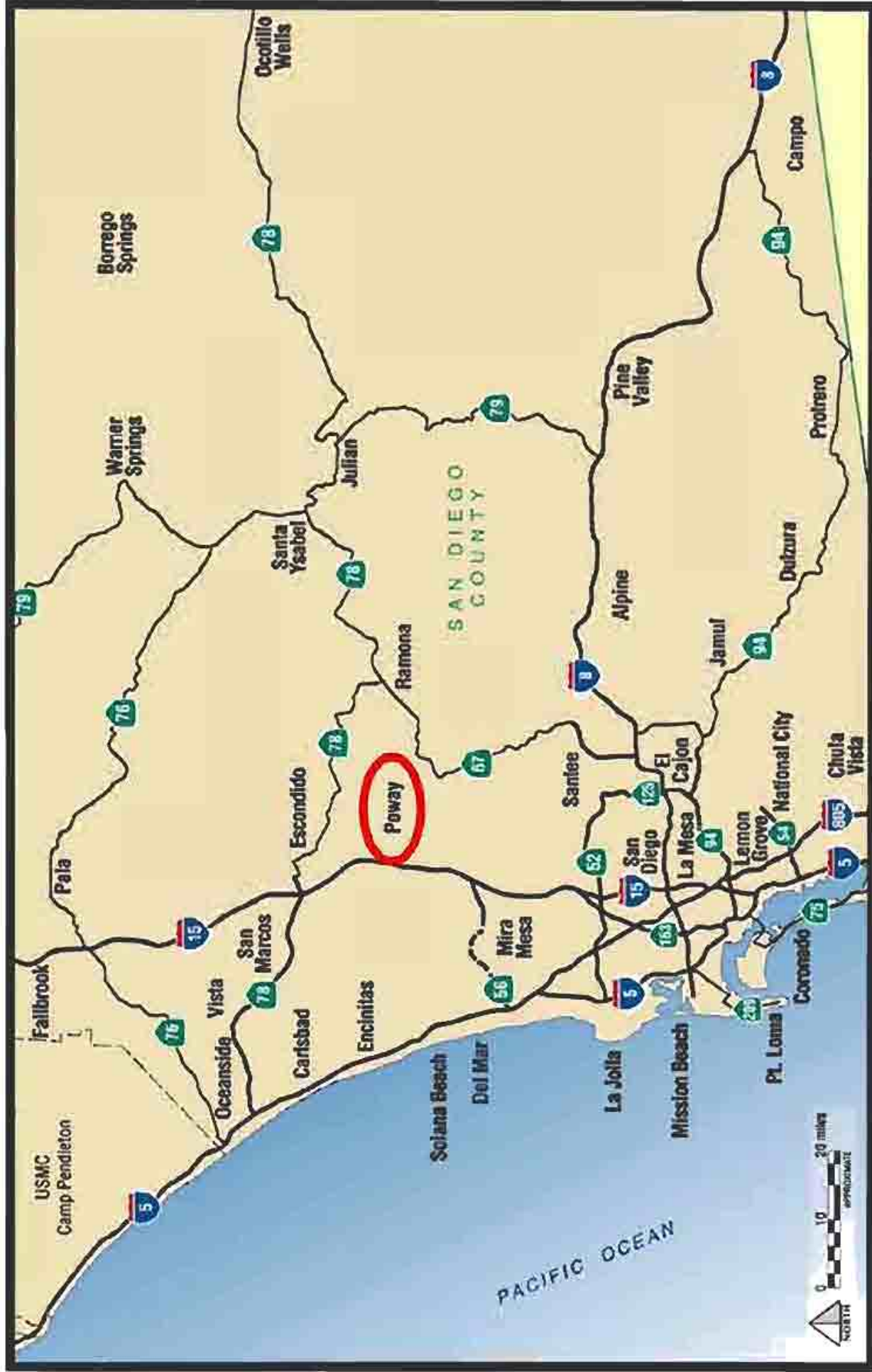
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# **Poway Unified School District (San Diego County, California)**

## **Regional Location Map**





**POWAY UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 6  
(4S RANCH)**

© 2005 Aerial Portraits

Date Flown: August 30, 2005

Boundaries shown are approximate





## OFFICIAL STATEMENT

**\$44,305,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**SPECIAL TAX BONDS, SERIES 2005**

**\$30,000,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**IMPROVEMENT AREA B**  
**2005 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 2005 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. 6 (4S Ranch) Special Tax Bonds, Series 2005 (the “2005 CFD Bonds”) and Improvement Area B 2005 Special Tax Bonds (the “Improvement Area B Bonds,” and together with the 2005 CFD Bonds, the “2005 Bonds”).

The 2005 CFD Bonds are being issued under the Mello-Roos Community Facilities Act of 1982 (as defined herein) and the Bond Indenture, dated as of August 1, 2002 (the “Original Bond Indenture”), by and between the Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the “Community Facilities District”) and Zions First National Bank, successor to State Street Bank and Trust Company of California, N.A., as fiscal agent (the “Fiscal Agent”), as amended and supplemented by the First Supplemental Indenture, dated as of November 1, 2005, by and between the Community Facilities District and the Fiscal Agent (the “First Supplemental Indenture” and together with the Original Bond Indenture, the “CFD Bond Indenture”). The Improvement Area B Bonds are being issued under the Act and the Bond Indenture, dated as of November 1, 2005 (the “Improvement Area B 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 2005 BONDS – Authority for Issuance” herein. The Community Facilities District may issue additional bonds payable on a parity with the 2005 CFD Bonds and has issued the \$25,000,000 aggregate principal amount of Community Facilities District No. 6 (4S Ranch) Special Tax Bonds, Series 2002 (the “2002 CFD Bonds”) on October 10, 2002, pursuant to the provisions of the CFD Bond Indenture. See “SECURITY FOR THE 2005 BONDS – Parity Bonds.”

### 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 and portions of the City of San Diego and the unincorporated area of the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-two (22) 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 32,750 students enrolled during Fiscal Year 2004-05. 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 March 24, 1998 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 March 24, 1998 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 \$130,000,000 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 2002, the owners of property within portions of the Community Facilities District requested the School District to form three separate improvement areas (each an “Improvement Area”) within a portion of 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 \$62,000,000, such amount to be payable from special taxes levied pursuant to a separate rate and method of apportionment of special tax with respect to each Improvement Area within the Community Facilities District. The Community Facilities District was authorized to issue \$18,000,000 aggregate principal amount of bonds with respect to Improvement Area A, \$30,000,000 aggregate principal amount of bonds with respect to Improvement Area B and \$14,000,000 aggregate principal amount of bonds with respect to Improvement Area C. As indicated above, on October 10, 2002, the Community Facilities District issued the 2002 CFD Bonds. On December 19, 2002, the Community Facilities District issued an aggregate principal amount of \$18,000,000 of Improvement Area A Bonds (“Improvement Area A Bonds”). The Community Facilities District levies a separate special tax pursuant to the applicable Community Facilities District and will levy a separate special tax pursuant to the Improvement Area B Rate and Method of Apportionment of Special Tax. No cross-collateralization exists between the CFD Bonds and 2005 Improvement Area B Bonds. No cross-collateralization exists between bonds of Improvement Area A, Improvement Area B and Improvement Area C. See “SECURITY FOR THE 2005 BONDS – Rates and Methods” and “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood 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 the Improvement Areas. 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. In Fiscal Year 2006-07 Special Taxes on Developed Property in the Community Facilities District are estimated to be sufficient to pay debt service on the 2005 CFD Bonds. See “SECURITY FOR THE 2005 BONDS – Rates and Methods – *Community Facilities District Rate and Method.*” The School District will use such Special Taxes and proceeds of the 2005 CFD Bonds and any Parity Bonds for the acquisition, construction, rehabilitation and improvement of the School Facilities. The 2005 CFD Bonds are secured by or payable from the Special Tax levied to finance the School Facilities. The 2005 CFD Bonds will only finance School Facilities and will not finance Infrastructure Improvements. The 2005 CFD Bonds will not be secured by or payable from the special tax proposed to be authorized to be levied 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 in Improvement Area B as set forth in the First Amended Rate and Method of Apportionment of Special Tax for the Community Facilities District No. 6 of the Poway Unified School District (Improvement Area B) (the “Improvement Area B Rate and Method” and together with the Community Facilities District Rate and Method, each a “Rate and Method” and together the “Rates and Methods”). See “SECURITY FOR THE 2005 BONDS – Rates and Methods – *Improvement Area B Rate and Method.*” The Community Facilities District will use such Special Taxes levied pursuant to the Improvement Area B Rate and Method and proceeds of the Improvement Area B Bonds for the acquisition, construction, rehabilitation and improvement of the Infrastructure Improvements. The Improvement Area B Bonds are secured by or payable from the Special Tax levied pursuant to the Improvement Area B Rate and Method to finance the Infrastructure Improvements. The Improvement Area B Bonds will only finance Infrastructure Improvements. The Improvement

Area B 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 north and south of Rancho Bernardo Road, approximately two miles west of Interstate 15, in the northern unincorporated portion of the County. The Community Facilities District lies within the area of the new master-planned community known as "4S Ranch" and is part of the specific plan area known as "4S Ranch." The Community Facilities District is an extension of the ongoing development of the community of Rancho Bernardo. The Community Facilities District is comprised of approximately 2,888 gross acres expected to be developed with approximately 4,500 residential units, commercial and industrial property and school sites. The area consists of rolling terrain with slopes and knolls. Within the Community Facilities District approximately 1,612 acres is designated as natural open space and approximately 195 acres is designated as managed open space for brush management and major internal slopes.

The property within the Community Facilities District is planned to be developed in phases, which are referred to as Neighborhoods One, Two, Three and Four. Neighborhood One is not within any Improvement Area. The boundaries of Neighborhood Two are coterminous with the boundaries of Improvement Area A, the boundaries of Neighborhood Three are coterminous with the boundaries of Improvement Area B and the boundaries of Neighborhood Four are coterminous with the boundaries of Improvement Area C. As described below, sales to merchant builders commenced in Neighborhood One in 2000, sales to merchant builders in Neighborhood Two commenced in the third quarter of 2002 and sales in Neighborhood Three commenced in the first quarter of 2004. The land for Neighborhood Four is currently being graded. Sales of these sites to merchant builders in Neighborhood Four are anticipated to take place from 2006 through 2007.

The property within the Community Facilities District was primarily owned by 4S Kelwood General Partnership, a California general partnership ("4S Kelwood") at the time of formation of the Community Facilities District. 4S Kelwood has acted as the master developer. In addition, there are approximately 33 acres within Neighborhood Four which are owned by another landowner, 4S Ranch Company 600, L.P., which may be developed with approximately 36 Detached Units. At build-out, the Community Facilities District is expected to be comprised of approximately 4,500 residential units and some commercial and industrial property and school sites. Approximately 3,080 units are expected to be Detached Units (as defined in each Rate and Method), approximately 1,279 units are expected to be Attached Units (as defined in each Rate and Method), and approximately 141 units (120 in Neighborhood One and 21 in Neighborhood Four) are expected to be Affordable Units (as defined in each Rate and Method). As mentioned above, approximately 36 of the 3,080 Detached Units may be constructed on property within the Community Facilities District which was not within the property initially owned by 4S Kelwood. Of the 1,279 Attached Units, approximately 519 units are expected to be a portion of a 540 unit apartment complex proposed for a site currently zoned for commercial use in Neighborhood Four. The residential use is allowed in the commercial zoning and the proposed project has an approved Major Use Permit. The remaining units in the apartment complex are expected to be the 21 Affordable Units mentioned above.

Annual Special Taxes for the Community Facilities District will be levied on Taxable Property for the acquisition and construction of elementary, middle, and high school facilities, 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 and related expenses. There is also a One-Time Special Tax to be levied on the date a building permit is issued for the construction of a structure other than a residential structure for such purposes. The One-Time Special Tax is not pledged to payment of the Bonds.

Annual Special Taxes for Improvement Area B will be levied on Taxable Property within Improvement Area B for the acquisition and construction of Infrastructure Improvements.

The partners of 4S Kelwood are 4S Ranch Company 1700, L.P., a California limited partnership ("4S Ranch Company 1700"), and Kelwood Development Company LLC, a Delaware limited liability company ("Kelwood Development Company"), the sole managing partner. Kelwood Development Company is owned by Genstar Land Company, LLC, a Delaware limited liability company ("Genstar"), which is related to Newland Communities LLC, a Delaware limited liability company ("Newland Communities"). The 4S Ranch development project is managed by Newland-IHP Management, LLC, a Delaware limited liability company ("Newland-IHP Management, LLC"), and Kelwood Development Company. 4S Kelwood originally owned approximately 520 net residential acres (1,681 gross acres) expected to be developed with approximately 4,464 of the approximately 4,500 residential units.

Neighborhood One was proposed for 1,204 homes. All 1,204 of the proposed homes have been constructed in Neighborhood One and conveyed to homeowners. Neighborhood Two was proposed for construction of 565 homes. 474 of the proposed homes have been constructed and conveyed to homeowners. 61 of the remaining 30 lots have been conveyed to merchant builders, and 59 production homes are under construction. 30 lots have not yet been conveyed to merchant builders.

Within Neighborhood Three, 4S Kelwood has closed sales or entered into contracts for the sale of residential lots for approximately 1,573 of the 1,868 proposed Attached and Detached Units to the following merchant builders or one or more entities affiliated therewith: (i) William Lyon Homes ("William Lyon Homes"); (ii) Standard Pacific ("Standard Pacific"); (iii) John Laing Homes ("John Laing Homes"); (iv) Lennar Homes ("Lennar Homes"); (v) Fieldstone Communities, Inc. ("Fieldstone Communities"); (vi) Shea Homes ("Shea Homes"); (vii) SeaCountry Homes ("SeaCountry Homes"); (viii) Davidson Communities ("Davidson Communities"); (ix) Buie Communities ("Buie Communities"); and (x) K. Hovnanian ("K. Hovnanian"). As of September 1, 2005, Fieldstone Communities closed escrow on 25 completed homes, Davidson 4S Area 43 LLC closed escrow on 12 completed homes. There are no Affordable Units within Improvement Area B; Affordable Units are not subject to the Special Tax.

At this time, the Community Facilities District estimates that Merchant Builders will be responsible for a significant portion of the Fiscal Year 2006-07 Community Facilities District Special Tax levy and for a significant portion of the Fiscal Year 2006-07 Improvement Area B Special Tax levy. Based on estimated aggregated debt service on the CFD Bonds and Administrative Expenses which combined total approximately \$3,783,420 for the bond year ending September 1, 2007, it is estimated that 1,851 building permits must be issued within the entire Community Facilities District by January 1, 2006 (the cutoff date for Developed Property pursuant to the Community Facilities District Rate and Method), for the Fiscal Year 2006-07 Community Facilities District Special Tax levy for the CFD Bonds to be on Developed Property only, with no levy on Undeveloped Property. David Taussig and Associates, Inc. has confirmed with the County of San Diego that at least 1,851 building permits had been issued as of September 1, 2005, for units within the Community Facilities District. Based on the foregoing information, the Community Facilities District estimates that no Community Facilities District Special Tax will be levied on Undeveloped Property in Fiscal Year 2006-07. 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 2006-07 Community Facilities District Special Tax levy and for a significant portion of the Fiscal Year 2006-07 Improvement Area B Special Tax levy. However, at this time, the Community Facilities District cannot estimate the portion of the Fiscal Year 2006-07 for which the Merchant Builders will be responsible. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)" for a description of the Community Facilities District, 4S Kelwood, the Merchant Builders and the development within the Community Facilities District.

Within Neighborhood Three, as of September 1, 2005, 4S Kelwood has sold residential acreage expected to be developed with approximately 1,573 of the 1,868 residential units by various merchant builders. The various merchant builders currently anticipated to be involved in development within Improvement Area B 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 "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – *Improvement Area B*" herein for a description of ownership, legal entities and proposed projects. Commonly recognized builder names affiliated with the Merchant Builders include: William Lyon Homes, Standard Pacific, John Laing Homes, Fieldstone Communities, Shea Homes, SeaCountry Homes, and Davidson Communities. 4S Kelwood entered into contracts for sale of 231 parcels to entities affiliated with William Lyon Homes, Fieldstone Communities,



and Buie Communities. Properties sold, or under contract for sale in Neighborhood Three (Improvement Area B), aggregate approximately 1,804 residential units (approximately 1,041 Detached Units and 763 Attached Units). 4S Kelwood is negotiating with K. Hovnanian II at 4S, LLC for the sale of the remaining parcels for 64 detached homes.

### **Purpose of the 2005 Bonds**

The Community Facilities District was formed pursuant to a School Impact Mitigation Agreement dated as of February 1, 1998 among the School District, 4S Kelwood, 4S Ranch Company, a California limited partnership and 4S Ranch Company 600, L.P., a California limited partnership (the "Impact Mitigation Agreement"). The Impact Mitigation Agreement originally required the property owners (and their successors-in-interest) to include their property in a community facilities district in order to finance School Facilities and was amended by a supplement to the Impact Mitigation Agreement, dated June 17, 2002, to, among other things, provide for the issuance of bonds of the Improvement Areas to fund Infrastructure Improvements. See "SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS," "SECURITY FOR THE 2005 BONDS – Rates and Methods – *Improvement Area B Rate and Method*" and "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Property Ownership" and "– 4S Kelwood and the Merchant Builders" herein.

### **Sources of Payment for the 2005 Bonds**

The 2005 CFD Bonds and the Improvement Area B Bonds are secured by and payable from a first pledge of "Net Special Tax Revenues" of the Community Facilities District and Improvement Area B, respectively, which is defined in each Bond Indenture as proceeds of the Community Facilities District Special Taxes or Improvement Area B 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 B 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 \$42,500 with respect to the CFD Bonds for Fiscal Year 2005-06 and \$25,000 with respect to the Improvement Area B Bonds for Fiscal Year 2005-06, and subject in each case to escalation by 2% 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 B, as applicable and the Delinquency Proceeds and the "Delinquency Proceeds" as described above.

*The CFD Bonds and the Improvement Area B 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.*

Pursuant to the Act, the applicable Rate and Method, the Resolutions of Formation (as defined herein) and the applicable Bond Indenture, so long as each Series of Bonds are outstanding, the Community Facilities District will annually ascertain the parcels on which the Special Taxes are to be levied taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District shall effect the levy of the Special Taxes in accordance with the applicable Rate and Method and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within the Community Facilities District and Improvement Area B for inclusion on the next real property tax roll. See "SECURITY FOR THE 2005 BONDS – Special Taxes" herein.

Each Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, including the Affordable Units, subject to certain limitations. See "SECURITY FOR THE 2005 BONDS – Rates and Methods" and "BONDOWNERS' RISKS – Exempt Properties."

The 2005 CFD Bonds and the Improvement Area B Bonds are also secured by a first pledge of all moneys deposited in the applicable Reserve Fund. See "SECURITY FOR THE 2005 BONDS." A separate Reserve Fund was established out of the proceeds of the sale of the 2002 CFD Bonds which Reserve Fund will be increased with proceeds of the sale of the 2005 CFD Bonds, and a separate Reserve Fund will be established out of the proceeds of the Improvement Area B Bonds, each in an amount equal to the applicable Reserve Requirement. Each Bond Indenture defines each Reserve Requirement as an amount, as of any date of calculation, equal to the least of (i) the then maximum annual debt service on the CFD Bonds or the Improvement Area B Bonds, as applicable, (ii) 125% of the then average annual debt service on the CFD Bonds or the Improvement Area B Bonds, as applicable, or (iii) 10% of the initial principal amount of the CFD Bonds or the Improvement Area B Bonds, as applicable, less original issue discount, if any, plus original issue premium, if any. The ability of the Board of Education, in its capacity as legislative body of the Community Facilities District, to increase the annual Special Taxes levied to replenish each Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District and Improvement Area B, as applicable. The moneys in the Community Facilities District Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the CFD Bonds, and at the direction of the Community Facilities District, for payment of rebate obligation related to the CFD Bonds. The moneys in the Improvement Area B Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the Improvement Area B Bonds, and at the direction of the Community Facilities District, for payment of rebate obligation related to the Improvement Area B Bonds. See "SECURITY FOR THE 2005 BONDS – Reserve Funds."

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 2005 BONDS – Proceeds of Foreclosure Sales."

**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 2005 BONDS. OTHER THAN THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT OR IMPROVEMENT AREA B, AS APPLICABLE, NO TAXES ARE PLEDGED TO THE PAYMENT OF 2005 BONDS. THE 2005 CFD BONDS AND THE IMPROVEMENT AREA B 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 B, 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 September 16, 2005 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the 2005 Bonds. The purpose of the appraisal was to estimate the market value of each of the separate tracts in Neighborhoods One through Three, plus the remaining 4S Kelwood ownership in Neighborhoods 3 and 4. The taxable properties include the completed sold and unsold homes, homes under construction and vacant residential land, excluding the Affordable Units and excluding all commercial land. In Neighborhoods One and Two, the taxable properties include separate residential tracts which contain a total of approximately 1,649 Detached Units, of which as of September 1, 2005, there were 1,555 complete - sold homes, 3 complete - unsold homes, 59 homes under construction and 32 vacant lots. In Neighborhood Three, the taxable properties include 16 Planning Areas which are planned for approximately 1,868 residential units in Improvement Area B of which as of September 1, 2005, there were 37 complete - sold homes, 24 complete - unsold homes, 696 homes under construction and land for 1,111 lots. In Neighborhood 4, the taxable properties include 2 Planning Areas in Improvement Area C which are planned for approximately 289 homes on 6,000 to 7,000 square foot lots.

The Appraisal does not value the property expected to be developed with approximately 120 Affordable Units in Neighborhood One, the land proposed for an approximately 540 unit apartment complex in Neighborhood Four

(of which 519 units are expected to be subject to the Special Tax as Attached Units and 21 units are expected to be Affordable Units which are not subject to the Special Tax) and the land encompassing approximately 36 proposed Detached Units which are located in Neighborhood Four and owned by 4S Ranch Company 600, L.P., an entity which is not affiliated with 4S Kelwood. The Affordable Units are not subject to the levy of the Special Tax. Attached Units will be subject to the levy of the Special Tax. The apartment unit site is within an area zoned for commercial property and as of October 1, 2005 is not subject to the levy of Special Tax as Undeveloped Property.

The Appraisal is based on certain assumptions and limiting conditions. Subject to these assumptions and limiting conditions, as of September 1, 2005, 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 sold and unsold homes, homes under construction, and vacant residential land, was as follows:

<b>Neighborhood/ Merchant Builder<sup>†</sup></b>	<b>Planning Area</b>	<b>Tract Name</b>	<b>Market Value</b>
<b><i>Neighborhood One</i></b>			
Ryland Homes	Built out	Ryland Heritage	\$ 78,750,000
William Lyons Homes	Built out	Summerwood	\$ 59,370,000
William Lyons Homes	Built out	Tanglewood	\$ 92,570,000
D.R. Horton	Built out	Cedar Creek	\$ 59,200,000
Brookfield Homes	Built out	Amherst	\$ 68,000,000
Fieldstone Communities	Built out	Homestead	\$ 87,550,000
SeaCountry Homes	Built out	Garden Gate	\$ 93,100,000
Davidson Communities	Built out	Talavera	\$ 135,450,000
William Lyon Homes	Built out	Providence	\$ 126,690,000
Christopher Homes	Built out	Legacy	<u>\$ 92,880,000</u>
<i>Sub-Total</i>			\$ 893,560,000
<b><i>Neighborhood Two / Improvement Area A</i></b>			
Buie Communities	Built out	Belle Rive	\$ 67,650,000
Centex Homes	Built out	Canyon Ridge	\$ 69,370,000
K. Hovnanian	2 and 6	Palomino	\$ 97,000,000
Pulte Homes	Built out	Avery Lane	\$ 77,250,000
Fieldstone Communities	Built out	Cambridge	\$ 57,200,000
Standard Pacific Homes	Built out	Terreno	\$ 110,250,000
Woodbridge Homes	4	Ivy Gate	<u>\$ 34,540,000</u>
<i>Sub-Total</i>			\$ 513,260,000
<b><i>Neighborhood Three / Improvement Area B</i></b>			
Davidson Communities	43B	Reunion	\$ 39,310,000
Standard Pacific Homes	43A	Travata	\$ 33,610,000
Fieldstone Communities	36 and 47A	SilverCrest	\$ 67,750,000
John Laing Homes	34	Rosemary Lane	\$ 50,060,000
John Laing Homes	42	Silhouette	\$ 30,640,000
William Lyon Homes	44 and 45	Maybeck	\$ 21,230,000
SeaCountry Homes	41	Garden Walk	\$ 44,150,000
Lennar Homes	35	Bridgeport	\$ 39,340,000
Standard Pacific Homes	40	Gianni	\$ 31,130,000
Shea Homes	37	San Moritz	\$ 29,410,000
William Lyon Homes	38B	Amante	\$ 39,240,000
William Lyon Homes	38A	Ravenna	<u>\$ 38,780,000</u>
<i>Sub-Total</i>			\$ 464,650,000
<b>Neighborhood Three/ 4S Kelwood Ownership:</b>	48 and 51		\$ 77,840,000
<b>Neighborhood Four / Improvement Area C 4S Kelwood Ownership:</b>			\$ 58,500,000
<b>Total Neighborhoods One through Four:</b>			\$2,007,810,000

<sup>†</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. See the respective Merchant Builder sections in “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Improvement Area B” 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 \$2,007,810,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 16.86 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 9 in the section entitled “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Direct and Overlapping Debt” as of the estimated date of issuance of the Improvement Area B Bonds. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate values. The foregoing value-to-lien estimate includes the value of the Undeveloped Property in Neighborhoods Two through Four. Based on estimated debt service on the CFD Bonds and the estimated number of building permits expected to be issued by January 1, 2006, the Community Facilities District does not anticipate levying a Special Tax in Fiscal Year 2006-07 on Undeveloped Property. The foregoing value-to-lien estimate does include the overlapping indebtedness incurred, or expected to be incurred, with respect to two of the three Improvement Areas which generally correspond to Neighborhood Two (Improvement Area A), and Neighborhood Three (Improvement Area B). The foregoing value-to-lien estimate does not include the overlapping indebtedness expected to be incurred in the future with respect to Neighborhood Four (Improvement Area C) or Parity Bonds to be incurred in the future with respect to the Community Facilities District. (A portion of Neighborhood Four encompassing approximately 36 proposed Detached Units is not within the proposed boundaries of Improvement Area C.) The first series of bonds for Infrastructure Improvements was issued in 2002 for Improvement Area A (Neighborhood Two) in the amount of \$18,000,000. The Improvement Area B Bonds constitute the second series of bonds for Infrastructure Facilities.

The \$542,490,000 aggregate market value with respect to Improvement Area B reported in the Appraisal results in an estimated value-to-lien ratio of 13.43 to 1, calculated with respect to all direct and overlapping tax and assessment debt as presented in Table 10 in the section entitled “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Direct and Overlapping Debt” as of the estimated date of issuance of the Improvement Area B Bonds, including the \$25,000,000 of bonds issued by the Community Facilities District on October 10, 2002 and the 2005 CFD Bonds. When homes are developed, such property will be subject to the levy of Community Facilities District Special Taxes and additional bonds of the Community Facilities District may be issued. Sufficient development has occurred in Neighborhoods One through Three assuming no material delinquencies to support debt service on the \$25,000,000 aggregate principal amount of the 2002 CFD Bonds and \$44,305,000 aggregate principal amount of 2005 CFD Bonds. Additional bonds will be issued in the future by the Community Facilities District, and such issuance will affect the lien of the Community Facilities District Bonds on the property within Improvement Area B. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate value. A subsequent series of bonds for School Facilities by the Community Facilities District is estimated to be issued in the future.

See “SECURITY FOR THE 2005 BONDS – Rates and Methods – *Community Facilities District Rate and Method*,” and “– *Improvement Area B Rate and Method*,” “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood 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 2005 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 2005 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS – Tax Exemption” herein.

## **Risk Factors Associated with Purchasing the 2005 Bonds**

Investment in the 2005 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 2005 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 “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)” and “ – Property Ownership and the Developments” 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 2005 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 2005 Bonds and all activities related to the redemption of the 2005 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 2005 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.

*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 2005 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 2005 Bonds, certain sections of the Bond Indentures, security for the 2005 Bonds, special risk factors, the Community Facilities District, the School District, the Improvement Areas, 4S Kelwood’s and Merchant Builders’ projects, 4S Kelwood, 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 2005 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 2005 Bonds, the Bond Indentures, 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 E – “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 2005 Bonds, to provide certain financial information and operating data relating to the Community Facilities District, Improvement Area B and the 2005 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.

*4S Kelwood.* 4S Kelwood covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – “Form of 4S Kelwood Continuing Disclosure Agreement” (the “4S Kelwood Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2005 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing April 1, 2006 (a “Developer Semi-Annual Report”) and to provide notices of the occurrence of certain enumerated material events. 4S Kelwood’s obligations under its 4S Kelwood Continuing Disclosure Agreement terminate upon the occurrence of certain events. See APPENDIX F – “Form of 4S Kelwood Continuing Disclosure Agreement.” 4S Kelwood currently anticipates selling in excess of 80% of the property within Improvement Area B to Merchant Builders by the end of the fourth quarter of 2005 and anticipates that the initial Developer Semi-Annual Reports due April 1, 2006 will be the only report required of it under the terms of the 4S Kelwood Continuing Disclosure Agreement.

The Developer Semi-Annual Reports will be filed by 4S Kelwood, or the “Dissemination Agent” (as that term is defined in the 4S Kelwood Continuing Disclosure Agreement) on behalf of 4S Kelwood 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 4S Kelwood, or by the Dissemination Agent on behalf of the 4S Kelwood, 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 4S Kelwood 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 a Developer Semi-Annual Report or the notices of material events is set forth in the 4S Kelwood Continuing Disclosure Agreement. The covenants of 4S Kelwood in its 4S Kelwood Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; *provided, however*, a default under the 4S Kelwood Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indentures, and the sole remedy under the 4S Kelwood Continuing Disclosure Agreement in the event of any failure of 4S Kelwood or the Dissemination Agent to comply with the 4S Kelwood Continuing Disclosure Agreement will be an action to compel performance.

4S Kelwood 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 2005 CFD Bonds will be deposited into the following respective accounts and funds established by the School District under the Bond Indentures, as follows:

### ***2005 Series Bonds***

#### *Sources*

Principal Amount of 2005 CFD Bonds	\$44,305,000.00
Less: Original Issue Discount	(434,670.85)
Less: Underwriter's Discount	(664,575.00)
<i>Total Sources</i>	<u>\$43,205,754.15</u>

#### *Uses*

Deposit into 2005 CFD Bonds Reserve Fund <sup>(1)</sup>	\$3,901,513.25
Deposit into 2005 CFD Bonds Costs of Issuance Fund <sup>(2)</sup>	247,000.00
Deposit into Improvement Fund <sup>(3)</sup>	<u>39,057,240.90</u>
<i>Total Uses</i>	<u>\$43,205,754.15</u>

### ***Improvement Area B Bonds***

#### *Sources*

Principal Amount of Improvement Area B Bonds	\$30,000,000.00
Less: Original Issue Discount	(344,441.75)
Less: Underwriter's Discount	450,000.00
<i>Total Sources</i>	<u>\$29,205,558.25</u>

#### *Uses*

Deposit into Improvement Area B Reserve Fund <sup>(1)</sup>	\$2,623,751.07
Deposit into Improvement Area B Costs of Issuance Fund <sup>(2)</sup>	241,385.00
Deposit into Improvement Area B Infrastructure Improvement Account of the Improvement Fund <sup>(3)</sup>	25,147,828.49
Deposit into Capitalized Interest Subaccount of the Improvement Area B Bond Service Fund <sup>(4)</sup>	1,167,593.69
Deposit into Administrative Expense Fund	<u>25,000.00</u>
<i>Total Uses</i>	<u>\$29,205,558.25</u>

<sup>(1)</sup> With respect to the 2005 CFD Bonds, equal to the amount required to increase the Reserve Fund for the CFD Bonds to the Reserve Requirement and with respect to Improvement Area B Bonds, equal to the Reserve Requirement as of the date of delivery of the 2005 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 Fiscal Agent, the cost of the Appraisal, the fees of the Special Tax Consultant, reimbursement to the School District and costs incurred in connection with the 2005 Bonds.

<sup>(3)</sup> Represents capitalized interest on the 2005 Bonds through September 1, 2006.

## **SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS**

Proceeds of the 2005 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.

Proceeds of the Improvement Area B Bonds will be used to fund the acquisition of a portion of the Infrastructure Improvements. The Infrastructure Improvements include the acquisition, construction, expansion, improvement or rehabilitation of authorized facilities which will be owned and operated by the City, the County, and Olivenhain Municipal Water District. The facilities for Olivenhain Municipal Water District may include a pump station, water transmission pipeline along Artisan Road, potable water storage tanks, pipelines within the Community Facilities District and a 2 million gallon per day sewage treatment plant at Dove Canyon Road. County facilities may include road improvements for Camino San Bernardo, Dove Canyon Road and Bernardo Center, park improvements for a community park or neighborhood parks and a public library. Fire protection facilities may include costs relating to a fire station. The Infrastructure Improvements may include road improvements to Carmel Valley Road, Bernardo Center/Camino Del Norte, Rancho Bernardo Road widening at I-15 and Camino Del Norte Road widening at I-15.

The Community Facilities District, and in certain cases 4S Kelwood, have entered into separate joint community facilities agreements (each a "JCFA") specifying the Infrastructure Improvements to be financed by the Community Facilities District for the County, the City, the Olivenhain Municipal Water District, and the Rancho Santa Fe Fire Protection District.

## **THE 2005 BONDS**

### **Authority for Issuance**

The 2005 Bonds will be issued pursuant to the Act and the Bond Indentures.

### **General Provisions**

The Community Facilities District 2005 Special Tax Bonds in the aggregate amount of \$44,305,000 and the Improvement Area B 2005 Special Tax Bonds in the aggregate principal amount of \$30,000,000 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 March 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 2005 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 2005 Bonds. Ownership interests in the 2005 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 2005 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2005 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2005 Bonds in accordance with the procedures adopted by DTC. See "THE 2005 BONDS – Book-Entry and DTC."

Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each 2005 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 2005 Bonds; *provided, however*, that if at the time of authentication of a 2005 Bond, interest is in default, interest on that 2005 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 2005 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 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 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 Bond Owner 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 2005 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 2005 Bonds are transferred to a new Owner. The principal of the 2005 Bonds and any premium on the 2005 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 2005 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 table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

<b>2005 CFD BONDS</b>			
<b>Year Ending September 1</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2006	\$ 80,000	\$ 1,726,152.66	\$1,806,152.66
2007	60,000	2,224,893.76	2,284,893.76
2008	105,000	2,222,943.76	2,327,943.76
2009	155,000	2,219,268.76	2,374,268.76
2010	205,000	2,213,456.26	2,418,456.26
2011	265,000	2,205,256.26	2,470,256.26
2012	320,000	2,193,993.76	2,513,993.76
2013	390,000	2,180,393.76	2,570,393.76
2014	455,000	2,162,843.76	2,617,843.76
2015	530,000	2,142,368.76	2,672,368.76
2016	610,000	2,117,988.76	2,727,988.76
2017	695,000	2,089,318.76	2,784,318.76
2018	780,000	2,055,958.76	2,835,958.76
2019	875,000	2,018,518.76	2,893,518.76
2020	975,000	1,976,518.76	2,951,518.76
2021	1,080,000	1,929,231.26	3,009,231.26
2022	1,200,000	1,875,231.26	3,075,231.26
2023	1,315,000	1,815,231.26	3,130,231.26
2024	1,445,000	1,749,481.26	3,194,481.26
2025	1,580,000	1,677,231.26	3,257,231.26
2026	1,725,000	1,598,231.26	3,323,231.26
2027	1,880,000	1,509,825.00	3,389,825.00
2028	2,045,000	1,413,475.00	3,458,475.00
2029	2,215,000	1,308,668.76	3,523,668.76
2030	2,405,000	1,195,150.00	3,600,150.00
2031	2,600,000	1,071,893.76	3,671,893.76
2032	2,805,000	938,643.76	3,743,643.76
2033	3,545,000	794,887.50	4,339,887.50
2034	5,770,000	613,206.26	6,383,206.26
2035	<u>6,195,000</u>	<u>317,493.76</u>	<u>6,512,493.76</u>
Total	\$44,305,000	\$51,557,756.66	\$95,862,756.66



### IMPROVEMENT AREA B BONDS

<b>Year Ending September 1</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2006	-	\$ 1,167,593.69	\$ 1,167,593.69
2007	\$ 50,000	1,506,572.50	1,556,572.50
2008	85,000	1,504,947.50	1,589,947.50
2009	120,000	1,501,972.50	1,621,972.50
2010	160,000	1,497,472.50	1,657,472.50
2011	200,000	1,491,072.50	1,691,072.50
2012	240,000	1,482,572.50	1,722,572.50
2013	285,000	1,472,372.50	1,757,372.50
2014	335,000	1,459,547.50	1,794,547.50
2015	385,000	1,444,472.50	1,829,472.50
2016	440,000	1,426,762.50	1,866,762.50
2017	500,000	1,406,082.50	1,906,082.50
2018	560,000	1,382,082.50	1,942,082.50
2019	625,000	1,355,482.50	1,980,482.50
2020	695,000	1,325,482.50	2,020,482.50
2021	770,000	1,291,775.00	2,061,775.00
2022	850,000	1,253,275.00	2,103,275.00
2023	935,000	1,210,775.00	2,145,775.00
2024	1,025,000	1,164,025.00	2,189,025.00
2025	1,120,000	1,112,775.00	2,232,775.00
2026	1,225,000	1,056,775.00	2,281,775.00
2027	1,330,000	993,993.76	2,323,993.76
2028	1,445,000	925,831.26	2,370,831.26
2029	1,570,000	851,775.00	2,421,775.00
2030	1,700,000	771,312.50	2,471,312.50
2031	1,835,000	684,187.50	2,519,187.50
2032	1,980,000	590,143.76	2,570,143.76
2033	2,130,000	488,668.76	2,618,668.76
2034	2,295,000	379,506.26	2,674,506.26
2035	2,465,000	261,887.50	2,726,887.50
2036	2,645,000	135,556.26	2,780,556.26
Total	\$30,000,000	\$34,596,751.25	\$64,596,751.25

## Redemption

*Optional Redemption.* The 2005 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 2005 Bonds to be redeemed), together with accrued interest to the date of redemption:

<b>Redemption Date</b>	<b>Redemption Price</b>
Any Interest Payment Date through March 1, 2013	103%
September 1, 2013 and March 1, 2014	102
September 1, 2014 and March 1, 2015	101
September 1, 2015 and any Interest Payment Date thereafter	100

Whenever provision is made for the optional redemption of less than all of the 2005 Bonds, the Fiscal Agent shall select the 2005 Bonds to be redeemed, among maturities as directed by the Community Facilities District which shall specify the 2005 Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Outstanding 2005 Bonds following such redemption as was in effect prior to such redemption. The Fiscal Agent shall select 2005 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 2005 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 B, 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 applicable Bond Indenture to redeem the applicable Series of 2005 Bonds. The Fiscal Agent shall select 2005 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate. Such extraordinary mandatory redemption of the 2005 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2005 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<b>Redemption Date</b>	<b>Redemption Price</b>
Any Interest Payment Date through March 1, 2013	103%
September 1, 2013 and March 1, 2014	102
September 1, 2014 and March 1, 2015	101
September 1, 2015 and any Interest Payment Date thereafter	100

*Mandatory Sinking Payment Redemption.* The 2005 CFD Bonds maturing on September 1, 2028, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2026, at a redemption price equal to the principal amount of the 2005 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:

### 2005 CFD BONDS

<b>Sinking Fund Redemption Date</b>	<b>Principal Amount</b>
2026	\$1,725,000
2027	1,880,000
2028 (maturity)	2,045,000

The 2005 CFD Bonds maturing on September 1, 2035, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2029, at a redemption price equal to the principal amount of the 2005 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:

#### **2005 CFD BONDS**

<b>Sinking Fund Redemption Date</b>	<b>Principal Amount</b>
2029	\$2,215,000
2030	2,405,000
2031	2,600,000
2032	2,805,000
2033	3,545,000
2034	5,770,000
2035 (maturity)	6,195,000

The Improvement Area B Bonds maturing on September 1, 2028, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2026, at a redemption price equal to the principal amount of the Improvement Area B 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:

#### **IMPROVEMENT AREA B BONDS**

<b>Sinking Fund Redemption Date</b>	<b>Principal Amount</b>
2026	\$1,225,000
2027	1,330,000
2028 (maturity)	1,445,000

The Improvement Area B 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, 2029, at a redemption price equal to the principal amount of the Improvement Area B 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:

#### **IMPROVEMENT AREA B BONDS**

<b>Sinking Fund Redemption Date</b>	<b>Principal Amount</b>
2029	\$1,570,000
2030	1,700,000
2031	1,835,000
2032	1,980,000
2033	2,130,000
2034	2,295,000
2035	2,465,000
2036 (maturity)	2,645,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the 2005 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 2005 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 Bonds were to be redeemed in accordance with the applicable Bond Indenture.

*Notice of Redemption.* The Fiscal Agent shall mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first class mail, postage prepaid, to the respective registered Owners of the 2005 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 2005 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 2005 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 2005 Bonds to be redeemed, and in the case of 2005 Bonds to be redeemed in part, the respective principal portions to be redeemed; *provided, however*, that whenever any call includes all 2005 Bonds of a maturity, the numbers of the 2005 Bonds of such maturity need not be stated; (d) state that such 2005 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2005 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2005 Bonds as originally issued; (g) state the rate of interest borne by each 2005 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2005 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 2005 Bonds called for redemption has been set aside for that purpose in the Redemption Fund as to Bonds subject to optional redemption or the 2005 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2005 Bonds at the place specified in the notice of redemption, said 2005 Bonds shall be redeemed and paid at the redemption price out of the applicable Redemption Fund and no interest will accrue on such 2005 Bonds or portions of 2005 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2005 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2005 Bonds or portions of 2005 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 2005 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 Bonds as hereinbefore provided. The Community Facilities District and the Fiscal Agent will treat the owner of any Bond whose name appears on the Bond Register as the holder and absolute Owner of such Bond for all purposes under the applicable 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 2005 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 2005 Bond or Bonds shall be authenticated and delivered in exchange for such 2005 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 2005 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) 2005 Bonds for a period of 15 days next preceding to the date of any selection of the 2005 Bonds for redemption, or (ii) any 2005 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 2005 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 2005 Bond.

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX H – “Book-Entry and DTC.”

## **SECURITY FOR THE 2005 BONDS**

### **General**

The 2005 Bonds issued with respect to the 2005 CFD Bonds and the Improvement Area B Bonds are secured by a first pledge of all of the Net Special Tax Revenues of the Community Facilities District and Improvement Area B, 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 Indenture, in the applicable 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 B in an amount required for the payment of principal of, and interest on, any outstanding 2005 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 2005 CFD Bonds and the Improvement Area B 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 B and all moneys deposited into the applicable accounts (until disbursed as provided in the applicable Bond Indenture) are pledged to the payment of the principal of, and interest and any premium on, the 2005 CFD Bonds and the Improvement Area B Bonds, as applicable, as provided in the applicable Bond Indenture and in the Act until all of the 2005 CFD Bonds and the Improvement Area B Bonds have been paid and retired or until moneys or Federal Securities (as defined 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 Improvement Fund and the Infrastructure Improvement Fund are not pledged to the repayment of the 2005 Bonds. The School Facilities and the Infrastructure Improvements constructed and acquired with the proceeds of the 2005 Bonds are not in any way pledged to pay the debt service on the 2005 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2005 Bonds are not pledged to pay the debt service on the 2005 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 B, 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 B, the receipt of Special Taxes in the Community Facilities District or Improvement Area B will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2005 Bonds applicable to the Community Facilities District or Improvement Area B. The Special Taxes levied in the Community Facilities District are not available to pay principal of or interest on the Improvement Area B Bonds and the Special Taxes levied in Improvement Area B are not available to pay principal of or interest on the Community Facilities District 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. For example, in June 2000, an affiliate of 4S Kelwood acquired an entity with an interest in a project in Los Angeles County. The affiliate entered into negotiations for the sale and conveyances of that property to another entity with an interest in such property. The negotiations did not proceed as expected and the other entity filed a lawsuit against the 4S Kelwood affiliate. During the pendency of the litigation, the second property tax installment for the 2000-01 tax year became due and was not paid by either party with an interest in the property pending resolution of the litigation. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood 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 2005 CFD BONDS OR THE IMPROVEMENT AREA B BONDS. OTHER THAN THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT AND IMPROVEMENT AREA B, AS APPLICABLE, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2005 CFD BONDS OR THE IMPROVEMENT AREA B BONDS. THE 2005 CFD BONDS AND THE IMPROVEMENT AREA B 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 B AS MORE FULLY DESCRIBED HEREIN.**

## **Rates and Methods**

**General.** In 1998 pursuant to the request of landowners, the School District established the Community Facilities District with respect to approximately 2,888 gross acres of land within the boundaries of the School District, authorized the levy of special taxes therein pursuant to the Community Facilities District Rate and Method and authorized the issuance of bonded indebtedness to finance School Facilities. Since that time, changes in the estimated units have occurred. Approximately 4,500 units (approximately 3,080 Detached Units, approximately 1,279 Attached Units, and approximately 141 Affordable Units) are proposed for the Community Facilities District. Approximately 519 of the Attached Units and approximately 21 of the Affordable Units are expected to be located in a 540 unit apartment complex in Neighborhood Four on property zoned for commercial use. The residential use is allowed in the commercial zoning and the proposed project has an approved Major Use Permit. 120 Affordable Units are in Neighborhood One. Affordable Units are not subject to the levy of the Special Tax.

In the third quarter of 2001, 4S Kelwood requested that the School District institute proceedings pursuant to the Act to (a) either create a new community facilities district or designate improvement areas in the Community Facilities District and (b) authorize the community facilities district to issue bonded indebtedness and to levy additional special taxes to fund, in addition to those School Facilities authorized to be funded by the Community Facilities District, certain other public improvements. The proceedings to designate the Improvement Areas and authorize this levy of additional special taxes and the issuance of additional bonds were completed on October 21, 2002. See "Improvement Area B Rate and Method" below. This area is also referred to as Neighborhood Three. Improvement Area B is proposed to include approximately 1,105 detached dwelling units and approximately 763 attached dwelling units.

4S Kelwood participated in the proceedings for formation of the Community Facilities District and for formation of Improvement Area B. Pursuant to such proceedings, the Community Facilities District Special Tax may be levied and collected within all of the Community Facilities District to finance School Facilities according to the Community Facilities District Rate and Method, a copy of which is set forth in APPENDIX B. In addition, pursuant to such proceeding in 2002, the Improvement Area B Special Tax may be levied and collected within Improvement Area B to finance Infrastructure Facilities according to the Improvement Area B Rate and Method, a copy of which is set forth in Appendix B – “Rates and Methods of Apportionment for Community Facilities District No. 6 of the Poway Unified School District.”

The qualified electors of the Community Facilities District approved the Improvement Area B Rate and Method on October 21, 2002. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Improvement Area B Rate and Method.

**Community Facilities District Rate and Method.** The Community Facilities District Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. The first series of the Community Facilities District bonds (i.e., the Community Facilities District 2002 CFD Bonds) were issued on October 10, 2002, to fund School Facilities and are secured by any annual Special Taxes levied pursuant to the Community Facilities District Rate and Method. The 2005 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 25 Fiscal Years after the issuance of the last bond series, but in no event later than Fiscal Year 2045-46. A copy of the Community Facilities District Rate and Method is included in Appendix B hereto.

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

- (i) the regularly scheduled debt service on CFD Bonds (i.e., the 2002 CFD Bonds and the 2005 CFD Bonds, applicable to the Community Facilities District, any Parity Bonds or any refunding bonds), which are due in the Calendar Year commencing during such Fiscal Year, assuming that principal is paid when due without acceleration or optional redemption;
- (ii) credit or liquidity fees on the 2005 CFD Bonds (there are none for the 2005 CFD Bonds);
- (iii) the cost of acquisition or construction of Facilities;
- (iv) Administrative Expenses;
- (v) the costs associated with the release of funds from an escrow account;
- (vi) any amount required to establish, maintain, or replenish any reserve funds and credit enhancement facilities established in association with the 2005 CFD Bonds or the 2002 Bonds;
- (vii) lease payments for Facilities; and
- (viii) any other payments permitted by law.

The Undeveloped Special Tax Requirement is an amount calculated based on the remaining amounts required to pay the Special Tax Requirement, after deducting the amounts levied on Developed Property, for payment of the Special Tax Requirement. A Special Tax is authorized to be levied on Undeveloped Property to fund the Undeveloped Special Tax Requirement, if any.

The Community Facilities District Rate and Method also establishes a Special Tax Requirement A which is an amount required to fund the "Technology Budget" less any amount previously received by the Community Facilities District from 4S Kelwood to fund such Technology Budget in a Fiscal Year in which an elementary school located within or financed by the Community Facilities District is opened. ***The Impact Mitigation Agreement provides that the Community Facilities District will not levy Special Taxes to satisfy the Special Tax Requirement A. The One-Time Special Tax is not collected in connection with construction of a residential structure but is collected on other Undeveloped Property on the date a Building Permit is issued for such Assessor's Parcel. Therefore, the following description of the Community Facilities District Rate and Method does not include reference to the Special Tax Requirement A.*** The Indenture provides that funds in an amount equal to the Special Tax Requirement A and the One-Time Special Tax are not pledged to payment of the 2005 CFD Bonds.

*Developed and Undeveloped Property; Exempt Property.* The Community Facilities District Rate and Method declares that for each Fiscal Year, all Assessor's Parcels 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.

(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 January 1 of the prior Fiscal Year.

(ii) "Undeveloped Property" means all Assessor's Parcels in the Community Facilities District for which no Building Permit was issued after the formation of the Community Facilities District and on or before January 1 of the prior Fiscal Year.

(iii) "Taxable Property" means all Assessor's Parcels within the Community Facilities District which are not exempt from the special tax pursuant to law or as Exempt Property (as defined below) pursuant to the Community Facilities District Rate and Method.

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

(a) parcels owned by the State, federal or other local governments except as otherwise provided in sections 53317.3, 53317.5 and 53340.1 of the Government Code,

(b) 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) parcels used exclusively by a homeowner's association, parcels with public or utility easements making impractical their use for purposes other than those set forth in the easements, and

(d) Assessor's Parcels identified entirely as open space on a final map.

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

(i) 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 for Fiscal Year 2005-06 is \$1,171.66 per acre. On each July 1, the Assigned Annual Special Tax per acre shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. ***Although the Community Facilities District Rate and Method refers to an Assigned Annual Special Tax for Undeveloped Property in the Community Facilities District which exceeds the rate of the Assigned Annual Special Tax for Undeveloped Property outside of Zone A to fund this Special Tax Requirement A, the Impact Mitigation Agreement provides that the Community Facilities District will not levy Special Taxes to satisfy the Special Tax Requirement A and the effective Assigned Annual Special Tax will be the same for all Undeveloped***



***Property whether or not a parcel is within Zone A.*** Zone A originally encompassed the residential portions of Neighborhoods Three and Four.

(ii) ***Developed Property:*** In any Fiscal Year, the Maximum Special Tax for each Assessor's Parcel of Residential Property shall be the Assigned Annual Special Tax. In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Commercial/Industrial Property shall be the amount of any portion of the One-Time Special Tax that is not collected at the issuance of a Building Permit, which amount maybe levied on such Assessor's Parcel when classified as Developed Property in any following Fiscal Year.

In Fiscal Year 2005-06, the Assigned Annual Special Tax is \$2,382.78 for Detached Units and \$1,053.92 for Attached Units. Affordable Units are not subject to the Special Tax. Each July 1, commencing July 1, 2006, 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 annual percentage change in the Index (as defined in the Community Facilities District Rate and Method) 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 in the prior Fiscal Year. See Table 1 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.

***Method of Apportionment.*** The Community Facilities District Rate and Method provides that each Fiscal Year, the Deputy Superintendent shall reasonably determine the Special Tax Requirement and the Undeveloped Special Tax Requirement. The Community Facilities District shall levy Annual Special Taxes within the Community Facilities District as follows:

1. The Community Facilities District 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.
2. If the Undeveloped Special Tax Requirement is greater than \$0, an Annual Special Tax shall additionally be levied on every Assessor's Parcel of Undeveloped Property at the same amount per acre of Acreage as necessary to satisfy the Undeveloped Special Tax Requirement, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

The Community Facilities District Rate and Method refers to a third step in which an Annual Special Tax would be levied on every Assessor's Parcel of Undeveloped Property located in Zone A at the same amount per acre of Acreage as necessary to satisfy the Special Tax Requirement A, up to the Zone A Assigned Annual Special Tax applicable to each such Assessor's Parcel. ***The Impact Mitigation Agreement provides that the Community Facilities District will not levy Special Taxes to satisfy the Special Tax Requirement A.*** Therefore, the effective Assigned Annual Special Undeveloped Properties located in Zone A will be the same as the Assigned Annual Special Tax on Undeveloped Properties located outside of Zone A.

***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 Bond Redemption Amounts and other costs, all as specified in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 6 of the Poway Unified School District – Section G" herein.

In addition, at the time a Final Map is recorded for any Taxable Property, the owner filing said Final Map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Map to prepay a portion of the applicable Annual Special Tax obligation, *provided* that the Final Map contains at least 15 Detached Units or 30 Attached Units. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the issuance of a Building Permit. These prepayments are pledged to payment of the Bonds.

**Improvement Area B Rate and Method.** The Improvement Area B Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Improvement Area B of the Community Facilities District up to the applicable Maximum Special Tax to pay for the Infrastructure Improvements. The Improvement Area B 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 B Rate and Method. The Improvement Area B Rate and Method provides that the Annual Special Tax shall be levied for a term of 33 Fiscal Years after the issuance of the Improvement Area B Bonds, but in no event later than Fiscal Year 2043-44. A copy of the Improvement Area B Rate and Method is included in Appendix B hereto.

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

- (i) the annual debt service on all outstanding Improvement Area B Bonds,
- (ii) the Administrative Expenses of Improvement Area B of the Community Facilities District,
- (iii) any costs associated with the release of funds from an escrow account,
- (iv) any amount required to establish or replenish any reserve funds established in association with the Improvement Area B Bonds, *less*
- (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable Bond Indenture.

*Developed and Undeveloped Property; Exempt Property.* The Improvement Area B Rate and Method declares that for each Fiscal Year, all Assessor’s Parcels within Improvement Area B shall be classified as Taxable Property or Exempt Property. Each Assessor’s Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property. Each Assessor’s Parcel of Developed Property shall be classified as a Detached Unit or an Attached Unit and each Detached Unit and Attached Unit shall be classified according to its Building Square Footage.

(i) “Developed Property” means all Assessor’s Parcels of Taxable Property for which a building permit was issued on or before May 1 of the prior Fiscal Year, *provided* that such Assessor’s Parcels are associated with a Final Subdivision Map 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 of Education.

(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 B 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 used exclusively by a homeowner’s association,
- (d) Assessor’s Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and

(e) other types of Assessor's Parcels, at the reasonable discretion of the Deputy Superintendent, *provided* that no such classification would reduce the Acreage of all Taxable Property to less than 163.96 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 163.96 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 B Rate and Method as follows:

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

(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 in Fiscal Year 2005-06 for Developed Property ranges from \$556.87 to \$2,685.04 for Detached Units and ranges from \$201.22 to \$556.87 for Attached Units. Each July 1, commencing July 1, 2006, 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 1 of the Improvement Area B 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 2005-06 will be determined by the formula indicated in Section E of the Improvement Area B Rate and Method set forth in Appendix B.

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2005-06 shall be \$12,041.53 per acre of Acreage. Each July 1, commencing July 1, 2006, 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.

The minimum taxable acreage is 163.96 acres of Acreage for Improvement Area B.

*Method of Apportionment.* The Improvement Area B Rate and Method provides that commencing Fiscal Year 2005-06 and for each subsequent Fiscal Year, the Deputy Superintendent shall determine the Annual Special Tax to be collected in Improvement Area B of the Community Facilities District in such Fiscal Year. The Annual Special Tax shall be levied as follows:

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

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

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

*Prepayment of Annual Special Taxes.* The property owner of any Final Subdivision Map where no building permits have been issued may prepay the entire Annual Special Tax obligation of Improvement Area B Bonds for all Assessor's Parcels created by such Final Subdivision Map prior to the issuance of the first building permit in such final Subdivision Map. The Prepayment Amount for an applicable Assessor's Parcel after the issuance of Bonds is calculated based on Bond Redemption Amounts and other costs, all as specified in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 6 of the Poway Unified School District (Improvement Area B) – Section G" therein.

*Partial Prepayment of Annual Special Taxes.* In addition, prior to the issuance of the first building permit for the construction of a production unit on a lot within a Final Subdivision Map area, the owner of no less than all the Taxable Property within such Final Subdivision Map area may elect in writing to the Board of Education to prepay a portion of the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map area. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the issuance of the first Building Permit, all as specified in Section H of each Rate and Method. See APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 6 of the Poway Unified School District."

**Other Improvement Area Rates and Methods.** The Improvement Area Rates and Methods provide the means by which the Board of Education may annually levy special taxes within each Improvement Area up to the applicable Maximum Special Tax authorized pursuant to such Improvement Area Rates and Methods to pay for Infrastructure Improvements. Neighborhood One is not within any proposed Improvement Area. Improvement Area A encompasses Neighborhood Two and \$18,000,000 of bonds were authorized for Improvement Area A and were issued on December 19, 2002. Improvement Area B encompasses Neighborhood Three and approximately \$30,000,000 of bonds are authorized for Improvement Area B. Improvement Area C encompasses Neighborhood Four (except for approximately 36 proposed Detached Units) and \$14,000,000 of bonds are proposed to be authorized for Improvement Area C. *While the Improvement Area B Bonds do include funding for Infrastructure Improvements, the Improvement Area B Bonds are not secured by any special taxes proposed to be levied pursuant to the Improvement Area A or Improvement Area C Rates and Methods or the Community Facilities District Rate and Method.* Each of the Improvement Area special taxes rates and the Community Facilities District special tax rates are subject to escalation by 2% of the amount in effect in the prior Fiscal Year thereafter. The value to lien estimates set forth in the sections captioned "INTRODUCTION – Appraisal" and in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Appraised Property Values" include the overlapping indebtedness expected to be incurred with respect to the three Improvement Areas which generally correspond to Neighborhood Two (Improvement Area A), Neighborhood Three (Improvement Area B) and Neighborhood Four (Improvement Area C). (A portion of Neighborhood Four, encompassing approximately 36 proposed Detached Units, is not within the proposed boundaries of Improvement Area C.) The first series of bonds for Infrastructure Improvements was issued on December 19, 2002 for Improvement Area A (Neighborhood Two) in the amount of \$18,000,000.

## **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 in Improvement Area B, as applicable, is delinquent in the payment of Community Facilities District Special Taxes or Improvement Area B 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 B Special Taxes, as applicable, is delinquent in the payment of the Community Facilities District Special Taxes or Improvement Area B 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 B 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 of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

It should be noted that any foreclosure proceedings commenced as described above could be stayed by the commencement of bankruptcy proceedings by or against the owner of the delinquent property. See “BONDOWNERS’ RISKS – 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 2005 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 B, 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 B, as applicable, will be at all times sufficient to pay the amounts required to be paid on the 2005 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 B received by the Community Facilities District, excluding in the case of Improvement Area B Bonds only Special Tax Revenues representing Delinquency Proceeds required to be transferred to the Letter of Credit Fund established with respect to the Improvement Area B Bonds (there is no Letter of Credit Fund with respect to the

2005 CFD 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 2005 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 2005 Bonds. Pending disbursement, moneys in each Special Tax Fund will be subject to a lien in favor of the Bondowners of the applicable 2005 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 B to pay Administrative Expenses allocable to the applicable Series of the 2005 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 2005 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 2005 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 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 2005 Bonds the principal, interest and any premium then due and payable on the 2005 Bonds, including any amounts due on such 2005 Bonds by reason of the sinking payments or a redemption of such 2005 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 B, 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 2005 CFD Bonds and the Improvement Area B Bonds, certain proceeds of the 2005 CFD Bonds and the Improvement Area B 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 2005 CFD Bonds or the Improvement Area B Bonds, as applicable, (ii) 125% of the then average annual debt service on the 2005 CFD Bonds or the Improvement Area B Bonds, as applicable, or (iii) 10% of the initial principal amount of the 2005 CFD Bonds or the Improvement Area B Bonds, as applicable, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of 2005 CFD Bonds or the Improvement Area B 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 2005 Bonds to be redeemed and the original principal of such 2005 Bonds) will be applied to the redemption of such 2005 Bonds.

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

See APPENDIX D – “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 2005 Bonds and will not be available for the payment of debt service on the 2005 Bonds.**

## **Improvement Funds**

The Fiscal Agent will deposit proceeds of the 2005 Bonds in the applicable Improvement Fund. Moneys in the applicable 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 Improvement Fund in the case of the 2005 CFD Bonds and the Infrastructure Improvement Fund in the case of the Improvement Area B Bonds will not be construed as a trust fund held for the benefit of the Owners of the applicable 2005 Bonds and will not be available for the payment of debt service on the 2005 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 D – “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**

Bonds issued on a parity with a Series of the CFD Bonds ("Parity CFD Bonds") may be issued for new money or for refunding purposes 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 Improvement Area B Bonds ("Parity Improvement Area B 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 2005 CFD Bonds and all Parity Bonds issued may not exceed \$130,000,000; *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.

The aggregate principal amount of the Improvement Area B Bonds and all Parity Bonds issued may not exceed \$30,000,000; *provided, however*, that, notwithstanding the foregoing, Parity Bonds may only be issued to refund all or a portion of the Outstanding Bonds where the issuance of such Parity Bonds results in a reduction of Annual Debt Service on all Outstanding Bonds.

The CFD Bond Indenture requires that as a precondition to the issuance of Parity Bonds that:

a. The Community Facilities District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the Community Facilities District to that effect shall have been filed with the Fiscal Agent; *provided, however*, that Parity Bonds may be issued notwithstanding that the Community Facilities District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the Community Facilities District will be in compliance with all such covenants;

b. The Community Facilities District has received a certificate from one or more Special Tax Consultants which, when taken together, certify that the amount of the maximum Special Taxes that may be levied pursuant to the Community Facilities District Rate and Method in each remaining Bond Year based only on the Taxable Property (as such term is defined in the Community Facilities District Rate and Method) existing as of the date of such certificate is at least 1.10 times Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, *provided, however*, there shall be excluded from such calculation the Special Taxes on any parcel then delinquent in the payment of Special Taxes; and provided further that, for purposes of making the certifications required by this paragraph, the Special Tax Consultant may rely on reports or certificates of such other persons as may be acceptable to the Community Facilities District, Bond Counsel and the underwriter of the proposed Parity Bonds;

c. Except in the case of the issuance of Parity Bonds to refund Outstanding Bonds or Parity Bonds, the Community Facilities District has received an Appraisal indicating that (i) the aggregate appraised value of all Taxable Property within the Community Facilities District is not less than three (3) times the aggregate amount of Land Secured Debt (as defined in the applicable Bond Indenture) allocable to such Taxable Property and (ii) the aggregate appraised value of all Undeveloped Property within the Community Facilities District is not less than 2.5 times the aggregate amount of Land Secured Debt allocable to such Undeveloped Property; and



d. Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

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

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

As a condition precedent to issuance of the Improvement Area B Bonds, 4S Kelwood 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 B. 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.

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 4S Kelwood 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 Improvement Area B 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 Improvement Area B 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 4S Kelwood or a Merchant Builder pursuant to the Impact Mitigation Agreement or an Affiliate of 4S Kelwood 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 Community Facilities District, shall, upon receipt of Delinquency Proceeds representing the Improvement Area B 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 Improvement Area B 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 terms of the Improvement Area B Bond Indenture, 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 Improvement Area B 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 4S Kelwood and each Merchant Builder intends to comply with the requirement to provide a Letter of Credit or cash deposit.

*4S Kelwood.* 4S Kelwood has obtained a Letter of Credit from California Bank & Trust (“California Bank & Trust”) in connection with the issuance of the Improvement Area B Bonds in the aggregate Stated Amount of the Letter of Credit requirement for the Improvement Area B Bonds with respect to Planning Areas 45, 46, 47A and 47B. The stated amount of the Letter 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.

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”). 4S Kelwood will keep its Letter of Credit in place for the portion of the property under contract to the Merchant Builders until such time as such merchant builder substitutes its respective Letter of Credit or cash deposit. At that time 4S Kelwood’s Letter of Credit will be proportionately reduced.

California Bank & Trust and Zions Bancorporation websites are [calbanktrust.com](http://calbanktrust.com) and [zionsbancorporation.com](http://zionsbancorporation.com). *These Internet addresses are included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

*William Lyon Homes.* William Lyon Homes has obtained Letters of Credit from California Bank and Trust with respect to Planning Areas 38A, 38B, and 44. See the information above regarding California Bank & Trust.

*Shea Homes Limited Partnership.* Shea Homes Limited Partnership has obtained a Letter of Credit from Wells Fargo Bank (“Wells Fargo Bank”) in connection with the issuance of Improvement Area B Bonds with respect to Planning Area 37. 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.

Additional information regarding Wells Fargo Bank and Wells Fargo & Company is available on the Internet at wells Fargo.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

*John Laing Homes.* John Laing Homes has obtained a Letter of Credit from Bank of America, National Association (“Bank of America”) in connection with the issuance of Improvement Area B Bonds with respect to Planning Areas 34 and 42. 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.

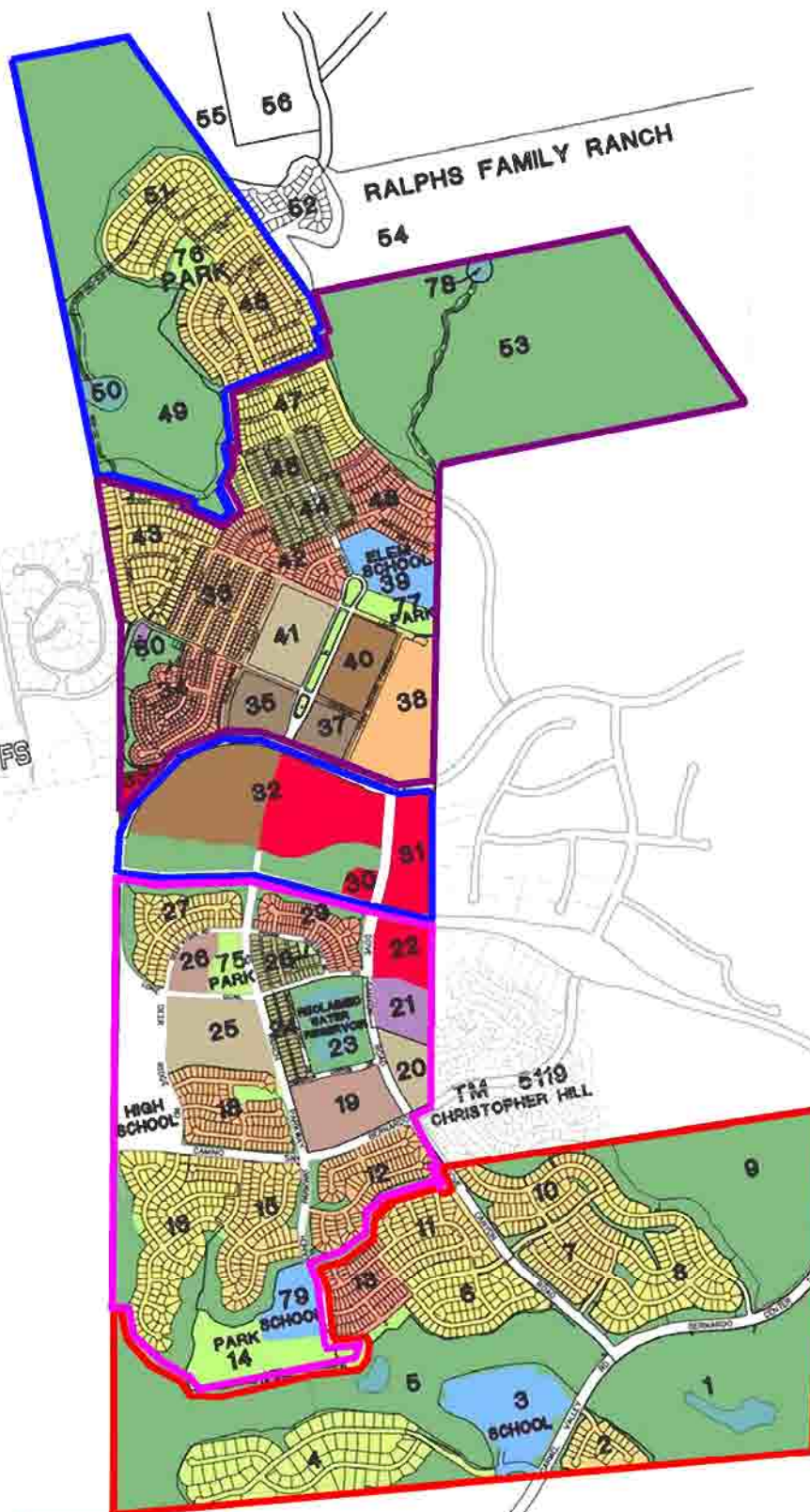
Additional information regarding Bank of America and Bank of America Corp. is available on the Internet at bankofamerica.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

*Lennar Homes.* Lennar Homes has obtained a Letter of Credit from Bank of America, National Association (“Bank of America”) in connection with the issuance of Improvement Area B Bonds with respect to Planning Area 35. See the information above regarding Bank of America

*Cash Deposits.* Cash deposits have been made with respect to projects for the following Merchant Builders: (i) Davidson Communities with respect to Planning Area 43B; (ii) Fieldstone 4S Area 36, LLC with respect to Planning Area 36; (iii) Sea County Homes with respect to Planning Area 41; and (iv) Standard Pacific Homes with respect to Planning Areas 40 and 43A.

### **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.



- Neighborhood No. 1
- Neighborhood No. 2
- Neighborhood No. 3
- Neighborhood No. 4

SUBJECT	PLANNING AREA NUMBER	TRACT/USE	MIN LOT SIZE/ZONE	NO. DU's
K. HOVANAN	1	OPEN SPACE		—
	2	SFD	60 x 105	24
	3	MIDDLE SCHOOL		—
WOODBRIDGE HOMES	4	SFD	110 x 120	88
	5	OPEN SPACE		—
K. HOVANAN	6	SFD	70 x 105	73
FELSTONE COMM	7	SFD	60 x 105	65
STL PACIFIC	8	SFD	65 x 125	106
	9	OPEN SPACE		—
PULS	10	SFD	60 x 105	75
CENTEX	11	SFD	60 x 105	75
CHRISTOPHER	12	SOB7-6	50 x 100	108
BUE	13	SFD	45 x 100	82
	14	PARK		—
WILLIAM LYON HOMES	15	SOB7-3	60 x 100	123
DANEGUN	16	SOB7-4	70 x 100	126
	17	PUMP STATION		—
FELSTONE COMM	18	SOB7-3	55 x 98	103
SEA COUNTRY	19	S2B6	RV-9	133
BRIDGE	20	MF LOW	C34	120
	21	WATER RECLAMATION PLANT		—
	22	COMMERCIAL	C35	—
	23	RECLAIMED WATER RESERVOIR		—
WOODFIELD HOMES	24	SOB7-8	50 x 103	34
WILLIAM LYON HOMES	25	S2B6	RV-12	202
WILLIAM LYON HOMES	26	S2B6	RV-9	34
RYLAND HOMES	27	SOB7-1	60 x 100	75
BRIDGEMOUNT HOMES	28	SOB7-7	50 x 103	46
DR. HORTON	29	SOB7-2	42 x 100	80
	30	COMMERCIAL	C35	—
	31	COMMERCIAL	C35	—
SANES RESIDENTIAL CTR	32	MF/COMMERCIAL	MT18/C34	540
	33	COMMERCIAL	C35	—
JOHN LANG HOMES	34	SFD	45 x 90	133
LENNAR HOMES	35	MF	RM-29	218
FELSTONE COMM	36	SFD	50 x 100	127
SHEA HOMES	37	MF	RM-29	140
WILLIAM LYON HOMES	38	MF	RV-14	326
	39	ELEMENTARY SCHOOL		—
STL PACIFIC	40	MF	RV-18	209
SEA COUNTRY	41	SFD	RV-12	136
JOHN LANG HOMES	42	SFD	42 x 100	98
DANEGUN/STL PACIFIC	43	SFD	60 x 105	131
WILLIAM LYON HOMES	44	SFD	50 x 103	60
WILLIAM LYON HOMES	45	SFD	50 x 103	60
BUE	46	SFD	45 x 90	101
K. HOV/ FELSTONE	47	SFD	50 x 100	134
	48	SFD	60 x 100	175
	49	OPEN SPACE		—
	50	WATER TANK		—
	51	SFD	70 x 100	114
	52	SFD (RALPHS)		25
	53	OPEN SPACE		—
	75	PARK		—
	76	PARK		—
	77	PARK		—
	78	WATER TANK		—
	79	SCHOOL		—
	80	OPEN SPACE/DETENTION BASIN		—
	80	PUMP STATION		—
	64	RALPHS FAMILY RANCH (NOT SHOWN)		11
TOTAL				4,505

AUGUST 10, 2005



4S RANCH  
MASTER DEVELOPMENT PLAN

## COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)

### General Information

The Community Facilities District is located in the unincorporated area of the County approximately 23 miles north of downtown San Diego and approximately 10 miles inland from the Pacific Ocean and the coastal cities of Encinitas and Solana Beach. The project is located approximately 8 miles east of Interstate 5 and approximately 2 miles west of Interstate 15. The Community Facilities District lies within the area of the new master-planned community known as “4S Ranch” and is part of the specific plan area known as “4S Ranch.” The Community Facilities District is an extension of the on-going development of the community of Rancho Bernardo. The Community Facilities District is comprised of approximately 2,888 gross acres (553 net residential acres) of rolling terrain with slopes and knolls within 4S Ranch. A map of the 4S planning areas is provided on the preceding page. Certain planning areas on the 4S Ranch Planning Area map are not a part of the Community Facilities District.

The Community Facilities District is within 4S Ranch. 4S Ranch is bordered on the south by Black Mountain Ranch and Rancho Penasquitos, to the west by the Santa Fe Valley Specific Planning Area, to the northwest by the Ranch Cielo Specific Planning Area, and to the east by Rancho Bernardo. Rancho Bernardo Road bisects 4S Ranch and Camino Del Norte enters 4S Ranch from the east. Extension of State Route 56 from Interstate 5 to Interstate 15 located approximately 2 miles south of 4S Ranch is fully funded and completed construction during the summer of 2004. The area is bounded on the east by completed Rancho Bernardo subdivisions and on the north, east and west by undeveloped property.

The residential land uses in the 4S Ranch Specific Plan are arranged around a mixed-use district which is located in the central portion of the community north of Camino Del Norte. The mixed-use district is approximately 52 net commercial acres, of which 22 are proposed for residential use, and is planned to serve the 4S Ranch community as well as existing and planned neighborhoods west of Interstate 15. The residential areas include Neighborhoods One and Two located to the south of the mixed-use district, and Neighborhoods Three and Four located north of the mixed-use district. Rancho Bernardo Road and 4S Ranch Parkway will provide the primary access to Neighborhoods Three and Four. Neighborhoods close to the mixed-use district are higher density containing a mixture of single-family and multi-family units. Neighborhoods further to the north and south are lower density single-family units.

### *The Neighborhoods*

- *Neighborhood One* is within the Community Facilities District but is not encompassed by any Improvement Area. Neighborhood One is complete within 4S Ranch and is approximately 145 net residential acres in size and includes a total of 1,084 Detached Units and 120 Affordable Units. Neighborhood One also includes a neighborhood park, a 10-acre elementary school site and the water reclamation facility serving the project.

- *Neighborhood Two*, which is coterminous with the boundaries of Improvement Area A, is approximately 141 net residential acres located south of Neighborhood One. The neighborhood includes approximately 565 Detached Units, a 23 acre middle school site and a 22 acre community park. Bernardo Center Drive/Carmel Valley Road passes through this Neighborhood. The central portion of Neighborhood Two includes the Lusardi Creek Natural Park, which is a major open-space corridor comprising approximately 161 gross acres. As of September 1, 2005, 474 detached units and no attached units have been completed in Neighborhood Two, and 91 detached units remain to be built.

- *Neighborhood Three*, which is coterminous with the boundaries of Improvement Area B, is located north of the mixed-use district. Neighborhood Three is approximately 182 net residential acres and is proposed to include approximately 1,105 Detached Units and 763 Attached Units. Neighborhood Three also includes a 10-acre elementary school site and an approximately 5-acre neighborhood park.

- *Neighborhood Four* is within Improvement Area C and is located north of Neighborhood Three. Neighborhood four is approximately 85 net residential acres in size and is proposed to include approximately 325 Detached Units, 36 of which are located on land not owned by 4S Kelwood. The foregoing acreage does not include

the 52 acres in the 4S Commons (PA 32) area which is currently zoned for commercial use. Approximately 22 of such 52 acres is proposed for an apartment complex of approximately 540 units, 519 of which are expected to be Attached Units and 21 of the apartments are expected to be Affordable Units. Neighborhood Four includes a small neighborhood park. Natural open space areas in Neighborhood Four are located north, east and west of the residential area and total over 300 gross acres.

Drainage is and will be within master-planned facilities throughout the community. Neighborhood One is generally above grade of Camino Del Norte, and then gradually sloping down to the south into Neighborhood Two. Neighborhoods Three and Four have a gradual slope up to the north. None of the developable areas in 4S Ranch are within a 100-year flood plain.

*Improvement Area B encompasses Neighborhood Three only and does not include any of the property within Neighborhoods One, Two or Four.*

*4S Ranch Specific Plan.* The 4S Ranch Specific Plan (the “Specific Plan”) was adopted by the Board of Supervisors of the County in November, 1998. The Specific Plan Area is adjacent to the northern boundary of the City. The Community Facilities District is in an unincorporated area of the County and is not currently within the sphere of influence of any existing city. The 4S Specific Plan provided direction for future development of the property located within the Community Facilities District. 4S Ranch is expected to ultimately include approximately 4,500 dwelling units, schools, neighborhood parks, an employment center, a commercial and industrial property and approximately 1,612 acres of open space designated as Multiple Species Habitat Conservation Plan (MSHCP) Preserve.

Utility services for parcels in the Community Facilities District will be provided by San Diego Gas & Electric (gas and electricity), the Olivenhain Municipal Water District (water and sewage), Cox Communication and Time Warner (cable), and Pacific Bell Telephone (telephone). Waste Management and EDCO provide refuse service.

### **Authority for Issuance**

The 2005 Bonds are issued pursuant to the Act and the Bond Indentures. In addition, as required by the Act, the Board of Education of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2005 Bonds:

*Resolutions of Intention:* On February 17, 1998, the Board of Education adopted Resolution No. 63-98 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 of Education adopted Resolution No. 64-98 stating its intention to incur bonded indebtedness in an amount not to exceed \$130,000,000 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 2005 BONDS” herein.

*Resolution of Formation:* Immediately following a noticed public hearing on March 24, 1998, the Board of Education adopted Resolution No. 74-98-A (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 March 24, 1998, the Board of Education adopted Resolution No. 75-98-A declaring the necessity to incur bonded indebtedness in an amount not to exceed \$130,000,000 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 March 24, 1998, an election was held within the Community Facilities District, in which the landowners eligible to vote (4S Kelwood), being the qualified electors, approved the ballot proposition authorizing the issuance of up to \$130,000,000 in bonds to finance the acquisition and construction of the School Facilities. 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 and the establishment of an appropriations limit for the Community Facilities District.

On March 24, 1998, the Board of Education adopted Resolution No. 77-98-A pursuant to which the Board of Education approved the canvass of the votes.

*Special Tax Lien and Levy:* Notice of Special Tax Lien for the Community Facilities District was recorded in the real property records of San Diego County on March 27, 1998.

*Ordinance Levying Special Taxes:* On April 13, 1998, the Board of Education adopted an Ordinance No. 98-6 levying the Special Tax within the Community Facilities District.

*Resolutions of Intention for Improvement Areas:* On September 16, 2002, the Board of Education adopted Resolution No. 19-2003 stating its intention to establish Improvement Area A, Improvement Area B and Improvement Area C and to authorize the levy of a special tax therein pursuant to a separate Rate and Method of Apportionment of Special Tax for each such Improvement Area. The Improvement Area B Rate and Method will finance Infrastructure Improvements. See “SCHOOL FACILITIES AND INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS” herein.

*Resolution of Formation of Improvement Areas:* Immediately following a noticed public hearing on October 21, 2002, the Board of Education adopted Resolution No. 30-2003 (the “Resolution of Formation of Improvement Areas”), which, among other things, established Improvement Area B of the Community Facilities District, established the Improvement Area B Rate and Method and authorized the levy of a special tax within the Improvement Area B pursuant to the Improvement Area B Rate and Method.

*Landowner Election and Declaration of Results:* On October 21, 2002, an election was held within Improvement Area B, in which the landowners eligible to vote (4S Kelwood), being the qualified electors, approved the ballot proposition authorizing the issuance of up to \$30,000,000 in bonds to finance the acquisition and construction of the Infrastructure Improvements. The qualified electors within Improvement Area B also approved the levy of a special tax in accordance with the Improvement Area B Rate and Method and the establishment of an appropriations limit with respect to Improvement Area B of the Community Facilities District.

On October 21, 2002, the Board of Education adopted Resolution No. 31-2003 pursuant to which the Board of Education approved the canvass of the votes.

*Special Tax Lien and Levy:* Notice of Special Tax Lien for Improvement Area B of the Community Facilities District was recorded in the real property records of San Diego County on November 14, 2002 as Document No. 2002-1019183.

*Ordinance Levying Special Taxes:* On October 21, 2002, the Board of Education adopted an Ordinance No. 2003-1 levying the Special Tax within each Improvement Area within the Community Facilities District.

*Resolutions Authorizing Issuance of the 2005 Bonds:* On October 10, 2005, the Board of Education adopted Resolution No. 14-2006 approving issuance of the 2005 CFD Bonds and Resolution No. 15-2006 approving issuance of the Improvement Area B Bonds.

## **Environmental Review**

In conjunction with the County’s approval of the 4S Ranch Specific Plan, the Board of Supervisors of the County, on November 4, 1998 certified the 4S Ranch Specific Plan Environmental Impact Report (Specific Plan Amendment (SPA 95-01), Rezone (R95-01), Tentative Maps (TM 5066, TM 5067), Major Use Permit Modification (P87-036w<sup>3</sup>), Modification to Agricultural Preserve #60, Vacation of Two Open Space Easements (VAC 97-001, VAC 97-002), County Log No. 95-8-1, and State Clearinghouse No. 95021002) (the “EIR”) as being in compliance with the California Environmental Quality Act (“CEQA”). The statutory period within which a court action or proceeding could be filed challenging the County’s CEQA compliance with respect to its approvals has expired. The

County Planning Commission also approved Tentative Maps for Neighborhood Two (TM 5216) and Neighborhoods Three and Four (TM 5229). Final maps for Neighborhood Two were recorded from 2002 to 2005. Final maps for Neighborhood Three were recorded from 2004 to 2005. 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 County's certification of the EIR, additional environmental analysis is required to be conducted for the County'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. 4S Kelwood reports that the reviews by the County conducted to date have resulted in findings of no significant impact not previously discussed in the EIR. 4S Kelwood 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 County 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**

Prior to the approval of the Specific Plan and the tentative subdivision maps for the land encompassing the Community Facilities District and certain nearby developments, the County Board of Supervisors approved the Lake Hodges Segment of the San Diego County Multiple Species Conservation Program Subarea Plan (the "Subarea Plan"). The Subarea Plan includes all of the property within the Community Facilities District. The Subarea Plan establishes a preserve area boundary line around sensitive habitat. The Subarea Plan was later incorporated into the County's Multiple Species Conservation Program. Pursuant to the Implementing Agreement (the "Implementing Agreement"), dated as of March 17, 1998, entered into among the County, the U.S. Fish & Wildlife Service and the California Department of Fish & Game, the County is authorized to issue "take" authorization pursuant to the federal and State endangered species acts for property within the Subarea Plan for the 85 plant and animal species described in the Implementing Agreement. So long as property owners within the Specific Plan Area do not disturb habitat within the Subarea Plan's preserve area boundary line, the property owners are permitted to disturb sensitive habitat and sensitive species outside the preserve area boundary line. The current development entitlements for the development project within the Community Facilities District have been designed to avoid the preserve areas. As a result, with respect to the 85 species covered by the Implementing Agreement, so long as the development project maintains its current development entitlement footprints outside of the preserve areas, 4S Kelwood will not need to seek any additional permits under either the federal or the State endangered species acts. However, future listing by federal or State authorities of additional plant or animal species as threatened or endangered could impact the planned development within the Community Facilities District.

4S Kelwood engaged RMA Consultants, Escondido, California to prepare a 4S Ranch Habitat Management Plan for the development. The 4S Ranch Habitat Management Plan dated June, 1998 and revised September, 1999 was approved by the County on September 16, 1999. The Habitat Management Plan was prepared in accordance with the mitigation measures identified in the 4S Ranch Specific Plan Environmental Impact Report, as amended and the County of San Diego's conditions of approval for the project's tentative map (TM 5066). This approval applies to approximately 1,612 acres of 4S Ranch that is included in the habitat preserve of the Subarea Plan. Of the approximately 2,888 acres of the 4S Ranch being developed as a planned community, approximately 1,612 acres will be set aside as part of the Multiple Species Conservation Preserve. The acreage consists of two portions of the Ralphs Family Preserve of approximately 1,065 acres and the Specific Plan Preserve of approximately 547 acres. The Multiple Species Conservation Preserve is within the boundaries of the Community Facilities District and is not subject to the levy of the Special Tax.

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. In June 1999,



4S Kelwood obtained a Section 404 Permit from the U.S. Army Corps of Engineers. The time for completing the authorized activities ends on June 22, 2009 and may be extended with the consent of the U.S. Army Corps of Engineers. 4S Kelwood entered into an Agreement regarding Proposed Stream or Lake Alteration in April 1999 for certain road, pedestrian and pipeline crossings and grading along portions of certain stream beds required in connection with the project. (This Agreement is also sometimes referred to as a Section 1603 Permit.) The work required under that agreement has been completed and the improvements are in a five year maintenance and monitoring program.

*Biological Surveys.* As part of the Environmental Impact Report, 4S Kelwood developed the 4S Ranch Biological Conveyance Plan implementing the County's Multiple Species Conservation Program Implementing Agreement and the Lake Hodges Subarea Plan. In furtherance of the Biological Conveyance Plan, 4S Kelwood has caused a biological survey and report to be completed for the 4S Ranch development and certain Merchant Builders have caused a biological survey and report to be completed for their respective project and the results are available for public review in the Department of Planning and Land Use Division (Biological Technical Report, County of San Diego). Certain sensitive plant and animal species were observed on site.

See "BONDOWNERS' RISKS – Endangered and Threatened Species." 4S Kelwood believes that the likelihood of a listing of additional species affecting the development of the project is remote at this stage of development. 4S Kelwood has been issued grading permits for all of Neighborhood Three (Tract 5229-3) and is in conformance with the approved boundaries of the Multiple Species Conservation Program and has granted the required open space easement to the County 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.

### **Development Agreement**

4S Kelwood and the County have entered into a public benefit agreement (the "Development Agreement"), dated January 6, 2001 regarding the Project. The Development Agreement was recorded on May 24, 2001 as Document No. 2001-03365489. 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, 4S Kelwood has the right to develop the Project in a manner consistent with the County's approved Specific Plan, and applicable rules, regulations and official policies. The Project is expected to be sold over the next five years, ending in 2010, to merchant builders and as long as the project is constructed in a manner consistent with the County's existing Land Use Ordinances, the project may be constructed at the rate and in the sequence that 4S Kelwood deems appropriate. Build-out within the Community Facilities District is expected to occur in 2010. Build-out within Improvement Area B (Neighborhood Three) is expected to occur in 2007.

By entering into the Development Agreement, 4S Kelwood obtained a vested right to proceed with the project in accordance with General Plan Amendment GPA 96-001, San Dieguito Community Plan (21) Specific Plan Designation, Specific Plan Amendment SPA 95-001, Zone Reclassification R95-001, Tentative Map TM 5066RPL, Tentative Map TM 5067RPL, Major Use Permit Modification P87-036W<sup>3</sup> and Modification to Agricultural Preserve No. 60. However, development remains subject to any remaining discretionary approvals required in order to complete the project as contemplated by the foregoing entitlements and subject to changes in County laws, regulations, plans or policies specifically mandated and required by changes in state or federal laws or regulations.

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 County 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 4S Kelwood with a vested right to build the Development 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 County 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 553 net residential acres expected to be developed with attached and detached single family units, apartments, commercial property, parks and school sites. Improvement Area B of the Community Facilities is expected to be developed with approximately 1,868 single family units, a proposed 10-acre school site and a 5-acre community park.

Most of the units in Neighborhoods One and Two have been constructed, except for single family detached homes currently being constructed on property in Neighborhood Two owned by K. Hovnanian at 4S, LLC (25 detached units) and by Woodbridge 4S Area 4 LLC (66 detached units). Single family detached and attached homes are being, or are anticipated to be, offered for sale in Neighborhood Three ( Improvement Area B) by a number of homebuilders, including William Lyon Homes, Standard Pacific, John Laing Homes, Fieldstone Communities, Shea Homes, SeaCountry Homes, Davidson Communities, Buie Communities, and K. Hovnanian. At build out, the Community Facilities District is estimated to include approximately 4,359 taxable units (i.e., Detached Units and Attached Units), 141 Affordable Units, approximately 420,000 square feet of commercial property and no industrial property. At build out, Neighborhood Three ( Improvement Area B) is estimated to include approximately 1,105 taxable Detached Units and 763 taxable Attached Units. There are no Affordable Units or commercial acreage in Neighborhood Three. Under the Indenture, 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.

### **Covenants, Conditions and Restrictions; Homeowner’s Association**

All of the parcels in Neighborhood Three ( Improvement Area B) are 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.

### **Special Tax Collections**

Table 1 below sets forth the Special Tax collections for the Community Facilities District for Fiscal Years 2001-02 through 2004-05, all of which was levied on Developed Property.

**Table 1**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Community Facilities District Special Tax Collections<sup>(1)</sup>**  
**(As of July 1)**

<b>Fiscal Year Ending June 30</b>	<b>Residential Developed Units</b>	<b>Total Special Taxes Levied</b>	<b>Total Special Taxes Collected</b>	<b>Number of Special Tax Delinquencies</b>	<b>Amount of Special Tax Delinquencies</b>	<b>Percentage of Special Taxes Delinquent</b>
2002	94	\$190,790.00	\$190,790.00	0	\$0.00	0.0%
2003	387	\$801,198.36	\$793,952.38	5	\$7,245.98	0.90%
2004	916	\$1,704,935.24	\$1,696,458.52	5	\$8,476.72	0.50%
2005	1,551	\$3,362,369.60	\$3,262,632.00	72	\$99,737.60	2.97%

<sup>(1)</sup> Delinquency information is provided to the School District by the County of San Diego.  
First year of levy was Fiscal Year 2001–02.

*Source: David Taussig & Associates, Inc.*

Special Tax collections for the Community Facilities District have been on Developed Property. In Fiscal Year 2005-06 Community Facilities District Special Taxes were levied on 93 parcels in Improvement Area B categorized as Developed Property.

Table 2 below sets forth the Special Taxes levied in Fiscal Year 2004-05 in the Community Facilities District. No Community Facilities District Special Taxes were levied in Improvement Area B in Fiscal Year 2004-05.

**Table 2**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Fiscal Year 2004-05 Special Tax Levy on Property**  
**By Property Owner<sup>(1)</sup>**

<b>Property Owner</b>	<b>Number of Units</b>	<b>Total Special Tax Levy</b>	<b>Parcels Delinquent</b>	<b>Amount of Special Tax Delinquent</b>
Individual Homeowners	1,473	\$3,192,533.00	67	\$92,115.16
Merchant Builders	78	169,836.60	5	7,622.44
Total	1,551	\$3,362,369.60	72	\$99,737.60

<sup>(1)</sup> Special Taxes in Fiscal Year 2004-05 were levied on 1,551 Units.

*Source: David Taussig & Associates, Inc.*

Table 3 sets forth the Special Taxes levied in Fiscal Year 2005-06, all of which were on Developed Property in the Community Facilities District. The actual allocation to the Merchant Builders will decrease as Merchant Builders sell completed homes to individual homeowners during Fiscal Year 2005-06.

**Table 3**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Fiscal Year 2005-06<sup>(1)</sup> Community Facilities District**  
**Special Tax Levy on Developed Property**

<b>Property Owner<sup>(2)</sup></b>	<b>Number of Units<sup>(3)</sup></b>	<b>Total Special Tax Levy</b>	<b>Percent of Levy</b>
Individual Homeowners	1,573	\$3,482,720.40	96.65%
Merchant Builders	<u>51</u>	<u>120,840.50</u>	<u>3.35%</u>
Total	1,624	\$3,603,560.90	100.00%

(1) Special Taxes in Fiscal Year 2005-06 were levied on 1,624 Units.

(2) Property Ownership based on Fiscal Year 2005-06 Assessor Roll as of January 1, 2005.

(3) Developed Property includes all lots that had building permits issued as of January 1, 2005.

*Source: David Taussig & Associates, Inc.*

Table 4 sets forth the Special Taxes levied in Fiscal Year 2005-06, all of which were on Developed Property in Improvement Area B. The actual allocation to the Merchant Builders will decrease as merchant builders sell completed homes to individual homeowners during Fiscal Year 2005-06.

**Table 4**  
**Poway Unified School District**  
**Improvement Area B of**  
**Community Facilities District No. 6**  
**Fiscal Year 2005-06<sup>(1)</sup> Community Facilities District Special Tax Levy**  
**on Developed Property**

<b>Property Owner<sup>(2)</sup></b>	<b>Number of Units<sup>(3)</sup></b>	<b>Total Special Tax Rate</b>	<b>Percent of Levy</b>
Individual Homeowners	46	\$106,627.82	52.34%
Merchant Builders	<u>47</u>	<u>97,111.44</u>	<u>47.66%</u>
Total	93	\$203,739.26	100.00%

(1) Special Taxes in Fiscal Year 2005-06 were levied on 93 Units.

(2) Property Ownership based on Fiscal Year 2005-06 Assessor Roll as of January 1, 2005.

(3) Developed Property includes all lots that had building permits issued as of May 1, 2005.

*Source: David Taussig & Associates, Inc.*

Interest on the Improvement Area B Bonds is capitalized through September 1, 2006.

The maximum Special Tax under the Community Facilities District Rate and Method on Developed Property authorized for the 2005-06 Fiscal Year in the Community Facilities District is \$2,382.79 for a Detached Unit and \$1,053.92 for an Attached Unit. For the 2004-05 Fiscal Year, Special Taxes in the amount of approximately \$3,362,369.60 were levied against 1,551 Detached Units in the Community Facilities District. Of those parcels, 72 were delinquent as of July 1, 2005. For Fiscal Years 2004-05 and 2005-06, no Special Taxes were levied on Undeveloped Property. Community Facilities District Special Taxes are not anticipated to be levied on Undeveloped Property in Fiscal Year 2006-07.

The maximum Special Tax under the Improvement Area B Rate and Method on Developed Property authorized for the 2005-06 Fiscal Year ranges from \$556.86 to \$2,685.04 for Detached Units and ranges from \$201.22 to \$556.86 for Attached Units. For the 2004-05 Fiscal Year, Community Facilities District Special Taxes were not levied in Improvement Area B. Therefore, there were no delinquent parcels as of July 1, 2005. For Fiscal Year 2005-06, \$203,739.26 of Improvement Area B Special Taxes were levied in Improvement Area B. For Fiscal Years 2004-05 and 2005-06, no Special Taxes were levied on Undeveloped Property. Special Taxes are anticipated to be levied on Undeveloped Property in Improvement Area B in Fiscal Year 2006-07.

### **Property Ownership**

Based on the Appraisal, as of September 1, 2005, there were approximately 1,558 completed sold and unsold homes in Neighborhood One and Neighborhood Two ( Improvement Area A) and 37 completed and sold homes in Neighborhood Three (Improvement Area B). The allocation of Developed Property will increase as more permits are issued before January 1, 2006 which is the date when property is considered Developed Property according to each Rate and Method. 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 Improvement Area B 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. 6**  
**Property Ownership for Taxable Property and Estimated Allocation of CFD**  
**and Improvement Area Special Tax Liability as if Parcels**  
**Were Categorized as Developed Property in Fiscal Year 2005–06**

<b>Merchant Builder/ Property Owner Name<sup>(1)</sup></b>	<b>Number of Units<sup>(1)</sup></b>	<b>Aggregate CFD Special Tax<sup>(1)</sup></b>	<b>% of CFD Tax Obligation<sup>(1)(3)</sup></b>	<b>Aggregate Impr. Area Special Tax<sup>(1)</sup></b>	<b>% of Impr. Area Special Tax<sup>(1)</sup></b>
<b><u>Neighborhood One<sup>(2)</sup></u></b>					
Individual homeowners	1,204	\$2,390,515.32	33.29%	Not applicable	N/A
<b><u>Neighborhood Two / Improvement Area A<sup>(3)</sup></u></b>				<b><u>Improv. Area A Special Tax</u></b>	
K.Hovnanian/ K. Hovnanian at 4S,LLC PA2 & 6	25	\$59,569.50	0.83%	\$67,126.00	5.26%
Woodbridge Homes/ Woodbridge 4S Area 4 LLC PA4	66	\$157,263.48	2.19%	\$173,996.58	13.62%
Individual homeowners	<u>474</u>	<u>\$129,437.72</u>	<u>15.73%</u>	<u>\$1,036,242.58</u>	<u>81.12%</u>
<b>Subtotal Neighborhood 2</b>	565	\$1,346,270.70	18.75%	\$1,277,365.16	100.00%
<b><u>Neighborhood Three / Improvement Area B<sup>(4)</sup></u></b>				<b><u>Improv. Area B Special Tax</u></b>	
William Lyon Homes/ William Lyon Homes, Inc. PA38	199	\$209,730.08	2.92%	\$110,817.13	5.07%
4S Ranch Planning Area 38, LLC PA 38B	127	\$302,613.06	4.21%	\$70,722.49	3.24%
Hearthstone Multi-Asset Entity B, L.P. PA44	<u>60</u>	<u>\$142,966.80</u>	<u>1.99%</u>	<u>\$111,492.00</u>	<u>5.10%</u>
<b>Subtotal William Lyon Homes</b>	386	\$655,309.94	9.13%	\$293,031.62	13.41%
John Laing Homes/ Laing 4S Area 34 LLC PA34	133	\$316,909.74	4.41%	\$203,928.70	9.33%
WL Homes LLC and WL 4S Ranch Associates LP PA42	<u>96</u>	<u>\$228,746.88</u>	<u>3.19%</u>	<u>\$157,502.78</u>	<u>7.21%</u>
<b>Subtotal John Laing Homes</b>	229	\$545,656.62	7.60%	\$361,431.48	16.54%
Standard Pacific/ Standard Pacific 4S Townhomes, LLC PA 40	206	\$217,107.52	3.02%	\$114,715.22	5.25%
Standard Pacific 4S Area 43, LLC PA 43A	<u>65</u>	<u>\$154,880.70</u>	<u>2.16%</u>	<u>\$160,907.29</u>	<u>7.36%</u>
<b>Subtotal Standard Pacific</b>	271	\$371,988.22	5.18%	\$275,622.51	12.61%
SeaCountry Homes SH 4S-PA 41 Investors, LLC PA41	136	\$324,058.08	4.51%	\$125,154.27	5.73%
Fieldstone Communities/ Fieldstone 4S Area 36, LLC PA36	102	\$243,043.56	3.38%	\$188,163.75	8.61%

<b>Merchant Builder/ Property Owner Name<sup>(1)</sup></b>	<b>Number of Units<sup>(1)</sup></b>	<b>Aggregate CFD Special Tax<sup>(1)</sup></b>	<b>% of CFD Tax Obligation<sup>(1)(3)</sup></b>	<b>Aggregate Impr. Area Special Tax<sup>(1)</sup></b>	<b>% of Impr. Area Special Tax<sup>(1)</sup></b>
Lennar Homes/Greystone Homes 4S	218	\$229,754.56	3.20%	\$105,501.05	4.83%
Shea Homes/ 4S Area 37 LLC PA37	140	\$147,548.80	2.05%	\$77,961.80	3.57%
Davidson Communities/ Davidson 4S Area 43 LLC PA43B	54	\$128,670.12	1.79%	\$134,965.98	6.18%
4S Kelwood PA 45, 46, 47A, 47B	295	\$702,920.10	9.79%	\$535,380.32	24.50%
Individual Homeowners portion of PA 36 and PA 43	<u>37</u>	<u>\$95,311.20</u>	<u>1.33%</u>	<u>\$87,774.93</u>	<u>4.02%</u>
<b>Subtotal Neighborhood 3</b>	1,868	\$3,444,261.20	47.96%	\$2,184,987.71	100.00%
<b>TOTAL</b>	3,640	\$7,181,047.22	100.00%	N/A	N/A

(1) As of January 1, 2005.

(2) Totals may not add due to rounding.

(3) Neighborhood 1 does not fall within an Improvement Area; the number of units reflected here include (1) unit that has prepaid its obligation to CFD No. 6 and 120 affordable units that are not taxed by CFD No. 6.

(4) Neighborhood 2 is located within Improvement Area A. Special taxes shown here as obligations of K. Hovanian at 4S, LLC and Woodbridge 4S Area 4 LLC are estimated based on Developed Property rates and projected development.

(5) Neighborhood 3 is located within Improvement Area B. Special tax obligation is estimated using Developed Property tax rates and projected development.

Source: David Taussig & Associates, Inc.

#### **4S Kelwood and the Merchant Builders**

*The information about 4S Kelwood, the Merchant Builders and the other owners of land within the Community Facilities District / Improvement Area B contained in this Official Statement has been provided by representatives of 4S Kelwood 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 2005 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 4S Kelwood, 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.*

*4S Kelwood and the Merchant Builders are not personally liable for payment of the Special Taxes or the 2005 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2005 Bonds are personal obligations or indebtedness of 4S Kelwood, the Merchant Builders or any other landowners in the Community Facilities District / Improvement Area B.*

4S Kelwood. Table 6 below sets forth by Planning Area the names of the current landowners and current or proposed Merchant Builders and the name(s) of the project(s) being developed by each such landowner or Merchant Builder.

**Table 6**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Property Ownership and Development Status**  
**As of September 1, 2005**

**Neighborhood One**

<b>Landowner</b>	<b>Planning Area/ Development Name</b>	<b>Total Number of Units</b>	<b>Units Completed as of September 1, 2005<sup>(1)</sup></b>	<b>Status of Development as of September 1, 2005</b>
Individual homeowners	Summerwood <sup>(1)</sup>	95	95	Owner occupied
Individual homeowners	Tanglewood <sup>(1)</sup>	161	161	Owner occupied
Individual homeowners	Providence at 4S Ranch	123	123	Owner occupied
Individual homeowners	Homestead	103	103	Owner occupied
Individual homeowners	Legacy	108	108	Owner occupied
Individual homeowners	Talavera	126	126	Owner occupied
Individual homeowners	Garden Gate	133	133	Owner occupied
Individual homeowners	Amherst	80	80	Owner occupied
Individual homeowners	Ryland Heritage	75	75	Owner occupied
Individual homeowners	Cedar Creek	80	80	Owner occupied
Bridge Housing	PA20	<u>120</u>	<u>120</u>	Low income units
Total		1,204	1,204	

<sup>(1)</sup> Based on Appraisal; Bridge Housing information provided by 4S Kelwood.

Source: Development Plan from 4S Kelwood.

**Neighborhood Two / Improvement Area A**

<b>Merchant Builder*</b>	<b>Planning Area</b>	<b>Total Number of Units</b>	<b>Units Completed or Under Construction</b>	<b>Status of Maps</b>	<b>Status of Development as of September 1, 2005</b>
K. Hovnanian	2	24	24	Final Map	24 production units under construction
Woodbridge Homes and 4S Kelwood	4	36	34	Final Map	34 production units under construction; 30 vacant lots
Individual homeowners/ K. Hovnanian	6	73	73	Final Map	Mostly owner occupied; K. Hovnanian owns 3 models and 1 unit under construction
Individual homeowners	7	65	65	Final Map	Owner occupied
Individual homeowners	8	105	105	Final Map	Owner occupied
Individual homeowners	10	75	75	Final Map	Owner occupied
Individual homeowners	11	75	75	Final Map	Owner occupied
Individual homeowners	13	<u>82</u>	<u>82</u>	Final Map	Owner occupied
Subtotal		565	533		



**Neighborhood Three / Improvement Area B**

<b>Merchant Builder<sup>†</sup></b>	<b>Planning Area</b>	<b>Total Number of Units</b>	<b>Units Completed or Under Construction</b>	<b>Status of Maps</b>	<b>Status of Development as of September 1, 2005</b>
John Laing	34	133	57	Final Map	54 Units under construction; 76 lots
Lennar Homes	35	218	129 <sup>(1)</sup>	Final Map	129 Units under construction
Fieldstone Communities	36	127	83	Final Map	25 homes closed, 6 complete-unsold, 52 under construction; 44 lots.
Shea Homes	37	140	78	Final Map	6 completed - unsold homes (3 models); 72 homes under construction.
William Lyon	38A	199	108	Final Map	Models near completion; 108 units (including 3 models) under construction; 91 near finished lots.
William Lyon	38B	127	94	Final Map	Models near completion; 94 units (including 4 models) under construction; 33 near finished lots.
Standard Pacific	40	206	0	Tentative Map	Graded lots
SeaCountry Homes	41	136	81		3 models completed; 78 Units under construction; 55 lots.
John Laing Homes	42	96	0	Final Map	Blue top condition.
Standard Pacific	43A	65	61	Final Map	3 completed models; 58 units under construction
Davidson Communities	43B	66	66	Final Map	12 homes closed; 3 completed models; 51 production units under construction
William Lyon Homes	44	60	0	Final Map	Blue top condition.
4S Kelwood – William Lyon Homes	45	60	0	Final Map	Projected 2/06
4S Kelwood – Buie Communities	46	101	0	Final Map	Projected to close in Dec 2005
4S Kelwood – Fieldstone Communities	47A	70	0	Tentative Map	Projected to close in Dec 2005
4S Kelwood – K. Hovnanian	47B	<u>64</u>	<u>—</u>	Tentative Map	Projected to close in Dec 2005
Total		1,868	757		

**Neighborhood Four / Improvement Area C**

<b>Landowner/ Merchant Builder<sup>†</sup></b>	<b>Planning Area</b>	<b>Total Number of Units</b>	<b>Units Completed or Under Construction</b>	<b>Net Taxable Acreage</b>	<b>Status of Maps</b>	<b>Status of Development as of September 1, 2005</b>
4S Kelwood	32	540	0	22.84	Tentative Map	Graded, proposed for apartment units (includes 21 Affordable Units)
4S Kelwood	48	175	0	29.15	Tentative Map	Raw land
4S Kelwood	51	114	0	22.94	Tentative Map	Raw land
4S Ranch Company 600, L.P.		<u>36</u>	<u>0</u>	<u>33</u>	Tentative Map	Raw land, Tentative map recorded August 22, 2002
Subtotal		<u>865</u>	<u>0</u>	<u>85.09</u>		
Grand Total		4,502	2,494			

Source: Development Plan from 4S Kelwood.

<sup>(1)</sup> Subsequent to September 1, 2005, building permits for the remaining 89 units in Lennar Homes' project in Planning Area 35 were issued.

**Information with Respect to 4S Kelwood.** 4S Kelwood General Partnership ("4S Kelwood"), is a California general partnership of which the sole managing partner is Kelwood Development Company, LLC, a Delaware limited liability company ("Kelwood Development Company") and 4S Ranch Company 1700, L.P., a California limited partnership ("4S Ranch Company 1700") is a general partner. Kelwood Development Company is wholly owned by Genstar Land Company, LLC, a Delaware limited liability company ("Genstar"), which is wholly owned

<sup>†</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. See the respective Merchant Builder sections in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Improvement Area B" for a herein for a description of ownership, legal entities and proposed projects.

by Newland-IHP Ventures, LLC, a Delaware limited liability company (“Newland-IHP Ventures, LLC”). Newland-IHP Ventures, LLC was formed by entities related to Newland Communities, LLC, a Delaware limited liability company (“Newland Communities”) and Institutional Housing Partners. Newland Communities is a real estate development company which traces its history back approximately four decades and has developed approximately 60 communities in 12 states. Newland Communities is active both as a master-planned community developer and as an advisor to pension funds and other institutional partners on the acquisition and development of residential communities. Newland Communities is headquartered in San Diego, California, and as of September 1, 2005, has development operations in nine states, including California, Oregon, Washington, Arizona, Texas, Florida, Georgia and the Carolinas. In 1999, Newland Communities entered into a partnership with Hunt Realty Corporation. Based in Dallas, Texas, Hunt Realty Corporation is the real estate investment company responsible for real estate acquisition and investment management activities for Hunt Consolidated Inc. Institutional Housing Partners 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.

4S Kelwood intends to market property to merchant builders and does not intend to construct residential or commercial/industrial structures. As of September, 2005, 4S Kelwood has sold land to merchant builders for approximately 3,192 single family detached and attached dwelling units and 120 low income units.

*Status of Permits and Approvals.* 4S Kelwood has obtained approvals and permits for grading and for public improvements required for development of all of Neighborhood Two and all of Neighborhood Three. Final maps were approved for the remaining 90 residential lots in Neighborhood 2 in 2005. Final maps were approved for 1,674 of 1,868 units in Neighborhood Three in 2004 and 2005. Final maps are projected to be approved for 194 units in Neighborhood Three in the fourth quarter of 2005. Final maps are estimated to be recorded in the fourth quarter of 2005 in Neighborhood Four.

4S Kelwood has completed grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the remaining 90 detached single family lots within Improvement Area A. 4S Kelwood 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 within Improvement Area B. Such improvements are estimated to be completed by the end of the fourth quarter of 2006. Backbone infrastructure improvements being completed include water, sewer, drainage, streets improvements, paving and street lights have been constructed to serve the units in Neighborhood Three and 757 units are completed or under construction in Neighborhood Three. Pursuant to 4S Kelwood’s sales agreements with merchant builders, 4S Kelwood 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.

4S Kelwood entered into an agreement with the Olivenhain Municipal Water District relating to the provision of water service by Olivenhain Municipal Water District to the portion of the property owned by 4S Kelwood in 1997. 4S Ranch Company and 4S Ranch Company 600, L.P. entered into an agreement with the Olivenhain Municipal Water District relating to the provision of water service by Olivenhain Municipal Water District to the portion of the property owned by 4S Ranch Company and 4S Ranch Company 600, L.P. in 1997. 4S Kelwood, 4S Ranch Company and 4S Ranch Company 600, L.P. entered into an agreement for Olivenhain Municipal Water District to provide wastewater and recycled water services to the property within the Community Facilities District in 1999. 4S Kelwood entered into an agreement with the Rancho Santa Fe Fire District with respect to fire protection master plan and fire protection services in 1997.

As of July, 2005, 4S Kelwood has expended approximately \$363 million in land acquisition, development, infrastructure and financing costs relating to development of the property within the Community Facilities District, of which approximately \$52 million relates to Improvement Area B.

Major infrastructure which remains to be constructed includes the following: (i) Carmel Valley Road from 4S Ranch to Black Mountain Road; (ii) widening Camino Del Norte at I-15; and (iii) off-site water pipelines and pump station.

*Plan of Finance.* 4S Kelwood is financing its development of the remaining property owned by 4S Kelwood in the Community Facilities District from unsecured loans and equity contributions from its partners and profits from sales of land to merchant builders. As of September, 2005, 4S Kelwood had a zero balance outstanding under the partner loans and undistributed capital. The remaining property owned by 4S Kelwood in the Community Facilities District has no debt financing secured by such land in the form of a deed of trust. One of the partners in 4S Kelwood, Kelwood Development Company is a second tier wholly owned subsidiary of Newland-IHP Ventures, LLC. California Public Employees Retirement Systems (CalPERS) is the primary investor in the entities owning 99.5% of N-IHP.

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 1,868 lots within Improvement Area B, portions of the project may not be developable. While 4S Kelwood 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 4S Kelwood to provide internal financing in the past, 4S Kelwood has not represented in any way that it will do so in the future.

*Development Experience.* Newland Communities' historical projects in California include those listed in the following table.

<b>Site Name</b>	<b>City</b>	<b>No. of Units</b>	<b>Type of Development</b>	<b>Role of 4S Kelwood</b>	<b>Development/Absorption</b>
Paseo del Sol	Temecula	3,000	Residential & commercial	Developer	5 years
Bernardo Heights	San Diego	3,500	Residential	Developer	7 years
Rancho Penasquitos	San Diego	12,000	Residential & commercial	Developer	15 years
Whitney Oaks	Sacramento	2,000	Residential	Developer	7 years
Whitney Ranch	Sacramento	3,500	Residential	Developer	Current
Woods Valley	San Diego	270	Residential	Developer	2 years
Mission Terrace	Oceanside	100	Residential	Developer	2 years

*Absorption.* Development of the property within the Community Facilities District is estimated by 4S Kelwood to occur over the next 5 years and 4S Kelwood has estimated that its sales to merchant builders will conclude in 2007, with merchant builder sales of new homes concluding thereafter.

Development of the property within Improvement Area B is estimated by 4S Kelwood to occur over the next 2 years and 4S Kelwood has estimated that its sales to merchant builders will conclude in 2006, with merchant builder sales of new homes concluding thereafter.

*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.

4S Kelwood has made the following representations:

- 4S Kelwood has over 60 Affiliates consisting of various entities that are developing or have been involved in the development of over 60 different projects in 12 different states over nearly four 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. 4S Kelwood 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,
- to the actual knowledge of 4S Kelwood, 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,
- 4S Kelwood and its Affiliates are solvent and neither 4S Kelwood 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
- to the actual knowledge of 4S Kelwood, 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 4S Kelwood or an Affiliate having been accomplished) against 4S Kelwood or any Affiliate or, to 4S Kelwood’s actual knowledge, threatened, which if successful, would materially adversely affect the ability of 4S Kelwood to complete the development and sale of the property currently owned within the Community Facilities District or to pay Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

For purposes of this Official Statement the actual knowledge of 4S Kelwood shall mean the actual knowledge of Michael L. Rust, Vice President Newland Communities.

Newland-IHP Ventures, LLC acquired Genstar Land Company, LLC (“Genstar”) in June, 2000 (the “Genstar Acquisition”). At that time, Genstar owned or had an interest in over 27 land development projects in 7 states. One such property consisted of raw land in Los Angeles County (the “NorthLake Property”) owned by NorthLake LLC (“NorthLake LLC”), whose members were Genstar NorthLake LLC (“Genstar NorthLake”) and Cook Ranch Associates, a California general partnership (“Cook Ranch”). The NorthLake Property was included within Community Facilities District No. 92-1 (“CFD No. 92-1”) established by the Castaic Union School District for which \$19,500,000 in bonds were issued in August 1992. At the time of issuance of the CFD No. 92-1 bonds, Cook Ranch was the sole owner of the property in CFD No. 92-1. Immediately following the Genstar Acquisition, Genstar and Cook Ranch began negotiations whereby Genstar NorthLake would sell and convey its interest in NorthLake LLC to Cook Ranch. During these negotiations the first property tax installment for Fiscal Year 2000-01 for the NorthLake Property became due and was timely paid by NorthLake LLC from funds contributed by Genstar. The negotiations did not proceed as expected and in January, 2001, Cook Ranch filed a lawsuit against NorthLake LLC and Genstar NorthLake. During this period, NorthLake LLC’s second property tax installment for Fiscal Year 2000-01 became due and was not paid pending resolution of the litigation. On May 31, 2001, the lawsuit was settled and the parties entered into a settlement agreement pursuant to which Genstar NorthLake agreed to sell and reconvey all of its interest in NorthLake LLC back to Cook Ranch. The settlement agreement also provided that, at the closing, Genstar NorthLake would fund the penalties and interest due by NorthLake LLC on the delinquent property tax installments. In connection with the June 15, 2001 close of escrow and sale of its interest in NorthLake LLC, Genstar NorthLake provided Cook Ranch with a cashiers check payable to the Los Angeles County Tax Assessor-Collector in the amount of approximately \$104,000 representing payment in full of all

penalties and interest accrued to the second property tax installment for Fiscal Year 2000-01. Since the closing, neither Newland-IHP Ventures, LLC, nor Genstar, nor Newland Communities has had any affiliation with NorthLake LLC or Cook Ranch or any direct or indirect interest in the NorthLake Property, including any obligation to pay property taxes or special taxes of CFD No. 92-1. Under the settlement agreement, Cook Ranch, as the sole owner/member of NorthLake LLC, was responsible for the payment of property taxes for the second property tax installment of Fiscal Year 2000-01 and thereafter.

*Development Activity.* Table 7 below summarizes certain information regarding the planned development with respect to the 91 residential units which remain to be constructed in Neighborhood Two - Improvement Area A and regarding the planned development within Neighborhood Three - Improvement Area B of the Community Facilities District as of September 1, 2005, the date of the estimated market value set forth in the Appraisal.

**Table 7**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Improvement Area A and B**  
**Active or Pending Projects<sup>(1)</sup>**  
**As of September 1, 2005**

<b>Merchant Builder<sup>(2)</sup></b>	<b>Project</b>	<b>Planning Area</b>	<b>Total Units</b>	<b>Units Transferred to Merchant Builders<sup>(3)</sup></b>	<b>Building Permits</b>	<b>Closed Sales to Homeowners<sup>(4)</sup></b>
<b><u>Neighborhood Two / Improvement Area A</u></b>						
K. Hovnanian	Palomino	2 & 6	97	97	97	69
Woodbridge Homes	Ivy Gate	4	<u>66</u>	<u>36</u>	<u>34</u>	<u>0</u>
Total Neighborhood Two			163	133	131	69
<b><u>Neighborhood Three / Improvement Area B</u></b>						
John Laing Homes	Rosemary Lane	34	133	133	57	0
Lennar Homes	Bridgeport	35	218	218	129	0
Fieldstone Communities	SilverCrest	36	127	127	83	25
Shea Homes	San Moritz	37	140	140	101	0
William Lyon Homes	Ravenna	38A	199	199	108	0
William Lyon Homes	Amante	38B	127	127	94	0
Standard Pacific	Gianni	40	206	206	0	0
SeaCountry Homes	Garden Walk	41	136	136	81	0
John Laing Homes	Silhouette	42	96	96	0	0
Standard Pacific	Travata	43A	65	65	65	0
Davidson Communities	Reunion	43B	66	66	66	12
William Lyon Homes	Maybeck	44	60	60	0	0
William Lyon Homes	Maybeck	45	60	0	0	0
Buie Communities	Chanteclair	46	101	0	0	0
Fieldstone Communities	SilverCrest	47A	70	0	0	0
K. Hovnanian	Evergreen	47B	<u>64</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Neighborhood Three			1,868	1,573	784	37

<sup>(1)</sup> See the Appraisal for more information and appraised value. Although the Appraisal indicates 78 homes under construction in Shea Homes' San Moritz project, Shea Homes has indicated permits for 101 units have been issued. Although the Appraisal indicates 3 completed-unsold homes (models) and 58 homes under construction in Standard Pacific's Travata project, Standard Pacific has indicated permits for all 65 homes have been issued.

<sup>(2)</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. See the respective Merchant Builder sections in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Improvement Area B" for a description of ownership, legal entities and proposed projects

<sup>(3)</sup> Completion of the sales to the Merchant Builders is subject to satisfaction of the terms and conditions of each sales agreement. No assurance can be given that such sales will occur.

<sup>(4)</sup> Closed sales derived from Appraisal.

Source: Merchant Builder information regarding building permits issued; Closed sales to homeowners derived from Appraisal.

4S Kelwood is proceeding with the development of Neighborhood Three and has entered into contracts with Fieldstone Communities, William Lyon Homes, and Buie Communities for the sale of land for development of 231 homes and is negotiating a contract with K. Hovnanian at 4S II, LLC for the sale of land for development of 64 lots.

**There is no certainty that contracts entered into or under negotiation will be consummated and land transferred from 4S Kelwood to any of the third parties described above.**

*Limited Number of Individual Owners.* As of September 1, 2005, the date of the estimated market value set forth in the Appraisal, there are 37 owner-occupied homes within Neighborhood Three - Improvement Area B.

Neighborhood Three – Merchant Builder Sales.

Neighborhood Three will comprise approximately 763 attached residential units and 1,105 detached residential units and a proposed 10-acre elementary school site. As of September 1, 2005, 4S Kelwood has entered sales contracts for or closed escrow on all 1,804 of the 1,868 lots for single family detached and attached homes in Neighborhood Three to ten Merchant Builders of which 1,417 residential lots closed in March, 2004, and 156 lots closed by July, 2005. Subsequent to September 1, 2005, 4S Kelwood entered into a sales contract for the remaining 64 lots in Neighborhood Three. There is no certainty that contracts entered into will be consummated and land transferred from 4S Kelwood to any of the third parties described above.

William Lyon Homes.

William Lyon Homes, a California corporation (“William Lyon Homes”), based in Newport Beach, California will be the builder with respect to 199 attached residential units in Planning Area 38A, 127 detached single family homes in Planning Area 38B and 60 detached single family homes in Planning Area 44 and is under contract for 60 units in Planning Area 45. William Lyon Homes is a leading national homebuilder. Established in 1956, William Lyon Homes builds homes in five geographic markets in three states and is one of the largest single-family on-site homebuilders in the United States of America. William Lyon Homes’s homebuilding segment specializes in the sale and construction of single-family attached and detached housing. In California, William Lyon Homes markets its products under several brand names.

William Lyon Homes is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly William Lyon Homes’ 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. William Lyon Homes is listed on the NYSE (trading symbol “WLS”). All documents subsequently filed by William Lyon Homes 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.

William Lyon Homes Internet home page is located at [lyonhomes.com](http://lyonhomes.com). *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Landowners within William Lyon Homes’ project are as follows: 4S Ranch Planning Area 38, LLC (PA 38A and 38B), and Hearthstone Multi-Asset Entity B, L.P. (PA 44). The membership interests of the 4S Ranch Planning Area 38, LLC are owned 60% by William Lyon Homes and 40% by IHP Newland Housing Ventures, LLC, a Delaware limited liability company. William Lyon Homes is the managing member of 4S Ranch Planning Area 38, LLC.

William Lyon Homes has an agreement with Hearthstone Multi-Asset Entity B, L.P. to acquire the lots in Planning Area 44 on a predetermined take-down schedule. As of October 11, 2005, William Lyon Homes is under contract to acquire lots in Planning Area 45 but does not own the lots as of that date. As of October 11, 2005,

William Lyon Homes had not acquired any of the lots from Hearthstone Multi-Asset Entity B, L.P., however, upon acquisition, William Lyon Homes will have a 100% interest in each lot.

*Description of Project.* William Lyon Homes is the builder with respect to land for 199 attached units in Planning Area 38A, 127 detached units in Planning Area 38B and 120 detached units in Planning Areas 44 and 45 in Improvement Area B. All 199 lots in Planning Area 38A and all 127 lots in Planning Area 38B were acquired in 2004. 60 of the 120 lots in Planning Areas 44 and 45 were acquired as of September 1, 2005. The remaining 60 lots are expected to be acquired by William Lyon Homes' lender, Hearthstone Multi Asset Entity B, L.P. in the first quarter of 2006.

Building permits for 108 of the 199 units have been issued with respect to the Ravenna at 4S Ranch project in Planning Area 38A. The Ravenna at 4S Ranch project has 3 model homes and is expected to have townhomes ranging from 1,405 to 1,626 square feet. As of September 1, 2005, there were 108 units under construction. Sales prices are estimated to start in the high \$400,000's. The Amante at 4S Ranch, a detached cluster project, will have 4 model homes and is expected to have homes ranging from 1,454 to 1,914 square feet and sales prices are estimated to start in the mid \$500,000's. As of September 1, 2005, building permits for 94 homes have been issued with respect to the Amante at 4S Ranch project in Planning Area 38B.

All of the lots in Planning Area 44 are currently vacant lots which are in a graded, blue top condition. Planning Area 45 is being graded. The Maybeck at 4S Ranch project in Planning Areas 44 and 45 is anticipated to open in the fourth quarter of 2005, with homes ranging from 2,797 to 3,481 square feet and sales prices are estimated to start in the mid \$800,000's.

The development which constitutes William Lyon Homes'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 9/1/05</b>
PA 38A – Ravenna at 4S Ranch	attached units	1,405-1,626	high \$400,000	199 attached	108
PA 38B – Amante at 4S Ranch	2,000	1,454-1,914	mid \$500,000	127 detached	94
PA 44 and 45 – Maybeck at 4S Ranch	5,150	2,797-3,481	mid \$800,000	120 detached	0

*Status of Permits and Approvals.* The 199 units in Planning Area 38A and the 127 units in Planning Area 38B are encompassed within a final map recorded in February 2005. Pursuant to the purchase agreement with 4S Ranch Kelwood, 4S Ranch Planning Area 38 LLC completed the lots to a finished condition and in-tract street, sewer, water and dry utility improvements for the attached units within Planning Areas 38A and 38B. 3 models for the Ravenna at 4S Ranch project are anticipated to open in November 2005 and home closings are anticipated to commence in the fourth quarter of 2005. William Lyon Homes completed model construction for the Amante at 4S Ranch project during the fourth quarter of 2005. Home closings commenced in October 2005 for the Amante at 4S Ranch project.

The 60 lots in Maybeck at 4S Ranch project are encompassed within a final map recorded in February 2005. Pursuant to its purchase agreement with William Lyon Homes, 4S Kelwood is obligated to deliver finished lots with respect to Planning Area 44 and 45 to William Lyon Homes. As described above, under “ – Status of Permits and Approvals,” 4S Kelwood 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 within Improvement Area B. Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the fourth quarter of 2005. Because William Lyon Homes will acquire “finished lots,” William Lyon Homes's remaining costs relate primarily to model and production home construction.



*Plan of Finance.* Development of the property in Planning Areas 38A, 38B, 44 and 45 is being financed through a combination of bank debt, private equity and internal sources. As of September 1, 2005, William Lyon Homes has expended funds for acquisition of the property and the development within Ravenna at the 4S Ranch and Amante at 4S Ranch projects, but has only expended modest amounts in connection with the development of the Maybeck at 4S Ranch project. As of September 1, 2005, estimated costs to improve the property from superpad condition to final grading and for constructing in-tract street, water, sewer and dry utility improvements for the attached single housing was approximately \$4,924,000 for Planning Area 38A and approximately 2,764,000 for Planning Area 38B. As of September 1, 2005, estimated costs to get the lots from as is built-top condition to finished lots was approximately \$2,168,000, which includes costs for in-tract alleys, utilities.

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's expected development within property it acquires, portions of the project may not be developable. While William Lyon Homes 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 to provide internal financing in the past, William Lyon Homes has not represented in any way that it will do so in the future.

*Absorption.* William Lyon Homes's Ravenna at 4S Ranch development has a projected absorption rate of approximately 29 units per quarter, commencing the fourth quarter of 2005. William Lyon Homes's Amante at 4S Ranch development has a projected absorption rate of approximately 20 units per quarter, commencing the fourth quarter of 2005. William Lyon Homes's Maybeck at 4S Ranch development has a projected absorption rate of approximately 17 units per quarter, commencing the third quarter of 2006.

*Development Experience.* William Lyon Homes and its Affiliates delivered approximately 2,522 homes in 2002, approximately 2,804 homes in 2003, approximately 3,471 homes in 2004, and anticipate closing approximately 3,400 homes in 2005.

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* The officer executing a certificate on behalf of William Lyon Homes, certifies that, to his actual knowledge:

- William Lyon Homes 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 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 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 nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- William Lyon Homes and its Affiliates are solvent and neither William Lyon Homes nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt or has any proceeding pending or to William Lyon Homes 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 William Lyon Homes or an Affiliate having been accomplished) against William Lyon Homes or any Affiliate or, to William Lyon Homes's actual knowledge, threatened, which if successful, would materially adversely affect the ability of William Lyon Homes to complete the acquisition and development of the property expected to be owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

## Standard Pacific

Standard Pacific Corp., a Delaware corporation (“Standard Pacific”), is the builder with respect to 206 attached units being constructed in Planning Area 40 and 65 detached units being constructed in Planning Area 43A. Standard Pacific is a geographically diversified home builder that constructs single-family, attached and detached homes within a wide range of price and size, targeting a broad range of homebuyers. Standard Pacific has operations in major metropolitan areas in California, Texas, Arizona, Nevada, Colorado, Florida, and the Carolinas, and has built homes for more than 79,000 families during its 39-year history. In addition to its core homebuilding operations, Standard Pacific also provides mortgage financing and title services to its homebuyers through the following subsidiaries and joint ventures: Family Lending Services, Home First Funding, WRT Financial, Westfield Home Mortgage, Universal Land Title of South Florida, and SPH title. Through its predecessors, Standard Pacific commenced homebuilding operations in Southern California in 1966.

Standard Pacific is a publically-traded company whose stock is traded on the NYSE under the symbol “SPF”.

Standard Pacific is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly Standard Pacific’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. All documents subsequently filed by Standard Pacific pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

Standard Pacific’s website is [standardpacifichomes.com](http://standardpacifichomes.com). *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

Landowners within Standard Pacific’s project are as follows: Standard Pacific 4S Townhomes, LLC (PA 40) and Standard Pacific 4S Area 43, LLC (PA 43A) (together, the “Standard Pacific Affiliates”). The membership interests of each of the Standard Pacific Affiliates are owned 50% by Standard Pacific and 50% by IHP Newland Housing Ventures, LLC, a Delaware limited liability company. Standard Pacific is the managing member of the Standard Pacific Affiliates.

*Description of Projects.* The Standard Pacific Affiliates have acquired lots for 206 attached units and 65 detached units in Improvement Area B. The Gianni at 4S Ranch project is expected to have eight model homes, and is expected to have homes ranging from 1,211 to 1,578 square feet under construction during the first quarter of 2006. As of September 1, 2005, the Gianni at 4S Ranch project was in a flat, rough graded or mass graded superpad condition with no building permits issued. As of September 1, 2005, sales prices are estimated to range from the low \$400,000’s. As of September 1, 2005, the Travata at 4S Ranch project had 3 completed models, 58 homes under construction and 4 vacant lots. The Travata at 4S Ranch project is expected to have homes ranging from 3,552 to 3,726 square feet. The Travata at 4S Ranch project is anticipated to commence home closings in the fourth quarter of 2005. As of September 1, 2005, sales prices are estimated to range from the mid-\$900,000’s.

The development which constitutes Standard Pacific’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 9/1/05</b>
PA 40 – Gianni at 4S Ranch	Attached units	1,211-1,578	mid \$400,000	206 attached	0
PA 43A – Travata*	6,300	3,552-3,726	mid \$900,000	65 detached	65

\* Although the Appraisal indicates 3 completed-unsold homes (models) and 58 homes under construction in Standard Pacific's Travata project, Standard Pacific has indicated permits for all 65 homes have been issued.

*Status of Permits and Approvals.* The final map for the lots in the Travata project was recorded in February 2004. The final map for the Gianni project is expected to be recorded by December 2005. Pursuant to its purchase agreement with the Standard Pacific Affiliates, 4S Kelwood was obligated to deliver finished lots to the Standard Pacific Affiliates. As described above, under “ – Status of Permits and Approvals,” 4S Kelwood 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 within Improvement Area B. Standard Pacific intends to begin model construction for the Gianni at 4S Ranch project by the fourth quarter of 2005. Home sales commenced in the second quarter of 2005. Standard Pacific has completed model construction for the Travata at 4S Ranch project. Home closings commence in the fourth quarter of 2005.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the fourth quarter of 2005. Because the Standard Pacific Affiliates will acquire “finished lots,” Standard Pacific's remaining costs relate primarily to model and production home construction.

*Plan of Finance.* The Standard Pacific Affiliates expect to finance the construction of housing units through member contributions 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 the Standard Pacific Affiliates' expect to develop within Improvement Area B, 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 Gianni at 4S Ranch development has a projected absorption rate of approximately 24 units per quarter, commencing the second quarter of 2005. The Travata at 4S Ranch development has a projected absorption rate of approximately 16 units per quarter, commencing the first quarter of 2005.

*Development Experience.* Through its eight homebuilding divisions, Standard Pacific delivered 6,265 homes in 2002, 8,213 homes in 2003, 9,091 homes in 2004 and anticipates closing approximately 11,350 homes in 2005. Recent projects under development by the San Diego Division of Standard Pacific include the following.

<b>Site Name</b>	<b>City</b>	<b>No. of Units</b>	<b>Proposed Base Prices</b>	<b>Square Feet</b>	<b>Bedrooms</b>
Sansonnet	San Diego	183	\$550,000- 700,000	2,700-3,875	3-5
Cedar Crossing	San Marcos	93	\$350,000- 400,000	1,700-2,600	3-4
Blossom Ridge	Chula Vista	95	\$270,000- 300,000	1,885-2,340	3-4
Rose Creek	Chula Vista	73	\$250,000- 270,000	1,500-2,000	3-4
Shorepointe	Carlsbad	146	\$425,000- 500,000	1,800-2,890	3-5
Maravu	Encinitas	43	\$700,000- 800,000	3,200-4,500	3-5

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* The Standard Pacific Affiliates have made the following representations:

- as affiliates of Standard Pacific, a large, nation-wide company that is developing or has been involved in the development of numerous projects over an extended period of time, the Standard Pacific Affiliates cannot represent with assurance that neither Standard Pacific nor any other Affiliate of the Standard Pacific Affiliates has ever been delinquent in the payment of ad valorem property taxes, special assessments or special taxes; however, the Standard Pacific Affiliates do not have actual knowledge that they or any of their Affiliates is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes.
- to the actual knowledge of the Standard Pacific Affiliates, neither any of the Standard Pacific Affiliates nor any of their Affiliates is currently in default on any loans, lines of credit or other obligation related to the development being undertaken by the Standard Pacific Affiliates in Improvement Area B or any of the Standard Pacific Affiliates' other projects which default would in any way materially and adversely affect the ability of the Standard Pacific Affiliates to develop their property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which they are responsible,
- the Standard Pacific Affiliates and, to the actual knowledge of the Standard Pacific Affiliates, their Affiliates are solvent and neither the Standard Pacific Affiliates nor, to the actual knowledge of the Standard Pacific Affiliates, any of their Affiliates have ever filed bankruptcy or been declared bankrupt or have any proceeding pending or threatened in which they or their 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 the Standard Pacific Affiliates or an Affiliate having been accomplished) against the Standard Pacific Affiliates or, to the Standard Pacific Affiliates' actual knowledge, is pending against any Affiliate or is threatened against the Standard Pacific Affiliates or any of their Affiliates, which if successful, would materially adversely affect the ability of the Standard Pacific Affiliates to complete the development of the property being undertaken by the Standard Pacific Affiliates within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on their property within Improvement Area B.

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

#### John Laing Homes

John Laing Homes is a privately held company. The actual legal entity of the privately held company is WL Homes LLC. John Laing Homes is the doing business name of WL Homes. John Laing Homes entered the U.S. market in 1984. John Laing Homes has acquired lots for 133 detached residential units in Planning Area 34 and for 96 detached single family homes in Planning Area 42. 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. John Laing Homes Internet home page is located at [johnlainghomes.com](http://johnlainghomes.com). *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Limited liability companies and partnerships within John Laing Homes' projects are as follows: Laing 4S Area 34 LLC (PA 34), WL Homes LLC (PA 42) and WL 4S Ranch Associates LP (PA 42) (together, the "John Laing Homes Affiliates"). Laing 4S Area 34 LLC is owned 50% by John Laing Homes and 50% by IHP Newland Housing Ventures, LLC, a Delaware limited liability company. For WL 4S Ranch Associates LP, John Laing

Homes owns a 99% interest, and 4S Ranch, LLLP, a Colorado limited liability limited partnership, owns a 1% interest. John Laing Homes is the managing member of the John Laing Homes Affiliates.

*Description of Project.* John Laing Homes has entered into purchase contracts with 4S Kelwood for lots for 133 detached units and 96 detached units in Improvement Area B. All of the lots have been acquired. The Rosemary Lane at 4S Ranch project has three model homes, and is expected to have homes ranging from 2,461 to 3,274 square feet, and began construction during the fourth quarter of 2004. The Rosemary Lane at 4S Ranch project opened in the first quarter of 2005 and sales prices are in the mid \$700,000's. The Silhouette at 4S Ranch project is expected to have three model homes, and is expected to have homes ranging from 2,559 to 3,192 square feet and began construction during the third quarter of 2005. The Silhouette at 4S Ranch project is anticipated to open in the first quarter of 2006 and sales prices are estimated to be in the high \$700,000's.

The development which constitutes John Laing Homes'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>Building Permits as of 9/1/05</b>
PA 34 – Rosemary Lane at 4S Ranch	4,275	2,461-3,274	mid \$700,000	133 detached	74
PA 42 –Silhouette at 4S Ranch	4,200	2,559 - 3,192	high \$700,000	96 detached	0

*Status of Permits and Approvals.* The lots are encompassed within final maps recorded in February 27, 2004 and February 15, 2005 for Rosemary Lane and Silhouette, respectively. Pursuant to its purchase agreement with John Laing Homes, 4S Kelwood is obligated to deliver finished lots to John Laing Homes. As described above, under “– Status of Permits and Approvals,” 4S Kelwood 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 within Improvement Area B. John Laing Homes will construct model and production homes. John Laing Homes completed model construction for the Rosemary Lane at 4S Ranch project in the first quarter of 2005. Home sales commenced in the first quarter of 2005. Subsequent to the date of value of the Appraisal, John Laing Homes began model construction for the Silhouette at 4S Ranch project during the third quarter of 2005. Home sales are expected to commence in the first quarter of 2006.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the fourth quarter of 2005. Because John Laing Homes will acquire “finished lots,” John Laing Homes's remaining costs relate primarily to model and production home construction.

*Plan of Finance.* John Laing Homes expects to finance the construction of housing units through internal resources and home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of John Laing Homes's expected development within Improvement Area B, portions of the project may not be developable. While John Laing Homes 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 John Laing Homes to provide internal financing in the past, John Laing Homes has not represented in any way that it will do so in the future.

*Absorption.* John Laing Homes's Rosemary Lane at 4S Ranch development has a projected absorption rate of approximately 24 units per quarter, commencing the first quarter of 2005. John Laing Homes's Silhouette at 4S Ranch development has a projected absorption rate of approximately 24 units per quarter, commencing the first quarter of 2006.

*Development Experience.* John Laing Homes, together with its affiliates, operates primarily as a geographically diversified builder of single-family homes throughout major metropolitan markets in California and Colorado. John Laing Homes entered the U.S. market in 1984. Through its nine homebuilding divisions, John Laing Homes delivered 1,800 homes in 2003, 2,000 homes in 2004 and anticipates closing approximately 2,000 homes in 2005. Recent projects under development by John Laing Homes in southern California include the following.

<u>Site Name</u>	<u>City</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>
The Tides	Carlsbad	108	mid \$800,000's	2,200
Seahouse	Carlsbad	111	high \$800,000's	2,600
Woodley's Glen	San Marcos	86	high \$600,000's	2,500

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* John Laing Homes has made the following representations:

- neither John Laing Homes nor to John Laing Homes'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 John Laing Homes nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- John Laing Homes and its Affiliates are solvent and neither John Laing Homes 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 John Laing Homes or an Affiliate having been accomplished) against John Laing Homes or any Affiliate or, to John Laing Homes's actual knowledge, threatened, which if successful, would materially adversely affect the ability of John Laing Homes to complete the acquisition and development of the property expected to be owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

#### Lennar Homes

Lennar Homes of California, Inc., a California corporation ("Lennar Homes") will be the builder with respect to 218 attached residential units in Planning Area 35. Title is held in the name of Greystone Homes 4S Area 35 LLC. Lennar Homes has been in the business of developing residential real estate communities in California since 1995. Lennar Homes is a wholly-owned subsidiary of Lennar Homes Inc., a Florida corporation, which is a wholly-owned subsidiary of Lennar Corporation, a Delaware corporation ("Lennar Corporation"), with headquarters in Miami, Florida. Lennar Corporation, founded in 1954 and publicly traded under the symbol "LEN" since 1971, is one of the nation's largest home builders, now operating under one name. Some of the former brand names (companies acquired by Lennar Corporation) include US Home and Greystone Homes in Southern California. As of November 30, 2004 (Lennar Corporation's Fiscal Year-end), Lennar Corporation and its subsidiaries employed over 11,796 individuals, of whom approximately 7,918 were involved in homebuilding and land development operations and owned approximately 87,740 home sites and had access to an additional 168,327 home sites through options or unconsolidated partnerships. Copies of Lennar Corporation's Annual Report and related financial statements are on their website at [www.lennar.com](http://www.lennar.com). Lennar Homes Internet home page is located at [www.lennar.com/lennarhomes.com](http://www.lennar.com/lennarhomes.com). *This Internet address is included for reference only and the information on*

*such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

The landowner within Lennar Homes project is Greystone Homes 4S Area 35, LLC (PA 35). The membership interests of Greystone Homes 4S Area 35, LLC are owned 50% by Lennar Homes, and 50% by IHP Newland Housing Ventures, LLC, a Delaware limited liability company. Lennar Homes is the managing member of Greystone Homes 4S Area 35, LLC.

*Description of Project.* Lennar Homes entered into a purchase contract with 4S Kelwood for lots for 218 attached units in Improvement Area B. All of the lots were acquired in March 2004. The Bridgeport at 4S Ranch project will have 218 townhomes, including models, ranging from 958 to 1,439 square feet. As of September 1, 2005, 129 units were under construction. The Bridgeport at 4S Ranch project opened in the fourth quarter of 2004 and sales prices are estimated to range from the high \$300,000's.

The development which constitutes Lennar Homes'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>Building Permits as of 9/1/05</b>
PA 35 – Bridgeport at 4S Ranch	Attached Units	958-1,439	high \$300,000	218 attached	129 <sup>(1)</sup>

(1) Subsequent to September 1, 2005, building permits for the remaining 89 units were issued.

*Status of Permits and Approvals.* The lots are encompassed within a final map recorded in April 2005. Pursuant to its purchase agreement with Lennar Homes, 4S Kelwood is obligated to deliver finished lots to Lennar Homes. As described above, under “ – Status of Permits and Approvals,” 4S Kelwood is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the attached townhomes within Improvement Area B. As of September 1, 2005 there were 129 units under construction. Lennar Homes completed model construction for the Bridgeport at 4S Ranch project during the fourth quarter of 2005. Home sales are underway.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the fourth quarter of 2005. Because Lennar Homes will acquire “finished lots,” Lennar Homes's remaining costs relate primarily to model and production home construction.

*Plan of Finance.* Lennar Homes expects to finance the construction of housing units through internal resources and home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of Lennar Homes's expected development within Improvement Area B, portions of the project may not be developable. While Lennar Homes 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 Lennar Homes to provide internal financing in the past, Lennar Homes has not represented in any way that it will do so in the future.

*Absorption.* Lennar Homes's Bridgeport at 4S Ranch development has a projected absorption rate of approximately 21 units per quarter, commencing the fourth quarter of 2005.

*Development Experience.* Lennar Homes of California, Inc. has been involved in the acquisition and development of residential real estate projects in Southern California since 1995. Representative master-planned

communities include: (i) Coto de Caza, an approximately 2,000 home development in South Orange County acquired in March of 1996 and substantially sold out, (ii) Stevenson Ranch, consisting of approximately 5,700 homes at build out in Los Angeles, County, California, (iii) Bressi Ranch, an approximately 500-acre mixed use community in Carlsbad, California which recently obtained entitlement approvals, (iv) Greer Ranch, an approximately 674 home gate-guarded community in Murrieta, California, which opened in the fall of 2002, and (v) The Bridges at Rancho Santa Fe, an exclusive, gated residential enclave located in San Diego, California, consisting of approximately 274 custom home sites and semi-custom homes in a private golf course setting.

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* The officer executing a certificate on behalf of Greystone Homes 4S Area 35, LLC, certifies that, to his actual knowledge:

- Greystone Homes 4S Area 35, LLC 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 Greystone Homes 4S Area 35, LLC 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. Greystone Homes 4S Area 35, LLC 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 Greystone Homes 4S Area 35, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- Greystone Homes 4S Area 35, LLC and its Affiliates are solvent and neither Greystone Homes 4S Area 35, LLC 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 Greystone Homes 4S Area 35, LLC or an Affiliate having been accomplished) against Greystone Homes 4S Area 35, LLC or any Affiliate or, to Greystone Homes 4S Area 35, LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Greystone Homes 4S Area 35, LLC to complete the acquisition and development of the property expected to be owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

Fieldstone Communities, Inc.

Fieldstone Communities, Inc., a California corporation ("Fieldstone Communities"), the managing member of one or more limited liability companies that, in the aggregate, will be the builder of 197 detached single-family homes in Planning Areas 36 and 47A. Fieldstone Communities is based in Newport Beach, California. Fieldstone Communities is a privately held company. Established in 1986, Fieldstone Communities builds homes in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties in California, in San Antonio, Texas and in Salt Lake City, Utah. Fieldstone Communities homebuilding segment specializes in the sale and construction of single-family attached and detached housing. Fieldstone Communities' Internet home page is located at fieldstone-homes.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

The landowner within the Fieldstone Communities' project is Fieldstone 4S Area 36, LLC, a Delaware limited liability company (PA 36). Fieldstone Communities is the managing member of Fieldstone 4S Area 36, LLC. The other member is IHP Newland Housing Ventures, LLC, a Delaware limited liability company.



The sole asset of Fieldstone 4S Area 36, LLC is its project in Improvement Area B of the Community Facilities District.

*Description of Project.* Fieldstone 4S Area 36, LLC owns 127 lots in Improvement Area B. As of September 1, 2005, there were 6 completed-unsold homes, including 3 model homes, 25 completed sold homes, 52 production units under construction and 44 vacant lots in Planning Area 36. 70 additional lots in Planning Area 47A are expected to be acquired by Fieldstone Communities, Inc. in December 2005. The homes range in size from 2,901 to 3,365 square feet. The project opened in the third quarter of 2004 and sales prices are estimated to range from the low-800,000's.

The development which constitutes Fieldstone 4S Area 36, LLC'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>Building Permits as of 9/1/05</b>
PA 36 and 47A – SilverCrest at 4S Ranch	5,000	2,901-3,365	low \$800,000	197 detached	83

In addition to the project in Neighborhood Three, other entities of which Fieldstone Communities is the managing member developed projects in Neighborhood One and in Neighborhood Two. Those projects have been completed.

*Status of Permits and Approvals.* Final maps encompassing the 127 lots in Planning Area 36 were recorded in March 2004. Pursuant to its purchase agreement with Fieldstone 4S Area 36, LLC, 4S Kelwood is obligated to deliver finished lots to Fieldstone 4S Area 36, LLC. As described above, under "4S Kelwood and the Merchant Builders – *Status of Permits and Approvals*," 4S Kelwood is currently completing grading and construction of all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area B, including the 197 lots under contract to Fieldstone 4S Area 36, LLC and Fieldstone Communities, Inc. Fieldstone 4S Area 36, LLC has completed model homes and is constructing production homes. Home sales commenced in the third quarter of 2004.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are complete. Because Fieldstone 4S Area 36, LLC acquired "finished lots," Fieldstone 4S Area 36, LLC's remaining costs relate primarily to model and production home construction.

*Plan of Finance.* Fieldstone 4S Area 36, LLC expects to finance the construction of housing units through internal resources of its managing member and home sales.

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 169 lots remaining incomplete within Improvement Area B, portions of the project may not be developable. While Fieldstone Communities 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 Fieldstone Communities to provide internal financing in the past, Fieldstone 4S Area 36, LLC has not represented in any way that it will do so in the future.

*Development Experience.* Fieldstone Communities' homebuilding segment, together with its subsidiaries, specializes in the sale and construction of single-family attached and detached homes throughout major metropolitan markets in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties in California, in San Antonio, Texas and Salt Lake City, Utah. Fieldstone Communities' predecessor began home building in 1986 with a single tract of land in Orange County, California. Fieldstone Communities is a privately held corporation and is one of the companies within the Fieldstone Group of Companies. The Fieldstone Group of Companies is a group of separate but affiliated companies (including direct and indirect subsidiaries and joint ventures within those separate companies) that have conducted homebuilding operations, land acquisition and development, and other real estate-

related activities. Since its founding in 1981, the Fieldstone Group of Companies and its related entities have constructed in Southern California over 18,000 homes with a total sales volume exceeding \$4.6 million.

Through its three homebuilding divisions, Fieldstone Communities delivered 800 homes in 2002, 776 homes in 2003, 703 homes in 2004 and anticipates closing approximately 1,625 homes in 2005. Recent projects under development by Fieldstone Communities in southern California include the following.

<b>Site Name</b>	<b>Location</b>	<b>Unit Size (Square Feet)</b>	<b>Proposed Base Prices</b>	<b>Number of Units</b>
Homestead	Rancho Bernardo (4S)	2,860 - 3,300	\$490,000 - \$550,000	103
Del Sol	Oceanside	2,648 - 3,516	\$368,000 - \$410,000	86
Somerton	Oceanside	2,254 - 2,658	\$344,000 - \$368,000	80
Mission Terrace	Oceanside	2,483 - 3,103	\$354,000 - \$391,000	100
Bridgepark	Chula Vista	2,564 - 2,950	\$365,000 - \$390,000	93

*Absorption.* Fieldstone Communities has a projected absorption rate in this community of approximately 18 units per quarter, commencing the first quarter of 2005.

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* Fieldstone 4S Area 36, LLC has made the following representations;

- neither Fieldstone 4S Area 36, LLC nor to Fieldstone 4S Area 36, LLC'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 Fieldstone 4S Area 36, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or 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 Improvement Area B or in the Community Facilities District as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District special Taxes for which it is responsible,
- Fieldstone 4S Area 36, LLC and its Affiliates are solvent and neither Fieldstone 4S Area 36, LLC nor any of its Affiliates has ever filed 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 Fieldstone 4S Area 36, LLC or an Affiliate having been accomplished) against Fieldstone 4S Area 36, LLC or any Affiliate or, to Fieldstone 4S Area 36, LLC' actual knowledge, threatened, which if successful, would materially adversely affect the ability of Fieldstone 4S Area 36, LLC to complete the development and sale of the property currently owned within the Community Facilities District or Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes, or *ad valorem* tax obligations when due on its property within Improvement Area B or the Community Facilities District.

#### Shea Homes Limited Partnership

Shea Homes Limited Partnership, a California limited partnership will be the builder with respect to 140 attached units in Planning Area 37. 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. *The Internet home page of Shea Homes Limited Partnership is located at [www.sheahomes.com](http://www.sheahomes.com). This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

The landowner within Shea Homes' project is 4S Area 37 LLC (PA 37). The Limited Liability Company Agreement of 4S Area 37 LLC, a Delaware limited liability company, is made among Shea Homes among Shea Homes, Partners Insurance Company, Inc. ("PIC"), a Hawaii corporation, and IHP-Newland Housing Ventures, LLC ("IHP"), a Delaware limited liability company. Shea Homes is the partnership Developer and IHP and PIC are Members of the LLC.

*Description of Project.* Shea Homes entered into a purchase contract with 4S Kelwood for lots for 140 attached units in Improvement Area B. The 140 lots were acquired on October 1, 2004. Since the date of value of the Appraisal, an additional 23 building permits have been issued. The San Moritz at 4S Ranch project has 6 completed-unsold homes, including 3 model homes, 95 production units are under construction and vacant land in partially finished condition for the remaining 39 units. The townhomes range in size from 1,318 to 1,494 square feet. The San Moritz at 4S Ranch project opened in the first quarter of 2005 and sales prices are estimated to be in the mid \$400,000's.

The development which constitutes Shea Homes'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>Building Permits as of 9/1/05</b>
PA 37 – San Moritz at 4S Ranch*	Attached Units	1,318-1,494	mid \$400,000	140 attached	101

\* Although the Appraisal indicates 78 homes under construction in Shea Homes' San Moritz project, Shea Homes has indicated permits for 101 units have been issued.

*Status of Permits and Approvals.* The lots are encompassed within a final map recorded in February 2005. Pursuant to its purchase agreement with Shea Homes, 4S Kelwood was obligated to deliver finished lots to Shea Homes. As described above, under "– Status of Permits and Approvals," 4S Kelwood 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 within Improvement Area B. Shea Homes will construct model and production homes. Shea Homes completed model construction during the third quarter of 2005. Home sales commenced in the first quarter of 2005.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the third quarter of 2005. Because Shea Homes will acquire "finished lots," Shea Homes's remaining costs relate primarily to production home construction and landscaping.

*Plan of Finance.* Shea Homes financed the purchase of the 140 residential lots in Neighborhood 3 from 4S Kelwood through equity and through unsecured financings, including an unsecured credit facility and unsecured private placements of debt. Shea Homes 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 October 1, 2005, Shea Homes expects the remaining in-tract development costs within its project to be approximately \$1,200,000. Shea Homes expects to finance these costs and home construction costs primarily through \$1,200,000 equity contributions, cash and home sales proceeds.

*There is no assurance that amounts necessary to finance the remaining site development and construction costs within the Shea Homes project will be available from any source, when needed. Shea Homes 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 or any other Shea entity, or any borrowings by Shea Homes, whether to fund costs of development within its project or to pay special taxes, is entirely voluntary.*

*Absorption.* Shea Homes's San Moritz at 4S Ranch development has a projected absorption rate of approximately 23 units per quarter, commencing the third quarter of 2005.

*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	Rancho Bernardo	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.* 4S Area 37 LLC has made the following representations:

- neither 4S Area 37 LLC nor to 4S Area 37 LLC'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 4S Area 37 LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- 4S Area 37 LLC and its current Affiliates are solvent and neither 4S Area 37 LLC 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 4S Area 37 LLC or an Affiliate having been accomplished) against 4S Area 37 LLC or any Affiliate or, to 4S Area 37 LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of 4S Area 37 LLC to complete the acquisition and development of the property expected to be owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

For purposes of this Official Statement the actual knowledge of 4S Area 37 LLC shall mean the actual knowledge of Sarah Beckman, Acquisition Coordinator.

### SeaCountry Homes

SeaCountry Homes will be the builder with respect to 136 detached single family homes in Planning Area 41. Established in 1994, SeaCountry Homes currently builds homes in San Diego, Riverside and San Bernardino counties in Southern California. SeaCountry Homes is a privately held company. SeaCountry Homes homebuilding segment specializes in the sale and construction of single-family attached and detached housing. SeaCountry Homes Internet home page is located at SeaCountryHomes.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

The landowner within SeaCountry Homes' project is SCH 4S PA 41, LLC, a Delaware limited liability company (PA 41). The percentage interest ownership of SCH 4S PA 41, LLC is 65% by IHP-Newland Housing Ventures, LLC, a Delaware limited liability company, and 35% by SH 4S-PA 41 Investors, LLC, a California limited liability company. SH 4S-PA 41 Investors, LLC is the managing member of SCH 4S PA 41, LLC.

*Description of Project.* SeaCountry Homes has entered into a purchase contract with 4S Kelwood for lots for 136 detached units in Improvement Area B. All of the lots were acquired in March 2004. As of September 1, 2005, the Garden Walk 4S Ranch project had three completed model homes, 78 homes under construction and 55 vacant lots. The Garden Walk 4S Ranch project has homes ranging from 1,888 to 2,317 square feet under construction. The Garden Walk at 4S Ranch project opened in the second quarter of 2005 with prices starting in the high \$500,000's.

The development which constitutes SeaCountry Homes'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>Building Permits as of 9/1/05</b>
PA 41 – Garden Walk at 4S Ranch	3,000	1,888-2,317	high \$500,000	136 detached	81

*Status of Permits and Approvals.* The lots are encompassed within a final map recorded on January 19, 2005. Pursuant to its purchase agreement with SeaCountry Homes, 4S Kelwood is obligated to deliver finished lots to SeaCountry Homes. As described above, under “– Status of Permits and Approvals,” 4S Kelwood 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 within Improvement Area B. SeaCountry Homes will construct model and production homes. SeaCountry Homes completed model construction for the Garden Walk at 4S Ranch project during the second quarter of 2005. Home sales commenced during the second quarter of 2005.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters were completed in the third quarter of 2005. Because SeaCountry Homes will acquire “finished lots,” SeaCountry Homes’s remaining costs relate primarily to model and production home construction.

*Plan of Finance.* SeaCountry Homes expects to finance the construction of housing units through IHP-Newland Housing Ventures, LLC.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of SeaCountry Homes’s expected development within Improvement Area B, portions of the project may not be developable. While SeaCountry Homes 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 SeaCountry Homes to provide internal financing in the past, SeaCountry Homes has not represented in any way that it will do so in the future.

*Absorption.* SeaCountry Homes’s Garden Walk at 4S Ranch development has a projected absorption rate of approximately 26 units per quarter, commencing the second quarter of 2005.

*Development Experience.* SeaCountry Homes builds homes in Los Angeles, Orange, San Bernardino and San Diego Counties in Southern California. Through its eight homebuilding divisions, SeaCountry Homes delivered 78 homes in 2002, 142 homes in 2003, 80 homes in 2004 and anticipates closing approximately 130 homes in 2005. Recent projects under development by SeaCountry Homes in southern California include the following.

<b>Site Name</b>	<b>City</b>	<b>No. of Units</b>	<b>Proposed Base Prices</b>
Garden Gate	San Diego	133	\$400,000-\$520,000
La Strada	San Diego	75	\$600,000-\$1,300,000
Stallions Crossing	San Diego	47	\$650,000-\$1,300,000

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* SCH 4S PA 41, LLC has made the following representations:

- neither SCH 4S PA 41, LLC nor to SCH 4S PA 41, LLC’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 SCH 4S PA 41, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- SCH 4S PA 41, LLC and its Affiliates are solvent and neither SCH 4S PA 41, LLC 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 SCH 4S PA 41, LLC or an Affiliate having been accomplished) against SCH 4S PA 41, LLC or any Affiliate or, to SCH 4S PA 41, LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of SCH 4S PA 41, LLC to complete the acquisition and development of the property expected to be owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

#### Davidson Communities

Davidson Builders, Inc., a California corporation established in 1996 ("Davidson Builders"), will be the builder with respect to 66 detached single family homes in Planning Area 43B. Davidson Builders is the general contractor for Davidson Communities, LLC, a California limited liability company established in 1978 ("Davidson Communities"). Davidson Communities is based in Del Mar, California, and builds homes in San Diego and Riverside counties. Davidson Communities is privately held. Davidson Communities' homebuilding segment specializes in the sale and construction of single-family attached and detached housing. Davidson Communities Internet home page is located at [www.davidsoncommunities.com](http://www.davidsoncommunities.com). This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.

The landowner within Davidson Communities' project is Davidson 4S Area 43 LLC (PA 43). The membership interests of the Davidson 4S Area 43, LLC are owned 10% by Rancho Bernardo 130 LLC, a California limited liability company, and 90% by IHP Newland Housing Ventures, LLC, a Delaware limited liability company. Rancho Bernardo 130 LLC is the managing member of Davidson 4S Area 43, LLC.

*Description of Project.* Davidson 4S Area 43 LLC has entered into a purchase contract with 4S Kelwood for lots for 66 detached units in Improvement Area B. All 66 of the lots have been acquired. As of September 1, 2005, there were 12 completed-sold homes, 3 complete-unsold homes (models), and 51 homes under construction. The Reunion at 4S Ranch project has homes ranging from 3,594 to 4,276 square feet under construction. The Reunion at 4S Ranch project opened in the first quarter of 2005 and sales prices are estimated to be in the low \$900,000's.

The development which constitutes Davidson 4S Area 43 LLC'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>Building Permits as of 9/1/05</b>
PA 43B – Reunion at 4S Ranch	6,300	3,594 - 4,276	low \$900,000	66 detached	66

*Status of Permits and Approvals.* The lots are encompassed within a final map recorded in February 2004. Davidson 4S Area 43 LLC will construct model and production homes. Davidson 4S Area 43 LLC completed

model construction for the Reunion at 4S Ranch project during the first quarter of 2005. 12 units have closed escrow and 42 production homes are under construction, Home closings commenced in the first quarter of 2005.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the first quarter of 2006. Davidson 4S Area 43 LLC's remaining costs relate primarily to model and production home construction and as of September 1, 2005, its remaining costs to get to finished lots for all remaining lots was approximately \$594,000.

*Plan of Finance.* Davidson 4S Area 43 LLC expects to finance the construction of housing units through internal resources and home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of Davidson 4S Area 43 LLC's expected development within Improvement Area B, portions of the project may not be developable. While Davidson 4S Area 43 LLC 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 Davidson 4S Area 43 LLC to provide internal financing in the past, Davidson Communities has not represented in any way that it will do so in the future.

*Absorption.* The Reunion at 4S Ranch development has a projected absorption rate of approximately 20 units per quarter, commencing the first quarter of 2005.

*Development Experience.* Davidson Communities delivered 191 homes in 2002, 129 homes in 2003, 117 homes in 2004 and anticipates closing approximately 205 homes in 2005. Recent projects under development by Davidson Communities in southern California include the following.

<u>Site Name</u>	<u>City</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>	<u>Bedrooms</u>
Starboard @ La Costa Oaks	La Costa	98	\$998,000 - 1,076,000	3,739 - 4,337	4 – 6
Coda @ The Crosby	San Diego	30	\$1,665,000 - 1,740,000	4,232 - 5,046	4 – 6
Aria @ Greer Ranch	Murietta	86	\$599,000 - 627,000	3,882 - 4,311	4 – 7
Clearstory @ Rolling Hills	Chula Vista	48	\$1,069,900 - 1,179,900	3,807 - 4,680	4 – 8
Atrium @ Eastlake Vistas	Chula Vista	68	\$1,029,539 - 1,089,990	3,750 - 4,258	4 – 6
Kensington @ DelSur	San Diego	70	\$896,900 - 951,900	2,660 - 3,156	4 – 5
Stonebridge	Poway	61	\$1,250,000 - 1,450,000	4,000 - 5,000	4 – 6

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* Davidson 4S Area 43 LLC has made the following representations:

- neither Davidson 4S Area 43 LLC nor to Davidson 4S Area 43 LLC'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 Davidson 4S Area 43 LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or Community Facilities District Special Taxes for which it is responsible,



- Davidson 4S Area 43 LLC and its Affiliates are solvent and neither Davidson 4S Area 43 LLC 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 Davidson 4S Area 43 LLC or an Affiliate having been accomplished) against Davidson 4S Area 43 LLC or any Affiliate or, to Davidson 4S Area 43 LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Davidson 4S Area 43 LLC to complete the acquisition and development of the property expected to be owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

#### Chanteclair Development, LLC/Buie Communities

Buie Communities is a broad-based development company. Since 1983, Robert Buie and other officers of this and related companies, some of which are no longer in existence, have acquired, master-planned and developed property for more than 10,000 residential units and numerous income properties in San Diego, Orange and Riverside counties. Buie related entities have developed or have in planning over one million square feet of income-producing properties including shopping centers, office buildings, apartments, industrial buildings and movie theaters. Buie Communities' Internet home page is located at buiecommunities.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

The landowner within Buie Communities' project is expected to be Chanteclair Development, LLC (PA 46). Chanteclair Development, LLC is a California limited liability company ("Chanteclair Development, LLC"). The membership interests of the Chanteclair Development, LLC have not yet been finalized. The Manager of Chanteclair Development, LLC is Buie Chanteclair, LLC, a California limited liability company, the manager of which is Buie Communities LLC, a California limited liability company based in San Diego, California.

*Description of Project.* Chanteclair Development, LLC is under contract to purchase 101 lots (approximately 14.36 net acres). Close of escrow is scheduled for December, 2005. These lots are within Improvement Area B, Neighborhood 3, Planning Area 46 (101 lots). Grading is complete on all lots, and in-tract infrastructure is currently being installed by the master developer.

The development which constitutes Chanteclair Development, LLC'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>Building Permits as of 9/1/05</b>
Chanteclair	4,500	2,696 - 3,047	\$758,100-\$793,100	101 detached	0

*Status of Permits and Approvals.* The 101 lots are encompassed within one final tract map which was recorded in February, 2005. 4S Kelwood 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 within Improvement Area B. Chanteclair Development, LLC intends to begin model construction by the fourth quarter of 2005. Home sales are expected to commence in the second quarter of 2006, with the first closings in the third quarter of 2006.

Grading, storm drains and sewers for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of November, 2005. All discretionary approvals have been received from the County of San Diego. The building plans are in plan check, and await only final revisions and payment of fees for delivery of building permits.

*Plan of Finance.* Chanteclair Development, LLC is financing the purchase of the land through contributions from its members and an acquisition and development loan of \$25,000,000 to be secured by a first deed of trust by First Bank and Trust. The loan will fund at close of escrow. The construction of homes will be financed through phase-by-phase construction loans and home sales revenues.

If and to the extent that loans and land sales revenues are inadequate to pay the costs to complete the planned development of Chanteclair Development, LLC's expected development within Improvement Area B, portions of the project may not be developable. While members will make contributions and First Bank and Trust is expected to make loans for the models and initial phase of construction, there can be no assurance whatsoever that Chanteclair Development, LLC will qualify for future draws under the loan agreement; and there is no legal obligation of any kind to Bondowners for members to make any contributions in the future or for Chanteclair Development, LLC to draw on such loans. Other than pointing out the willingness of members to provide contributions or Chanteclair Development, LLC to obtain loans in the past, Chanteclair Development, LLC has not represented in any way that either will do so in the future.

*Development Experience.* The managing member of Chanteclair Development, LLC, Buie Communities, together with its subsidiaries and related entities, operates as a geographically diversified builder of single-family homes throughout Orange, Riverside and San Diego Counties. Buie Communities and its Affiliates delivered 141 homes in 1999, 331 homes in 2000, 277 homes in 2001, 104 homes in 2002, 175 homes in 2003, 198 homes in 2004 and will deliver a total of approximately 116 homes in 2005. Recent projects under development by Buie Communities or its Affiliates in southern California include the following:

<b>Site Name</b>	<b>City</b>	<b>No. of Units</b>	<b>Proposed Base Prices</b>	<b>Square Feet</b>	<b>Bedrooms</b>
Altamira	Chula Vista	145	\$487,900-\$512,900	2,286 - 2,616	3-5
Marianna	Temecula	92	\$317,000-\$355,000	2,207 - 3,255	4-5
Belle Rive	San Diego	81	\$535,000-\$569,000	2,264 - 3,047	4-6
Woods Valley	Valley Center	64	\$625,000-\$635,000	3,427 - 3,505	4-6
Vedado	Winchester	153	\$408,150-\$457,750	2,119 - 3,037	3-6
Arterra	San Jacinto	146	\$299,990-\$357,900	1,720 - 2,293	3-5

*Absorption.* Chanteclair Development, LLC has a projected absorption rate of 15 units per quarter, commencing the second quarter of 2006.

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* Chanteclair Development, LLC has made the following representations;

- Neither Chanteclair Development, LLC nor to Chanteclair Development, LLC's actual knowledge any of its current Affiliates (as defined above) have been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither Chanteclair Development, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligations 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 Community Facilities District Special Taxes for which it is responsible,
- Chanteclair Development, LLC and its Affiliates are solvent and neither Chanteclair Development, LLC nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt, or has any proceeding pending or threatened in which it 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 Chanteclair Development, LLC or

any Affiliate having been accomplished) against Chanteclair Development, LLC or any Affiliate or, to Chanteclair Development, LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Chanteclair Development, LLC to complete the development of the property owned within the Community Facilities District or to pay Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

For purposes of this Official Statement the actual knowledge of Chanteclair Development, LLC shall mean the actual knowledge of Robert Montgomery, Vice President Forward Planning.

#### K. Hovnanian at 4S II, LLC

The K. Hovnanian project in Improvement Area B is proposed to be owned by K. Hovnanian at 4S II, LLC is a California limited liability company. The sole member and managing member is K. Hovnanian Developments of California, Inc., a California corporation, an affiliated company of Hovnanian Enterprises, Inc. In addition, an affiliate of K. Hovnanian has a project in Improvement Area A. All of the building permits for the affiliates project in Improvement Area A have been issued. The following discussion focuses on the proposed project by K. Hovnanian at 4S II, LLC in Improvement Area B.

Hovnanian Enterprises was initially incorporated in 1967 and is one of the nation's largest homebuilders. Headquartered in Red Bank, New Jersey, Hovnanian Enterprises designs, constructs and markets single-family homes, townhomes and condominiums in planned residential communities in, among other locations, California, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Texas and Virginia. Hovnanian Enterprises' homes are marketed and sold under the trade names K. Hovnanian, Washington Homes, Goodman Homes, Matzel & Mumford, Diamond Homes, Westminster Homes, Fortis Homes and Forecast Homes. Hovnanian Enterprises is also one of the nation's largest developers of active adult communities under the name of K. Hovnanian's Four Seasons.

The parent company of K. Hovnanian at 4S II, LLC, is subject to the informational requirements of the Securities Exchange Commission Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with Securities and Exchange Commission (the "SEC"). Such filings, particularly Hovnanian Enterprises' 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 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. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. Hovnanian Enterprises, the parent company of K. Hovnanian at 4S II, LLC is actively traded on the NYSE. The trade symbol is HOV.

*Hovnanian Enterprises Internet home page is located at khov.com. This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Landowners within K. Hovnanian's projects are as follows: K. Hovnanian at 4S, LLC (PA 2 & 6) and K. Hovnanian at 4S II, LLC (PA 47B).

*Description of Project.* K. Hovnanian at 4S II, LLC is negotiating a purchase contract with 4S Kelwood in order to acquire lots for 64 detached residential units in Improvement Area B. All 64 of the lots are expected to be acquired by December, 2005. The project is expected to have three model homes and is expected to have homes ranging from 3,002 to 3,447 square feet under construction during the first quarter of 2006. The project is anticipated to open for sales in the first quarter of 2006, and opening sales prices are currently projected to range from \$885,000 to \$940,000.

The development which constitutes K. Hovnanian at 4S II, LLC'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>Building Permits as of 9/1/05</b>
PA 47B – Evergreen at 4S Ranch	5,000	3,002 - 3,447	\$885,000 - \$940,000	64 detached	0

*Status of Permits and Approvals.* A final map encompassing the 64 lots is projected to be recorded in November, 2005. Pursuant to its anticipated purchase agreement with K. Hovnanian at 4S II, LLC, 4S Kelwood will be obligated to deliver partially finished lots to K. Hovnanian at 4S II, LLC. As described above, under “ – Status of Permits and Approvals,” 4S Kelwood is currently completing grading and constructing all backbone public improvements, partially finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area B, including the 64 lots under contract to K. Hovnanian at 4S II, LLC. K. Hovnanian at 4S II, LLC will construct model and production homes. K. Hovnanian at 4S II, LLC intends to begin model construction by the first quarter of 2006. Home sales are expected to commence in the first quarter of 2006.

Grading and sewer for the lots is in construction by 4S Kelwood, and water, streets, curbs and gutters are required by the purchase agreement to be completed by the end of the second quarter of 2006. Because K. Hovnanian at 4S II, LLC will acquire “partially finished lots,” K. Hovnanian at 4S II, LLC's remaining costs relate primarily to model and production home construction.

*Plan of Finance.* K. Hovnanian at 4S II, LLC is a single purpose entity formed in connection with the project. K. Hovnanian at 4S II, LLC intends to finance the acquisition and construction costs through funds provided through its parent company and home sale proceeds. The parent company of K. Hovnanian at 4S II, LLC has obtained a revolving line of credit through a number of banks for its financial needs. The line of credit is currently not in default. K. Hovnanian at 4S II, LLC anticipates that the primary source of repayment on the revolving line will be through the home sales.

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 64 lots within Improvement Area B, portions of the project may not be developable. While Hovnanian Enterprises 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 Hovnanian Enterprises to provide internal financing in the past, Hovnanian Enterprises has not represented in any way that it will do so in the future.

*Absorption.* K. Hovnanian at 4S II, LLC has a projected absorption rate of 12 units per quarter, commencing the first quarter of 2006.

*Development Experience.* Recent projects completed and projects currently under development by Affiliates of K. Hovnanian at 4S II, LLC in Southern California include the following:

<b>Project Name</b>	<b>Location</b>	<b>Unit Size (Square Feet)</b>	<b>Price Range</b>	<b>Total Units</b>
Dominguez Hills Village	Carson (LA County)	1,094-2,321	\$200,000-\$425,000	574
Four Seasons at Temecula Valley	Murrieta	1,771-2,773	\$269,990-\$411,990	524
The Gables	Ladera Ranch	Approx. 1,600-2,000	Approx. \$300,000-\$400,000	120
Hilltop at Encinitas Ranch	Encinitas	3,130-5,182	\$975,000-\$1,100,000	103
Las Rosas	Rancho Santa Margarita	2,916-3,442	\$400,000-\$500,000	113
Menifee	Menifee	2,375-3,453	\$256,990-\$306,990	306
Park Lane	Irvine	1,164-1,787	\$318,990-\$404,990	190
Riverbend	Mira Loma	2,828-4,209	\$339,586-\$412,130	143
Trail Ridge	Ladera Ranch	2,219-2,461	\$480,000-\$503,000	100
Winchester	Murrieta	2,604-3,699	\$267,990-\$309,490	192

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* K. Hovnanian at 4S II, LLC has made the following representations:

- neither K. Hovnanian at 4S II, LLC nor to K. Hovnanian at 4S II, LLC'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 K. Hovnanian at 4S II, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area B or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area B as described in the Official Statement or to pay the Improvement Area B Special Taxes or the Community Facilities District Special Taxes for which it is responsible,
- K. Hovnanian at 4S II, LLC and its Affiliates are solvent and neither K. Hovnanian at 4S II, LLC nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt, or has any proceeding pending or to its actual knowledge threatened in which K. Hovnanian at 4S II, LLC 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 K. Hovnanian at 4S II, LLC or an Affiliate having been accomplished) against K. Hovnanian at 4S II, LLC or any Affiliate or, to K. Hovnanian at 4S II, LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of K. Hovnanian at 4S II, LLC to complete the development and sale of the property currently owned within Improvement Area B or to pay Improvement Area B Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area B.

#### Neighborhood Four

Neighborhood Four is expected to be comprised of approximately 325 detached residential units and a 4-acre park. In addition, 4S Commons (PA32) commercial property in Neighborhood Four will house approximately 540 apartment units, of which 21 are expected to be Affordable Units. The remaining 519 apartment units are expected to be subject to the Special Tax as Attached Units. 4S Kelwood has not yet commenced negotiating the sale of parcels in Neighborhood Four. The land for Neighborhood Four is currently being graded. Construction of infrastructure is not yet underway. Sales of these sites to merchant builders are anticipated to take place from 2006 through 2007.

Neighborhood Four (except for approximately 36 proposed Detached Units on land not owned by 4S Kelwood) is proposed to be Improvement Area C of the Community Facilities District and to be subject to an additional special tax for Infrastructure Improvements as described in "SECURITY FOR THE 2005 BONDS – Rates and Methods – *Other Improvement Area Rates and Methods.*"

## Appraised Property Values

An MAI appraisal of the land and existing improvements for the development within the Community Facilities District dated September 16, 2005 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the 2005 Bonds. The purpose of the appraisal was to estimate the market value of each of the separate tracts in Neighborhoods One through Three, plus the remaining 4S Kelwood ownership in Neighborhoods 3 and 4. The taxable properties include the completed sold and unsold homes, homes under construction and vacant residential land, excluding the Affordable Units and excluding all commercial land. In Neighborhoods One and Two, the taxable properties include separate residential tracts which contain a total of approximately 1,649 Detached Units, of which as of September 1, 2005, there were 1,555 complete - sold homes, 3 complete - unsold homes, 59 homes under construction and 32 vacant lots. In Neighborhood Three, the taxable properties include 16 Planning Areas which are planned for approximately 1,868 residential units in Improvement Area B of which as of September 1, 2005, there were 37 complete - sold homes, 24 complete - unsold homes, 696 homes under construction and land for 1,111 lots. In Neighborhood 4, the taxable properties include 2 Planning Areas in Improvement Area C which are planned for approximately 289 homes on 6,000 to 7,000 square foot lots.

The Appraisal does not value the property expected to be developed with approximately 120 Affordable Units in Neighborhood One, the land proposed for an approximately 540 unit apartment complex in Neighborhood Four (of which 519 units are expected to be subject to the Special Tax as Attached Units and 21 units are expected to be Affordable Units which are not subject to the Special Tax) and the land encompassing approximately 36 proposed Detached Units which are located in Neighborhood Four and owned by 4S Ranch Company 600, L.P., an entity which is not affiliated with 4S Kelwood. The Affordable Units are not subject to the levy of the Special Tax. Attached Units will be subject to the levy of the Special Tax. The apartment unit site is within an area zoned for commercial property and as of October 1, 2005 is not subject to the levy of Special Tax as Undeveloped Property. The residential use is allowed in the commercial zoning and the proposed project has an approved Major Use Permit.

For the completed/sold homes in Neighborhoods One and Two, the Sales Comparison Approach is used to estimate the value of the homes on a mass appraisal basis. Actual sales prices of the subject homes are considered, which are considered to be supportable based on the sales activity within the subject tract, as well as the pricing and sales activity of other homes in 4S Ranch. This results in an aggregate value of the homes, reflecting that they are individually owned by the various homeowners.

The Appraisal estimated the value of the property in Neighborhood Three 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 4S Kelwood and Merchant Builders to achieve finished lots (based on the status of the development process as of September 1, 2005). 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 in Improvement Area B was achieved using the sales price of comparable bulk residential lots in the area that were listed or had sold within the prior 18 months.

The valuation of the completed/unsold homes is based on recent home sales and current base pricing. 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.

Subject to these assumptions and limiting conditions, as of September 1, 2005, the Appraiser estimated that the market value of the property within the Community Facilities District, including Improvement Area B (subject to the lien of the Special Taxes), including completed sold homes, homes under construction, and vacant residential land, was as follows:

<b>Neighborhood/ Merchant Builder<sup>†</sup></b>	<b>Planning Area</b>	<b>Tract Name/ Neighborhood</b>	<b>Market Value</b>
<b><i>Neighborhood One</i></b>			
Ryland Homes	Built out	Ryland Heritage	\$ 78,750,000
William Lyons Homes	Built out	Summerwood	\$ 59,370,000
William Lyons Homes	Built out	Tanglewood	\$ 92,570,000
D.R. Horton	Built out	Cedar Creek	\$ 59,200,000
Brookfield Homes	Built out	Amherst	\$ 68,000,000
Fieldstone Communities	Built out	Homestead	\$ 87,550,000
SeaCountry Homes	Built out	Garden Gate	\$ 93,100,000
Davidson Communities	Built out	Talavera	\$ 135,450,000
William Lyon Homes	Built out	Providence	\$ 126,690,000
Christopher Homes	Built out	Legacy	<u>\$ 92,880,000</u>
<i>Sub-Total</i>			\$ 893,560,000
<b><i>Neighborhood Two / Improvement Area A</i></b>			
Buie Communities	Built out	Belle Rive	\$ 67,650,000
Centex Homes	Built out	Canyon Ridge	\$ 69,370,000
K. Hovnanian	2	Palomino	\$ 97,000,000
Pulte Homes	Built out	Avery Lane	\$ 77,250,000
Fieldstone Communities	Built out	Cambridge	\$ 57,200,000
Pacific Homes	Built out	Terreno	\$ 110,250,000
Woodbridge Homes	4	Ivy Gate	<u>\$ 34,540,000</u>
<i>Sub-Total</i>			\$ 513,260,000
<b><i>Neighborhood Three / Improvement Area B</i></b>			
Davidson Communities	43B	Reunion	\$ 39,310,000
Standard Pacific Homes	43A	Travata	\$ 33,610,000
Fieldstone Communities	36 and 47A	SilverCrest	\$ 67,750,000
John Laing Homes	34	Rosemary Lane	\$ 50,060,000
John Laing Homes	42	Silhouette	\$ 30,640,000
William Lyon Homes	44 and 45	Maybeck	\$ 21,230,000
SeaCountry Homes	41	Garden Walk	\$ 44,150,000
Lennar Homes	35	Bridgeport	\$ 39,340,000
Standard Pacific Homes	40	Gianni	\$ 31,130,000
Shea Homes	37	San Moritz	\$ 29,410,000
William Lyon Homes	38B	Amante	\$ 39,240,000
William Lyon Homes	38A	Ravenna	<u>\$ 38,780,000</u>
<i>Sub-Total</i>			\$ 464,650,000
<b>Neighborhood Three/ 4S Kelwood Ownership:</b>	48 and 51		\$ 77,840,000
<b>Neighborhood Four / Improvement Area C 4S Kelwood Ownership:</b>			\$ 58,500,000
<b>Total Neighborhoods One through Four:</b>			\$2,007,810,000

<sup>†</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. See the respective Merchant Builder sections in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Improvement Area B" 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 \$2,007,810,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 16.86 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 9 below as of the estimated date of issuance of the Improvement Area B Bonds. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate values. The foregoing value-to-lien estimate includes the value of the Undeveloped Property in Neighborhoods Two through Four. Based on estimated debt service on the CFD Bonds and the estimated number of building permits expected to be issued by January 1, 2006, the Community Facilities District does not anticipate levying a Special Tax in Fiscal Year 2006-07 on Undeveloped Property. The foregoing value-to-lien estimate does include the overlapping indebtedness incurred, or expected to be incurred, with respect to two of the three Improvement Areas which generally correspond to Neighborhood Two (Improvement Area A), and Neighborhood Three (Improvement Area B). The foregoing value-to-lien estimate does not include the overlapping indebtedness expected to be incurred in the future with respect to Neighborhood Four (Improvement Area C) or Parity Bonds to be incurred in the future with respect to the Community Facilities District. (A portion of Neighborhood Four encompassing approximately 36 proposed Detached Units is not within the proposed boundaries of Improvement Area C.) The first series of bonds for Infrastructure Improvements was issued in the fourth quarter of 2002 for Improvement Area A (Neighborhood Two) in the amount of \$18,000,000. The Improvement Area B Bonds constitute the second series of bonds for Infrastructure Facilities.

The \$542,490,000 aggregate market value with respect to Improvement Area B reported in the Appraisal results in an estimated value-to-lien ratio of 13.43 to 1, calculated with respect to all direct and overlapping tax and assessment debt as presented in Table 10 below as of the estimated date of issuance of the Improvement Area B Bonds, including the \$25,000,000 of bonds issued by the Community Facilities District on October 10, 2002 and the 2005 CFD Bonds. When homes are developed, such property will be subject to the levy of Community Facilities District Special Taxes and additional bonds of the Community Facilities District may be issued. Sufficient development has occurred in Neighborhoods One through Three assuming no material delinquencies to support debt service on the \$25,000,000 aggregate principal amount of the 2002 CFD Bonds and \$44,305,000 aggregate principal amount of 2005 CFD Bonds. Additional bonds will be issued in the future by the Community Facilities District, and such issuance will affect the lien of the Community Facilities District Bonds on the property within Improvement Area B. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate value. A subsequent series of bonds for School Facilities by the Community Facilities District is estimated to be issued in the future.

See “SECURITY FOR THE 2005 BONDS – Rates and Methods – *Community Facilities District Rate and Method*,” and “– *Improvement Area B Rate and Method*,” “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood 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.

## **Estimated Special Tax Allocation by Project**

### ***Community Facilities District.***

For Fiscal Year 2005-06, the Community Facilities District Special Tax was only levied on Developed Property, i.e., assessor’s parcels for which building permits for new construction were issued on or before January 1, 2005. Based on the Assessor’s Roll for Fiscal Year 2005-06 and property ownership listed therein as of January 1, 2005, the Special Tax Consultant estimated that Merchant Builders owned in the aggregate approximately 51 and individual homeowners owned 1,573 of the approximately 1,624 lots in the Community Facilities District categorized as Developed Property and taxed in Fiscal Year 2005-06, of which 93 lots were within Improvement Area B. Based on the foregoing allocations, the Merchant Builders were responsible for approximately 3.35% of the Fiscal Year 2005-06 Community Facilities District Special Tax levy and approximately 47.66% of the Fiscal Year 2005-06 Improvement Area B Special Tax levy. However, such percentages have



declined, and will decline further, as sales of the 51 homes occur during Fiscal Year 2005-06 and as individual homeowners acquire such homes.

Based on estimated aggregated debt service on the CFD Bonds and Administrative Expenses which combined total approximately \$3,783,420 for the bond year ending September 1, 2007, it is estimated that 1,851 building permits must be issued within the entire Community Facilities District by January 1, 2006 (the cutoff date for Developed Property pursuant to the Community Facilities District Rate and Method), for the Fiscal Year 2006-07 Community Facilities District Special Tax levy for the CFD Bonds to be on Developed Property only, with no levy on Undeveloped Property. David Taussig and Associates, Inc. has confirmed with the County of San Diego that at least 1,851 building permits had been issued as of September 1, 2005, for units within the Community Facilities District. Based on the foregoing information, the Community Facilities District estimates that no Community Facilities District Special Tax will be levied on Undeveloped Property in Fiscal Year 2006-07. 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 2006-07 Community Facilities District Special Tax levy and for a significant portion of the Fiscal Year 2006-07 Improvement Area B Special Tax levy. However, at this time, the Community Facilities District cannot estimate the portion of the Fiscal Year 2006-07 for which the Merchant Builders will be responsible. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)" for a description of the Community Facilities District, 4S Kelwood, the Merchant Builders and the development within the Community Facilities District.

Based on the foregoing information, the Community Facilities District estimates that the Improvement Area B Special Tax will be levied on Undeveloped Property in Fiscal Year 2006-07. 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 cannot estimate the portion of the Fiscal Year 2006-07 Improvement Area B Special Tax levy for which Merchant Builders will be responsible. As a result, in determining the investment quality of the 2005 Bonds, Bondowners should assume that a portion of the Special Taxes in the Community Facilities District and in Improvement Area B will be paid by the Merchant Builders until such time as the parcels are transferred to individual owners. Were it necessary, the Community Facilities District is authorized to levy Community Facilities District Special Taxes and Improvement Area B Special Taxes on Undeveloped Property in order to pay debt service on the applicable Series of 2005 Bonds or to replenish the applicable Reserve Fund.

### **Value-to-Lien Ratios**

Table 8 below sets forth the value-to-lien analysis for the Community Facilities District as of the September 1, 2005 appraisal date of value:

**Table 8**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Value-to-Lien Analysis**

<b>Neighborhood</b>	<b>Impr. Area</b>	<b>Special Taxes [1]</b>	<b>Total Appraised Value [2]</b>	<b>CFD No. 6 Series 2002 Bonds [3]</b>	<b>CFD No. 6 Series 2005 Bonds [4]</b>	<b>IA A of CFD No. 6 Series 2002 Bonds</b>	<b>IA B of CFD No. 6 Series 2005 Bonds [5]</b>	<b>Additional Land Secured Debt [6]</b>	<b>Total Lien</b>	<b>Value to Lien [7]</b>
1	N/A	\$2,390,515.32	\$893,560,000	\$14,608,021.31	\$25,971,443.98	N/A	N/A	\$572,653.84	\$41,152,119.13	21.71 :1
2	IA A	1,127,265.60	513,260,000	6,888,522.45	12,247,029.98	\$18,000,000	N/A	268,728.75	37,404,281.18	13.72 :1
3	IA B	560,228.14	542,490,000	3,423,456.25	6,086,526.04	N/A	\$30,000,000	889,896.46	40,399,878.75	13.43 :1
4	IA C	0.00	58,500,000	0	0	N/A	N/A	137,445.95	137,455.95	N/A
		\$4,078,008.96	\$2,007,810,000	\$24,920,000.00	\$44,305,000.00	\$18,000,000	\$30,000,000	\$1,868,735.00	\$119,093,735.01	16.86 :1

[1] The Special Taxes shown here reflect the units developed as of September 1, 2005, as confirmed by David Taussig & Associates, Inc. with the County of San Diego. (Developed units vary from those used in the Appraisal due to information being unavailable from the County at this time.)

[2] Source: Summary Appraisal Report dated September 16, 2005.

[3] Debt has been allocated based on planned development, actual allocation may vary based on pace of development.

[4] Includes proposed 2005 CFD Bonds; debt has been allocated based on planned development, actual allocation of debt may vary depending on pace of development.

[5] Includes proposed Improvement Area B Bonds; debt has been allocated based on planned development, actual allocation of debt may vary depending on pace of development.

[6] Source: Detailed Direct and Overlapping Debt Report provided by National Tax Data, Inc.; debt has been allocated equally to each Lot, actual allocation of debt per Lot may vary.

[7] Average value to lien per Lot; actual value to lien may vary by Lot.

## **Direct and Overlapping Debt**

Tables 9 and 10 below set forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District and Improvement Area B prepared by National Tax Data, Inc. and based on the Fiscal Year 2004-05 tax levy and prepared in October 2005 (the “Debt Reports”) based on information regarding the Fiscal Year 2004-05 tax roll, as modified on behalf of the Community Facilities District to incorporate information regarding the 2005 Bonds. The Debt Reports are 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 and the Community Facilities District expects to issue additional debt secured by special taxes on Developed Property in the future. See “ – Overlapping Assessment and Maintenance Districts” below.

The Debt Reports generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District and Improvement Area B in whole or in part. Such long term obligations generally are not payable from property taxes, assessment 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 and Improvement Area B 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 E hereto for the form of the Community Facilities District Continuing Disclosure Agreement.

**Table 9**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Special Tax Bonds**

**Detailed Direct and Overlapping Debt**

**I. Assessed Value**

2004-2005 Secured Roll Assessed Value

**\$861,584,162**

**II. Secured Property Taxes**

Description on Tax Bill	Type	Total Parcels	Total Levy	%Applicable	Parcels	Levy
Basic Levy	PROP 13	885,571	\$2,588,291,646.68	0.32992%	1,575	\$8,539,215.62
County of San Diego Service Area No. 17	CSA	47,298	\$1,068,847.86	3.39969%	1,512	\$36,337.48
County of San Diego Service Area No. 83	OPENSOURCE	2,484	\$220,634.06	58.24022%	1,377	\$128,497.76
County of San Diego Street Lighting, Zone A	LLD	87,797	\$531,915.98	1.49612%	1,326	\$7,958.12
County of San Diego Vector Control, Zone B	VECTOR	329,726	\$694,769.52	0.51686%	1,575	\$3,591.00
Metropolitan Water District of Southern California Debt Service	GO	847,141	\$23,251,406.40	0.21294%	1,575	\$49,512.06
Metropolitan Water District of Southern California Standby Charge	STANDBY	21,976	\$418,415.44	10.58943%	1,574	\$44,307.80
Olivenhain Municipal Water District AD No. 96-1	1915	20,247	\$1,449,472.66	9.66504%	1,569	\$140,092.18
Olivenhain Municipal Water District Sewer Charge	SEWER	2,497	\$1,487,715.32	52.76049%	1,545	\$784,925.86
Olivenhain Municipal Water District Water Standby Charge	STANDBY	46	\$108,375.00	66.38339%	24	\$71,943.00
Poway Unified School District CFD No. 6	CFD	1,635	\$3,362,369.60	100.00000%	1,551	\$3,362,369.60
Poway Unified School District CFD No. 6, Impv. Area A	CFD	475	\$1,018,554.76	100.00000%	475	\$1,018,554.76
Rancho Santa Fe Fire Protection District Special Tax	FIRE	9,406	\$195,240.00	10.87252%	1,573	\$21,227.50
San Diego County Water Authority Standby Charge	STANDBY	22,026	\$358,734.66	10.73423%	1,575	\$38,507.40
<b>2004-2005 TOTAL PROPERTY TAX LIABILITY</b>						<b>\$14,247,040.14</b>
<b>TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2004-2005 ASSESSED VALUATION</b>						<b>1.65%</b>

**III. Land Secured Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	%Applic.	Parcels	Amount
Olivenhain Municipal Water District AD No. 96-1	1915	\$22,530,000	\$19,355,000	9.66504%	1,569	\$1,868,735
Poway Unified School District CFD No. 6, Series 2002	CFD	\$25,000,000	\$24,920,000	100.00000%	3,517	\$24,920,000
Poway Unified School District CFD No. 6, Impv. Area A	CFD	\$18,000,000	\$18,000,000	100.00000%	565	\$18,000,000
Poway Unified School District CFD No. 6, Impv. Area B (1)	CFD	TBD	TBD	TBD	TBD	TBD
<b>TOTAL LAND SECURED BOND INDEBTEDNESS (1)</b>						<b>\$44,788,735</b>
<b>TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1)</b>						<b>\$44,788,735</b>

**IV. General Obligation Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	%Applic.	Parcels	Amount
Metropolitan Water District of Southern California Debt Service	GO	\$850,000,000	\$447,475,000	0.05829%	1575	\$260,847
<b>TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS (1)</b>						<b>\$260,847</b>
<b>TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (1)</b>						<b>\$260,847</b>

**TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT** **\$45,049,583**

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

Source: National Tax Data, Inc.

**Table 10**  
**Poway Unified School District**  
**Community Facilities District No. 6**  
**Improvement Area B**  
**Special Tax Bonds**

**Detailed Direct and Overlapping Debt**

**I. Assessed Value**

2004-2005 Secured Roll Assessed Value	<b>\$4,441,374</b>
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**II. Secured Property Taxes**

Description on Tax Bill	Type	Total Parcels	Total Levy	%Applicable	Parcels	Levy
Basic Levy	PROP13	885,571	\$2,588,291,646.68	0.00172%	2	\$44,413.74
County of San Diego Vector Control	VECTOR	329,726	\$694,769.52	0.00066%	2	\$4.56
County of San Diego Zone A (Four S Ranch)	OPENSOURCE	2,484	\$220,634.06	0.04284%	1	\$94.52
Metropolitan Water District of Southern California Debt Service	GO	847,141	\$23,251,406.40	0.00111%	2	\$257.58
Metropolitan Water District of Southern California Standby Charge	STANDBY	21,976	\$418,415.44	1.85836%	2	\$7,775.68
Olivenhain Municipal Water District AD No. 96-1	1915	20,247	\$1,449,472.66	1.83983%	1	\$26,667.90
Olivenhain Municipal Water District Sewer Charge	SEWER	2,497	\$1,487,715.32	0.03226%	1	\$480.00
Olivenhain Municipal Water District Water Standby Charge	STANDBY	46	\$108,375.00	47.32641%	2	\$51,290.00
Rancho Santa Fe Fire Protection District Special Tax	FIRE	9,406	\$195,240.00	0.05122%	2	\$100.00
San Diego County Water Authority Standby Charge	STANDBY	22,026	\$358,734.66	1.88317%	2	\$6,755.60
<b>2004-2005 TOTAL PROPERTY TAX LIABILITY</b>						<b>\$137,839.58</b>
<b>TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2004-2005 ASSESSED VALUATION</b>						<b>3.10%</b>

**III. Land Secured Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	%Applicable	Parcels	Amount
Olivenhain Municipal Water District AD No. 96-1	1915	\$22,530,000	\$19,805,000	1.83983%	1	\$364,378
Poway Unified School District CFD No. 6, Series 2002 and Series 2005	CFD	\$25,000,000	\$24,920,000	12.32544%	3	\$3,071,500
Poway Unified School District CFD No. 6, Impv. Area B	CFD	TBD	TBD	TBD	3	TBD
<b>TOTAL LAND SECURED BOND INDEBTEDNESS</b>						<b>\$3,437,878</b>
<b>TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS</b>						<b>\$3,437,878</b>

**IV. General Obligation Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	%Applicable	Parcels	Amount
Metropolitan Water District of Southern California Debt Service	GO	\$850,000,000	\$447,475,000	0.00030%	3	\$1,345
<b>TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS</b>						<b>\$1,345</b>
<b>TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS</b>						<b>\$1,345</b>
<b>TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT</b>						<b>\$3,437,223</b>

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

Source: National Tax Data, Inc..

Table 11 below sets forth estimated Fiscal Year 2005-06 overall tax rates projected to be applicable to a Detached Unit in Improvement Area B of the Community Facilities District. Table 11 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 11**  
**Poway Unified School District**  
**Community Facilities District No. 6 (4S Ranch)**  
**Improvement Area B**  
**Estimated Fiscal Year 2005-06 Tax Rates**  
**(Attached Units with 959 Square Feet)**

**Assessed Valuation and Property Taxes**

Estimated Sales Price <sup>(1)</sup>	\$355,000.00
Homeowner's Exemption	(\$7,000.00)
Net Assessed Value <sup>(2)</sup>	\$348,000.00

	<b>Percent of Total AV</b>	<b>Projected Amount</b>
<b>AD VALOREM PROPERTY TAXES</b>		
General Purposes	1.00000%	\$3,480.00
<i>Ad Valorem</i> Tax Overrides		
Metropolitan Water District West	0.00580%	\$20.18
Total <i>Ad Valorem</i> Property Taxes	1.00580%	\$3,500.18

**ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES<sup>(3)</sup>**

Poway Unified School District CFD No. 6	\$1,053.92
Poway Unified School District Improvement Area B of CFD No. 6	\$556.86
County Service Area No. 83 A Park Maintenance Assessment	\$68.60
Rancho Santa Fe Fire Protection District Special Tax	\$12.50
County of San Diego Vector Control	\$8.55
Metropolitan Water District of Southern California Standby Charge	\$11.50
San Diego Water Authority - Standby Charge	\$10.00
Olivenhain Municipal Water District No. 96-1	\$53.00
Olivenhain Municipal Water District Sewer Charge	\$480.00

<b>PROJECTED TOTAL PROPERTY TAXES</b>	<b>\$5,222.11</b>
Projected Total Effective Tax Rate (as % of Sale Price)	1.47%

<sup>(1)</sup> Estimated sale price for an average single family attached residential unit 959 building square feet.

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

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

Source: David Taussig & Associates, Inc.

Table 12 below sets forth estimated Fiscal Year 2005-06 overall tax rates projected to be applicable to a Detached Unit in Improvement Area B. Table 12 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 12**  
**Poway Unified School District**  
**Community Facilities District No. 6 (4S Ranch)**  
**Improvement Area B**  
**Estimated Fiscal Year 2005-06 Tax Rates**  
**(Detached Unit With 2,461 Square Feet)**

**Assessed Valuation and Property Taxes**

Estimated Sales Price <sup>(1)</sup>	\$690,990.00
Homeowner's Exemption	(7,000.00)
Net Assessed Value <sup>(2)</sup>	\$683,900.00

**AD VALOREM PROPERTY TAXES**

General Purposes	1.00000%	\$6,839.90
<i>Ad Valorem</i> Tax Overrides		
Metropolitan Water District West	0.00580%	\$39.67
Total <i>Ad Valorem</i> Property Taxes	1.00580%	\$6,879.57

**ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES<sup>(3)</sup>**

Poway Unified School District CFD No. 6	\$2,382.78
Poway Unified School District Improvement Area B of CFD No. 6	\$1,360.84
County of San Diego Zone A	\$98.00
Rancho Santa Fe Fire Protection District Special Tax	\$12.50
County of San Diego Vector Control	\$8.55
Metropolitan Water District of Southern California Standby Charge	\$11.50
San Diego Water Authority - Standby Charge	\$10.00
Olivenhain Municipal Water District No. 96-1	\$53.00
Olivenhain Municipal Water District Sewer Charge	\$480.00

<b>PROJECTED TOTAL PROPERTY TAXES</b>	<b>\$10,763.74</b>
Projected Total Effective Tax Rate (as % of Sale Price)	1.56%

- (1) Estimated sales price for an average single family detached residential unit 2,461 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.

## Overlapping Direct Assessments

Metropolitan Water District Standby Charge. The Metropolitan Water District imposes an annual direct assessment of \$11.50 per acre, or \$11.50 per parcel if the parcel is less than an acre. This assessment is used for capital improvements of 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%). 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 and rodent activity.

County Water Authority Standby Charge. All property in the Community Facilities District is subject to 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.

San Diego County Service Area 83 A Park Maintenance Assessment. The County Service Area is authorized to levy an assessment for park services. The assessment is based on a per equivalent benefit unit (EBU) charge, subject to inflation base on the consumer price index. For residential property, a detached unit is one (1) EBU, and attached units are 0.7 EBU. The projected Fiscal Year 2005-06 rate is expected to be approximately \$98.00 for a Detached Unit and \$68.60 for an Attached Unit.

Rancho Santa Fe Fire District Special Assessment. The Rancho Santa Fe Fire District established an assessment district which is authorized to levy an assessment for fire suppression services. The assessment is based on a current charge of \$2.50 per equivalent billing unit (EBU). Residential property is assigned 2 EBU's if vacant, and 5 EBU's if occupied.

Olivenhain Municipal Water District AD 96-1. Olivenhain Municipal Water District formed Assessment District No. 96-1 to finance the water storage project. The special assessment is \$53 per year for each single-family home. This rate is applicable to both Attached Units and Detached Units within the Community Facilities District. As of Fiscal Year 2004-05, Assessment District 96-1 had authorized bonded indebtedness of \$22,530,000 of which \$19,805,000 was outstanding.

Olivenhain Municipal Water District Sewer Standby Charge. Olivenhain Municipal Water District imposes a sewer charge of \$480 per year for each single-family home. The charge for vacant property is \$100 per year per equivalent dwelling unit allocated to such property.

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 2005 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 2005 Bonds. The School District and the Community Facilities District cautions 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 2005 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 or Improvement Area B 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 2005 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 and Improvement Area B.*

### **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**

Utilizing the Assessor’s Roll as of January 1, 2005 and matching the 1,624 lots categorized as Developed Property for Fiscal Year 2005-06, the Special Tax Consultant has estimated that the Merchant Builders were responsible for approximately 3.35% percent of the Fiscal Year 2005-06 Community Facilities District Special Taxes and 47.66% of the Fiscal Year Improvement Area B Special Taxes levied on 93 parcels. However, such percentages have declined, and will decline further, as sales of the homes occur during calendar year 2005 and as individual homeowners acquire such homes. See “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 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 2005 CFD Bonds or the Improvement Area B 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 4S Kelwood, 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. See “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood and the Merchant Builders – History of Property Tax Payment; Loan Defaults; Bankruptcy.”

### **Failure to Develop Properties**

Development of property within the Community Facilities District / Improvement Area B may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of 4S Kelwood, 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 all lots within Neighborhoods One and Two and for 1,633 lots in Neighborhood Three. The property within Improvement Area B 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 within Improvement Area B will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within Improvement Area B. 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 in Improvement Area B 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. 6 (4S RANCH) – Appraised Property Values.”

Bondowners should assume that any event that significantly impacts the ability to develop land in Improvement Area B would cause the property values within the Community Facilities District and Improvement Area B to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area B 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 B, 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 and Improvement Area B, as applicable. If the value of the land within the Community Facilities District or Improvement Area B 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 2005 Bonds have been issued.

### **The 2005 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 Improvement Area B 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 2005 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, including Improvement Area B. 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 B 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, including Improvement Area B, 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 or Improvement Area B 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 or Improvement Area B 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 2005 Bonds (and therefore to the owners of the 2005 Bonds) should it be necessary for the Community Facilities District or Improvement Area B 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 2005 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 or Improvement Area B as planned will reduce the expected diversity of ownership of land within the Community Facilities District and Improvement Area B, making the payment of debt service on the 2005 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 2005 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. 6 (4S RANCH) – Direct and Overlapping Debt" state the Fiscal Year 2004-05 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 2005 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 2005 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 March 27, 1998, as Document No. 1998-0169295, and with respect to Improvement Area B Special Tax on October 21, 2002, as Document No. 2002-1019183. 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 Improvement Area B 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**

4S Kelwood 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 and Improvement Area B. Nevertheless, development within the Community Facilities District and Improvement Area B 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 County and other public agencies. The failure to obtain any such approval could adversely affect construction within the Community Facilities District and Improvement Area B. 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 and Improvement Area B 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 or Improvement Area B could cause the land values within the Community Facilities District and Improvement Area B 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 and Improvement Area B. 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 and Improvement Area B or reduce the value of undeveloped property. Failure to develop the vacant property in the Community Facilities District and Improvement Area B 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 or Improvement Area B 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 and Improvement Area B 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 “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Environmental Permits” for a discussion of the Implementing Agreement and Subarea Plan and the Habitat Management Plan. Furthermore, 4S Kelwood reports that the vacant property within the Community Facilities District proposed to be developed by 4S Ranch is not known by the 4S Ranch 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 and Improvement Area B 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 California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous 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 or Improvement Area B 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.

4S Kelwood retained Geocon Incorporated to conduct geotechnical investigations of its proposed development site in Neighborhood 3. 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 and Improvement Area B, as set forth in the appraised values set forth in the Appraisal hereto, do 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 2005 Bonds is the proceeds of the annual levy and collection of the applicable Special Tax against property within the Community Facilities District and Improvement Area B. 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 2005 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 2005 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 and Improvement Area B. 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 2005 BONDS – Special Taxes” and “ – Rates and Methods” 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 2005 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 County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2005 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 2005 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 B, as applicable. See “SECURITY FOR THE 2005 BONDS – Rates and Methods” herein.

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with each Rate and Method (see “SECURITY FOR THE 2005 BONDS – Rates and Methods” 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 B 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 2005 BONDS – Reserve Funds” herein). Funds in the Reserve Funds may be used to pay principal of and interest on the CFD Bonds or the Improvement Area B 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 B are insufficient. If funds in the applicable Reserve Fund for the 2005 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 B, 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 2005 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 B 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 2005 Bonds.

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 2005 Bonds. See “Concentration of Ownership” above.

### **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 2005 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 2005 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 2005 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 and Improvement Area B is owned by 4S Kelwood, 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 or Improvement Area B 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 reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2005 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 2005 Bonds. Based upon the secured tax roll as of January 1, 2005, 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 2005 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 and Improvement Area B 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, including Improvement Area B, 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 2005 Bonds do not contain a provision allowing for the acceleration of the 2005 Bonds in the event of a payment default or other default under the terms of the 2005 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 D – “Summary of Certain Provisions of the Bond Indentures” herein). So long as the 2005 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 B pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District and Improvement Area B, consisting of the landowners within the boundaries of the Community Facilities District or Improvement Area B, as applicable, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and the Infrastructure Improvements and approved each Rate and Method. 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, including Improvement Area B, 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 2005 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 2005 Bonds, it is necessary that each Special Tax levied against land within the Community Facilities District, including Improvement Area B 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 2005 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 2005 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 of Education 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 2005 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 2005 Bonds.

It may be possible, however, for voters of the Community Facilities District or Improvement Area B to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2005 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 2005 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 2005 Bonds as well as the market for the 2005 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 2005 Bonds or, if a secondary market exists, that such 2005 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 2005 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 2005 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds as a result of an acts or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of each Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2005 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 2005 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2005 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 Indentures. See "THE 2005 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 2005 Bonds or to preserve the tax-exempt status of the 2005 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 2005 Bonds will be made available to purchasers at the time of original delivery and are attached hereto as Appendix G. A copy of the applicable legal opinion will be printed on each 2005 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 Bonds 2005 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 2005 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2005 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 2005 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 2005 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 2005 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds. The Community Facilities District has covenanted to comply with all such requirements.

Should the interest on the 2005 Bonds become includable in gross income for federal income tax purposes, the 2005 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 2005 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 2005 bond and Bond Counsel expresses no opinion with respect thereto.

Although Bond Counsel has rendered an opinion that interest on the 2005 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 2005 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 2005 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 2005 Bonds will be selected for audit by the IRS. It is also possible that the market value of such 2005 Bonds might be affected as a result of such an audit of such 2005 Bonds (or by an audit of similar bonds).

### **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the 2005 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 2005 Bonds or in any way contesting or affecting the validity of the 2005 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 2005 Bonds.

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

The 2005 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 B Special Tax, as applicable, and certain proceeds of the 2005 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 2005 Bonds shall be limited to the Community Facilities District Special Tax or Improvement Area B Special Taxes to be collected within the Community Facilities District or Improvement Area B, as applicable.

### **NO RATINGS**

The 2005 Bonds have not been rated by any securities rating agency.

### **UNDERWRITING**

The 2005 CFD Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$43,205,754.15 (which represents the aggregate principal amount of the 2005 CFD Bonds of \$44,305,000.00, less an underwriter's discount of \$664,575.00 and less an original issue discount of \$434,670.85). The Improvement Area B Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$29,205,558.25 (which represents the aggregate principal amount of the Improvement Area B Bonds of \$30,000,000.00, less an underwriter's discount of \$450,000.00 and less an original issue discount of \$344,441.75).

The purchase agreement relating to the 2005 Bonds provides that the Underwriter will purchase all of the 2005 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 2005 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 4S Kelwood, 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 2005 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2005 Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the 2005 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 2005 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. 6 (4S RANCH) 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. 6 (4S Ranch) of the Poway Unified School District



## **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 2005 Bonds, and the 2005 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 92064-3098, Attention: Deputy Superintendent.

#### **General Information**

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 San Diego County. The School District currently operates 22 (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 and the City of San Diego in San Diego County, California. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2004-05 academic year is approximately 31,817. As of January, 2005, the estimated population within the School District's boundaries was approximately 171,705 and as of March 18, 2005, approximately 32,750 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, two Area Superintendents for Learning Support Services, a Deputy Superintendent and an Assistant Superintendent of Personnel Support Services.

From Fiscal Year 1994-95 through Fiscal Year 2004-05 the School District's enrollment increased by 3,597, an average of approximately 1 percent per year. Information concerning enrollment for these years is set forth below:

**Poway Unified School District  
Student Enrollment**

	<b>Fiscal Year</b>	<b>Enrollment</b>	<b>District Average Daily Attendance</b>	<b>District Base Revenue Limit</b>
<i>Historical</i>	1994-95	29,152	29,020	\$3,468.39
	1995-96	30,043	29,893	3,615.36
	1996-97	30,626	30,531	3,809.77
	1997-98	31,339	31,214	3,912.12
	1998-99 <sup>(1)</sup>	31,845	30,877	4,214.70
	1999-00	32,536	31,515	4,274.70
	2000-01	32,532	31,203	4,412.70
	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

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

<sup>(1)</sup> The decrease in the rate of growth from Fiscal Year 1997-98 is due to State legislation that changed the method of calculating ADA to eliminate excused absences from the total. The legislation also increased the Base Revenue Limit so that the change in methodology did not result in a loss of revenue for districts.

**Labor Relations**

As of May 1, 2005, the School District employed approximately 1,949 certificated professionals and approximately 1,643 classified employees. The certificated professionals, except management and some part-time employees, are represented by the bargaining units as noted below:

**Poway Unified School District  
District Employees**

<b>Labor Organization</b>	<b>Approximate Number of Employees In Organization</b>	<b>Contract Expiration Date</b>
Poway Federation of Teachers (PFT), Local 2357	1,949	6/30/07
Service Employees International Union	436	6/30/05
California Schools Employees Association	1,152	6/30/05

*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 2000-01 was \$8,814,311, in 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 and Fiscal Year 2004-05 is budgeted at \$9,478,188. 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 2000-01 was \$1,091,941, in 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 and Fiscal Year 2004-05 is budgeted at \$4,929,546.

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.

## **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.

The State of California has 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 provides coverage for individual claims up to a limit of \$750,000. Commercial insurance is purchased to defray claim costs exceeding the self-insured retention level.

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. 6 (4S RANCH)  
OF THE POWAY UNIFIED SCHOOL DISTRICT**

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**RATE AND METHOD OF APPORTIONMENT  
OF THE SPECIAL TAX  
FOR COMMUNITIES FACILITIES DISTRICT NO. 6  
OF THE POWAY UNIFIED SCHOOL DISTRICT**

A One-Time Special Tax and an Annual Special Tax shall be levied on and collected in Community Facilities District No. 6 ("CFD No. 6") of the Poway Unified School District (the "School District") in amounts to be determined through the application of this Rate and Method of Apportionment of the Special Tax ("RMA"). All of the real property in CFD No. 6, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"Acreage"** means the land area of an Assessor's Parcel, exclusive of land area identified as open space on a Final Map and land area encumbered with public or utility easements making impractical such land area use for purposes other than those set forth in the easements, including recorded easements for conservation or open space purposes, as reasonably calculated or determined by the Assistant Superintendent based on the applicable Assessor Parcel Map, Final Map, parcel map, condominium plan, or other recorded County parcel map or applicable data.

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

**"Administrative Expenses"** means any ordinary and necessary expense incurred by the School District on behalf of the CFD related to the determination of the amount of the levy of special taxes (e.g., administration consultant, fiscal agent, arbitrage consultant, etc.), the collection of special taxes including the expenses of collecting delinquencies, the administration of Bonds, the cost of complying with disclosure requirements of applicable federal and state security laws and the Act, and the costs of the payment of the appropriate allocable share of salaries and benefits of any School District employee whose duties are directly related to the administration of the CFD.

**"Affordable Unit"** means one of not more than 150 Units that (i) 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 and (ii) is subject to affordable housing restrictions under any applicable law. The first 150 Units which meet the criteria set forth in (i) and (ii) of the preceding sentence and for which Building Permits are issued will be designated permanently and irrevocably as Affordable Units.

**"Annual Special Tax"** means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property.

**"Assessor's Parcel"** means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

**"Assessor's Parcel Map"** means an official map of the Assessor of the County designating parcels by Assessor's Parcel Number.

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

**"Assigned Annual Special Tax"** means (i) for Developed Property, the special tax of that name calculated as described in Section E.1. below, or (ii) for Undeveloped Property, the special tax of that name calculated as described in Section E.2. below.

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

**"Attached Unit"** means a Unit that (i) 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, and (ii) is not an Affordable Unit.

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

**"Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof incurred by CFD No. 6 or the School District.

**"Building Square Footage" or "BSF"** for any Residential Property means all of the square footage within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, detached accessory structure, or similar area, as defined in Section 65995 of the Government Code.

**"Building Permit"** means a permit for construction of a residential or commercial/industrial structure. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of utility improvements, retaining walls, parking structures or other such improvements not intended for human habitation or commercial/industrial use.

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

**"CFD No. 6"** means Community Facilities District No. 6 established by the School District under the Act.

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

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

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



**"Developed Property"** means all Assessor's Parcels in CFD No. 6 for which Building Permits for new construction were issued after the formation of CFD No. 6 and on or before January 1 of the prior Fiscal Year.

**"Exempt Property"** means the property designated as being exempt from special taxes in Section J.

**"Facilities"** means those school facilities (including land) and other facilities which the School District is authorized by law to construct, own or operate and which would service the properties within CFD No. 6.

**"Final Map"** means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, 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 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, or utility or disposal area, as defined in Section 65995 of the Government Code.

**"Gross Prepayment Amount"** for any Assessor's Parcel of Developed Property means that gross prepayment amount determined by reference to Table 2 and adjusted as set forth in Section G.

**"Index"** means the Marshall & Swift Western Region Class D Wood Frame Index ("M&S Index"), and if the M&S Index ceases to be used by the State Allocation Board, a reasonably comparable index used by the State Allocation Board to estimate increases or decreases 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.

**"Land Use Class"** means any of the classes of Developed Property, i.e., Commercial/Industrial Property, Exempt Property, and Residential Property.

**"Master Developer"** means 4S Kelwood General Partnership, a California general partnership or any successor.

**"Maximum Special Tax"** means the maximum special tax, determined in accordance with Section C, that can be levied by CFD No. 6 on any Assessor's Parcel in any Fiscal Year.

**"One-Time Special Tax"** means the single payment special tax to be collected from the owner of an Assessor's Parcel of Undeveloped Property, pursuant to Section D below.

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

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

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

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

**"Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) the regularly scheduled debt service payments on all Bonds which are due in the Calendar Year commencing during such Fiscal Year, assuming that principal is paid when due without acceleration or optional redemption, (ii) credit or liquidity fees on the Bonds, (iii) the cost of acquisition or construction of Facilities, (iv) Administrative Expenses, (v) the costs associated with the release of funds from an escrow account, (vi) any amount required to establish, maintain, or replenish any reserve funds and credit enhancement facilities established in association with the Bonds, (vii) lease payments for Facilities, and (viii) any other payments permitted by law.

**"Special Tax Requirement A"** means, in Fiscal Years in which an elementary school located within or financed by CFD No. 6 is opened, the amount required to fund the Technology Budget, less any amount previously received by CFD No. 6 for such purpose from Master Developer. In Fiscal Years in which no elementary school located within or financed by CFD No. 6 is opened, the Special Tax Requirement A shall be \$0.

**"Taxable Property"** means all Assessor's Parcels within the boundaries of CFD No. 6 which are not exempt from the special tax pursuant to law or Section J below.

**"Technology Budget"** means, for Fiscal Year 1997-98, \$238,770 for each elementary school constructed in CFD No. 6. Each July 1, commencing July 1, 1998, the Technology Budget for each elementary school constructed in CFD No. 6 shall be increased or decreased by the annual percentage change in the Index. For purposes of this calculation, the annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Fiscal Year.

**"Undeveloped Property"** means all Assessor's Parcels in CFD No. 6 for which no Building Permit was issued after the formation of CFD No. 6 and on or before January 1 of the prior Fiscal Year.

**"Undeveloped Special Tax Requirement"** means the greater of (i) \$0 or (ii) the amount required in any Fiscal Year to pay: (1) the regularly scheduled debt service payments on all Bonds which are due in the Calendar Year commencing during such Fiscal Year, assuming that principal is paid when due without acceleration or optional redemption, (2) credit or liquidity fees on the Bonds, (3) Administrative Expenses, and (4) any amount required to establish, maintain, or replenish any reserve funds and credit enhancement facilities established in association with the Bonds, less the sum of the amounts levied on Developed Property in Section F.1.

**"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 Affordable Unit, an Attached Unit, or a Detached Unit.

**"Zone A"** means the area within the boundaries of CFD No. 6 designated as Zone A on the map of the boundaries of CFD No. 6 most recently recorded in the Maps of Assessment and Community Facilities Districts in the Office of the Recorder of the County, which area is designated at the time of the formation of CFD No. 6 as Assessor's Parcel Numbers 678-030-06-00 and 678-050-09-00.

## **SECTION B PROPERTY CLASSIFICATION**

For each Fiscal Year, beginning Fiscal Year 1997-98, each Assessor's Parcel in CFD No. 6 shall be classified as an Assessor's Parcel of Developed Property, Undeveloped Property or Exempt Property.

## **SECTION C MAXIMUM SPECIAL TAX**

### **1. Developed Property**

In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Residential Property shall be the Assigned Annual Special Tax. In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Commercial/Industrial Property shall be the amount of any portion of the One-Time Special Tax that is not collected at the issuance of a Building Permit, which amount may be levied on such Assessor's Parcel when classified as Developed Property in any following Fiscal Year.

### **2. Undeveloped Property**

In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Undeveloped Property not located in Zone A shall be the sum of (i) the Assigned Annual Special Tax and (ii) the One-Time Special Tax. In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Undeveloped Property located in Zone A shall be the sum of (i) the Assigned Annual Special Tax, (ii) the Zone A Assigned Annual Special Tax, and (iii) the One-Time Special Tax.

**SECTION D**  
**ONE-TIME SPECIAL TAX**

A One-Time Special Tax shall be collected from the owner of each Assessor's Parcel of Undeveloped Property on the date a Building Permit is issued for such Assessor's Parcel. There shall be no One-Time Special Tax for Assessor's Parcels of Undeveloped Property for which the Building Permit is issued for the construction of a residential structure. The One-Time Special Tax for Calendar Year 1997 for Assessor's Parcels of Undeveloped Property for which the Building Permit is issued for the construction of a structure other than a residential structure shall be \$0.30 per square foot of Gross Floor Area.

On each January 1, commencing January 1, 1998, the amount of the One-Time Special Tax shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Calendar Year. The annual percent change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Calendar Year.

**SECTION E**  
**ASSIGNED ANNUAL SPECIAL TAX**

1. Developed Property

**a. Assigned Annual Special Tax for New Developed Property**

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 shall be the amount determined by reference to Table 1 below, subject to adjustment as described below, as applicable.

**TABLE 1**  
**ASSIGNED ANNUAL SPECIAL TAX**  
**FOR NEW DEVELOPED PROPERTY**  
**FOR FISCAL YEAR 1997-98**

<b>Land Use Class</b>	<b>Unit Type</b>	<b>Assigned Annual Special Tax 1997-98</b>
Residential Property	Detached Unit	\$1,770.00 per Unit
Residential Property	Attached Unit	\$782.88 per Unit
Residential Property	Affordable Unit	\$0.00 per Unit
Commercial/Industrial Property	NA	\$0.00 per GFA

Each July 1, commencing July 1, 1998, 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 shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Calendar Year.

**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 an Assessor's Parcel shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**2. Undeveloped Property**

**1. Assigned Annual Special Tax**

The Assigned Annual Special Tax for Undeveloped Property shall be \$1,000 per acre of Acreage in Fiscal Year 1997-98. On each July 1, commencing July 1, 1998, the Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**a. Zone A Assigned Annual Special Tax**

The Zone A Assigned Annual Special Tax for Undeveloped Property located in Zone A shall be \$5,000 per acre of Acreage in Fiscal Year 1997-98. On each July 1, commencing July 1, 1998, the Zone A Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

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

Commencing Fiscal Year 1997-98 and for each subsequent Fiscal Year, the Assistant Superintendent shall reasonably determine the Special Tax Requirement and the Undeveloped Special Tax Requirement. In addition, in any Fiscal Year in which an elementary school located within or financed by CFD No. 6 is opened, the Assistant Superintendent shall reasonably determine the Special Tax Requirement A.

The Annual Special Tax shall be levied as follows:

**1. Special Tax Requirement**

An Annual Special Tax shall be levied 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.

**2. Undeveloped Special Tax Requirement**

If the Undeveloped Special Tax Requirement is greater than \$0, an Annual Special Tax shall additionally be levied on every Assessor's Parcel of Undeveloped Property at the same amount per acre of Acreage as necessary to satisfy the Undeveloped Special Tax Requirement, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

**3. Special Tax Requirement A**

An Annual Special Tax shall additionally be levied on every Assessor's Parcel of Undeveloped Property located in Zone A at the same amount per acre of Acreage as necessary to satisfy the Special Tax Requirement A, up to the Zone A Assigned Annual Special Tax applicable to each such Assessor's Parcel.

**SECTION G  
PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 6 with written notice of intent to prepay. Within thirty (30) days of receipt of such written notice, the Assistant Superintendent shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount.

**1. Bond Proceeds Allocation**

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

**2. Prepayment Amount for Assessor's Parcel with Allocation of Bonds Less than Applicable Gross Prepayment Amounts**

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section G.2. shall be calculated by (i) counting all the Units of each Land Use Class applicable to such Assessor's Parcel, (ii) multiplying the sum of the Units for each Land Use Class for such Assessor's Parcel by the applicable Gross Prepayment Amount per Unit, and (iii) adding all the products derived from the immediately preceding step which are applicable to such Assessor's Parcel. This sum is the Prepayment Amount for the Assessor's Parcel. The Gross Prepayment Amounts for Calendar Year 1997 shall be determined by reference to Table 2 below.

**TABLE 2**  
**GROSS PREPAYMENT AMOUNT**

Land Use Class	Unit Type	Gross Prepayment Amount 1997
Residential Property	Detached Unit	\$16,328.43 per Unit
Residential Property	Attached Unit	\$7,011.61 per Unit
Residential Property	Affordable Unit	\$0.00 per Unit
Commercial/Industrial Property	NA	\$0.00 per GFA

On each January 1, commencing January 1, 1998, the Gross Prepayment Amounts applicable to each Assessor's Parcel shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Calendar Year.

**3. Prepayment Amount for Assessor's Parcel with Allocation of Bonds Equal to or More than Applicable Gross Prepayment Amounts**

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

	Bond proceeds allocated to Assessor's Parcel
plus	A. Redemption Premium
plus	B. Defeasance
plus	C. Prepayment Fees and Expenses
less	D. Reserve Fund Credit
less	E. Regularly Retired Principal
less	F. Partial Prepayment Credit
equals	Prepayment Amount

Detailed explanations of items A through F follow:

A. Redemption Premium

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

B. Defeasance

The Defeasance is the amount needed to pay interest on the portion of the Bonds to be redeemed with the proceeds of the Prepayment Amount until the earliest call date of the Bonds to be redeemed, net of interest earnings to be derived from the reinvestment of the Prepayment Amount until the redemption date of the portion of the Bonds to be redeemed with the Prepayment Amount. Such amount of interest earnings will be calculated reasonably by the Assistant Superintendent.

C. Prepayment Fees and Expenses

The Prepayment Fees and Expenses are the costs of the computation of the Prepayment Amount and an allocable portion of the costs of redeeming Bonds and recording any notices to evidence the prepayment and the redemption, as calculated reasonably by the Assistant Superintendent.

D. Reserve Fund Credit

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



E. Regularly Retired Principal

The Regularly Retired Principal is the total regularly scheduled retirement of principal that has occurred with respect to each series of Bonds times the applicable Prepayment Ratio for each such series of Bonds.

F. Partial Prepayment Credit

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

With respect to an Annual Special Tax obligation that has been prepaid, the Assistant Superintendent shall reasonably indicate in the records of CFD No. 6 that there has been a prepayment of the Annual Special Tax and shall reasonably cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment of Annual Special Taxes, to indicate reasonably the prepayment of Annual Special Taxes and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease.

Notwithstanding the foregoing, no prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property both prior to and after the proposed prepayment is at least 1.1 times annual debt service on all outstanding Bonds.

## **SECTION H**

### **PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAX**

At the time a Final Map is recorded for any Taxable Property, the owner filing said Final Map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Map to prepay a portion of the applicable Annual Special Tax obligation, provided that the Final Map contains at least 15 Detached Units or 30 Attached Units. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the issuance of a Building Permit. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F.$$

These terms have the following meanings:

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

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Assistant Superintendent of (i) such owner's intent to partially prepay the Annual Special Tax obligation and, (ii) the percentage by which the Annual Special Tax obligation shall be prepaid. The Assistant Superintendent shall reasonably provide the owner with a statement of the amount required for the partial prepayment of the Annual Special Tax obligation for an Assessor's Parcel within thirty (30) days of the request and may reasonably charge a reasonable fee for providing this service.

With respect to an Annual Special Tax obligation that is partially prepaid, the Assistant Superintendent shall reasonably indicate in the records of CFD No. 6 that there has been a partial prepayment of the Annual Special Tax and shall reasonably cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of Annual Special Taxes, to indicate reasonably the partial prepayment of Annual Special Taxes 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.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property both prior to and after the proposed partial prepayment is at least 1.1 times annual debt service on all outstanding Bonds.

## **SECTION I TERMINATION OF ANNUAL SPECIAL TAX**

The Annual Special Tax shall be levied for a term of twenty-five (25) Fiscal Years after the last bond series is issued, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

## **SECTION J EXEMPTIONS**

The Assistant Superintendent shall not levy a special tax on Assessor's Parcels owned by the State of California, Federal or other local governments except as otherwise provided in Sections 53317.3, 53317.5 and 53340.1 of the Government Code or on Assessor's Parcels within the boundaries of CFD No. 6 which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization. Notwithstanding the above, the Assistant Superintendent shall not levy a special tax on Assessor's Parcels owned by a homeowners' association, Assessor's Parcels with public or utility easements making impractical their use for purposes other than those set forth in the easements, and Assessor's Parcels identified entirely as open space on a Final Map.

## **SECTION K**

## **APPEALS**

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

## **SECTION L MANNER OF COLLECTION**

The One-Time Special Tax shall be collected on or before the date a Building Permit is issued, provided that any portion of the One-Time Special Tax that is not collected at the issuance of a Building Permit may be levied on such Assessor's Parcel in any following Fiscal Year. The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided that CFD No. 6 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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**FIRST AMENDED  
RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 6  
OF THE POWAY UNIFIED SCHOOL DISTRICT  
(IMPROVEMENT AREA B)**

An Annual Special Tax shall be levied on and collected in Improvement Area ("IA") B of Community Facilities District ("CFD") No. 6 of the Poway Unified School District ("School District") each Fiscal Year in an amount determined through the application of the rate and method of apportionment described below. All of the real property in IA B of CFD No. 6, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable Final Subdivision Map, other final map, parcel map, condominium plan, or other recorded County parcel map.

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

**"Administrative Expenses"** means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of IA B of CFD No. 6.

**"Annual Special Tax"** means the Special Tax levied each Fiscal Year on an Assessor's Parcel as set forth in Section F. Prior to the issuance of Bonds, Annual Special Tax revenues shall be used entirely to fund Non-School Facilities. Each Fiscal Year after Bonds have been issued, the Annual Special Tax revenues shall be used in the following order of priority (i) to satisfy the Annual Special Tax Requirement and (ii) to fund School Facilities.

**"Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) the annual debt service on all outstanding Bonds, (ii) the Administrative Expenses of IA B of CFD No. 6, (iii) any costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

**"Assessor's Parcel"** means a Lot or parcel of land in IA B of CFD No. 6 which is designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

**"Assessor's Parcel Map"** means an official map of the Assessor of the County designating parcels by Assessor's Parcel Number.

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

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

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

**"Attached Unit"** means a Unit that consists or shall consist of a building or buildings in which each of the individual Units has at least one common wall with another Unit.

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

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

**"Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes of IA B of CFD No. 6 are pledged.

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

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

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

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

**"Developed Property"** means all Assessor's Parcels of Taxable Property for which a building permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map 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.

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

**"Final Subdivision Map"** means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, 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 Prepayment Amount"** means any amount determined by reference to Table 2 and adjusted as set forth in Section G.

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

**"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C, which can be levied by IA B of CFD No. 6 on any Assessor's Parcel in any Fiscal Year.

**"Non-School Facilities"** means any infrastructure necessary to develop the Project owned or to be owned by a public agency other than the School District.

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

**"Project "** means 4S Ranch.

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

**"School Facilities"** means any public facilities owned or to be owned by the School District.

**"Special Tax"** means any of the special taxes authorized to be levied in IA B of CFD No. 6 under the Act.

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

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

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

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

For each Fiscal Year, beginning with Fiscal Year 2002-03, (i) each Assessor's Parcel shall be classified as Taxable Property or Exempt Property; (ii) each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property; (iii) each Assessor's Parcel of Developed Property shall be classified as a Detached Unit or an Attached Unit and (iv) each Detached Unit and Attached Unit shall be classified according to its Building Square Footage.

**SECTION C**  
**MAXIMUM SPECIAL TAX**

**1. Developed Property**

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

**2. Undeveloped Property**

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

**SECTION D**  
**ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2002-03 shall be the amount determined by reference to Table 1 below.

**TABLE 1**

<b><i>ASSIGNED ANNUAL SPECIAL TAX FOR DEVELOPED PROPERTY FISCAL YEAR 2002-03</i></b>		
<b>Unit Type</b>	<b>Building Square Footage</b>	<b>Assigned Annual Special Tax</b>
Detached Unit	≤ 2,100	\$524.75 per Unit
Detached Unit	2,101 - 2,400	\$1,014.96 per Unit
Detached Unit	2,401 - 2,700	\$1,282.35 per Unit
Detached Unit	2,701 - 3,000	\$1,416.05 per Unit
Detached Unit	3,001 - 3,300	\$1,638.87 per Unit
Detached Unit	3,301 - 3,600	\$2,173.65 per Unit
Detached Unit	3,601 - 3,900	\$2,351.91 per Unit
Detached Unit	> 3,900	\$2,530.17 per Unit
Attached Unit	< 1,000	\$189.61 per Unit
Attached Unit	> 1,000	\$524.75 per Unit



Each July 1, commencing July 1, 2003, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

## **2. Undeveloped Property**

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2002-03 shall be \$11,347.00 per acre of Acreage.

Each July 1, commencing July 1, 2003, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

### **SECTION E BACKUP ANNUAL SPECIAL TAX**

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

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

The terms above have the following meanings:

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

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

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

## **SECTION F**

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

Commencing Fiscal Year 2002-03, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in IA B of CFD No. 6 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

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

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

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

## **SECTION G**

### **PREPAYMENT OF ANNUAL SPECIAL TAX**

The property owner of any Final Subdivision Map where no building permits have been issued may prepay the entire Annual Special Tax obligation of IA B of CFD No. 6 for all Assessor's Parcels created by such Final Subdivision Map. In order to prepay the entire Annual Special Tax obligation of IA B of CFD No. 6 (i) there must be no delinquent Special Taxes, penalties, or interest charges outstanding with respect to any Assessor's Parcel in the Final Subdivision Map at the time the Annual Special Tax obligation is prepaid, (ii) prepayment for each Assessor's Parcel in the Final Subdivision Map shall be collected prior to the issuance of the first building permit in such Final Subdivision Map, and (iii) the Final Subdivision Map must ultimately contain at least 25 Detached Units or 50 Attached Units. The Prepayment Amount for an Assessor's Parcel in a Final Subdivision Map eligible for prepayment shall be determined as described below.

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

Prior to the issuance of Bonds, the Prepayment Amount in Fiscal Year 2002-03 for each Assessor's Parcel of Developed Property and each Assessor's Parcel of Undeveloped Property for which a building permit has been issued shall be the amount equal to the Gross Prepayment Amount. The Gross Prepayment Amount shall be the amount determined by reference to Table 2.

**TABLE 2**

<b><i>GROSS PREPAYMENT AMOUNT FISCAL YEAR 2002-03</i></b>		
<b>Unit Type</b>	<b>Building Square Footage</b>	<b>Gross Prepayment Amount</b>
Detached Unit	≤ 2,100	\$5,690.09 per Unit
Detached Unit	2,101 - 2,400	\$11,005.76 per Unit
Detached Unit	2,401 - 2,700	\$13,905.21 per Unit
Detached Unit	2,701 - 3,000	\$15,354.94 per Unit
Detached Unit	3,001 - 3,300	\$17,771.15 per Unit
Detached Unit	3,301 - 3,600	\$23,570.05 per Unit
Detached Unit	3,601 - 3,900	\$25,503.02 per Unit
Detached Unit	> 3,900	\$27,435.99 per Unit
Attached Unit	< 1,000	\$2,056.04 per Unit
Attached Unit	> 1,000	\$5,690.09 per Unit

Each July 1, commencing July 1, 2003, the Gross Prepayment Amount shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**2. Subsequent to Issuance of Bonds**

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

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

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

1. For each Assessor's Parcel of Developed Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax. For each Assessor's Parcel of Undeveloped Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit issued for that Assessor's Parcel.

2. For each Annual Special Tax obligation to be prepaid, (a) divide the Assigned Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Assigned Annual Special Tax applicable to all Assessor's Parcels of Developed Property at buildout, as reasonably determined by the Associate Superintendent, and (b) divide the Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Backup Annual Special Tax applicable to all Assessor's Parcels of Developed Property at buildout, as reasonably determined by the Associate Superintendent.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Bonds. The product is the "Bond Redemption Amount."
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 9) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Bonds.
6. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest call date for the outstanding Bonds.
7. Subtract the amount computed pursuant to paragraph 6 from the amount computed pursuant to paragraph 5. This difference is the "Defeasance."
8. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
9. Assuming the reserve fund was funded by Bond proceeds, calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirements, if any, associated with the redemption of outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirements in effect after the redemption of outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.

10. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid pursuant to this Section G, the Associate Superintendent shall indicate in the records of IA B of CFD No. 6 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 within thirty (30) days of receipt of such prepayment 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.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Tax that may be levied in IA B of CFD No. 6, net of an allocable portion 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, as reasonably determined by the Associate Superintendent.

## **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 issuance of the first building permit for the construction of a production Unit on a Lot within a Final Subdivision Map area, the owner of no less than all the Taxable Property within such Final Subdivision Map area 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 area, as calculated in Section H.2. The partial prepayment of each Annual Special Tax obligation shall be collected prior to the issuance of the first building permit with respect to each Assessor's Parcel.

#### **2. Partial Prepayment Amount**

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

$$PP = P_G \times F$$

The terms above have the following meanings:

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

### **3. Partial Prepayment Procedures and Limitations**

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of IA B of CFD No. 6 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.

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 allocable 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, as reasonably determined by the Associate Superintendent.

## **SECTION I TERMINATION OF SPECIAL TAX**

The Annual Special Tax shall be levied for a term of thirty-three (33) Fiscal Years after the issuance of Bonds by IA B of CFD No. 6, but in no event shall the Annual Special Tax be levied after Fiscal Year 2043-44.

## **SECTION J EXEMPTIONS**

The Associate Superintendent 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 used exclusively by a homeowners' association, (iv) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and (v) other types of Assessor's Parcels, at the reasonable discretion of the Associate Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 163.96 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 163.96 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.

## **SECTION K APPEALS**

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

**SECTION L**  
**MANNER OF COLLECTION**

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that IA B of CFD No. 6 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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## **APPENDIX C**

### **SUMMARY APPRAISAL REPORT AND UPDATE LETTER**

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SUMMARY APPRAISAL REPORT

COVERING

Poway Unified School District  
Community Facilities District No. 6  
(4S Ranch)

DATE OF VALUE:

September 1, 2005

SUBMITTED TO:

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

DATE OF REPORT:

September 16, 2005

SUBMITTED BY:

Stephen G. White, MAI  
1370 N. Brea Blvd., Suite 205  
Fullerton, CA 92835

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Stephen G. White, MAI



September 16, 2005

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

Real Estate Appraiser

1370 N. BREA BLVD., SUITE 205 • FULLERTON, CALIFORNIA 92635-4128  
(714) 738-1595 • FAX (714) 738-4371

Re: Community Facilities District No. 6  
(4S Ranch)

Dear Ms. Burgoyne:

In accordance with your request and the District's authorization, I have completed a Complete Appraisal of the taxable properties within Neighborhoods One through Four of 4S Ranch. The taxable properties include the completed homes, homes under construction and vacant residential land, excluding the apartment property and the commercial sites. Neighborhoods One and Two consist of 15 tracts of homes that are built and sold-out, plus two tracts with homes under construction. Neighborhood Three consists of 16 tracts of homes that either are or soon will be under construction, and Neighborhood Four consists of vacant land that is currently being graded for two tracts of homes.

The purpose of this appraisal is to estimate the market value of each of the separate tracts in Neighborhoods One through Three, plus the remaining master developer ownership in Neighborhoods Three and Four. This appraisal also reflects the proposed public bond financing, as well as the tax rates up to a maximum of 1.9% to the 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 September 1, 2005:

<u>Neighborhood One: Tract Name (Builder)</u>	<u>Market Value</u>
Ryland Heritage (Ryland Homes)	\$ 78,750,000
Sunnierwood (William Lyon Homes)	\$ 59,370,000
Tanglewood (William Lyon Homes)	\$ 92,570,000
Cedar Creek (D.R. Horton)	\$ 59,200,000
Amherst (Brookfield Homes)	\$ 68,000,000
Honestead (Fieldstone Communities)	\$ 87,550,000
Garden Gate (Sea Country Homes)	\$ 93,100,000
Talavera (Davidson Communities)	\$135,450,000
Providence (William Lyon Homes)	\$126,690,000
Legacy (Christopher Homes)	\$ 92,880,000
Sub-Total	\$893,560,000

MS. SANDRA G. BURGOYNE  
SEPTEMBER 16, 2005  
PAGE 2

<u>Neighborhood Two: Tract Name (Builder)</u>	<u>Market Value</u>
Belle Rive (Buile Communities)	\$ 67,650,000
Canyon Ridge (Centex Homes)	\$ 69,370,000
Palomino (K. Hovnanian)	\$ 97,000,000
Avery Lane (Pulte Homes)	\$ 77,250,000
Cambridge (Fieldstone Communities)	\$ 57,200,000
Terreno (Standard Pacific Homes)	\$110,250,000
Ivy Gate (Woodbridge Homes)	\$ 34,340,000
Sub-Total	\$513,260,000


<u>Neighborhood Three: Tract Name (Builder)</u>	<u>Market Value</u>
Reunion (Davidson Communities)	\$ 39,310,000
Travala (Standard Pacific Homes)	\$ 33,610,000
SilverCrest (Fieldstone Communities)	\$ 67,750,000
Rosemary Lane (John Laing Homes)	\$ 50,060,000
Silhouette (John Laing Homes)	\$ 30,640,000
Maybeck (William Lyon Homes)	\$ 21,230,000
Garden Walk (Sea Country Homes)	\$ 44,150,000
Bridgeport (Lennar Homes)	\$ 39,340,000
Gianni (Standard Pacific Homes)	\$ 31,130,000
San Moritz (Shea Homes)	\$ 29,410,000
Amanee (William Lyon Homes)	\$ 39,240,000
Ravenna (William Lyon Homes)	\$ 38,780,000
Sub-Total	\$464,650,000

<b>Neighborhood Three/4S Kelwood Ownership:</b>	<b>\$ 77,860,000</b>
<b>Neighborhood Four/4S Kelwood Ownership:</b>	<b>\$ 58,500,000</b>
<b>Total-Neighborhoods One Through Four:</b>	<b>\$2,007,830,000</b>

(TWO BILLION SEVEN MILLION EIGHT HUNDRED THIRTY THOUSAND DOLLARS)

The following is the balance of this 156-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,

  
Stephen G. White, MAI  
(State Certified General Real Estate  
Appraiser No. AG 013311)

SGW:sw  
Ref: 05033

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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 description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is 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 property, subsoil, or structures that render it 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 property is 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 property conforms 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 property 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 property, was not observed by the appraiser. However, the appraiser is not qualified to detect such substances. The presence of such substances may affect the value of the property, but the 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 property 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 property in question unless arrangements have previously been made.

## SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

1. Estimates of land development costs including fees to get various of the subject tracts from their as is condition to finished lot condition have been obtained from the master developer and from various of the builders. 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 the CFD bond-financed facilities will include ±\$25,500,000 in non-school facilities from the Improvement Area B 2005 Special Tax Bonds, and ±\$39,800,000 in school facilities from the 2005 Special Tax Bonds.

## PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate the aggregate market value by tract and/or ownership of all of the taxable property located within Community Facilities District No. 6 (4S Ranch) 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. 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 existing, planned or currently underway; 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 September 1, 2005.

## 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 in which the lots are fully improved and ready for homes to be built. This reflects that the lots have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot, street improvements completed, common area improvements/landscaping (associated with the tract) completed, resource agency permits (if necessary), and all development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map.



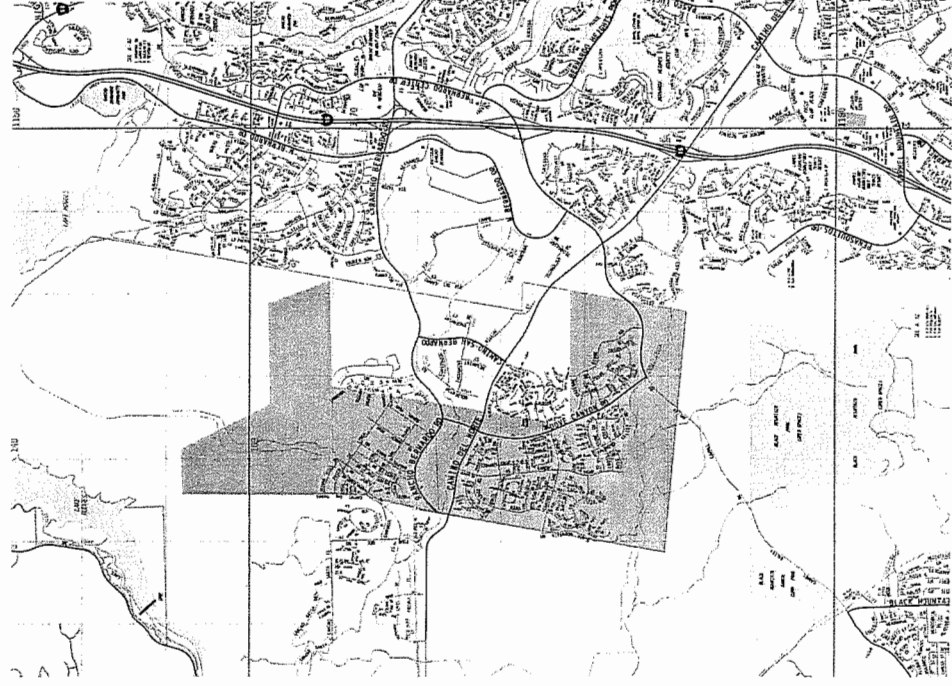
#### DEFINITION OF BLUE-TOP LOT

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

#### DEFINITION OF RAW LAND

In this case, the land is entitled for development, but it has not been graded from its raw condition, and still lacks the necessary infrastructure of streets, utilities, etc.

#### **LOCATION MAP**



## GENERAL PROPERTY DATA

### LOCATION

The map on the opposite page indicates the approximate location of 4S Ranch, with Neighborhoods One and Two being located south of Camino Del Norte and on both sides of 4S Ranch Parkway, and Neighborhoods Three and Four being located north of Camino Del Norte. This location is in a newly developing area in unincorporated San Diego County area, just less than 2 miles west of the 15 Freeway, but with a San Diego mailing address.

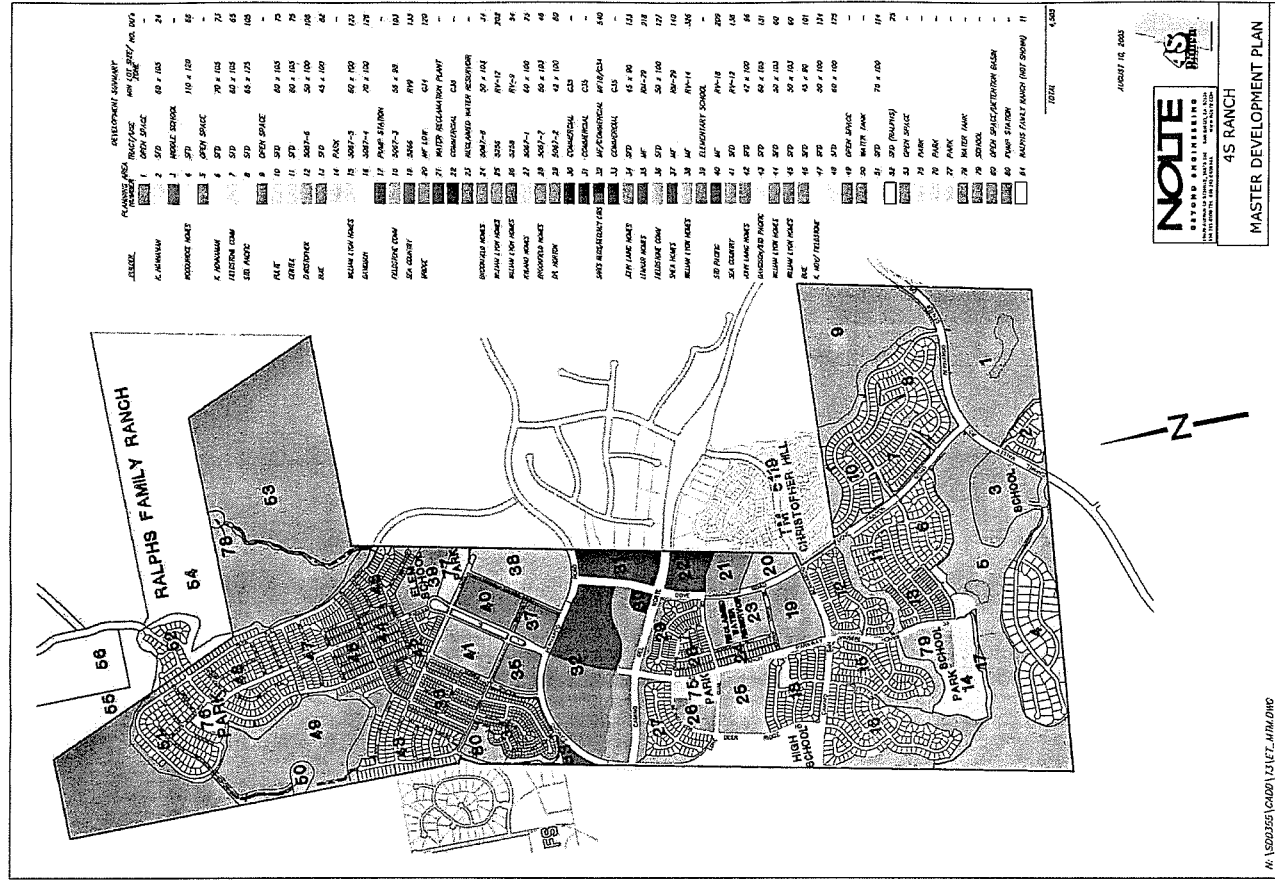
### GENERAL AREA DESCRIPTION

The immediate subject area is located within unincorporated San Diego County area, with the most northerly end of the City of San Diego surrounding the south portion of the subject area nearby to the west, south and east. The subject area is located about 23 miles northerly of downtown San Diego, and about 10 miles inland of the ocean at Encinitas and Solana Beach.

The area to the north is mostly undeveloped for some distance, with Lake Hodges being located several miles to the north and the City of Escondido farther to the north and northeast. Nearby to the east/northeast is the community of Rancho Bernardo within the City of San Diego and nearby to the southeast is the community of Rancho Penasquitos within the City of San Diego. Farther to the east is the City of Poway.

To the south is a large area of undeveloped land, sloping down into a valley area then sloping up into a hilly area. This area is within the City of San Diego, and includes the large open space area of Black Mountain Ranch and Black Mountain Park. Farther south is more of the community of Rancho Penasquitos. To the west and southwest is the newly developing community of Del Sur, which is part of the overall Black Mountain Ranch project. This community will include a total of ±2,800 dwelling units, as well as some commercial space. The first sales of residential land to merchant builders took place in May 2005 for development to commence.

The subject area is a desirable residential area due to its relatively close-in location to central San Diego and the good freeway proximity. The subject area also has good arterial road access by Camino Del Norte and Rancho Bernardo Rd., both of which have interchanges at the freeway. Retail/shopping facilities and schools are currently available nearby in Rancho Bernardo, but there will be much future commercial development as well as two elementary schools, a middle school and a high school within 4S Ranch. There are also the nearby recreational facilities at Lake Hodges and Lake Poway, various nearby golf courses, and the ocean recreation within 10 miles.



## DESCRIPTION OF 4S RANCH

### Overview

4S Ranch is a mixed-use master planned community that contains a total of ±2,900 acres. The current planning is for a total of ±4,500 dwelling units, consisting of mostly single family detached homes, but also including some attached homes and affordable housing apartments. There will also be a 53-acre mixed-use district called 4S Commons which will be patterned after a town square or downtown area, and will include shops, restaurants, medical and professional offices, an entertainment complex with movie theater, cultural and day care facilities, and a community green.

Community amenities will include four schools (two elementary, a middle school and high school), a fire station, a sheriff substation, a library, 1,600 acres of permanent open space/wildlife habitat, a 25-acre community park with Little League and soccer fields, three neighborhood parks, pocket parks and public greens, and more than 10 miles of hiking and biking trails winding throughout the community. The trails will connect to the pedestrian promenades along 4S Ranch Parkway, providing walking or biking access from throughout the community to the 4S Commons. There will also be a community-wide intranet system.

4S Ranch was granted Specific Plan approval in 1999, and the first residential land sales to builders closed in December 1999, located in Neighborhood One. Construction of the first homes commenced shortly thereafter, and there are now 15 completed tracts of homes and 14 tracts under construction or coming within the next few months. Sales of the remaining residential land located in Neighborhood Three have been negotiated and are due to close by February 2006 and marketing of the tracts in Neighborhood 4 will begin early next year.

### Streets and Access

The primary access to 4S Ranch is by Camino Del Norte and Rancho Bernardo Rd., which are primary roads extending northwesterly and westerly to this area from the 15 Freeway.

Access into Neighborhoods One and Two is by Dove Canyon Rd. and 4S Ranch Parkway which extend southerly from Camino Del Norte, and by Bernardo Center Dr./Carmel Valley Rd. which extends southwesterly from Camino Del Norte. 4S Ranch Parkway will ultimately extend north-south through the overall community providing access to all Neighborhoods.

Primary access into Neighborhoods Three and Four is by 4S Ranch Parkway and Ralphs Ranch Rd. which extend northeasterly from Rancho Bernardo Rd.

## DESCRIPTION OF 4S RANCH, Continuing

### Utilities

The utilities for the community are provided as follows:

Water & Sewer:	Olivenhain Municipal Water District
Gas & Electric:	San Diego Gas & Electric
Telephone:	Pacific Bell
Cable:	Cox Communication and Time Warner

### Zoning/Approvals

As previously indicated, 4S Ranch was granted Specific Plan approval in 1998. This approval provides for the zoning and necessary approvals for the planned residential development of the subject properties within Neighborhoods One through Four. In addition, the subject tracts in Neighborhoods One through Three have recorded tract maps with approved tentative tract maps for part of Neighborhood Three, and an approved tentative tract map for Neighborhood Four.

### Drainage/Flood Hazard

Drainage is and will be within master-planned facilities throughout the community. Neighborhood One is generally above grade of Camino Del Norte, and then gradually sloping down to the south into Neighborhood Two. Neighborhoods Three and Four have a gradual slope up to the north. None of the developable areas in 4S Ranch are within the floodplain.

### Soil/Geologic Conditions

This appraisal has assumed that all necessary grading and compacting has been and will be properly completed by the master developer, and is being properly completed by the current merchant builders, and that there are no abnormal soil or geologic conditions that would affect the development of the land as planned.

### Environmental Conditions

This appraisal has assumed that all necessary environmental permits and approvals have been obtained for development of the land as planned. It has also been assumed that there are no other environmental conditions, including endangered species or significant habitat, watercourses or wetlands that would have a negative effect on the planned development.

# RYLAND HERITAGE (RYLAND HOMES)

## PROPERTY DATA

### Location

This tract is located in the area bounded by Camino Del Norte at the north, 4S Ranch Parkway at the east, Lone Quail Rd. at the west and southwest, and Deer Ridge Rd. at the south and southeast.

### Record Owner/Ownership History

All of the 75 homes are now owned by separate homeowners. The original sales from the builder, Ryland Homes, closed from the latter part of 2001 through 2002, and there have been a number of resales over the past several years.

### Legal Description

This tract comprises Lots 1 through 75 of County of San Diego Tract No. 5067-1, according to Map No. 13968.

### Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-520-01 to 23, 26 to 57, 59 to 60; 678-521-01 to 09, 12 to 18 and 20 to 21. Assessed values range from \$525,651 to \$786,412, or an average of \$646,084. The tax rate area is 64-105 with a current base tax rate of  $\pm 1.01\%$ . The overall tax rate including special taxes for the CFD was  $\pm 1.5\%$  at the time of the original builder sales but is now somewhat lower.

### No. of Lots/Lot Sizes

This tract comprises a total of 75 lots. The minimum lot size is 6,000 s.f., or  $\pm 60'$  by 100', with some of the lots ranging up to  $\pm 9,000$  s.f. in size.

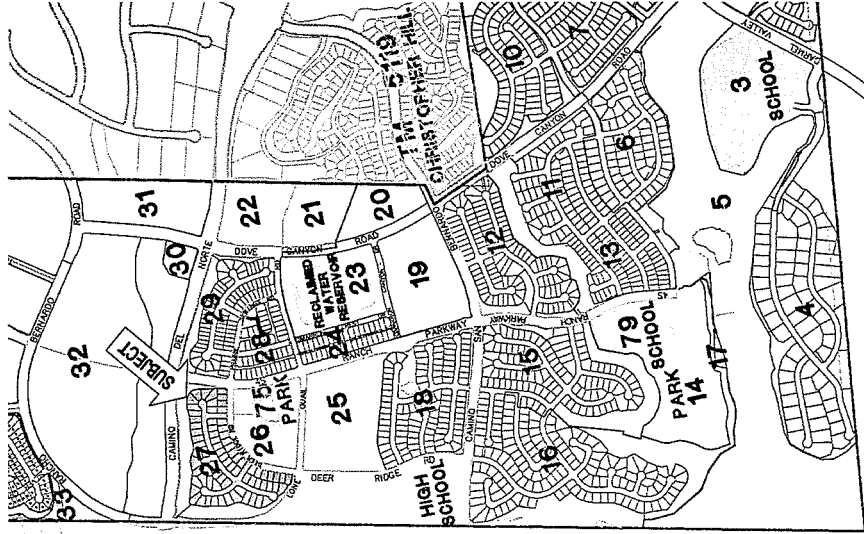
### Existing Development

These lots were developed in 2001 and 2002 with a tract of 75 homes called Ryland Heritage at 4S Ranch. There are three floor plans and the approximate number and description of each plan is as follows:

Residence One ( $\pm 22$ ): 3,643 s.f., two-story, with 4 bedrooms, loft, office, family room, breakfast nook, 4 $\frac{1}{2}$  baths and 2-car garage with options of master retreat, bonus room and bedroom 5.

Residence Two ( $\pm 27$ ): 3,798 s.f., two-story, with 4 bedrooms, master retreat, bonus room, tech center, den, family room, breakfast nook, 3 baths, and 3-car tandem garage with options of bedrooms 5, 6 and 7 and baths 4 and 5.

MAP OF RYLAND HERITAGE



PROPERTY DATA, Continuing

Residence Three (#26): 4,039 s.f., two-story, with 5 bedrooms, master retreat, tech center, den, family room, breakfast nook, 3½ baths and 3-car tandem garage, with options of bonus room, super family room, media room, bedrooms 6 and 7 and baths 4 and 5.

VALUATION

Method of Analysis

All of the homes in this tract are categorized as completed-sold, having been completed and sold by the builder about 3 to over 4 years ago. Thus, the Sales Comparison Approach is used to estimate the value of the 75 homes on a mass appraisal basis.

Sale prices from the most recent builder sales would have been set more than 3 years ago. In addition, most or all of these homes have now been improved with yard improvements as well as other interior improvements. Thus, consideration has been given only to recent resales of homes in the subject tract. This includes sales that have closed over the past ±6 months as well as current escrows.

Analysis of 75 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16738 Summit Vista	6/20/05	\$1,100,000	3,643	Plan 1; spa; view; highly upgraded
2	9987 Falcon Bluff	5/4/05	\$1,100,000	±3,980	Plan 1 w/ bonus room; pool & spa; cul-de-sac lot; upgraded
3	16767 Falcon Bluff	5/31/05	\$1,200,000	±3,980	Plan 1 w/ bonus room; pool & spa; cul-de-sac lot; well upgraded;
4	16778 Falcon Bluff	5/16/05	\$1,100,000	4,039	Plan 3; pool & spa; cul-de-sac lot; upgraded
5	9876 Falcon Bluff	6/24/05	\$1,100,000	4,039	Plan 3; pool & spa; upgraded
6	9979 Falcon Bluff	Escrow	\$1,050,000- \$1,149,876	4,039	Plan 3; pool & spa; cul-de-sac lot; well upgraded
7	16794 Deer Ridge	3/24/05	\$1,040,000	±4,270	Plan 3 w/ bed 6 & bath 4; former model home; builder upgrades
8	16610 Deer Ridge	6/21/05	\$1,180,000	±4,270	Plan 3 w/ bed 6 & bath 4; view; cul-de-sac lot; highly upgraded
9	16714 Summit Vista	Escrow	\$1,300,000- \$1,550,000	±4,270	Plan 3 w/ bed 6 & bath 4; pool & spa; large lot; view; highly upgraded

VALUATION, Continuing

This data indicates the overall price range of \$1,040,000 to \$1,300,000, or an average of \$1,130,000 if taking the low end indicated by the two current escrows. It is noted that the data includes only Plan 1 and 3 homes, and two of the Plan 1 homes and three of the Plan 3 homes included options that increase the size from the base floor plan. It is also noted that all of these sales range from slightly to highly upgraded, though most of the homes in this tract were upgraded from the base level at the time of the original construction.

The low end of the range, \$1,040,000 for a Plan 3, was the oldest sale that closed in March 2005, thus an upward time adjustment would be supportable. Furthermore, all of the closed sales took place at least several or more months ago, and the prices would have been negotiated at least a month prior to the closing dates. Thus, there could be minor upward time adjustments to all of the closed sales.

In summary, I have concluded on a conservative average value at \$1,050,000, as follows:

75 homes @ \$1,050,000 = \$78,750,000

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Ryland Heritage tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$78,750,000

(SEVENTY-EIGHT MILLION SEVEN HUNDRED FIFTY THOUSAND DOLLARS)

SUMMERWOOD (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the northeast corner of Lone Quail Rd. and Deer Ridge Rd. and at the southwest corner of 4S Ranch Parkway and Lone Quail Rd.

Record Owner/Ownership History

All of the 95 homes are now owned by separate homeowners. The original sales from the builder, William Lyon Homes, closed from late 2002 through the fourth quarter of 2003, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Lot 1 of County of San Diego Tract No. 5258-1, according to Map No. 14454 and a portion of Lot 1 of County of San Diego Tract No. 5256-1, according to Map No. 14396.

Assessor Data-2004/05

The 95 lots comprising the subject property consist of Assessor Parcel Nos. 678-502-01-01 to 12, 678-502-02-01 to 15, 678-502-03-01 to 14, 678-503-01-01 to 13, 678-503-02-01 to 12, 678-503-03-01 to 14 and 678-503-04-01 to 15. The assessed values range from \$279,319 to \$585,900 or an average of \$438,327. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$  but the overall tax rate is  $\pm 1.5\%$  including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract contains a total of 95 lots in a condominium-type subdivision. The lot sizes range from 2,800 s.f. to 3,000 s.f.

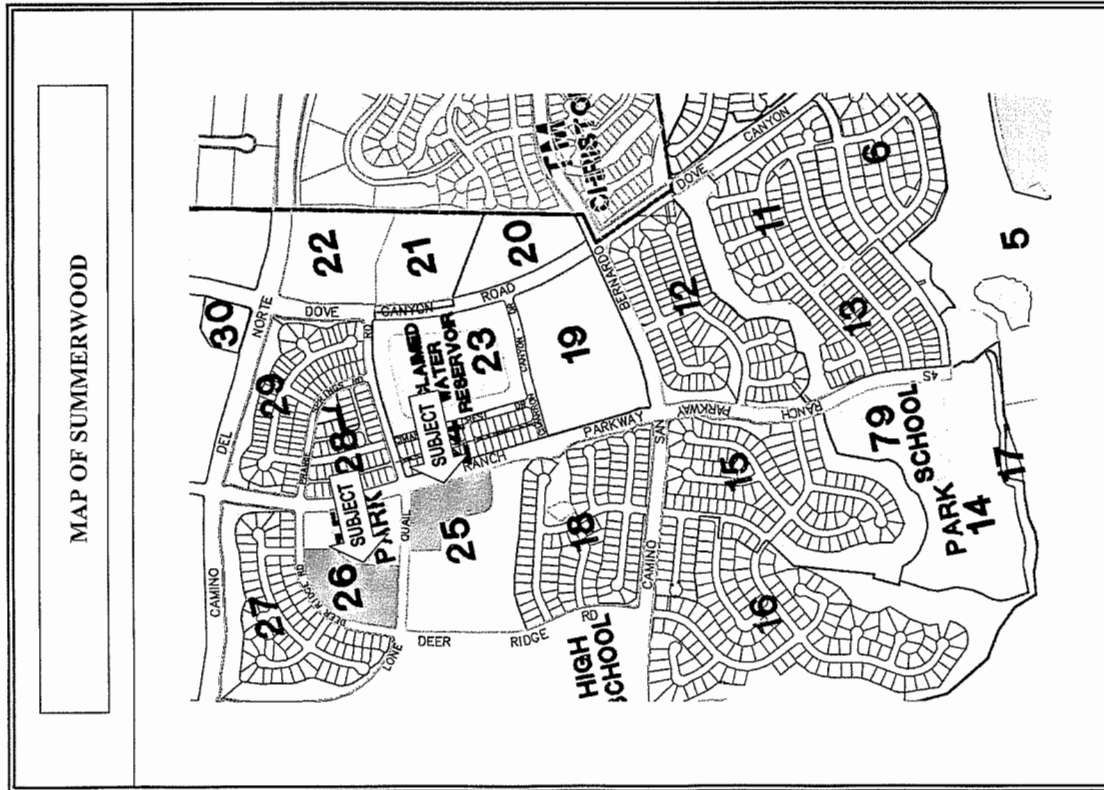
Existing Development

These lots were developed in 2002 and 2003 with a tract of 95 detached homes called Summerwood at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan 1 (28): 1,644 s.f., two-story, with 3 bedrooms, 2½ baths and a 2-car garage.

Plan 2 (34): 1,931 s.f., two-story, with 3 bedrooms, master retreat, 2½ baths and a 2-car garage.

Plan 3 (33): 2,043 s.f., two-story, with 3 bedrooms, master retreat, loft or optional bedroom 4, den, 2½ baths and a 2-car garage.



## VALUATION

### Method of Analysis

This is the same as for the previous Ryland Heritage tract.

### Analysis of 95 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16506 Manassas	12/29/04	\$575,000	1,644	Plan 1; corner lot; upgraded interior
2	16519 Manassas	2/14/05	\$589,000	1,644	Plan 1; some upgrades
3	16687 Deer Ridge	5/13/05	\$615,000	1,644	Plan 1; upgraded cabinetry/counters
4	16592 Manassas	12/16/04	\$690,000	1,930	Plan 2; corner lot; former model; builder upgrades
5	16535 Manassas	2/16/05	\$660,000	1,930	Plan 2; upgraded kitchen & flooring
6	9820 Lone Quail	7/15/05	\$678,000	1,930	Plan 2; upgraded kitchen/flooring/fixtures
7	16640 Honeybrook	Escrow	\$669,000- \$699,000	1,930	Plan 2; upgraded cabinetry/countertops/flooring
8	9924 Stockbridge	5/19/05	\$715,000	2,043	Plan 3; upgraded

This data indicates the overall price range of \$575,000 to \$715,000, or an average of ±\$649,000, if taking the low end indicated by the current escrow. It is noted that the data includes mostly Plan 1 and Plan 2 homes, thus the average pricing is conservative when considering that 35% of the homes in the tract are Plan 3. It is also noted that the closed sales took place from 1½ to 8½ months ago, thus the prices would tend to be conservative at current date.

In summary, I have concluded on a conservative average at \$625,000, as follows:

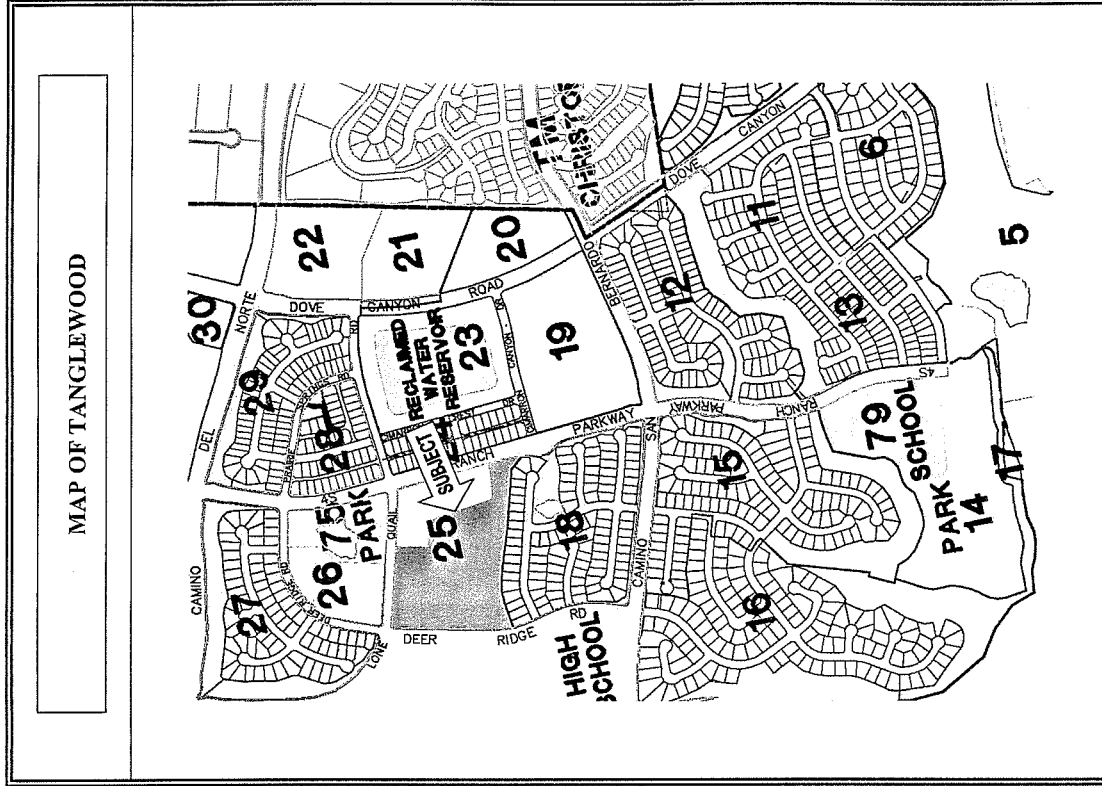
95 homes @ \$625,000 = \$59,375,000

### Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Summerwood tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$59,370,000

(FIFTY-NINE MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS)



TANGLEWOOD (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the southeast corner of Lone Quail Rd. and Deer Ridge Rd., with the south portion extending east to 4S Ranch Parkway.

Record Owner/Ownership History

All of the 161 homes are now owned by separate homeowners. The original sales from the builder, William Lyon Homes, closed from December 2002 through December 2003, and there have been a number of resales over the past several years.

Legal Description

This tract comprises a portion of Lot 1 of County of San Diego Tract No. 5256-1, according to Map No. 14396.

Assessor Data-2004/05

The 161 lots comprising the subject property consist of Assessor Parcel Nos. 678-502-04-01 to 15, 678-502-05-01 to 16, 678-502-06-01 to 11, 678-502-07-01 to 16, 678-502-08-01 to 16, 678-502-09-01 to 12, 678-502-10-01 to 16, 678-502-11-01 to 16, 678-502-12-01 to 11, 678-502-13-01 to 16, 678-502-14-01 to 16. The assessed values range from \$266,663 to \$558,900 or an average of \$394,090. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract contains a total of 161 lots in a condominium-type subdivision. The lot sizes range from 2,350 s.f. to 2,750 s.f.

Existing Development

These lots were developed in 2002 and 2003 with a tract of 161 detached homes called Tanglewood at 4S Ranch. There are four floor plans and the number and description of each plan is as follows:

Plan 1 (32): 1,310 s.f., two-story, with 2 bedrooms, den or optional bedroom 3, 2½ baths and 2-car garage.

Plan 2 (40): 1,410 s.f., two-story, with 3 bedrooms, 2½ baths and a 2-car garage.

PROPERTY DATA, Continuing

Plan 3 (46): 1,581 s.f., two-story, with 2 bedrooms, den or optional bedroom 3, 2½ baths and a 2-car garage.

Plan 4 (43): 1,690 s.f., two-story, with 3 bedrooms, loft or optional bedroom 4, 2½ baths and a 2-car garage.

VALUATION

Method of Analysis

This is the same as for the previous tracts.

Analysis of 161 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	9915 Fieldhorn	4/22/05	\$555,000	1,310	Plan 1; upgraded kitchen & flooring;
2	9740 Fieldhorn	8/2/05	\$553,500	1,310	Plan 1; spa; interior upgrades
3	9871 Fieldhorn	5/27/05	\$600,000	1,410	Plan 2; significant interior upgrades
4	9857 Fieldhorn	6/29/05	\$565,000	1,410	Plan 2; upgraded cabinets/counters
5	10002 Fieldhorn	8/4/05	\$595,000	1,410	Plan 2; upgraded flooring
6	10030 Fieldhorn	8/31/05	\$565,000	1,410	Plan 2; upgraded flooring/cabinetry;
7	9957 Fieldhorn	Escrow	\$539,900- \$575,900	1,410	Plan 2; interior upgrades
8	9921 Fieldhorn	Escrow	\$595,000	1,410	Plan 2; upgraded int./ext./yards
9	10015 Fieldhorn	4/19/05	\$585,000	1,581	Plan 3; upgraded flooring
10	9748 Fieldhorn	5/2/05	\$625,000	1,581	Plan 3; corner lot; interior upgrades
11	9809 Fieldhorn	6/30/05	\$623,000	1,581	Plan 3; former model home; builder upgrades
12	16570 Gettysburg	8/30/05	\$625,000	1,581	Plan 3; some upgrades
13	10010 Fieldhorn	5/19/05	\$649,900	1,690	Plan 4; larger lot; upgrd floors/counters
14	16582 Gettysburg	6/30/05	\$639,000	1,690	Plan 4; interior upgrades; larger lot;
15	10023 Fieldhorn	8/30/05	\$659,900	1,690	Plan 4; larger lot; upgraded carpet
16	16533 Gettysburg	Escrow	\$649,900- \$669,900	1,690	Plan 4; listed 4/20/05 at \$735,000; larger lot; interior/exterior upgrades



# VALUATION, Continuing

This data indicates the overall price range of \$539,900 to \$659,900, or an average of ±\$602,000, if taking the low end indicated by the two current escrows. It is noted that the data includes a mix of all floor plans, with the fewest of Plan 1 but the greatest number being Plan 2. Thus, the average pricing is fairly representative of the unit mix in the tract. It is also noted that most of the closed sales are fairly recent, being from mid-April through late August, thus limited upward time adjustments would be necessary.

In summary, I have concluded on a conservative average value at \$575,000, as follows:

$$161 \text{ homes} @ \$575,000 = \$92,575,000$$

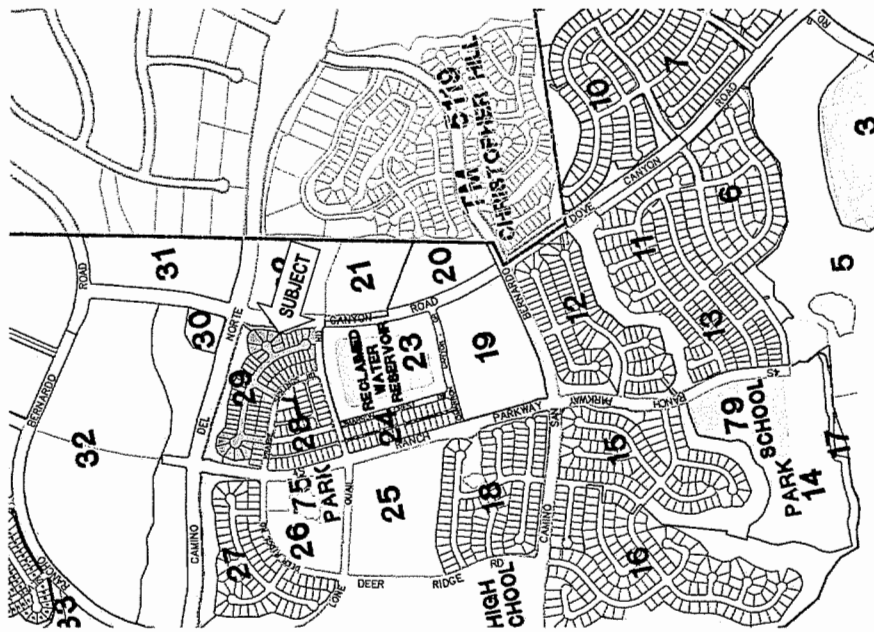
## Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Tanglewood tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$92,570,000

(NINETY-TWO MILLION FIVE HUNDRED SEVENTY THOUSAND DOLLARS)

# MAP OF CEDAR CREEK



CEDAR CREEK (D.R. HORTON)

PROPERTY DATA

Location

This tract is located in the area bounded by Camino Del Norte at the north, 4S Ranch Parkway at the west, Dove Canyon Rd. at the east, and Prairie Springs Rd. and Lone Quail Rd. along the southerly side.

Record Owner/Ownership History

All of the 80 homes are now owned by separate homeowners. The original sales from the builder, D.R. Horton, closed from May 2001 through mid 2002, and there have been a number of resales over the last several years.

Legal Description

This tract comprises Lots 79 through 158 of County of San Diego Tract No. 5067-2, according to Map No. 13988.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-540-02 to 41 and 678-541-01 to 40. The assessed values range from \$424,864 to \$624,684, or an average of \$500,428. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 80 lots. The minimum lot size is 4,200 s.f., or ±42' by 100'.

Existing Development

These lots were developed in 2001 and 2002 with a tract of 80 homes called Cedar Creek at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan 1 (20): 2,156 s.f., two-story, with 3 bedrooms, family room, breakfast nook, 2½ baths, and 2-car garage with optional loft in lieu of bedroom 2.

Plan 2 (29): 2,344 s.f., two-story, with 3 bedrooms, family room, breakfast nook, 2½ baths, and 2-car garage with options of master retreat or loft in lieu of bedroom 3.

Plan 3 (31): 2,712 s.f., two-story, with 4 bedrooms, family room, breakfast nook, 3 baths and 2-car garage with optional den and powder in lieu of bedroom 4 and bath 3.

VALUATION

Method of Analysis

This is the same as for the previous tracts.

Analysis of 80 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	10213 Prairie Fawn	11/5/04	\$650,000	2,156	Plan 1; some interior/exterior upgrades
2	10274 Prairie Springs	11/19/04	\$665,000	2,156	Plan 1; interior upgrades; corner lot
3	10269 Prairie Fawn	7/18/05	\$737,900	2,156	Plan 1; exterior and interior upgrades
4	10261 Prairie Fawn	1/31/05	\$710,000	2,344	Plan 2; some interior upgrades
5	16757 Cimarron Crest	3/3/05	\$720,000	2,344	Plan 2; corner lot; some int. upgrades
6	10114 Prairie Springs	5/27/05	\$753,000	2,344	Plan 2; former model
7	16758 Cimarron Crest	5/31/05	\$745,000	2,344	Plan 2; larger lot; interior upgrades
8	10228 Prairie Fawn	10/22/04	\$765,000	2,712	Plan 3; spa; interior/exterior upgrades
9	10151 Prairie Fawn	10/29/04	\$734,100	2,712	Plan 3; upgraded floors/cabinets/entrs
10	10250 Prairie Springs	3/29/05	\$789,000	2,712	Plan 3; upgraded floors/counters
11	10277 Prairie Fawn	7/8/05	\$800,000	2,712	Plan 3; interior and exterior upgrades

This data indicates the overall price range of \$650,000 to \$800,000, or an average of ±\$734,000. It is noted that the data includes a mix of all floor plans, with a greater number of Plan 2 and 3, which is similar to the overall unit mix in the tract. Thus, the average pricing would be fairly representative for the tract from this factor.

However, it is also noted that 7 of the 11 sales took place from 5 to 10 months ago, thus they would tend to be conservative at current date and an upward time adjustment would be supportable. This is evident by the four most recent sales, closed in May and July 2005, that indicated the higher prices for all three of the floor plans, and the two most recent sales from July 2005 being the highest prices for Plans 1 and 3. The four most recent sales indicate the price range of \$737,900 to \$800,000 or an average of \$759,000, and there could still be minor upward time adjustments to these four sales.

In summary, I have concluded on a conservative average value at \$740,000, as follows:

80 homes @ \$740,000 = \$59,200,000

## Conclusion of Value

**\$59,200,000**

(FIFTY-NINE MILLION TWO HUNDRED TWO THOUSAND DOLLARS)



AMHERST (BROOKFIELD HOMES)

PROPERTY DATA

Location

This tract is located at the northeast and southeast corners of 4S Ranch Parkway and Lone Quail Rd. The north site extends north and east to Prairie Springs Rd. and the south site extends east to Cimarron Crest Dr. and south to Cimarron Canyon Dr.

Record Owner/Ownership History

All of the 80 lots are now owned by separate homeowners. The original sales from the builder, Brookfield Homes, closed from April 2002 through the end of that year, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Lots 641 through 686 of County of San Diego Tract No. 5067-7, according to Map No. 14171, and Lots 690 through 723 of County of San Diego Tract No. 5067-8, according to Map No. 14172.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-580-01 to 46 and 678-590-01 to 34. The assessed values range from \$468,995 to \$675,000, or an average of \$528,683. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 80 lots. The minimum and typical lot size is 5,250 s.f., or ±50' by 105'.

Existing Development

These lots were developed in 2002 with a tract of 80 homes called Amherst at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan One (Provenance) [24]: 2,901 s.f., two-story, with 5 bedrooms, family room, breakfast nook, 3 baths and 3-car tandem garage, with options of office and master retreat.

Plan Two (Andover) [29]: 3,169 s.f., two-story, with 5 bedrooms, family room, breakfast nook, 3 baths and 3-car tandem garage, with options of office, retreat, bath 4, and master sitting room.

PROPERTY DATA, Continuing

Plan Three (Carolina) [27]: 3,377 s.f., two-story, with 6 bedrooms, family room, breakfast nook, 3 baths and 3-car tandem garage, with options of retreat, teen room, and bath 4.

VALUATION

Method of Analysis

This is the same as for the previous tracts.

Analysis of 80 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16612 Cimarron Crest	11/15/04	\$805,000	2,901	Plan 1; well upgraded interior
2	16520 Cimarron Crest	1/19/05	\$855,000	3,112	Plan 1 w/ master retreat; upgrd. flooring
3	16551 4S Ranch Pkwy	6/15/05	\$896,551	3,112	Plan 1 w/ master retreat; corner lot; interior/exterior upgrades
4	16599 4S Ranch Pkwy	3/22/05	\$869,000	3,322	Plan 2 w/ master sitting room; spa; highly upgraded interior/exterior
5	16563 4S Ranch Pkwy	12/10/04	\$802,000	3,444	Plan 3 w/ bed 5 & bath 4; upgraded flooring/cabinetry/counters
6	10253 Prairie Springs	Escrow	\$925,000- \$995,000	3,444	Plan 3 w/ bed 5 & bath 4; listed 7/29/05; former model home

This data indicates the overall price range of \$802,000 to \$925,000, or an average of ±\$859,000, taking the low end of the range indicated by the current escrow. It is noted that the data includes a greater number of Plan 1, in contrast to the unit mix of the tract with a greater number each of Plan 2 and 3 than of Plan 1. Thus, the average pricing from the sales would tend to be on the low side relative to the unit mix in the tract.

It is also noted that all of the closed sales took place from 2½ to 9½ months ago, thus there could be at least minor upward time adjustments to four of the closed sales. This is also evident by the current escrow which indicates the highest price of all of the sales data.

In summary, I have concluded on a conservative average value at \$850,000, as follows:

80 homes @ \$850,000 = \$68,000,000

### Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Amherst tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$68,000,000

(SIXTY-EIGHT MILLION DOLLARS)



HOMESTEAD (FIELDSTONE COMMUNITIES)

PROPERTY DATA

Location

This tract is located at the northwest corner of 4S Ranch Parkway and Camino San Bernardo, extending west to Deer Ridge Rd.

Record Owner/Ownership History

All of the 103 homes are now owned by separate homeowners. The original sales from the builder, Fieldstone Communities, closed from November 2001 and thereafter, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Lots 161 through 263 of County of San Diego Tract No. 5067-3, according to Map No. 13989.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-530-01 to 16, 18 to 38 and 41, and 678-531-01, 04, 10 to 22, 24, 26 to 65, 68 to 72 and 73 to 76. The assessed values range from \$132,360 to \$700,844 or an average of \$559,819. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 103 lots. The minimum lot size is 5,040 s.f., or ±56' by 90'.

Existing Development

These lots were developed in 2001 and 2002 with a tract of 103 homes called Homestead at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan 2860 (26): 2,860 s.f., two-story, with 3 bedrooms, 3 baths, large loft, and 3-car garage, with optional 4<sup>th</sup> bedroom in lieu of 3<sup>rd</sup> car garage, and optional deck off master bedroom.

Plan 3296 (52): 3,296 s.f., two-story, with 5 bedrooms, 3 baths, large loft, and tandem 3-car garage, with optional 6<sup>th</sup> bedroom with additional full bath, optional den, and optional deck off master bedroom.

PROPERTY DATA, Continuing

Plan 3300 (25): 3,300 s.f., two-story, with 4 bedrooms plus office/den including master retreat, 3 baths, large loft, tandem 3-car garage, with optional 5<sup>th</sup> bedroom and optional deck off master bedroom.

VALUATION

Method of Analysis

This is the same as for previous tracts.

Analysis of 103 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	9819 Deer Ridge	12/8/04	\$897,500	3,296	Plan 2; well upgraded interior; well landscaped
2	9944 Fox Valley	7/25/05	\$885,000	3,296	Plan 2; upgraded flooring; well landscaped
3	9823 Fox Valley	12/8/04	\$885,000	3,300	Plan 3; larger lot; pool/spa/BBQ; highly upgraded

These three sales indicate the close range of \$885,000 to \$897,500, or an average of \$89,000. It is noted that there were no Plan 1 sales, thus these sales are skewed toward the two larger floor plans. However, it is also noted that two of these sales took place last December, thus there could be at least a minor upward time adjustment to these sales, though this is not evident by Sale No. 2 which is more recent but at a lower price than Sale No. 1 for a Plan 2.

Due to the limited amount of recent resales activity in this tract, consideration is also given to analyses of other subject tracts, and recent home sales within those tracts. In that regard, the previous analysis of the Anherst tract (similar size homes on similar size lots) supports a close indication for the subject at an average of \$850,000; the later analysis of the Legacy tract (similar size homes on similar size lots) supports a close indication at an average of \$860,000; and the later analysis of the Cambridge tract supports a close but firm upper limit at an average of \$880,000 due to the similar size homes but on larger lots.

In summary, I have concluded on a conservative average value at \$850,000, as follows:

103 homes @ \$850,000 = \$87,550,000

VALUATION, Continuing

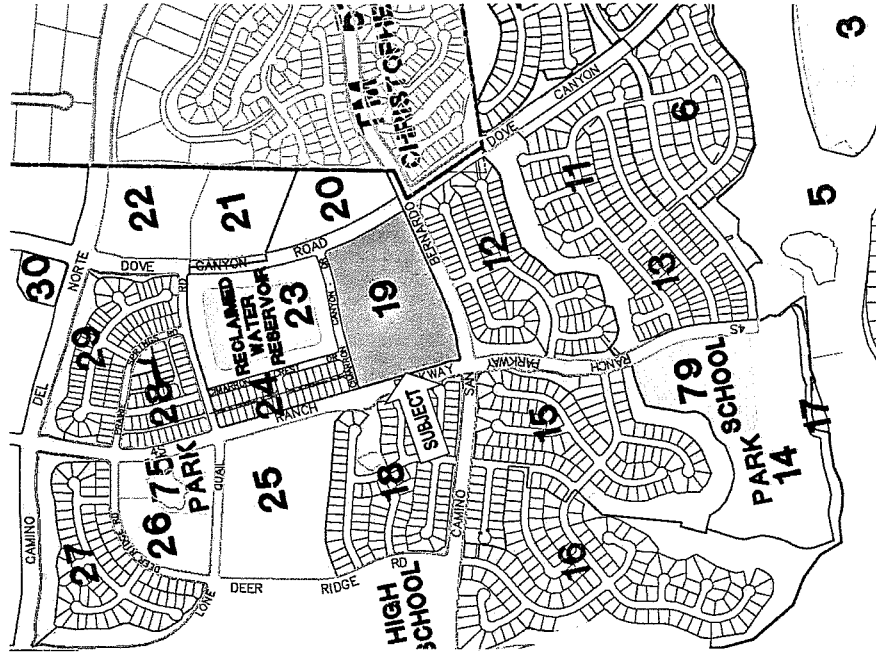
Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Homestead tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$87,550,000

(EIGHTY-SEVEN MILLION FIVE HUNDRED FIFTY THOUSAND DOLLARS)

MAP OF GARDEN GATE



GARDEN GATE (SEA COUNTRY HOMES)

PROPERTY DATA

Location

This tract is located in the block bounded by 4S Ranch Parkway at the west, Cimarron Canyon Rd. at the north, Dove Canyon Rd. at the east, and Camino San Bernardo at the south.

Record Owner/Ownership History

All of the 133 homes are now owned by separate homeowners. The original sales from the builder, Sea Country Homes, closed from December 2002 through the first quarter of 2003, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Residential Modules A through M of Lot 1 of County of San Diego Tract No. 5266-1, according to Map No. 14393.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-610-01-01 to 10, 678-610-02-01 to 10, 678-610-03-01 to 10, 678-610-04-01 to 10, 678-610-05-01 to 09, 678-610-06-01 to 10, 678-610-07-01 to 11, 678-610-08-01 to 10, 678-610-09-01 to 10, 678-610-10-01 to 10, 678-610-11-01 to 09, 678-610-12-01 to 11 and 678-610-13-01 to 13. The assessed values range from \$253,201 to \$532,754 or an average of \$433,602. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 14 net/pad acres, and contains a total of 133 lots in a condominium-type subdivision. The lot sizes range from ±2,700 s.f. to 3,700 s.f., with an average size of ±3,200 s.f.

Existing Development

These lots were developed in 2002 and 2003 with a tract of 133 detached homes called Garden Gate at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan J (39): 1,901 s.f., two-story, with 3 bedrooms, den, 2½ baths and 2-car garage with options of bedroom 4 and bath 3.

PROPERTY DATA, Continuing

Plan 2 (50): 2,082 s.f., two-story, with 3 bedrooms, loft, flex space, 3 baths and 2-car garage with options of master retreat, bedrooms 4 and 5, and bath 4.

Plan 3 (44): 2,271 s.f., two-story, with 4 bedrooms, breakfast nook, family room, 3 baths and 2-car garage with options of flex space at bedrooms 2 and 4.

VALUATION

Method of Analysis

This is the same as for previous tracts.

Analysis of 133 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16470 Camelas Walk	6/16/05	\$700,000	1,901	Plan 1; highly upgraded interior
2	16412 Camelas Walk	6/30/05	\$689,500	1,901	Plan 1; upgraded interior/exterior
3	16486 Camelas Walk	6/21/05	\$738,000	2,082	Plan 2; upgraded interior/exterior
4	16436 Camelas Walk	6/22/05	\$720,000	2,082	Plan 2; upgraded kitchen & flooring
5	16417 Sunstone	4/27/05	\$703,000	2,271	Plan 3; upgraded flooring/exterior
6	16428 Sunstone	6/30/05	\$736,000	2,271	Plan 3; upgraded interior/exterior

This data indicates the overall price range of \$689,500 to \$738,000, or an average of ±\$714,000. It is evident that there are an equal number of the Plan 1, 2 and 3 sales, thus the average pricing would tend to result in a conservative average since there are a greater number of each of the Plan 2 and 3 than of the Plan 1 in the overall tract.

It is also noted that most of the sales are fairly recent, with the closing dates in April and June 2005, thus minimal upward time adjustment would be supportable.

In summary, I have concluded on a conservative average value at \$700,000, as follows:

133 homes @ \$700,000 = \$93,100,000



VALUATION, Continuing

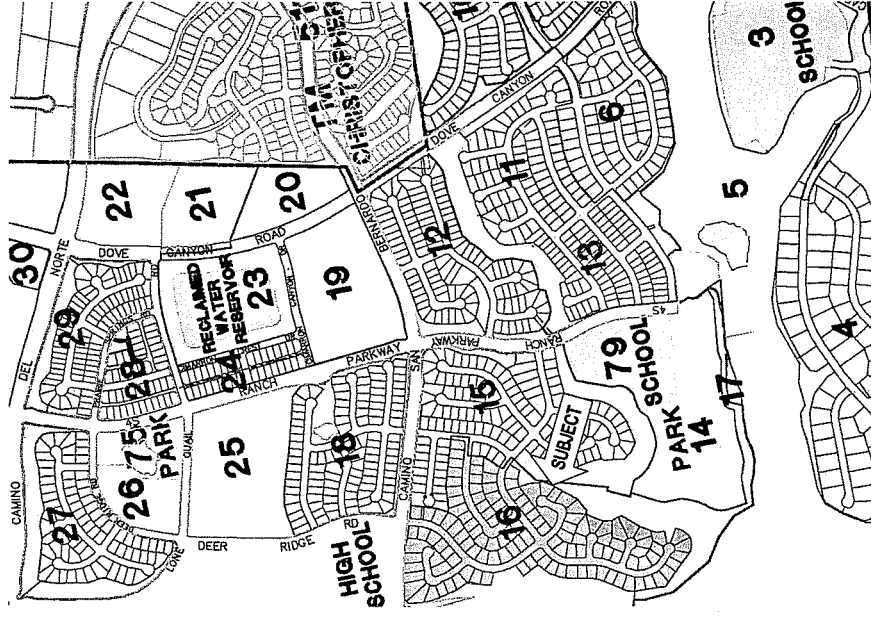
Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Garden Gate tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$93,100,000

(NINETY-THREE MILLION ONE HUNDRED THOUSAND DOLLARS)

MAP OF TALAVERA



TALAVERA (DAVIDSON COMMUNITIES)

PROPERTY DATA

Location

This tract is located on the south side of Camino San Bernardo, opposite Deer Ridge Rd.

Record Owner/Ownership History

All of the 126 homes are now owned by separate homeowners. The original sales from the builder, Davidson Communities, closed from February 2002 and thereafter, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Lots 268 to 393 and 395 of County of San Diego Tract No. 5067-4, according to Map No. 14105.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-550-01 to 18, 22 to 30, 36, 37, 39 and 40, 678-551-01 to 27, 678-552-01 to 34 and 678-553-01 to 35 (it is noted that one of the homes in this tract is comprised of two APNs). The assessed values range from \$588,689 to \$969,162 or an average of \$726,936. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 126 lots. The minimum lot size is 7,000 s.f., or ±70' by 100'.

Existing Development

These lots were developed in 2002 and 2003 with a tract of 126 homes called Talavera at 4S Ranch. There are four floor plans and the number and description of each plan is as follows:

Residence One (25): 3,451 s.f., two story, with 4 bedrooms, 3½ baths, den and bonus room (optional 5<sup>th</sup> bedroom), and tandem 3-car garage.

Residence Two (34): 3,780 s.f., two story, with 4 bedrooms, 4½ baths, with den and bonus room (optional 5<sup>th</sup> and/or 6<sup>th</sup> bedrooms), and 3-car garage.

Residence Three (27): 3,870 s.f., two story, with 4 bedrooms, 4½ baths, hobby room and bonus room (optional 5<sup>th</sup> and/or 6<sup>th</sup> bedrooms), and 3-car garage.

PROPERTY DATA, Continuing

Residence Four (40): 4,053 s.f., two story, with 5 bedrooms, 4½ baths, tech-study room (optional 6<sup>th</sup> bedroom), and 3-car garage.

VALUATION

Method of Analysis

This is the same as for the previous tracts.

Analysis of 126 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16285 Deer Ridge	12/13/04	\$975,000	3,451	Plan 1; pool & spa; upgraded interior
2	9746 Wren Bluff	8/5/05	\$1,055,000	3,780	Plan 2; spa; well upgraded int./ext.
3	9745 Wren Bluff	8/26/05	\$1,092,000	3,780	Plan 2; spa; highly upgraded int./ext.
4	9767 Deer Trail	6/23/05	\$1,097,000	3,870	Plan 3; larger lot; upgraded flooring/kitchen
5	9704 Wren Bluff	8/19/05	\$999,999	3,870	Plan 3; well upgraded interior
6	9612 Deer Trail	6/30/05	\$1,310,000	4,053	Plan 4; large lot; view; pool & spa; upgraded flooring/kitchen; new paint
7	16324 Deer Ridge	12/20/04	\$1,135,000	4,182	Plan 4 w/ downstairs suite; large lot; limited view; interior upgrades

This data indicates the overall price range of \$975,000 to \$1,310,000 or an average of ±\$1,095,000. It is noted that the data includes a mix of all floor plans, and a fairly similar mix to the overall mix of plans in the tract when considering that the tract has a greater percentage of each of Plans 2, 3 and 4 than of Plan 1. Thus, the average pricing is fairly representative when considering this factor.

It is also noted that two of the sales took place last December, thus there could be at least a minor upward time adjustment to those sales. This is evident by the lower price for the Plan 4 by the December 2004 sale than by the June 2005 sale, particularly since the December sale is slightly larger due to an option, and it also has a partial view.

Lastly, it is noted that these homes are fairly similar in size to the previous Ryland Heritage tract, but on larger lots of 7,000 s.f. minimum in contrast to 6,000 s.f. minimum for Ryland Heritage. Thus, the conclusion for Ryland Heritage at an average value of \$1,050,000 would tend to support a close but firm lower limit for this subject tract.

**VALUATION, Continuing**

In summary, I have concluded on a conservative average value at \$1,075,000, as follows:

126 homes @ \$1,075,000 = \$135,450,000

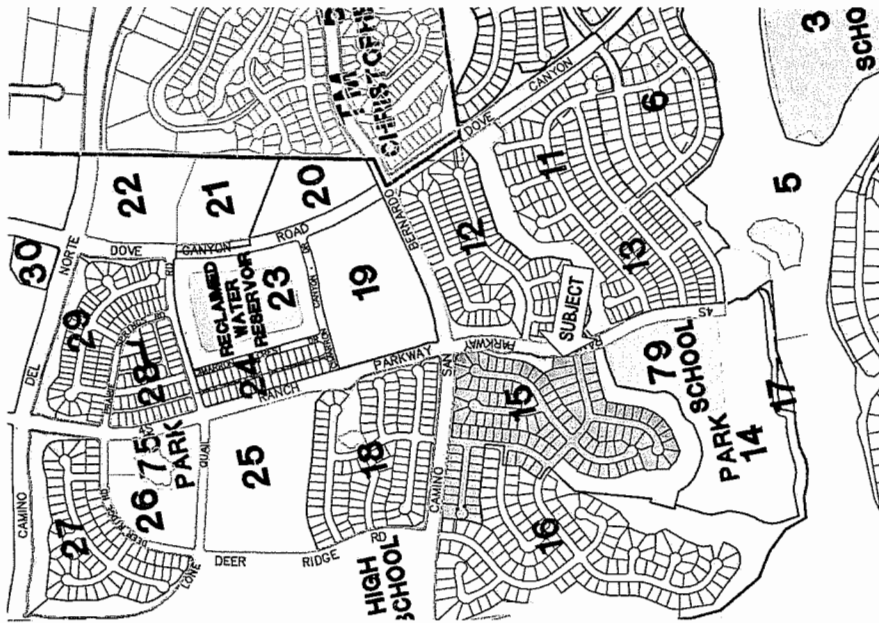
**Conclusion of Value**

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Talavera tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$135,450,000

(ONE HUNDRED THIRTY-FIVE MILLION  
FOUR HUNDRED FIFTY THOUSAND DOLLARS)

**MAP OF PROVIDENCE**



PROVIDENCE (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the southwest corner of 4S Ranch Parkway and Camino San Bernardo.

Record Owner/Ownership History

All of the 123 homes are now owned by separate homeowners. The original sales from the builder, William Lyon Homes, closed from December 2001 and thereafter, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Lots 398 through 520 of County of San Diego Tract No. 5067-5, according to Map No. 14106.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-560-01 to 33, 678-561-01 to 29, 32-45, 49 and 50, and 678-562-01 to 45. The assessed values range from \$158,046 to \$843,407 or an average of \$654,153. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 123 lots. The minimum lot size is 6,000 s.f., or ±60' by 100'.

Existing Development

These lots were developed in 2001 through 2003 with a tract of 123 homes called Providence at 4S Ranch. There are four floor plans and the approximate number and description of each plan is as follows:

Plan 1 (Ashby) [±21]: 3,412 s.f., two story, with 4 bedrooms, bonus room, 2½ baths, and 3-car garage.

Plan 2 (Bristol) [±27]: 3,472 s.f., two story, with 4 bedrooms, den, bonus room, 3 baths, and 3-car garage.

Plan 3 (Durham) [±35]: 3,652 s.f., two story, with 3 bedrooms, den, retreat, 2½ baths, and 3-car garage.

PROPERTY DATA, Continuing

Plan 4 (Windsor) [±40]: 3,839 s.f., two story, with 4 bedrooms, loft, retreat, 3½ baths, and 3-car garage.

VALUATION

Method of Analysis

This is the same as for the previous tracts.

Analysis of 123 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	9810 Deer Trail	6/1/05	\$1,030,000	3,472	Plan 2; pool & spa on large lot; highly upgraded
2	16220 Deer Trail	6/9/05	\$1,112,500	3,472	Plan 2; large lot; highly upgraded; view
3	16323 Pinto Ridge	4/28/05	\$985,000	3,572	Plan 1 w/ bed 6; some upgrades
4	16316 Pinto Ridge	8/31/05	\$1,140,000	3,977	Plan 3 w/ bed 6; large lot w/ pool & spa; interior upgrades
5	16290 Pinto Ridge	8/31/04	\$1,076,000	3,839	Plan 4; highly upgraded

This data indicates the overall price range of \$1,030,000 to \$1,140,000 or an average of ±\$1,069,000. It is noted that the data includes a mix of all floor plans, though none of the base Plan 1 with 3,412 s.f. This data also has a greater percentage of Plan 2 sales, though the unit mix of the overall tract is far more Plan 3 and 4 than Plan 1 and 2. Thus, the average pricing would tend to be conservative due to this factor.

It is also noted that the only Plan 4 sale took place about a year ago, thus there could be a significant upward time adjustment to that price. In addition, three of the other sales closed 3 to 4 months ago and would have been negotiated at least a month prior, thus there could be at least minor upward time adjustments to these sale prices.

Lastly, the previous analysis of the Ryland Heritage tract (slightly larger homes on similar size lots) would tend to support an upper limit at an average of \$1,050,000; the prior analysis of the Talavera tract (slightly larger homes on larger lots) would support an upper limit at an average of \$1,075,000; and the later analysis of the Canyon Ridge tract (smaller homes on similar size lots) supports a lower limit at an average of \$925,000.

VALUATION, Continuing

In summary, I have concluded on a conservative average value at \$1,030,000, as follows:

123 homes @ \$1,030,000 = \$126,690,000

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Providence tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$126,690,000

(ONE HUNDRED TWENTY-SIX MILLION  
SIX HUNDRED NINETY THOUSAND DOLLARS)

MAP OF LEGACY



LEGACY (CHRISTOPHER HOMES)

PROPERTY DATA

Location

This tract is located along the south side of Camino San Bernardo, from 4S Ranch Parkway to Dove Canyon Rd.

Record Owner/Ownership History

All of the 108 homes are now owned by separate homeowners. The original sales from the builder, Christopher Homes, closed from July 2002 through October 2003, and there have been a number of resales over the past several years.

Legal Description

This tract comprises Lots 527 through 634 of County of San Diego Tract No. 5067-6, according to Map No. 14170.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-570-01 to 28, 678-571-01 to 31 and 678-572-01 to 49. The assessed values range from \$507,297 to \$735,600 or an average of \$589,330. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The effective tax rate including special taxes for the CFD was ±1.5% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 108 lots. The minimum lot size is 5,000 s.f., or ±50' by 100'.

Existing Development

These lots were developed in 2002 and 2003 with a tract of 108 homes called Legacy at 4S Ranch. There are four floor plans and the number and description of each plan is described as follows:

Residence One (12): 2,829 s.f., two story, with 3 bedrooms and loft (optional 4<sup>th</sup> bedroom), 2½ baths, and 2-car garage plus storage area or optional den/office at storage area.

Residence Two (32): 2,886 s.f., two story, with 4 bedrooms plus loft, 3 baths, and 3-car garage, with optional super family room at bedroom 4 and optional bedroom 5 and bath 4 at loft.

Residence Three (36): 2,987 s.f., two story, with 5 bedrooms plus loft, 4 baths and 3-car garage, with optional den at bedroom 5.

PROPERTY DATA, Continuing

Residence Four (28): 3,288 s.f., two story, with 4 bedrooms and bonus room, 3½ baths and 3-car tandem garage, with optional expanded bedroom 4 at tandem garage.

VALUATION

Method of Analysis

This is the same as for previous tracts.

Analysis of 108 Completed-Sold Homes

The pertinent sales are tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16272 Lone Bluff	10/4/04	\$800,000	2,886	Plan 2; upgraded kitchen
2	10183 Lone Bluff	11/19/04	\$800,000	2,886	Plan 2; fairly typical
3	10134 Lone Bluff	7/11/05	\$935,000	2,886	Plan 2; large lot; some interior and exterior upgrades
4	10141 Lone Dove	7/25/05	\$850,000	2,959	Plan 1 w/ den; larger corner lot; well upgraded interior
5	16274 Lone Bluff	7/26/04	\$915,000	2,987	Plan 3; partial view
6	10257 Lone Bluff	6/10/05	\$910,000	2,987	Plan 3; upgraded kitchen/baths/floors
7	16227 Lone Bluff	8/11/05	\$910,000	3,288	Plan 4; large cul-de-sac lot; upgrades

This data indicates the overall price range of \$800,000 to \$935,000 or an average of ±\$874,000. It is noted that the data includes a mix of all floor plans, though none of the base Plan 1 with 2,829 s.f. This data also has a greater percentage of Plan 2 sales, though the unit mix of the overall tract is more Plan 3 and 4 than Plan 1 and 2. Thus, the average pricing would tend to be conservative due to this factor.

It is also noted that three of the sales closed in July 2004 through November 2004, with two of those sales being the lowest prices at \$800,000, both being Plan 2. Thus, upward time adjustments would be supportable to these prices, and the average of the sale prices would be on the low side due to this factor as well.

Lastly, the previous analyses of the Anherst and Homestead tracts (similar size homes on similar size lots) would tend to support a close lower limit at an average of \$850,000 due to the inferior view potential of those two tracts.

In summary, I have concluded on a conservative average value at \$860,000, as follows:

VALUATION, Continuing

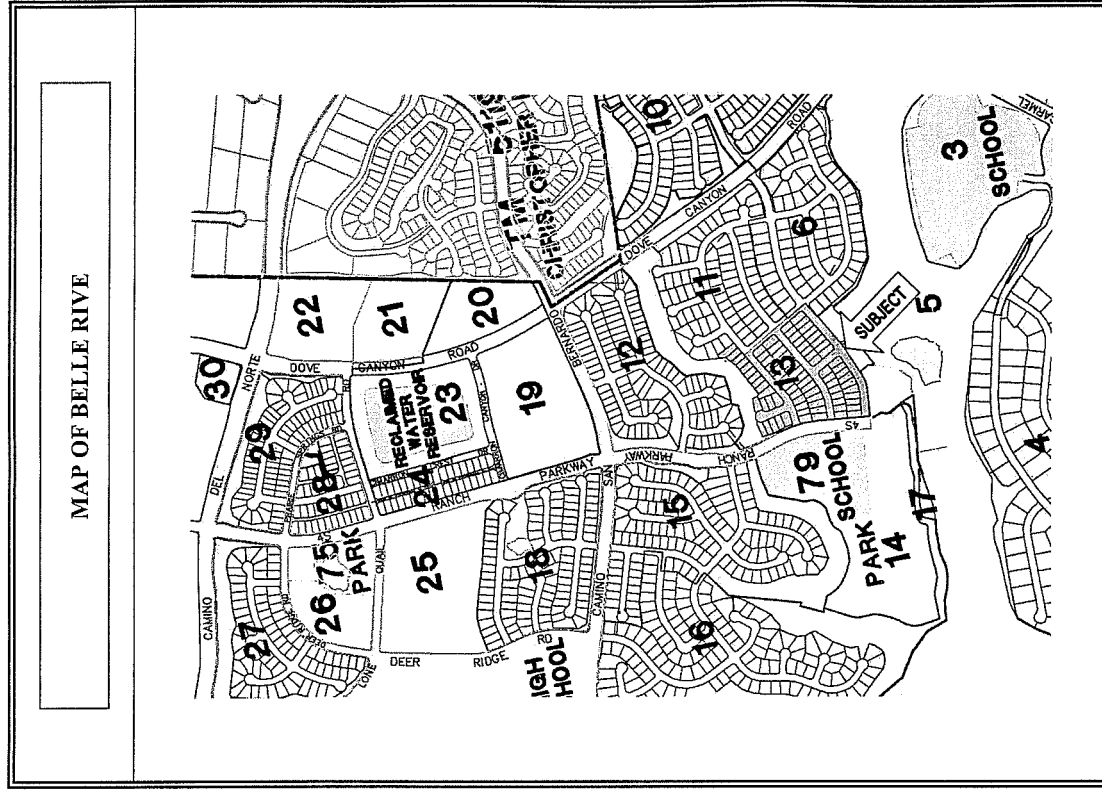
108 homes @ \$860,000 = \$92,880,000

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Legacy tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$92,880,000

(NINETY-TWO MILLION EIGHT HUNDRED EIGHTY EIGHT THOUSAND DOLLARS)



BELLE RIVE (BUIE COMMUNITIES)

PROPERTY DATA

Location

This tract is located along the east side of 4S Ranch Parkway, extending north from Dove Creek Rd.

Record Owner/Ownership History

All of the 82 homes are now owned by separate homeowners. The original sales from the builder, Buie Communities, closed from July 2003 through the second quarter of 2004, and there have been various resales over the past year and a half.

Legal Description

The 82 lots comprising this tract consist of Lots 1 to 82 of County of San Diego Tract No. 5216-1 according to Map No. 14431.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 312-261-01 to 31, 312-262-01 to 02 and 312-260-01 to 49. The assessed values range from \$191,687 to \$587,300 or an average of \$451,479. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.9% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 82 lots. The minimum lot size is 4,500 s.f., or ±45' by 100'.

Existing Development

These lots were developed in 2003 and 2004 with a tract of 82 homes called Belle Rive at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan 1 (The Loire) [26]: 2,264 s.f., two-story, with 3 bedrooms, loft, 2½ baths and 3-car tandem garage with options of master retreat, den and bedrooms 4 and 5.

Plan 2 (The Rhone) [27]: 2,865 s.f., two-story, with 3 bedrooms, loft, den, 3 baths and 3-car tandem garage with options of bedrooms 4, 5 and 6.

Plan 3 (The Seine) [29]: 3,047 s.f., two-story, with 5 bedrooms, 3 baths and 3-car garage with options of master retreat, loft, den and bedroom 6.

VALUATION

Method of Analysis

This is the same as for previous tracts.

Analysis of 82 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	15068 Dove Creek	5/16/05	\$815,000	2,482	Plan 1 w/ den; upgraded flooring/kit.
2	15026 Dove Creek	7/26/04	\$810,000	2,865	Plan 2; upgraded kitchen & flooring
3	16219 Palomino Mesa	4/7/05	\$825,000	2,865	Plan 2; typical
4	15050 Dove Creek	6/29/05	\$680,000	3,016	Plan 2 w/ bed 6; upgraded interior
5	16208 Palomino Mesa	10/13/04	\$810,000	3,047	Plan 3; large corner lot
6	15003 Cross Stone	8/24/05	\$935,000	3,248	Plan 3 w/ den

This data indicates the overall price range of \$810,000 to \$935,000 or an average of ±\$846,000. It is noted that the data includes a mix of all floor plans, though a greater percentage of Plan 2 and 3 sales, and the overall unit mix of the tract is fairly even among the three floor plans. In addition, the only Plan 1 sale includes the den option, thus is the expanded size, and there were no sales of the base size of the Plan 1. Thus, the average pricing would tend to be slightly high due to this factor.

However, it is noted that two of the sales closed in July 2004 and October 2004, and the more recent sales of those plans indicate higher prices. Thus, upward time adjustments would be supportable to these prices, and the average of the sale prices would be on the low side due to this factor.

Lastly, the previous analysis of the Cedar Creek tracts (smaller homes on smaller lots) would support a far lower limit at an average of \$740,000; but the previous analyses of the Anherst, Homestead and Legacy tracts would support firm upper limits at averages of \$850,000 to \$860,000 due to the larger homes on larger lots.

In summary, I have concluded on a conservative average value at \$825,000, as follows:

82 homes @ \$825,000 = \$67,650,000



VALUATION, Continuing

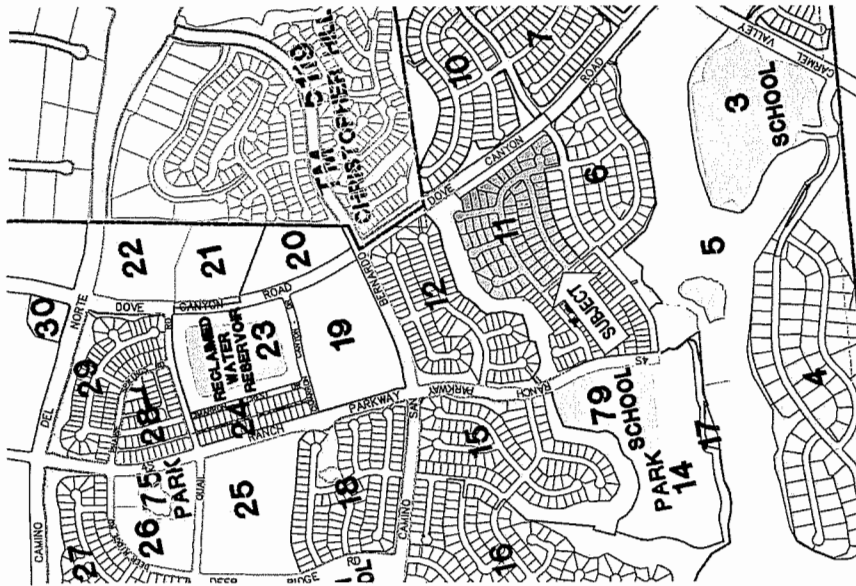
Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Belle Rive tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$67,650,000

(SIXTY-SEVEN MILLION SIX HUNDRED FIFTY THOUSAND DOLLARS)

MAP OF CANYON RIDGE



CANYON RIDGE (CENTEX HOMES)

PROPERTY DATA

Location

This tract is located along the west side of Dove Canyon Rd., extending north from Dove Creek Rd.

Record Owner/Ownership History

All of the 75 homes are now owned by separate homeowners. The original sales from the builder, Centex Homes, closed from March 2003 through the first quarter of 2004, and there have been several resales over the past year and a half.

Legal Description

This tract comprises Lots 83 through 157 of County of San Diego Tract No. 5216-1, according to Map No. 14431.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 312-262-03 to 45 and 312-263-01 to 32. The assessed values range from \$199,875 to \$860,250 or an average of \$638,586. The tax rate area is 64-105 with a current base tax rate of ±1.01%. The overall tax rate including special taxes for the CFD was ±1.9% at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 75 lots. The minimum lot size is approximately 6,300 s.f., or ±60' by 105'.

Existing Development

These lots were developed in 2003 and 2004 with a tract of 75 homes called Canyon Ridge at 4S Ranch. There are three floor plans and the approximate number and description of each plan is as follows:

Residence 1 (±21): 3,137 s.f., two-story, with 4 bedrooms, family room, breakfast nook, 2½ baths and 3-car tandem garage with options of loft, media room, and bath 3.

Residence 2 (±25): 3,382 s.f., two-story, with 3 bedrooms, loft, den, family room, breakfast nook, 3 baths and 3-car garage with options of office, bedroom 4 and 5.

Residence 3 (±29): 3,800 s.f., two-story, with 4 bedrooms, loft, super family room, breakfast nook, 3½ baths and 3-car garage with options of master retreat, bunk room, bedrooms 5 & 6, and bath 4.

VALUATION

Method of Analysis

This is the same as for previous tracts.

Analysis of 75 Completed-Sold Homes

The pertinent sales data is tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	15146 Cross Stone	Escrow	\$875,000-\$925,000	3,137	Plan 1; upgraded interior/exterior
2	15128 Cross Stone	6/23/04	\$965,000	3,382	Plan 2; highly upgraded interior and back yard
3	15170 Cross Stone	8/25/05	\$909,500	3,382	Plan 2; some interior upgrades
4	15122 Cross Stone	8/11/04	\$922,500	3,800	Plan 3; never lived in; not upgraded or landsc.
5	15177 Cross Stone	4/5/05	\$990,000	3,800	Plan 3; highly upgraded
6	16202 Dapple Gray	8/15/05	\$960,000	3,800	Plan 3; larger corner lot; interior upgrades

This data indicates the overall price range of \$875,000 to \$990,000 or an average of ±\$937,000, if taking the low end of the range indicated by the current escrow. It is noted that the data includes a mix of all floor plans, though a greater percentage of Plan 2 and 3 sales, and the overall unit mix of the tract is more even among the three floor plans. Thus, the average pricing would tend to be slightly high due to this factor.

However, it is noted that two of the sales closed in June 2004 and August 2004, and one indicated a relatively high price due to the significant upgrades, but the other sale indicated a low price due to the date as well as no upgrades. Considering that there could be upward time adjustments to at least 2 or 3 of the closed sales, the average of the sale prices would be on the low side due to this factor.

Lastly, the previous analysis of the Legacy tract would support a far lower limit at an average of \$860,000 due to the smaller homes on smaller lots, and the previous analysis of the Providence tract would support a firm upper limit at an average of \$1,030,000 due to the larger homes though on similar size lots.

In summary, I have concluded on a conservative average value at \$925,000, as follows:

75 homes @ \$925,000 = \$69,375,000

VALUATION, Continuing

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Canyon Ridge tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$69,370,000

(SIXTY-NINE MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS)

MAP OF PALOMINO



PALOMINO (K. HOVNANIAN HOMES)

PROPERTY DATA, Continuing

PROPERTY DATA

Planned Development/Status of Construction

Location

The north part of this tract is located on the west side of Dove Canyon Rd., along the north side and extending south from Dove Creek Rd.; and the south part of this tract is located on the southeast side of Carmel Valley Rd. at Winesprings Dr. It is also referred to as Planning Areas 2 and 6.

Record Owner/Ownership History

K. Hovnanian at 4S LLC (known by the builder name of K. Hovnanian Homes) acquired the vacant lots for this tract from 4S Kelwood General Partnership, with 37 lots closing in November 2002, 36 lots closing in July 2003, and the additional 24 lots closing in March 2005. The finished lots were estimated at \$230,000 for the first two takedowns, and at \$300,000 for the additional 24 lots. Through September 1, 2005 there had been 69 closed sales of completed homes from K. Hovnanian to various homeowners, which closed from July 2003 through April 2004 at prices ranging from \$649,333 to \$859,990; and K. Hovnanian still owns the balance.

Legal Description

The north part of this tract comprises Lots 158 through 230 of County of San Diego Tract No. 5216-1, according to Map No. 14431 recorded August 21, 2002; and the south part of this tract comprises Lots 496 to 519 of County of San Diego Tract No. 5216-3 according to Map No. 14978 recorded March 9, 2005.

Assessor Data-2004/05

The north part of this tract comprises Assessor Parcel Nos. 312-263-33 to 41, 312-264-01 to 43, 312-265-01 to 21, and the south part of this tract comprises Assessor Parcel No. 312-150-06. Assessed values for the parcels in the north part of the tract range from \$211,000 to \$921,365 or an average of \$664,545, reflecting one remaining vacant lot. Assessed values are not yet available for the lots in the south part of the tract. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to new homebuyers is projected to be 1.6% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This overall tract comprises a total of 97 lots, with 73 lots in the north part of the tract and 24 lots in the south part. The lots in the north part of the tract are  $\pm 7,500$  s.f. minimum ( $\pm 70\text{'-}75\text{'}$  by  $105\text{'-}110\text{'}$ ) and the lots in the south part of the tract are  $\pm 8,000$  s.f. minimum ( $\pm 70\text{'}$  by  $115\text{'}$ ).

These 97 lots are being developed with a tract of homes called Palomino at 4S Ranch. As of the September 1, 2005 date of value there were 69 completed-sold homes, 3 completed-unsold homes (models), and 25 homes under construction. Of the 25 homes under construction, 17 were an average of 50-60% completed and 8 were an average of 30-40% completed.

There are three floor plans which are described as follows:

Residence One: 4,152 s.f., two-story, with 4 bedrooms, bonus room, loft, parlor, family room, breakfast nook,  $3\frac{1}{2}$  baths, center courtyard and 4-car tandem garage with options of bonus room II, master suite II, den/office and bedroom 5.

Residence Two: 4,381 s.f., two-story, with 5 bedrooms, bonus room, family room, breakfast nook,  $4\frac{1}{2}$  baths and 4-car tandem garage with options of master retreat, super family room, bedroom 6 and bath 5.

Residence Three: 4,595 s.f., two-story, with 5 bedrooms, bonus room, den, family room, breakfast nook,  $4\frac{1}{2}$  baths and 4-car tandem garage with options of master retreat, theatre, bedroom 6, and office.

The pricing from Phase 6 that was released in July 2003 was \$754,990 to \$813,990 for Residence One, \$754,990 to \$846,990 for Residence Two and \$777,990 to \$859,990 for Residence Three, including premiums that ranged from \$15,000 to \$75,000. The base pricing for the last two sales releases in June and July 2005 was an average of  $\pm \$1,017,000$ , with total pricing including premiums and options from \$1,087,990 to \$1,175,990 for Residence One, \$1,169,990 to \$1,176,990 for Residence Two and \$1,220,990 for Residence Three. As of the September 1, 2005 date of value, all 97 homes had been released for sale with 69 closed sales, 24 in escrow and 4 available.

Title Report

A preliminary report by First American Title dated July 30, 2003 on the north part of the tract was reviewed. Exceptions to title include various easements for roads or utilities; agreements pertaining to fire protection, water and wastewater service, school impact mitigation and public benefits; lien for special taxes for CFD No. 6; and impact of AD No. 96-1 (Olivenhain Water Storage Project). This appraisal has assumed that none of the exceptions to title have a negative effect on the existing and planned development.

## VALUATION

### Method of Analysis

For the completed-sold homes, the analysis is similar to the previous analyses, except that the current pricing for the new homes in this tract is also considered. For the completed-unsold homes (models), the value of the completed-sold homes is considered, together with a potential discount for sales and holding costs, etc., to reflect being part of a bulk ownership, but offset by the significant model upgrades.

For the homes under construction, a simplified Cost Approach is used, in which the value is based on a conservative estimate of costs expended plus the estimated value of the vacant lot, as if in finished condition. 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 residential land or bulk lots from the general area in comparison to the subject property. Lastly, a deduction is made for the estimated remaining costs to the builder to get all of the lots from the as is near finished condition to finished lots.

### Analysis of Completed-Sold Homes

The actual sale prices for these 69 closed sales ranged from \$649,333 to \$859,990, though these sales closed about 1½ to 2 years ago, and the pricing would have been set some months prior to the closing. As previously indicated, the most recent base pricing was an average of \$1,017,000, and the pricing including lot premiums ranged from \$1,087,990 to \$1,220,990 or an average of \$1,166,000. It is noted that this average is skewed to the smaller floor plans and does not include buyer options and upgrades.

In addition, a search was made for resales of homes in this tract that have taken place during 2005. This data is shown in the following table:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16036 Palomino Valley	2/28/05	\$1,020,000	4,152	Plan 1; larger lot; interior upgrades
2	15167 Dove Creek	4/27/05	\$1,070,000	4,152	Plan 1; over \$200K in upgrades
3	16137 Palomino Valley	Escrow	\$1,075,000- \$1,149,000	4,152	Plan 1; interior and exterior upgrades
4	15137 Palomino Valley	4/7/05	\$1,200,000	4,381	Plan 2; highly upgraded interior
5	15132 Palomino Valley	Escrow	\$1,249,000- \$1,349,876	4,592	Plan 2 w/ super family room; \$1.50K in ext. upgrades incl. pool & spa
6	15144 Palomino Valley	6/30/05	\$1,200,000	4,595	Plan 3; interior well upgraded
7	15168 Palomino Valley	5/3/05	\$1,203,500	4,607	Plan 1 w/ 2 <sup>nd</sup> master suite; some interior/exterior upgrades

## VALUATION, Continuing

These recently closed resales and current escrows indicate an average price of ±\$1,145,000, using the lower end of the indications from the escrows. This is slightly lower than the average of ±\$1,166,000 from the most recent pricing for the new homes, but it is noted that the prices of the five closed resales would have been set ±3 to 7 months ago, and there would be an upward time adjustment since then. It is also noted that the average of ±\$1,166,000 from the new home pricing does not include buyer upgrades over and above the lot premiums and pre-plotted options by the builder. The completed-sold homes would include such upgrades as well as yard improvements that have been completed since the original purchase from the builder.

In summary, I have concluded on a conservative average value for these 69 completed-sold homes at \$1,150,000.

### Analysis of Completed-Unsold Homes

These homes consist of the 3 models. Initially, there could be a discount for sales and holding costs, etc., to reflect being part of the remaining bulk ownership of the builder. However, I have concluded that this is more than offset by the significant model upgrades. Thus, the conclusion is the same as for the completed-sold homes, or an average value of \$1,150,000.

### Analysis of Homes Under Construction

For the 17 homes that are ±50-60% completed, I have considered an average cost amount of 55% of ±\$60.00 per s.f. total costs or \$33.00 per s.f. on the average home size of ±4,380 s.f., or an amount of ±\$145,000. This is added to the estimated finished lot value of \$450,000, as discussed next, resulting in a total of \$595,000 as an average for these 17 homes.

For the 8 homes that are ±30-40% completed, an average cost amount of 35% of ±\$60.00 per s.f. total costs or \$21.00 per s.f. on the average home size of ±4,380 s.f. indicates an amount of ±\$92,000. This is added to the estimated finished lot value of \$450,000, resulting in a total of \$542,000 as an average for these 8 homes.

### Analysis of Finished Lot Value

This discussion refers to the Tabulation of Residential Land Sales in the Addenda section of this report.

**Sale No. 15** represents the purchase of the subject lots by K. Hovnanian that closed in March 2005 at a price based on \$300,000 per finished lot. However, it is noted that the price had been negotiated in mid-2003, but the closing was delayed due to delays in recording the tract map, and the price was not adjusted. The proforma home pricing as of the negotiation for the land sale was an average of \$765,000, and

as previously noted the current average base pricing is  $\pm \$1,017,000$ , which indicates an increase of 33%. However, it is also noted that the more recent land sales in 4S Ranch as well as in Del Sur reflect higher finished lot ratios than sales negotiated several years ago. Overall, considering an upward time adjustment of at least 40-50%, a current indication is at  $\pm \$435,000$  per finished lot, and this is conservative when considering the other land sales data.

**Sale Nos. 10, 11 and 12** are a recent closed sale and current escrows on 5,000 s.f. and 5,150 s.f. minimum lots in Neighborhood 3 of 4S Ranch at prices based on \$390,000 to \$400,000 per finished lot. These are far lower limits for the subject due to the smaller lots, resulting in the potential for smaller and lower-priced homes than the subject.

**Sale Nos. 13 and 14** were closed sales in March 2004 on two tracts of 6,300 s.f. minimum lots in Neighborhood 3 at prices based on \$350,000 per finished lot. Adjusting the prices upward for time by 20-25% results in current indications at  $\pm \$430,000$  per finished lot. Considering the smaller lot sizes than the subject, and also the slightly smaller and lower-priced homes that are being built on these lots, the indication at \$430,000 per finished lot supports a firm lower limit for the subject.

**Sale No. 16** was the sale of the  $\pm 15,000$  s.f. minimum lots (pad size) located nearby to the west of the subject, and for the Ivy Gate tract discussed later. This sale closed in March 2005 at a price based on \$350,000 per finished lot, but similar to the subject, the price was negotiated in mid-2003 and the closing of the sale was delayed with no adjustment to the price. Considering an upward time adjustment of at least 40%, a current indication is at \$490,000 per finished lot, and this supports a far upper limit for the subject due to the much larger lots.

**Sale No. 21** is located nearby to the west in the future master-planned community of Del Sur, and is a pending sale of 9,000 s.f. minimum lots at a price based on \$585,000 per finished lot. This supports a far upper limit for the subject due to the larger lots which are planned for larger and higher-priced homes.

In summary, on a finished lot basis, the data supports far lower limits at \$390,000 to \$400,000, a firm lower limit at \$430,000, a closer though conservative indication at \$435,000, and far upper limits at \$490,000 and \$585,000.

On the basis of a finished lot ratio, the data indicates the overall range from 32% to 52%. The low end of the range is a situation where the indicated proforma home pricing appears to be high, relative to other data and the current pricing. Thus, deleting this indication, the other data indicate the range from 39% to 52%, and the more recent data tend to indicate the mid to upper portion of the range. Considering the slightly greater risk of this subject property due to the relatively high-priced

homes, I have concluded on a finished lot ratio of 44-45%. Applying this to the current average base pricing of  $\pm \$1,017,000$ , the following indication results:

$$\$1,017,000 \times .44-.45 = \$447,480 \text{ to } \$457,650/\text{finished lot}$$

In summary, I have concluded on a value of \$450,000 per finished lot for the subject tract.

#### Deduction for Costs to get to Finished Lots

Information was not provided by K. Hovnanian Homes as to the remaining costs to get the subject lots from as is condition to finished lots. However, based on data from other tracts in this report, and considering that all building permits have been pulled thus all fees paid, I have concluded on a minor amount of remaining costs of \$10,000 per lot, applicable to only the south 24 lots. This results in a cost deduction of \$240,000, which I have rounded up to \$250,000.

#### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

69 completed/sold homes @ \$1,150,000 =	\$79,350,000
3 completed/unsold homes @ \$1,150,000 =	\$ 3,450,000
17 homes under construction @ \$595,000 =	\$10,115,000
8 homes under construction @ \$542,000 =	\$ 4,336,000
Less remaining costs to get to finished lots:	\$97,251,000
Value Indication, As Is Condition:	<u>250,000</u>
	\$97,001,000

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 Palomino tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$97,000,000  
(NINETY-SEVEN MILLION DOLLARS)

# MAP OF AVERY LANE



## AVERY LANE (PULTE HOMES)

### PROPERTY DATA

#### Location

This tract is located at the northeast corner of Dove Canyon Rd. and Dove Creek Rd., extending north and east to the northeasterly side of Catene Ridge Rd.

#### Record Owner/Ownership History

All of the 75 homes are now owned by separate homeowners. The original sales from the builder, Pulte Homes, closed from September 2003 through June 2004, and there has been one resale since the final builder closings.

#### Legal Description

The 75 lots comprising this tract consist of Lots 235 to 309 of County of San Diego Tract No. 5216-2 according to Map No. 14510.

#### Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 312-270-01 to 46 and 312-271-01 to 29. The assessed values range from \$209,500 to \$813,200 or an average of \$548,043. The tax rate area is 64-105 with a current base tax rate of  $\pm 1.01\%$ . The effective tax rate including special taxes for the CFD was  $\pm 1.9\%$  at the time of the original builder sales but is now somewhat lower.

#### No. of Lots/Lot Sizes

This tract comprises a total of 75 lots. The minimum lot size is approximately 6,300 s.f., or  $\pm 60'$  by  $105'$ .

#### Existing Development

These lots were developed in 2003 and 2004 with a tract of 75 homes called Avery Lane at 4S Ranch. There are three floor plans and the approximate number and description of each plan is as follows:

Residence One ( $\pm 20$ ): 3,390 s.f., two-story, with 3 bedrooms, master sitting area, bonus room, den, family room, breakfast nook,  $3\frac{1}{2}$  baths and 3-car tandem garage with options of bedrooms 4, 5 and 6, and baths 4 and 5.

Residence Two ( $\pm 25$ ): 3,678 s.f., two-story, with 5 bedrooms, loft, family room, breakfast nook,  $4\frac{1}{2}$  baths and 3-car tandem garage with options of media room, office, super family room and bedroom 6.

PROPERTY DATA, Continuing

Residence Three (#30): 3,843 s.f., two-story, with 5 bedrooms, master sitting area, loft, bonus room, family room, breakfast nook, 4½ baths and 4-car tandem garage with options of office, media room, bedrooms 6, 7 and 8.

VALUATION

Method of Analysis

This is the similar to previous tracts.

Analysis of 75 Completed-Sold Homes

Initially, it is noted that there has been only one closed resale since the original sales by the builder. This was a Plan 2 home at 16261 Cayenne Ridge Rd. that closed in July 2004 at a price of \$1,020,000. It was a fairly typical home with limited upgrades. Considering the date of sale, there could be an upward time adjustment to the sale price. Secondly, it is noted that there was one current escrow of a Plan 3 home at 16363 Cayenne Ridge Rd. that had a listing price with a range of \$1,195,000-\$1,225,000. It is a highly upgraded home with a relatively larger lot.

Considering the low end of the range from the escrow, the indicated price range is \$1,020,000 to \$1,195,000. The low end of the range can be adjusted up for time, but it is also noted that there are no sales of Plan 1 homes to balance the overall range.

The previous analysis of the Ryland Heritage tract would support an upper limit at an average of \$1,050,000 due to the slightly larger homes though on slightly smaller lots and with inferior views; the previous analysis of the Providence tract supports a close indication for the subject at an average of \$1,030,000 due to the similar size homes on slightly smaller lots, but similar view potential, and the previous analysis of the Canyon Ridge tract supports a far lower limit at an average of \$925,000 due to the smaller homes on similar size lots.

In summary, I have concluded on a conservative average value at \$1,030,000, as follows:

75 homes @ \$1,030,000 = \$77,250,000

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Avery Lane tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$77,250,000

(SEVENTY-SEVEN MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS)

MAP OF CAMBRIDGE





**CAMBRIDGE (FIELDSTONE COMMUNITIES)**

**PROPERTY DATA**

Location

This tract is located at the southeast corner of Dove Canyon Rd. and Dove Creek Rd., extending south to Painted Canyon Rd. and east to the east side of Falcon Crest Dr.

Record Owner/Ownership History

All of the 65 homes are now owned by separate homeowners. The original sales from the builder, Fieldstone Communities, closed from September 2003 through July 2004, and there have been several resales since the final builder closings.

Legal Description

The 65 lots comprising this tract consist of Lots 310 to 374 of County of San Diego Tract No. 5216-2 according to Map No. 14510.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 312-272-01 to 29 and 312-273-01 to 36. The assessed values range from \$191,671 to \$671,600 or an average of \$436,629. The tax rate area is 64-105 with a current base tax rate of  $\pm 1.01\%$ . The overall tax rate including special taxes for the CFD was  $\pm 1.9\%$  at the time of the original builder sales but is now somewhat lower.

No. of Lots/Lot Sizes

This tract comprises a total of 65 lots. The minimum lot size is approximately 6,300 s.f., or  $\pm 60'$  by  $105'$ .

Existing Development

These lots were developed in 2003 and 2004 with a tract of 65 homes called Cambridge at 4S Ranch. There are three floor plans and the number and description of each plan is as follows:

Plan 2814 (17): 2,814 s.f., two-story, with 4 bedrooms, family room, breakfast nook, 2½ baths and 3-car tandem garage with options of loft, super family room, den, bedroom 5 and baths 3 and 4.

Plan 3157 (23): 3,157 s.f., two-story, with 5 bedrooms, den, family room, breakfast nook, 2½ baths and 3-car tandem garage with options of master suite, double bedroom, loft, study, super family room, bedroom 6 and baths 3 and 4.

**PROPERTY DATA, Continuign**

Plan 3392 (25): 3,392 s.f., two-story, with 5 bedrooms, tech center, den, family room, breakfast nook, 2½ baths and 3-car tandem garage with options of loft, study, super family room, butler's pantry, bedrooms 6 and 7, and baths 3,4 and 5.

**VALUATION**

Method of Analysis

This is the similar to previous tracts.

Analysis of 65 Completed-Sold Homes

Similar to the previous Avery Lane tract, there has been limited resale activity since the original builder sales. In the case of this tract, there have been two closed resales. The Plan 2 at 16160 Cayenne Creek Pl. closed on 4/25/05 at \$890,000, and it was a well upgraded home. In addition, the Plan 2 at 16113 Falcon Crest Dr. closed on 7/25/05 at \$920,000, and it is a highly upgraded home on a large lot.

Thus, these two recent resales indicate the close range of \$890,000 to \$920,000 for Plan 2 homes, with no resales of Plan 1 or Plan 3 homes.

The previous analysis of the Legacy tract supports a firm lower limit for the subject tract at an average of \$860,000 due to the slightly smaller homes on smaller lots. However, the previous analyses of the Providence and Avery Lane tracts support firm upper limits for the subject tract at an average of \$1,030,000 due to the larger homes though on similar size lots.

In summary, I have concluded on a conservative average value at \$880,000, as follows:

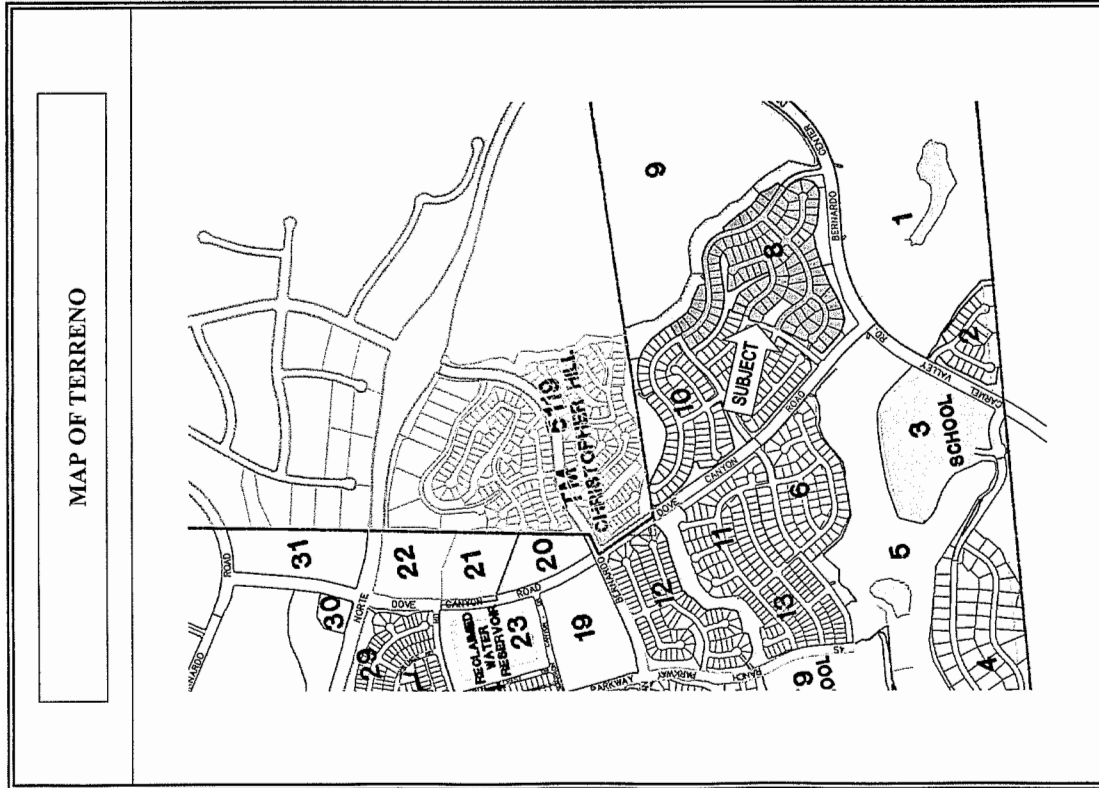
65 homes @ \$880,000 = \$57,200,000

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Cambridge tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$57,200,000

(FIFTY-SEVEN MILLION TWO HUNDRED THOUSAND DOLLARS)



## TERRENO (STANDARD PACIFIC HOMES)

### PROPERTY DATA

#### Location

This tract is located at the northerly corner of Dove Canyon Rd. and Bernardo Center Dr., extending east to Cayenne Ridge Rd. and north to Painted Canyon Rd. and Dove Creek Rd.

#### Record Owner/Ownership History

All of the 105 homes are now owned by separate homeowners. The original sales from the builder, Standard Pacific Homes, closed from December 2003 through October 2004, and there have been various resales since the final builder closings.

#### Legal Description

The 105 lots comprising this tract consist of Lots 375 to 479 of County of San Diego Tract No. 5216-2 according to Map No. 14510.

#### Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 312-271-30 to 35, 312-272-30 to 38, 312-274-01 to 41, 312-275-01 to 25 and 312-276-01 to 24. The assessed values range from \$74,783 to \$841,871 or an average of \$426,097. The tax rate area is 64-105 with a current base tax rate of  $\pm 1.01\%$ . The overall tax rate including special taxes for the CFD was  $\pm 1.9\%$  at the time of the original builder sales but is now somewhat lower.

#### No. of Lots/Lot Sizes

This tract comprises a total of 105 lots. The minimum lot size is approximately 8,125 s.f., or  $\pm 65'$  by  $125'$ .

#### Existing Development

These lots were developed in 2003 and 2004 with a tract of 105 homes called Terreno at 4S Ranch. There are four floor plans and the number and description of each plan is as follows:

Plan 1 (Riva) [20]: 3,175 s.f., one-story, with 4 bedrooms, study, 3 baths and 3-car tandem garage.

Plan 1X (Flore) [15]: 3,918 s.f., two-story, with 5 bedrooms, study, loft, tech center, 4 baths and 3-car tandem garage.

PROPERTY DATA, Continuing

Plan 2 (Castello) [33]: 3,802 s.f., two-story, with 5 bedrooms, master retreat, study, loft, 4½ baths and 3-car garage.

Plan 3 (Tramonto) [37]: 3,990 s.f., two-story, with 5 bedrooms, study, tech center, 4½ baths and 3-car garage with optional casitas at third car garage.

VALUATION

Method of Analysis

This is the same as for previous tracts.

Analysis of 105 Completed-Sold Homes

A search was made of the assessor records as well as of the multiple listing service records for resales of homes in this tract that have recently occurred. Since October 2004, there have been 9 resales of homes. These sales are tabulated as follows:

No.	Address	Rec. Date	Sale Price	Home Size	Remarks
1	16054 Cayenne Creek	5/9/05	\$1,075,000	3,175	Plan 1; interior well upgraded
2	16193 Cayenne Ridge	7/13/05	\$995,000	3,175	Plan 1; upgraded kitchen
3	15976 Cayenne Ridge	10/20/04	\$990,900	3,802	Plan 2; upgraded flooring/kitchen
4	16028 Cayenne Ridge	11/9/04	\$1,024,000	3,802	Plan 2; interior upgrades
5	16044 Cayenne Ridge	1/28/05	\$1,050,000	3,802	Plan 2; some interior upgrades
6	16036 Cayenne Ridge	10/29/04	\$985,000	3,918	Plan 1X; interior upgrades
7	16014 Cayenne Creek	11/15/04	\$1,060,000	3,990	Plan 4; interior upgrades
8	15231 Falcon Crest	6/22/05	\$1,200,000	3,990	Plan 4; pool & spa; highly upgraded interior and exterior
9	16065 Falcon Crest	2/23/05	\$1,040,000	4,288	Plan 4 w/option; large lot; some interior upgrades

This data indicates the overall price range of \$985,000 to \$1,200,000 or an average of \$1,047,000. It is noted that the data includes a mix of all floor plans, and is fairly representative of the overall unit mix in the tract. Thus, the average pricing would tend to be supportable due to this factor.

However, it is noted that four of the sales closed in October and November 2004, plus two other sales closed in early 2005. Thus, there could be at least a minor upward time adjustment to 6 of the 9 sales. For this reason the average pricing would tend to be on the low side.

VALUATION, Continuing

Lastly, the previous analysis of the Ryland Heritage tract would support a close indication for this subject tract at an average of \$1,050,000 due to the similar to slightly larger homes but on smaller lots and with inferior view potential; the previous analysis of the Talavera tract would support a close indication at an average of \$1,075,000 due to the similar to slightly larger homes but on smaller lots; and the previous analysis of the Providence and Avery Lane tracts would support firm lower limits at an average of \$1,030,000 due to the smaller homes on smaller lots.

In summary, I have concluded on a conservative average value at \$1,050,000, as follows:

105 homes @ \$1,050,000 = \$110,250,000

Conclusion of Value

Thus, as the result of this analysis, the following conclusion of value has been arrived at for this Terreno tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$110,250,000

(ONE HUNDRED TEN MILLION  
TWO HUNDRED FIFTY THOUSAND DOLLARS)

# IVY GATE (WOODBIDGE HOMES)

## PROPERTY DATA

### Location

This tract is located at the southerly end of the 4S Ranch community, nearby to the northwest of Carmel Valley Rd. at Winecreek Rd.

### Record Owner/Ownership History

Woodbridge 4S Area 4 LLC (known by the builder name of Woodbridge Homes) acquired the first takedown of 36 lots from 4S Kelwood General Partnership by deed recorded March 30, 2005, Document No. 261303 at a price based on \$350,000 per finished lot. The second takedown of 30 lots is still owned by 4S Kelwood General Partnership, and the sale to Woodbridge is scheduled to close in December 2005.

### Legal Description

This overall tract of 66 lots comprises Lots 520 through 585 of County of San Diego Tract No. 5216-3, according to Map No. 14978, recorded March 9, 2005.

### Assessor Data-2004/05

This tract comprises portions of Assessor Parcel Nos. 312-150-05 and 312-141-07. Thus, assessed values are not available for the subject lots, and would not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the homebuyers is projected to be 1.4% including the special taxes for the CFD.

### No. of Lots/Lot Sizes

This tract comprises a total of 66 lots. The minimum lot size is  $\pm 15,000$  s.f. (pad), but the average size is closer to 20,000 s.f.

### Planned Development/Status of Construction

These 66 lots are being developed with a tract of homes called Ivy Gate at 4S Ranch. As of the September 1, 2005 date of value there were 34 homes under construction and 32 vacant lots in blue-top condition. Of the 34 homes under construction, 4 are  $\pm 50-60\%$  completed and 30 are in the foundation stage and less than 10% completed.

There are four floor plans which are described as follows:

MAP OF IVY GATE



## PROPERTY DATA, Continuing

Residence One: 3,820 s.f., one-story, with 4 bedrooms, teen room, study, family room, breakfast nook, 3½ baths, courtyard and 3-space garage with options of exercise room, guest suite, bedroom 5 and bath 4.

Residence Two: 4,205 s.f., one-story, with 4 bedrooms, teen room, office, family room, breakfast nook, 4½ baths, garden patio and 4-space garage with options of exercise room, guest suite and bedroom 5.

Residence Three: 4,849 s.f., two-story, with 5 bedrooms, master sitting room, teen room, computer center, office, family room, breakfast nook, 5½ baths and 3-car garage with options of game room, media room, bedroom 6 and bath 6.

Residence Four: 5,359 s.f., two-story, with 5 bedrooms, master sitting room, bonus room, tech center, office, media room, family room, breakfast nook, 5½ baths and 4-car split garage.

The base pricing from the first sales release of 8 homes on July 30, 2005 was a range of \$1,133,950 to \$1,376,960 and the base pricing from the second release of 7 homes on August 13, 2005 was a range of \$1,246,950 to \$1,413,950. The next sales release will be in October 2005. The lot premiums for the first two releases ranged from \$1,000 to \$66,000. As of the September 1, 2005 date of value, all 15 homes released for sale have been sold and there is a lengthy waiting list. The models are due to be completed in November and the first sale closings are anticipated to take place in May 2006.

### Title Report

A preliminary report by First American Title Company dated July 13, 2005 has been reviewed. Exceptions to title are similar to those discussed for the previous Palomino tract, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

## VALUATION

### Method of Analysis

This is similar to the Palomino tract except that there are only homes under construction and vacant lots.

### Analysis of Homes Under Construction

For the 4 homes that are ±50-60% completed, I have considered an average cost amount of 55% of ±\$60.00 per s.f. total costs or \$33.00 per s.f. on the average home size of ±4,560 s.f., or an amount of ±\$150,000. This is added to the estimated finished lot value of \$580,000, as discussed next, resulting in a total of \$730,000 as an average for these 4 homes.

## VALUATION, Continuing

For the 30 homes that are in the early stage of construction, I have allocated a lump sum of \$10,000 per home for the minor amount of work completed thus far. This is added to the estimated finished lot value of \$580,000, resulting in a total of \$590,000 as an average for these 30 homes.

### Analysis of Finished Lot Value

The previous analysis of the Palomino tract supports a far lower limit at \$440,000 per finished lot due to the much smaller lots, resulting in the potential for smaller and lower-priced homes. In that analysis, **Sale No. 16** (the sale of these subject lots) was adjusted up for time to a current indication at \$490,000 per finished lot, which supports a closer indication. However, based on other more recent sales data, this is still a far conservative indication at current date, considering the large lot sizes with the potential for relatively large and high-priced homes.

**Sale No. 21** consists of smaller lots at 9,000 s.f. minimum, though the average size is 12,000 s.f. to 13,000 s.f., which is closer in size to the subject lots. In addition, these lots are planned to be developed with homes that are fairly similar in pricing to the subject. Overall, this pending sale supports a close indication for the subject at \$585,000 per finished lot.

**Sale Nos. 22 and 23** were sales of 12,000 s.f. minimum lots (pad size) located in the Stonebridge Estates community, which is about 7 miles southeasterly of 4S Ranch. The actual lot sizes, including slope areas, range from ±14,000 s.f. to 77,000 s.f., and many of the lots have territorial views. These lots are being developed with homes that are fairly similar in size and pricing to the subject, though there are superior lot size and view premiums to these lots. Thus, considering an upward time adjustment of at least 10-15%, the current indications at ±\$600,000 per finished lot support a close but firm upper limit for the subject.

On the basis of a finished lot ratio, I have concluded on a relatively lower range of 43-44% to reflect the greater risk from the relatively high-priced homes on the subject lots. Applying this to the current average base pricing of ±\$1,330,000, the following indication results:

$$\$1,330,000 \times .43-.44 = \$571,900 \text{ to } \$585,200/\text{finished lot}$$

In summary, I have concluded on a value of \$580,000 per finished lot for the subject tract.

### Deduction for Costs to get to Finished Lots

Information provided by Woodbridge Homes is that the remaining in-tract costs, including fees, to get the subject lots from as is condition (blue-top to near finished) to finished lots is a total of ±\$3,000,000. In addition, a cost allocation is made to the

# VALUATION, Continuing

30 lots still owned by the master developer, to reflect the prorata share of remaining master developer infrastructure costs. This is discussed in more detail under Neighborhood Three/4S Kelwood Ownership later in this report. As indicated in that discussion, the allocation to these 30 lots is \$54,560 per lot or \$1,636,800.

Thus, the total cost deduction to these 66 lots is \$4,636,800.

## Conclusion of Value

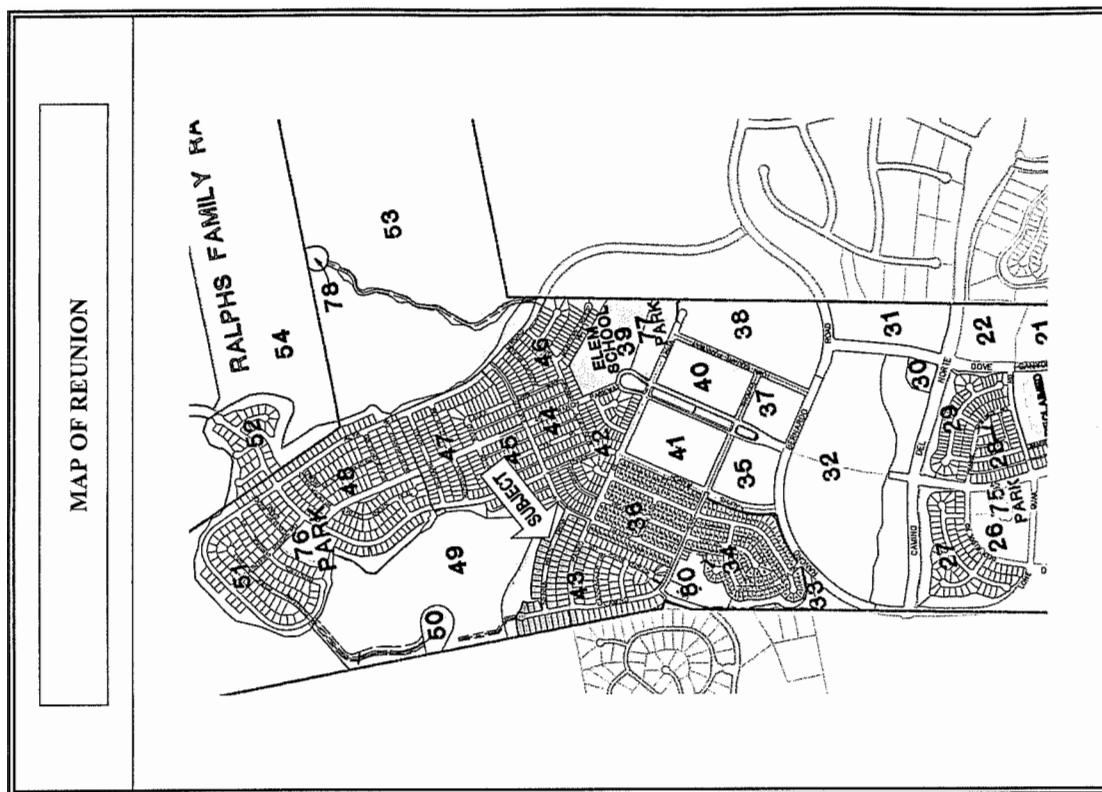
Based on the foregoing, the total value indication is calculated as follows:

4 homes under construction @ \$730,000 =	\$ 2,920,000
30 homes under construction @ \$590,000 =	\$17,700,000
32 vacant lots, if in finished condition @ \$580,000 =	\$18,560,000
	\$39,180,000
Less remaining costs to get to finished lots:	- 4,636,800
Value Indication, As Is Condition:	\$34,543,200

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 Ivy Gate tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$34,540,000

(THIRTY-FOUR MILLION FIVE HUNDRED FORTY THOUSAND DOLLARS)



REUNION (DAVIDSON COMMUNITIES)

PROPERTY DATA

Location

This tract is located at the northwesterly corner of Paseo de Linda and Albert Ave., extending west to the west side of Camino San Thomas and north to the north side of Sienna Hills Dr. It is also referred to as the north portion of Planning Area 43.

Record Owner/Ownership History

Davidson 4S Area 43 LLC (known by the builder name of Davidson Communities) acquired the vacant lots for this tract from 4S Kelwood General Partnership by deed recorded March 30, 2004, Document No. 0262497, on the basis of \$250,000 per finished lot. Davidson currently owns the completed-unsold homes and the homes under construction. Through September 1, 2005 there had been 12 closed sales of completed homes from Davidson to various homeowners, which closed in July and August 2005 at prices ranging from \$820,290 to \$1,158,427.

Legal Description

This tract comprises Lots 338 to 403 of County of San Diego Tract No. 5229-1, according to Map No. 14747, recorded February 27, 2004.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-635-38 to 59 and 678-636-01 to 44. Assessed values were not available through RealQuest, but these would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of ±1.01%, but the overall tax rate to the homebuyers ranges from ±1.7-1.8% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 66 lots. The minimum lot size is ±6,300 s.f., or ±60' by 105'.

Planned Development/Status of Construction

These 66 lots are being developed with a tract of homes called Reunion at 4S Ranch. As of the September 1, 2005 date of value there were 12 completed-sold homes, 3 completed-unsold homes (models) and 51 homes under construction. Of the 51 homes under construction, 21 were an average of ±60-70% completed and 30 were an average of ±10-20% completed.

PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

Plan 1: 3,594 s.f., two-story, with 3 bedrooms, master retreat and breakfast bar, bonus room, office, gathering room, breakfast nook, 3½ baths and 3-car tandem garage.

Plan 2: 4,153 s.f., two-story, with 5 bedrooms, bonus room, library, gathering room, informal dining room, 3½ baths and 2-car garage with optional outdoor kitchen.

Plan 3: 4,276 s.f., two-story, with 5 bedrooms, master retreat, loft, study, sitting area, gathering room, breakfast nook, office, super storage area, 4½ baths and 2-car garage.

The base pricing from the first sales release on February 26, 2005 was \$809,000 for Plan 1, \$823,000 for Plan 2 and \$878,000 for Plan 3. The base pricing from the most recent and 7<sup>th</sup> sales release on July 30 was \$897,000 for Plan 1, \$908,000 for Plan 2 and \$971,000 for Plan 3. In these first 7 sales releases, the lot premiums have ranged from -\$25,000 to \$78,000. As of the September 1, 2005 date of value, 56 homes had been released for sale, with 12 closed sales and 38 in escrow.

Title Report

A preliminary report by Chicago Title Company dated November 9, 2004 has been reviewed. Exceptions to title include assessments by Improvement District 96-1 (City of San Diego) for a water storage project; agreements for fire protection, water services, school mitigation and public benefits; a pending assessment for Improvement Areas A, B and C of CFD No. 6 (Poway Unified School District); and several easements. This appraisal has assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to the previous subject Palomino tract.

Analysis of Completed-Sold Homes

The actual sale prices for these 12 closed sales ranged from \$820,290 to \$1,158,427, or a total of \$11,004,773 which indicates an average of ±\$917,000. These prices reflect the base pricing plus lot premiums and options/upgrades. However, it is noted that these homes were in the first sales release, thus the pricing was set about 6 months ago. The base pricing for that phase was an average of ±\$837,000 and the most recent base pricing is an average of ±\$925,000 or about 11% higher. Thus, the total of the lot premiums and options/upgrades for these 12 sales was an average of ±\$80,000.

**VALUATION, Continuing**

In summary, I have concluded on a conservative average value for these 12 completed-sold homes at \$925,000.

**Analysis of Completed-Unsold Homes**

These homes consist of the 3 models. As previously indicated, the most recent base pricing is an average of ±\$925,000, plus there would be significant options and upgrades for these models. Similar to the analysis of the previous subject Palomino tract, a discount for bulk ownership by the builder is more than offset by the model upgrades.

In summary, I have concluded on a conservative average value for these 3 completed-unsold homes at \$925,000.

**Analysis of Homes Under Construction**

For the 21 homes that are ±60-70% completed, I have considered an average cost amount of 65% of ±\$60.00 per s.f. total costs or \$39.00 per s.f. on the average home size of ±4,010 s.f., or an amount of ±\$156,000. This is added to the estimated finished lot value of \$425,000, as discussed next, resulting in a total of \$581,000 as an average for these 21 homes.

For the 30 homes that are ±10-20% completed, an average cost amount of 15% of ±\$60.00 per s.f. total costs or \$9.00 per s.f. on the average home size of ±4,010 s.f. indicates an amount of ±\$36,000. This is added to the estimated finished lot value of \$425,000, resulting in a total of \$461,000 as an average for these 30 homes.

**Analysis of Finished Lot Value**

The previous analysis of the Palomino tract supports a firm upper limit at \$450,000 per finished lot due to the larger lots with potential for larger and higher-priced homes.

Sale No. 13 represents the purchase of the subject lots by Davidson Communities in March 2004 at a price based on \$350,000 per finished lot. At that time, the proforma average home pricing was \$778,000. In contrast, the current average base pricing of ±\$925,000 indicates a 19% increase. However, it is also noted that sales in 4S Ranch from that time period reflected much lower finished lot ratios than the more recent sales in 4S Ranch or other areas. Considering an upward time adjustment of at least 15-20%, a current indication is at ±\$410,000 per finished lot.

Sale Nos. 10 through 12 support lower limits at \$390,000 to \$400,000 per finished lot due to the smaller lots at 5,000 s.f. and 5,150 s.f. minimum size. **Sale No. 21**

**VALUATION, Continuing**

supports a far upper limit at \$585,000 per finished lot due to the much larger lots at 9,000 s.f. minimum, which are planned for much larger and higher-priced homes.

On the basis of a finished lot ratio, I have concluded on a supportable range of 46-47% applied to the current average base pricing of ±\$925,000, and this results in the following:

$$\$925,000 \times .46-.47 = \$425,500 \text{ to } \$434,750/\text{fin. lot}$$

In summary, I have concluded on a value of \$425,000 per finished lot for the subject tract.

**Deduction for Costs to get to Finished Lots**

Information was not provided by Davidson Communities as to the remaining costs to get the lots from as is nearly finished condition to finished lots. Thus, I have estimated that the remaining costs are likely similar to the Travata tract as discussed next, and rounded this up to an amount of ±\$9,000 per lot. For the subject 66 lots this results in a cost deduction of \$594,000.

**Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

12 completed/sold homes @ \$925,000 =	\$11,100,000
3 completed/unsold homes @ \$425,000 =	\$ 2,775,000
21 homes under construction @ \$581,000 =	\$12,201,000
30 homes under construction @ \$461,000 =	\$13,830,000
Less remaining costs to get to finished lots:	\$39,906,000
	- 594,000
Value Indication, As Is Condition:	\$39,312,000

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 Reunion tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

**\$39,310,000**

**(THIRTY-NINE MILLION THREE HUNDRED TEN THOUSAND DOLLARS)**



# TRAVATA (STANDARD PACIFIC HOMES)

## PROPERTY DATA

### Location

This tract is located from Sienna Ridge Dr. west to Camino San Thomas, south from Paseo De Linda. It is also referred to as the south portion of Planning Area 43.

### Record Owner/Ownership History

Standard Pacific 4S Area 43 LLC (known by the builder name of Standard Pacific Homes) acquired the vacant lots for this tract from 4S Kelwood General Partnership by deed recorded March 30, 2004, Document No. 266668, on the basis of \$238,000 per finished lot. They still own all lots in this tract as the first closings of 14 homes to homebuyers are anticipated to occur in November 2005.

### Legal Description

This tract comprises Lots 273 through 337 of County of San Diego Tract No. 5229-1, according to Map No. 14747, recorded February 27, 2004.

### Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-635-08 to 37 and 678-564-13 to 47. Assessed values were not available through RealQuest, but these would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the homebuyers is  $\pm 1.75\%$ , including the special taxes for this CFD.

### No. of Lots/Lot Sizes

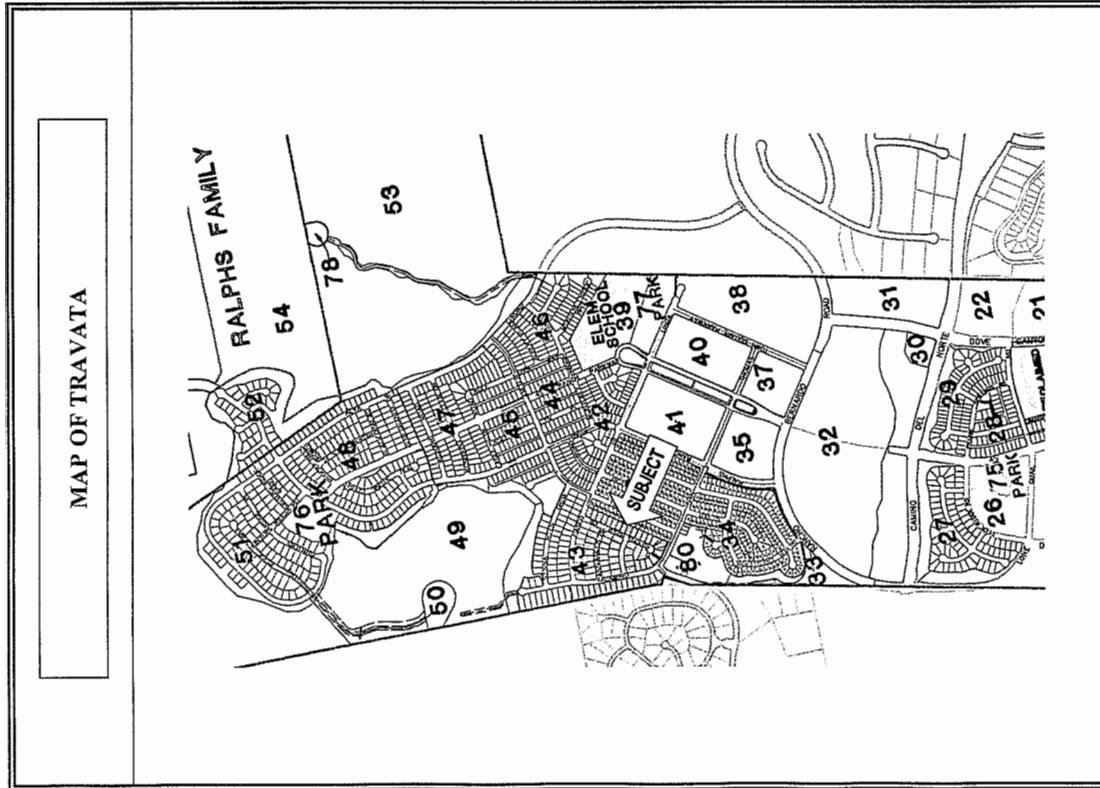
This tract comprises a total of 65 lots. The minimum lot size is  $\pm 6,300$  s.f., or  $\pm 60'$  by  $105'$ .

### Planned Development/Status of Construction

These 65 lots are being developed with a tract of homes called Travata at 4S Ranch. As of the September 1, 2005 date of value there were 3 completed-unsold homes (models), 58 homes under construction, and 4 vacant lots. Of the 58 homes under construction, 28 were an average of  $\pm 50$ -60% completed and 30 were an average of  $\pm 20$ -30% completed.

There are three floor plans which are described as follows:

Plan 1 (Villa Francesca): 3,552 s.f., two-story, with 4 bedrooms, master retreat, bonus room or optional bedroom 6, den or optional bedroom 5, breakfast nook, family room, 4 baths, and



PROPERTY DATA, Continuing

3-car tandem garage; optional bedroom 7 with bath 5 or craft room in lieu of tandem portion of garage.

Plan 2 (Villa Molino): 3,676 s.f., two-story, with 3 bedrooms, loft or optional bedroom 4, office or optional master retreat, den or optional bedroom 5, family room, breakfast nook, 4½ baths, and 3-car garage; optional study in lieu of third-car garage.

Plan 3 (Villa Alessari): 3,726 s.f., two-story, with 4 bedrooms, master retreat, bonus room, tech center, den or optional bedroom 5, family room, breakfast nook, 4½ baths, and 3-car garage; optional game room in lieu of third-car garage.

The base pricing from the first sales release on February 5, 2005 was \$796,900 for Plan 1, \$808,900 for Plan 2 and \$816,900 for Plan 3. The base pricing from the most recent and 6<sup>th</sup> sales release on July 23 was \$924,900 for Plan 1, \$938,900 for Plan 2 and \$948,900 for Plan 3. In these 6 sales releases, the lot premiums have ranged from \$455 to \$70,050. As of the September 1, 2005 date of value, there had been 58 homes released for sale and all were sold. The first escrows are due to close in November 2005.

Title Report

A preliminary report by Chicago Title Company dated June 30, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract, thus it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to the previous subject Palomino tract.

Analysis of Completed-Unsold Homes

These are the 3 completed model homes. As previously indicated, the most recent base pricing for these three plans is \$924,900 for Plan 1, \$938,900 for Plan 2 and \$948,900 for Plan 3, which indicates a total of \$2,812,700 or an average of ±\$938,000. In addition, there would be at least minor lot premiums and significant model options and upgrades. The pricing for the subject homes is well supported by the strong sales activity with 58 homes in escrow.

Similar to previous analyses, I have concluded on a conservative average value for these 3 completed-unsold homes at the average current base pricing, or an average of \$938,000.

VALUATION, Continuing

Analysis of Homes Under Construction

For the 28 homes that are ±50-60% completed, I have considered an average cost amount of 55% of ±\$60.00 per s.f. total costs or \$33.00 per s.f. on the average home size of ±3,650 s.f., or an amount of ±\$120,000. This is added to the estimated finished lot value of \$425,000, as discussed next, resulting in a total of \$545,000 as an average for these 28 homes.

For the 30 homes that are ±20-30% completed, an average cost amount of 25% of ±\$60.00 per s.f. total costs or \$15.00 per s.f. on the average home size of ±3,650 s.f. indicates an amount of ±\$55,000. This is added to the estimated finished lot value of \$425,000, resulting in a total of \$480,000 as an average for these 30 homes.

Analysis of Finished Lot Value

The analysis is the same as for the previous Reunion tract, thus the conclusion is a value based on \$425,000 per finished lot.

Deduction for Costs to get to Finished Lots

Information provided by Standard Pacific is that the remaining costs to get the subject lots from as is nearly finished condition to finished lots is \$563,448.

Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

3 completed/unsold homes @ \$938,000 =	\$ 2,814,000
28 homes under construction @ \$545,000 =	\$15,260,000
30 homes under construction @ \$480,000 =	\$14,400,000
4 vacant lots, if in finished condition @ \$425,000 =	\$ 1,700,000
Less remaining costs to get to finished lots:	\$34,174,000
	- 563,448
Value Indication, As Is Condition:	\$33,610,552

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 Travata tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$33,610,000

(THIRTY-THREE MILLION THREE HUNDRED THOUSAND DOLLARS)

# SILVERCREST (FIELDSTONE COMMUNITIES)

## PROPERTY DATA

### Location

This tract is located at the northwest corner of Camino San Thomas and Ralphs Ranch Rd., extending north to Paseo de Linda and west to the west side of Albert Ave.

### Record Owner/Ownership History

Fieldstone 4S Area 36 LLC (known by the builder name of Fieldstone Communities) acquired the vacant lots for this tract from 4S Kelwood General Partnership by deed recorded March 12, 2004, Document No. 204776, on the basis of \$225,000 per finished lot. Fieldstone currently owns the completed-unsold homes, the homes under construction and the remaining vacant lots. Through September 1, 2005 there had been 25 closed sales of completed homes from Fieldstone to various homeowners, which closed since January 2005 at prices ranging from \$711,000 to \$873,000.

### Legal Description

This tract comprises Lots 134 through 260 of County of San Diego Tract No. 5229-1, according to Map No. 14747, recorded February 27, 2004.

### Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-635-01 to 07, 678-634-01 to 12, 678-633-01 to 60 and 678-632-01 to 48. Assessed values were not available through RealQuest, but these would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the homebuyers is  $\pm 1.6\%$  including the special taxes for the CFD.

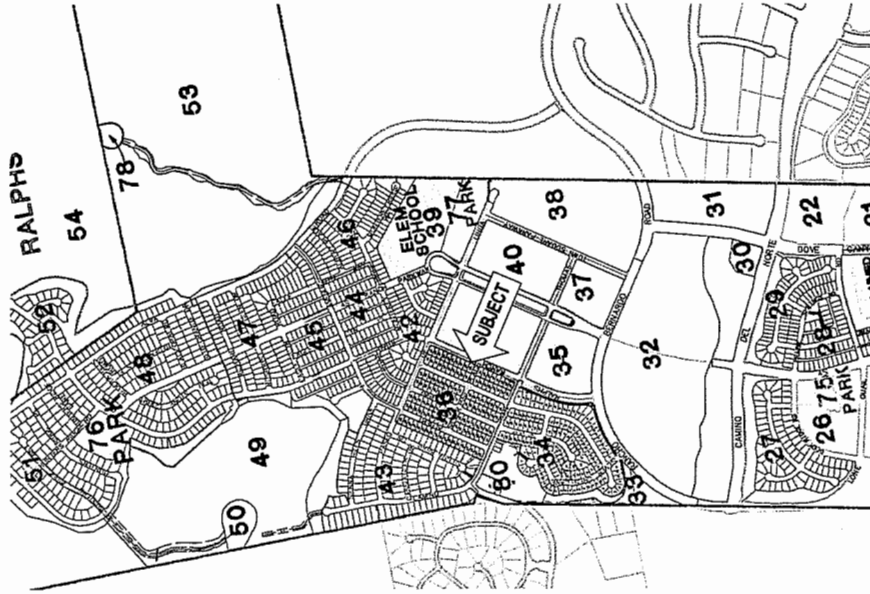
### No. of Lots/Lot Sizes

This tract comprises a total of 127 lots. The minimum lot size is 5,000 s.f., or  $\pm 50'$  by 100'.

### Planned Development/Status of Construction

These 127 lots are being developed with a tract of homes called SilverCrest at 4S Ranch. As of the September 1, 2005 date of value there were 25 completed-sold homes, 6 completed-unsold homes, 52 homes under construction and 44 vacant lots. Of the 52 homes under construction, 10 homes are  $\pm 90\%$  completed, 18 are an average of  $\pm 50\text{-}60\%$  completed and 24 are an average of  $\pm 10\text{-}20\%$  completed.

MAP OF SILVERCREST



## PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

Plan 2901: 2,901 s.f., two-story, with 4 bedrooms, den, breakfast nook, family room, 2½ baths and 3-car tandem garage with options of tech center, loft, study, super family room, bedroom 5 and baths 3 and 4.

Plan 3212: 3,212 s.f., two-story, with 4 bedrooms, den, breakfast nook, family room, 2½ baths and 3-car tandem garage with options of loft, study, super family room, bedroom 5 and baths 3, 4 and 5.

Plan 3365: 3,365 s.f., two-story, with 4 bedrooms, den, breakfast nook, family room, 2½ baths and 3-car tandem garage with options of loft, study, super family room, bedrooms 5 and 6, and baths 3 through 6.

The base pricing from the first sales release in July 2004 was \$716,990 for Plan 2901, \$727,990 for Plan 3212, and \$738,990 for Plan 3365. The base pricing from the most recent and 10<sup>th</sup> sales release on August 6, 2005 was \$828,990 for Plan 2901, \$862,990 for Plan 3212, and \$872,990 for Plan 3365. The actual pricing for Phase 10, including lot premiums and pre-plotted options is \$845,600 to \$864,350 for Plan 2901, \$875,490 for Plan 3212 and \$913,990 to \$914,440 for Plan 3365. In the first 10 phases, lot premiums ranged from -\$5,000 up to \$12,000, or an average of ±\$2,100 per lot. As of the September 1, 2005 date of value, 103 homes had been released for sale with at least 96 sold, including the closed sales.

### Title Report

A preliminary report by Chicago Title Company dated July 12, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract other than some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

## VALUATION

### Method of Analysis

This is similar to previous analyses.

### Analysis of Completed-Sold Homes

The actual sale prices for these 25 closed sales ranged from \$711,000 to \$873,000, or an average of ±\$809,000. These prices reflect the base pricing plus lot premiums as well as the options and upgrades. However, it is noted that these homes were in the first sales release, thus the pricing was set about 9 months to over a year ago. The base pricing for the first sales release was an average of \$728,000, for the second sales release was an average of \$760,000 and for the third sales release was an

## VALUATION, Continuing

average of \$767,000. In contrast the average pricing from the most recent release was \$855,000 which is 11% to 17% higher than from the first three releases. It is also evident that the average premiums, options and upgrades were over \$50,000 higher than the base pricing.

In summary, I have concluded on a conservative average value for these 25 completed-sold homes at \$855,000.

### Analysis of Completed-Unsold Homes

These homes consist of the 3 models and 3 other completed homes that were due to close escrow by September 9. As previously indicated, the most recent base pricing is an average of ±\$855,000, plus there would be significant options and upgrades for these models and likely upgrades to the other 3 homes as well. Similar to the analysis of the previous subject Palomino tract, a discount for bulk ownership by the builder is more than offset by the options and upgrades.

In summary, I have concluded on a conservative average value for these 6 completed-unsold homes at \$855,000.

### Analysis of Homes Under Construction

For the 10 homes that are ±90% completed, I have considered an average cost amount of 90% of ±\$60.00 per s.f. total costs or \$54.00 per s.f. on the average home size of ±3,160 s.f., or an amount of ±\$171,000. This is added to the estimated finished lot value of \$395,000, as discussed next, resulting in a total of \$566,000 as an average for these 10 homes.

For the 18 homes that are ±50-60% completed, an average cost amount of 55% of ±\$60.00 per s.f. total costs or \$33.00 per s.f. on the average home size of ±3,160 s.f. indicates an amount of ±\$104,000. This is added to the estimated finished lot value of \$395,000, resulting in a total of \$499,000 as an average for these 18 homes.

For the 24 homes that are ±10-20% completed, an average cost amount of 15% of ±\$60.00 per s.f. total costs or \$9.00 per s.f. on the average home size of ±3,160 s.f. indicates an amount of ±\$28,000. This is added to the estimated finished lot value of \$395,000, resulting in a total of \$423,000 as an average for these 24 homes.

### Analysis of Finished Lot Value

The previous analysis of the Reunion tract supports a far upper limit at \$420,000 per finished lot due to the larger lots at 6,300 s.f. minimum size, with the potential for larger and higher-priced homes.

**VALUATION, Continuing**

Sale No. 9 represents the purchase of the subject lots by Fieldstone Communities in March 2004 at a price based on \$225,000 per finished lot. At that time, the proforma average home pricing was \$635,000. In contrast, the current average base pricing of ±\$855,000 indicates a 35% increase. It is also noted that the March 2004 sale reflected a finished lot ratio of only 35%, which is far below the typical ratios indicated by more recent sales. Thus, the price appears to be conservative for March 2004, though it is noted that it was negotiated about a year prior to that.

In contrast, Sale Nos. 10 through 12 indicate current prices of \$390,000 to \$400,000 per finished lot for 5,000 s.f. and 5,150 s.f. minimum size, and Sale No. 11 is planned to be a continuation of the SilverCrest product. Thus, these are close indications for the subject property. Sale No. 8 supports a firm lower limit at \$355,000 per finished lot due to the smaller lots at 4,500 s.f. minimum, that are planned for smaller and lower-priced homes.

On the basis of a finished lot ratio, I have concluded on a supportable range of 46-47% applied to the current average base pricing of ±\$855,000, and this results in the following:

$$\$855,000 \times .46-.47 = \$393,300 \text{ to } \$401,850/\text{fin. lot}$$

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 Fieldstone Communities is that the remaining costs to get the subject lots from as is nearly finished condition to finished lots is \$927,570.

**Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

25 completed/sold homes @ \$855,000 =	\$21,375,000
6 completed/unsold homes @ \$855,000 =	\$ 5,130,000
10 homes under construction @ \$566,000 =	\$ 5,660,000
18 homes under construction @ \$499,000 =	\$ 8,982,000
24 homes under construction @ \$423,000 =	\$10,152,000
44 vacant lots, if in finished condition @ \$395,000 =	\$17,380,000
Less remaining costs to get to finished lots:	\$68,679,000
	- 927,570
Value Indication, As Is Condition:	\$67,751,430

**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 SilverCrest tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$67,750,000

(SIXTY-SEVEN MILLION SEVEN HUNDRED FIFTY THOUSAND DOLLARS)

ROSEMARY LANE (JOHN LAING HOMES)

PROPERTY DATA

Location

This tract is located at the northwesterly corner of Rancho Bernardo Rd. and Ralphs Ranch Rd., extending north to Camino San Thomas. It is also referred to as Planning Area 34.

Record Owner/Ownership History

Laing 4S Area 34 LLC (known by the builder name of John Laing Homes) acquired the vacant lots for this tract from 4S Kelwood General Partnership by deed recorded March 12, 2004, Document No. 204771, on the basis of \$210,000 per finished lot. They still own all lots in this tract as the first closings of 12 homes to homebuyers were anticipated to occur in mid September 2005.

Legal Description

This tract comprises Lots 1 through 133 of County of San Diego Tract No. 5229-1, according to Map No. 14747, recorded February 27, 2004.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-630-01 to 86 and 678-631-01 to 47. Assessed values were not available through RealQuest, but these would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the homebuyers is  $\pm 1.6\%$  including the special taxes for the CFD.

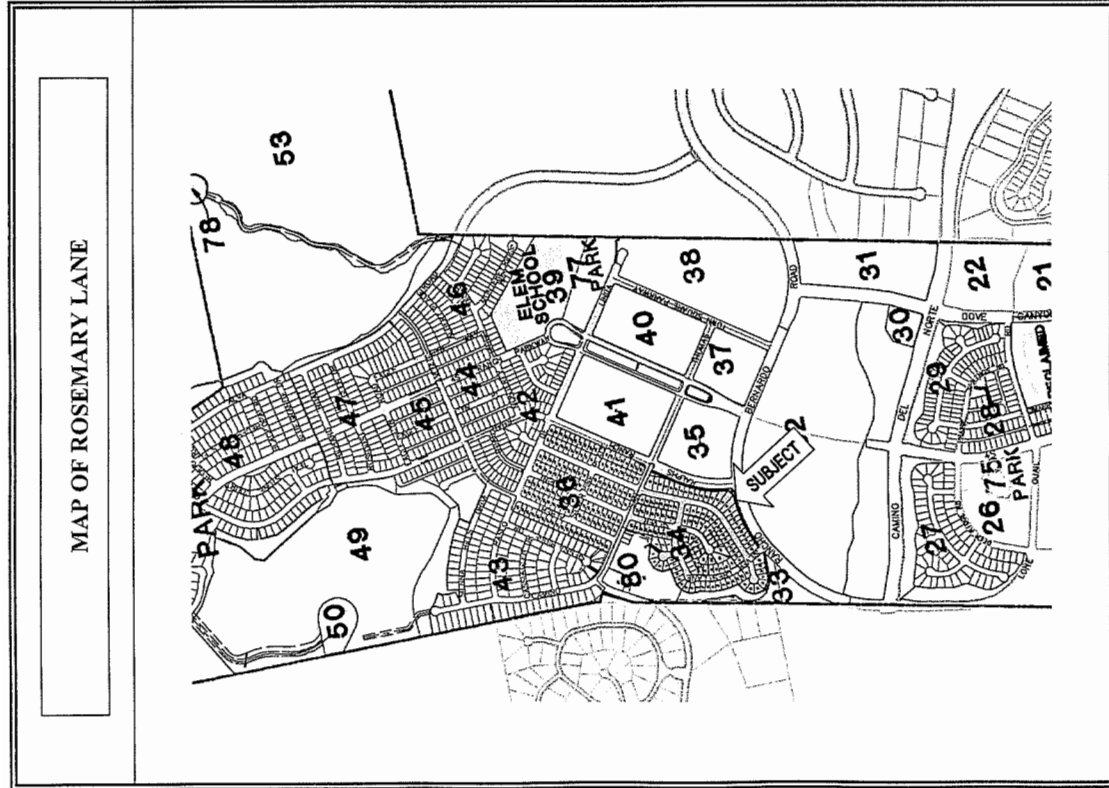
No. of Lots/Lot Sizes

This tract comprises a total of 133 lots. The minimum lot size is 4,275 s.f., or 45' by 95'.

Planned Development/Status of Construction

These 133 lots are being developed with a tract of homes called Rosemary Lane at 4S Ranch. As of the September 1, 2005 date of value there were 3 completed-unsold homes (models), 54 homes under construction, and 76 vacant lots. Of the 54 homes under construction, 12 are  $\pm 90\%$  completed, 32 are an average of  $\pm 40\text{-}50\%$  completed and 10 are  $\pm 10\%$  completed.

There are three floor plans which are described as follows:



## PROPERTY DATA, Continuing

Residence One (Windelmine): 2,461 s.f., two story, with 2 bedrooms, master retreat/loft or optional bedroom 3, den or optional bedroom 4, parlor, 3 baths, and 3-car tandem garage.

Residence Two (Trellis): 2,725 s.f., two story, with 3 bedrooms, loft or optional bedroom 4, study or optional bedroom 5, breakfast nook, parlor, 4 baths, and 3-car tandem garage with optional enlarged laundry room in tandem portion of garage.

Residence Three (Arbor): 3,274 s.f., two story, with 5 bedrooms, kid's retreat, bonus room, breakfast nook, den, 4 baths and 3-car garage; optional suite adds bedroom 6 and bath 5 in place of den and third-car garage.

The base pricing from the first sales release on March 12, 2005 was \$690,990 for Residence One, \$719,990 for Residence Two and \$749,990 for Residence Three. The base pricing from the most recent and 8<sup>th</sup> sales release on August 27 was \$721,990 for Residence One, \$764,990 for Residence Two and \$830,990 for Residence Three. The lot premiums in the first six phases have ranged from \$5,000 to \$45,000. As of the September 1, 2005 date of value, 71 homes had been released for sale and 67 homes had been sold or reserved. The first 12 escrow closings are due to take place in September 2005.

### Title Report

A preliminary report by First American Title Company dated June 23, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

## VALUATION

### Method of Analysis

This is similar to previous analyses.

### Analysis of Completed-Unsold Homes

These are the 3 completed model homes. As previously indicated, the most recent base pricing for these three plans is \$721,990 for Residence One, \$764,990 for Residence Two and \$830,990 for Residence Three, which indicates a total of \$2,317,970 or an average of \$773,000. In addition, there would be the significant model options and upgrades. The pricing for the subject homes is well supported by the strong sales activity with most of the homes that have been released being sold or reserved, and also by the pricing and sales activity in other nearby new tracts.

## VALUATION, Continuing

Similar to previous analyses, I have concluded on a conservative average value for these 3 completed-unsold homes at the average current base pricing, or an average of \$773,000.

### Analysis of Homes Under Construction

For the 12 homes that are  $\pm 90\%$  completed, I have considered an average cost amount of  $90\%$  of  $\pm \$60,000$  per s.f. total costs or  $\$54,000$  per s.f. on the average home size of  $\pm 2,820$  s.f., or an amount of  $\pm \$152,000$ . This is added to the estimated finished lot value of  $\$355,000$ , as discussed next, resulting in a total of  $\$507,000$  as an average for these 12 homes.

For the 32 homes that are  $\pm 40\text{--}50\%$  completed, an average cost amount of  $45\%$  of  $\pm \$60,000$  per s.f. total costs or  $\$27,000$  per s.f. on the average home size of  $\pm 2,820$  s.f. indicates an amount of  $\pm \$76,000$ . This is added to the estimated finished lot value of  $\$355,000$ , resulting in a total of  $\$431,000$  as an average for these 32 homes.

For the 10 homes that are  $\pm 10\%$  completed, an average cost amount of  $10\%$  of  $\pm \$60,000$  per s.f. total costs or  $\$6,000$  per s.f. on the average home size of  $\pm 2,820$  s.f. indicates an amount of  $\pm \$17,000$ . This is added to the estimated finished lot value of  $\$355,000$ , resulting in a total of  $\$372,000$  as an average for these 10 homes.

### Analysis of Finished Lot Value

The previous analysis of the SilverCrest tract supports a far upper limit at  $\$395,000$  per finished lot due to the larger lots at 5,000 s.f. minimum size, with the potential for the larger and higher-priced homes.

Sale No. 7 represents the purchase of the subject lots by John Laing Homes in March 2004 at a price based on  $\$210,000$  per finished lot. At that time, the proforma average home pricing was  $\$580,000$ . In contrast, the current average base pricing of  $\pm \$773,000$  indicates a  $33\%$  increase. Similar to the discussion in the SilverCrest tract, the March 2004 sale reflected a finished lot ratio of only  $36\%$ , which is far below the typical ratios indicated by more recent sales. Thus, the price appears to be conservative for March 2004, though it is noted that it was negotiated about a year prior to that.

In contrast, Sale No. 8 indicates a current price of  $\$355,000$  per finished lot for 4,500 s.f. minimum lots, which are planned for similar priced homes as the subject, thus this is a close indication for the subject. Sale No. 6 is a recent sale of 4,200 s.f. minimum lots that closed in May 2005 at a price of  $\$340,000$  per finished lot and this is also a close indication for the subject. Sale Nos. 10 through 12 support far upper limits at  $\$390,000$  and  $\$400,000$  per finished lot, due to the larger lot sizes of 5,000 s.f. and 5,150 s.f. minimum.

VALUATION, Continuing

Sale No. 18 was a sale of 3,650 s.f. minimum lots located in Del Sur that sold in May 2005 at a price of \$347,500 per finished lot, and this supports a firm lower limit for the subject. Sale No. 19 was a sale of 4,500 s.f. minimum lots located in Del Sur that sold in May 2005 at a price reflecting \$353,000 per finished lot, and this supports a close indication for the subject.

On the basis of a finished lot ratio, I have concluded on a supportable range of 46-47% applied to the current average base pricing of \$773,000, and this results in the following:

$$\$773,000 \times .46-.47 = \$355,580 \text{ to } \$363,310/\text{fin. lot}$$

In summary, I have concluded on a value of \$355,000 per finished lot for the subject tract.

Deduction for Costs to get to Finished Lots

Information provided by John Laing Homes is that the remaining costs to get the subject lots from as is nearly finished condition to finished lots is \$2,833,000, including fees not yet paid on vacant lots where building permits have not yet been pulled.

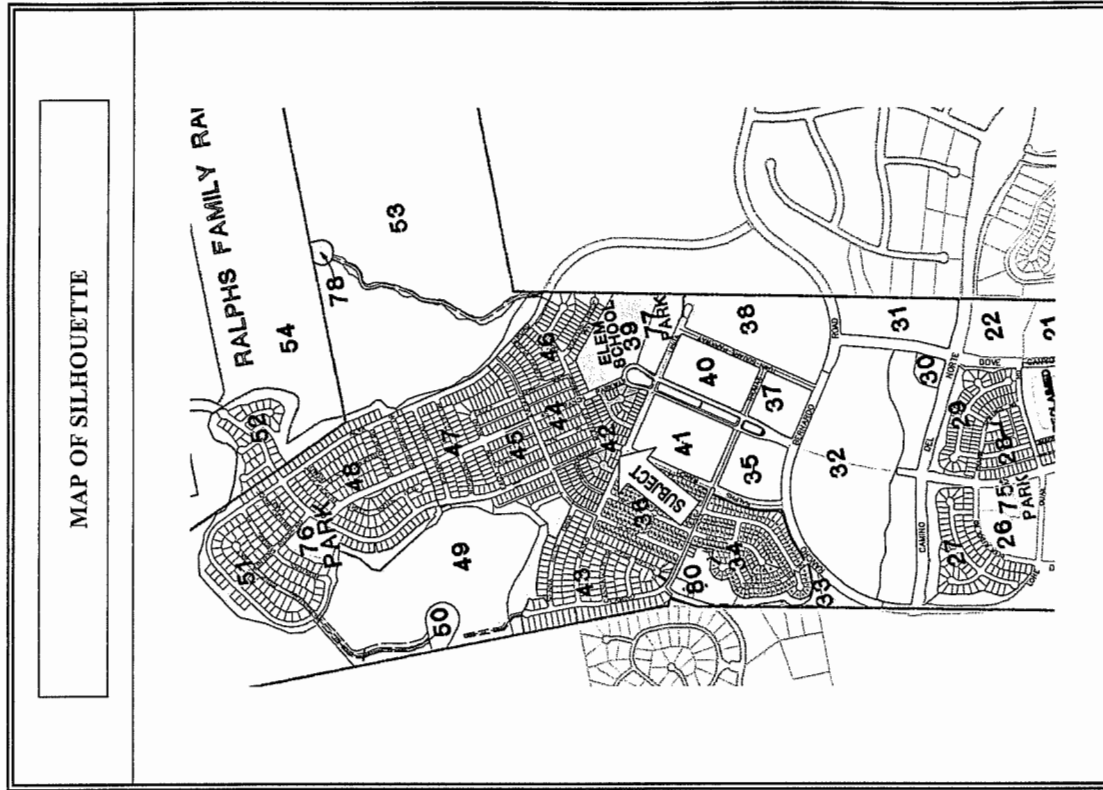
Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

3 completed/unsold homes @ \$773,000 =	\$ 2,319,000
12 homes under construction @ \$507,000 =	\$ 6,084,000
32 homes under construction @ \$431,000 =	\$13,792,000
10 homes under construction @ \$372,000 =	\$ 3,720,000
76 vacant lots, if in finished condition @ \$355,000 =	\$26,980,000
Less remaining costs to get to finished lots:	\$52,895,000
	<u>- 2,833,000</u>
Value Indication, As Is Condition:	\$50,062,000

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 Rosemary Lane tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$50,060,000  
  
(FIFTY MILLION SIXTY THOUSAND DOLLARS)





SILHOUETTE (JOHN LAING HOMES)

PROPERTY DATA

Location

This tract is located on the northerly side of Paseo de Linda, extending from Albert Ave. at the west to 4S Ranch Parkway at the east. It is also referred to as Planning Area 42.

Record Owner/Ownership History

WL 4S Ranch Associates, L.P. (known by the builder name of John Laing Homes) acquired the vacant lots for this tract from 4S Kelwood General Partnership by deed recorded May 13, 2005, Document No. 0406381, on the basis of \$340,000 per finished lot. They still own all of these lots as homes are not yet under construction.

Legal Description

This tract comprises Lots 409 through 504 of County of San Diego Tract No. 5229-2 according to Map No. 14966, recorded February 15, 2005.

Assessor Data-2004/05

This tract comprises a small portion of Assessor Parcel No. 678-050-48. Thus, an assessed value is not available for just the subject property. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the future homebuyers will be up to  $\pm 1.9\%$  including the special taxes for this CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 96 lots. The minimum lot size is  $\pm 4,200$  s.f., or  $\pm 42'$  by  $100'$ .

Planned Development/Status of Construction

These 96 lots are planned to be developed with a tract of homes called Silhouette at 4S Ranch. As of the September 1, 2005 date of value the lots were vacant and in a graded blue-top condition. There will be three floor plans of homes with sizes of 2,559 s.f., 3,070 s.f. and 3,192 s.f., and the projected base pricing is \$725,000 for Plan 1, \$755,000 for Plan 2 and \$795,000 for Plan 3. The first sales release is tentatively scheduled for March 2006.

PROPERTY DATA, Continuing

Title Report

A preliminary report by First American Title Company dated May 19, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to previous analyses, except that there are only vacant lots to be considered.

Analysis of Finished Lot Value

Sale No. 6 was the sale of the subject lots to John Laing Homes that closed in May 2005 at a price based on \$340,000 per finished lot. The price had been negotiated about a year ago, thus there could be at least a minor upward time adjustment. Sale No. 8 supports a close upper limit at \$355,000 per finished lot due to the slightly larger lots at 4,500 s.f. minimum, that are planned for slightly higher-priced homes than on the subject. Sale No. 18 supports a lower limit at \$347,500 per finished lot due to the smaller lots at 3,650 s.f. minimum, and Sale No. 19 supports a close upper limit at \$353,000 per finished lot due to the slightly larger lots at 4,500 s.f. minimum.

On the basis of a finished lot ratio, I have concluded on a supportable range of 46-47% applied to the current average base pricing of  $\pm \$758,000$ , and this results in the following:

$$\$758,000 \times .46-.47 = \$348,680 \text{ to } \$356,260/\text{fin. lot}$$

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 John Laing Homes is that the remaining costs to get the subject lots from as is blue-top condition to finished lots is \$2,954,000, which includes costs for in-tract streets, utilities, etc., as well as the pertinent development impact fees.

VALUATION, Continuing

Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

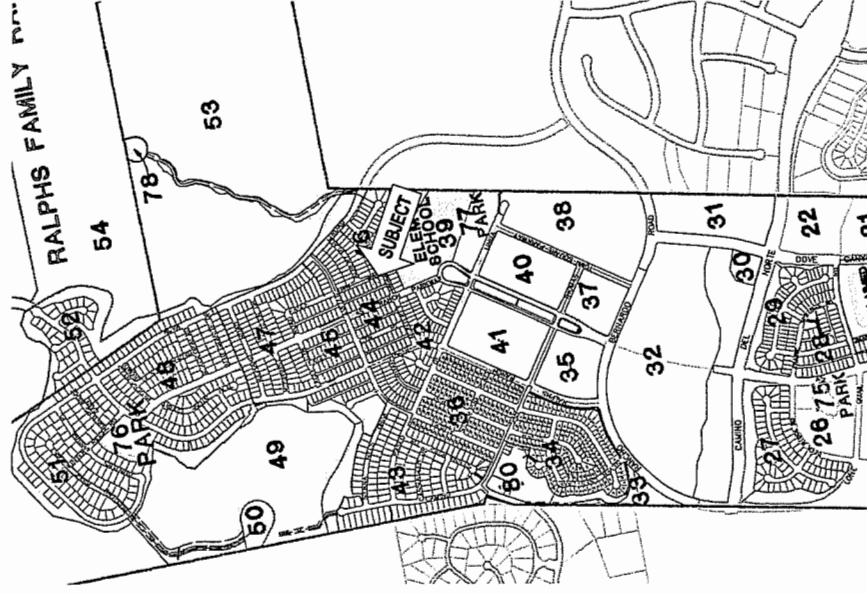
96 vacant lots, if in finished condition @ \$350,000 =	\$33,600,000
Less remaining costs to get to finished lots:	- 2,954,000
Value Indication, As Is Condition:	\$30,646,000

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 Silhouette tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$30,640,000

(THIRTY MILLION SIX HUNDRED FORTY THOUSAND DOLLARS)

MAP OF MAYBECK



MAYBECK (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the northeast corner of Ralphs Ranch Rd. and Monterey Ridge Dr., extending east to Eagle Canyon Way and north to Albert Ave. It is also referred to as Planning Area 44.

Record Owner/Ownership History

Hearstone Multi-Asset Entity B, L.P. (on behalf of the builder known as William Lyon Homes) acquired the vacant lots for this tract from 4S Kelwood General Partnership by deed recorded August 16, 2005, Document No. 0701595, on the basis of \$390,000 per finished lot. They still own all of these lots as homes are not yet under construction.

Legal Description

This tract comprises Lots 606 through 665 of County of San Diego Tract No. 5229-2, according to Map No. 14966 recorded February 15, 2005.

Assessor Data-2004/05

This tract comprises a small portion of Assessor Parcel No. 678-050-48. Thus, an assessed value is not available for just the subject property. The tax rate area is 64-105, with a current base tax rate of ±1.01%, but the overall tax rate to the future homebuyers is projected to be ±1.75% including the special taxes for this CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 60 lots. The minimum lot size is ±5,150 s.f., or ±50' by 103'.

Planned Development/Status of Construction

These 60 lots are planned to be developed with a tract of homes called Maybeck at 4S Ranch. As of the September 1, 2005 date of value the lots were vacant and in a graded blue-top condition. There will be four plans of homes with sizes of 2,797 s.f., 3,180 s.f., 3,258 s.f. and 3,481 s.f. Options will include loggias on one of the plans and guest suites on three of the plans. The projected base pricing is \$795,900 for Plan 1, \$824,900 for Plan 2, \$838,900 for Plan 3 and \$861,900 for Plan 4.

PROPERTY DATA, Continuing

Title Report

A preliminary report by Chicago Title Company dated July 23, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to the previous analyses with vacant lots and no construction yet underway.

Analysis of Finished Lot Value

This is similar to the previous analysis of the SilverCrest tract, as the lots are fairly similar in size at 5,000 s.f. minimum in contrast to the subject at 5,150 s.f. minimum. Sale No. 10 was the sale of the subject lots to William Lyon Homes that just closed in August 2005 at a price based on \$390,000 per finished lot. Based on the previous analyses, this value is supportable for the subject lots, and the conclusion of value is at \$390,000 per finished lot.

Deduction for Costs to get to Finished Lots

Information provided by William Lyon Homes is that the remaining costs to get the subject lots from as is blue-top condition to finished lots is \$2,168,000, which includes costs for in-tract streets, utilities, etc., as well as the pertinent development impact fees.

Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

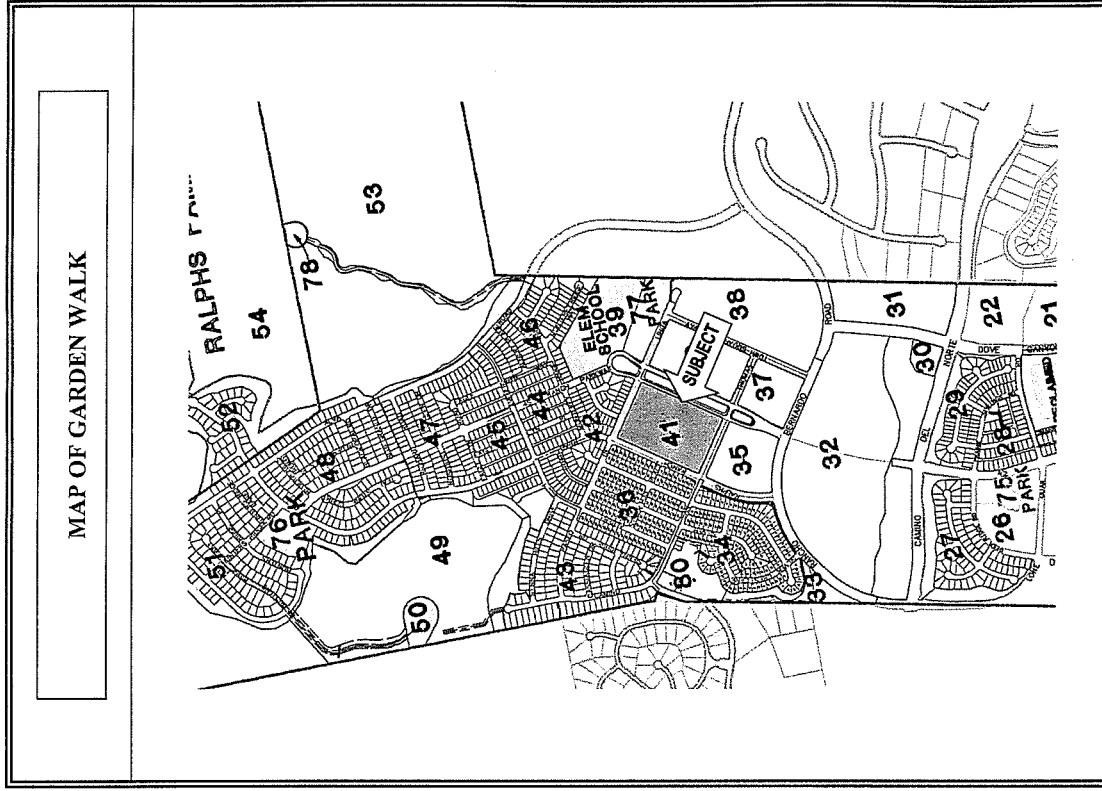
60 vacant lots, if in finished condition @ \$390,000 =	\$23,400,000
Less remaining costs to get to finished lots:	- 2,168,000
Value Indication, As Is Condition:	\$21,232,000

VALUATION, Continuing

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Maybeck tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$21,230,000

(TWENTY-ONE MILLION TWO HUNDRED THIRTY THOUSAND DOLLARS)



GARDEN WALK (SEA COUNTRY HOMES)

PROPERTY DATA

Location

This tract is located in the area bounded by Paseo de Linda at the north, Ralphs Ranch Rd. at the west, 4S Ranch Parkway at the east, and Camino San Thomas along the southerly side. It is also referred to as Planning Area 41.

Record Owner/Ownership History

SCH 4S PA 41 LLC (known by the builder name of Sea Country Homes) acquired the vacant land for this tract from 4S Kelwood General Partnership by deed recorded March 30, 2004, Document No. 0262301 at a price of \$20,000,000 or \$147,059 per lot for the land in mass graded superpad condition. They still own all of the lots as the first sales to homebuyers will not close until October 2005.

Legal Description

The land for this tract comprises Lot 1 of County of San Diego Tract No. 5327-1, according to Map No. 14949 recorded January 19, 2005.

Assessor Data-2004/05

This tract comprises Assessor Parcel No. 678-638-01. The assessed value was not available through RealQuest, but it would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of ±1.01%, but the overall tax rate to the homebuyers will be ±1.8% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 136 lots in a condominium plan. The overall density of the tract is 136 units on 14.4 acres or 9.4 units per acre. The minimum lot size is indicated to be ±3,000 s.f., with a typical range of 3,000 s.f. to 4,000 s.f.

Planned Development/Status of Construction

These 136 lots are being developed with a tract of homes called Garden Walk at 4S Ranch. As of the September 1, 2005 date of value there were 3 completed-unsold homes (models), 78 homes under construction and 55 vacant lots in a near finished condition. Of the 78 homes under construction, 21 are an average of ±60-70% completed, 22 are an average of ±40-50% completed and 35 are an average of ±10-20% completed.

PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

Plan 1 (The Jasmine): 1,888 s.f., two-story, with 3 bedrooms, den, 2½ baths and 2-car garage with options of bedroom 4 and bath 3.

Plan 2 (The Zinnia): 2,117 s.f., two-story, with 3 bedrooms, loft, flex space, 3 baths and 2-car garage with options of master retreat, bedrooms 4 and 5, and bath 4.

Plan 3 (The Willow): 2,317 s.f., two-story, with 4 bedrooms, breakfast nook, 3 baths and 2-car garage with options of flex space at bedrooms 2 and 4.

The base pricing from the first sales release was \$569,990 for Plan 1, \$590,990 for Plan 2 and \$620,990 for Plan 3. The base pricing from the most recent and 5<sup>th</sup> sales release as of August 20, 2005 was \$619,990 for Plan 1, \$649,990 for Plan 2 and \$669,990 for Plan 3. The lot premiums for the first five phases range up to \$8,000, with an average premium of \$2,745. As of the September 1, 2005 date of value, a total of 55 homes have been released for sale and all 55 are currently in escrow with the first closings scheduled for October.

Title Report

A preliminary report by First American Title Company dated July 6, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to previous analyses with completed-unsold homes, homes under construction and remaining vacant lots.

Analysis of Completed-Unsold Homes

These are the 3 completed model homes. As previously indicated, the most recent base pricing is \$619,990 for Plan 1, \$649,990 for Plan 2 and \$669,990 for Plan 3 which indicates a total of \$1,939,970 or an average of ±\$647,000. In addition, there would be the significant model options and upgrades. The pricing for the subject homes is well supported by the strong sales activity in the subject tract with all homes sold that have been released for sale. The pricing is also supported by the pricing and sales activity in other nearby new tracts.

## VALUATION, Continuing

Similar to previous analyses, I have concluded on a conservative average value for these 3 completed-unsold homes at the average current base pricing, or an average of \$647,000.

### Analysis of Homes Under Construction

For the 21 homes that are ±60-70% completed, I have considered an average cost amount of 65% of ±\$60.00 per s.f. total costs or \$39.00 per s.f. on the average home size of ±2,110 s.f., or an amount of ±\$82,000. This is added to the estimated finished lot value of \$300,000, as discussed next, resulting in a total of \$382,000 as an average for these 21 homes.

For the 22 homes that are ±40-50% completed, an average cost amount of 45% of ±\$60.00 per s.f. total costs or \$27.00 per s.f. on the average home size of ±2,110 s.f. indicates an amount of ±\$57,000. This is added to the estimated finished lot value of \$300,000, resulting in a total of \$357,000 as an average for these 22 homes.

For the 35 homes that are ±10-20% completed, an average cost amount of 15% of ±\$60.00 per s.f. total costs or \$9.00 per s.f. on the average home size of ±2,110 s.f. indicates an amount of ±\$19,000. This is added to the estimated finished lot value of \$300,000, resulting in a total of \$319,000 as an average for these 35 homes.

### Analysis of Finished Lot Value

Sale No. 5 was the sale of these subject lots to Sea Country Homes that closed in March 2004 at a price reflecting \$185,485 per finished lot. At that time, the proforma home pricing was estimated at an average of \$492,000. Thus, the current average base pricing of \$647,000 indicates an increase of 32%. Considering an upward time adjustment of at least 40% since the price was negotiated about two years ago results in a current indication at ±\$260,000 per finished lot. This is a conservative indication when considering other more recent sales data, and also when considering the relatively low finished lot ratio indicated by the March 2004 sale in contrast to the higher ratios indicated by more recent sales.

Sale No. 8 supports a far upper limit at \$355,000 per finished lot due to the much larger lots at 4,500 s.f. minimum. Sale No. 17 supports a close indication at \$300,000 per finished lot when considering the slightly smaller lots at 2,450 s.f. minimum, but the projected pricing for homes on these lots is similar in comparison to the subject pricing. Sale No. 18 supports a firm upper limit at \$347,500 per finished lot due to the larger lots at 3,650 s.f. minimum that are planned for higher-priced homes than the subject.

## VALUATION, Continuing

On the basis of a finished lot ratio, I have concluded on a supportable range of 46-47% applied to the current average base pricing of ±\$647,000, and this results in the following:

$$\$647,000 \times .46-.47 = \$297,620 \text{ to } \$304,090/\text{fin. lot}$$

In summary, I have concluded on a value of \$300,000 per finished lot for the subject tract.

### Deduction for Costs to get to Finished Lots

Information provided by Sea Country Homes is that the remaining costs to get the subject lots from as is nearly finished condition to finished lots is \$1,325,523, including the costs for physical items (streets, etc.) plus the remaining fees.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

3 completed/unsold homes @ \$647,000 =	\$ 1,941,000
21 homes under construction @ \$382,000 =	\$ 8,022,000
22 homes under construction @ \$357,000 =	\$ 7,854,000
35 homes under construction @ \$319,000 =	\$11,165,000
55 vacant lots, if in finished condition @ \$300,000 =	\$16,500,000
Less remaining costs to get to finished lots:	\$45,482,000
	<u>- 1,325,523</u>
Value Indication, As Is Condition:	\$44,156,477

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 Garden Walk tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$44,150,000

(FORTY-FOUR MILLION ONE HUNDRED FIFTY THOUSAND DOLLARS)

## MAP OF BRIDGEPORT

## PROPERTY DATA

This tract is located at the northwest corner of 4S Ranch Parkway and Rancho Bernardo Rd., extending north to Camino San Thomas and west to Ralphs Ranch Rd. It is also referred to as Planning Area 35.

Greystone Homes 4S Area 35 LLC (known in this case by the builder name of Lennar Homes) acquired the land for this tract from 4S Kelwood General Partnership by deed recorded March 12, 2004, Document No. 206180 at a price of \$18,000,000 or \$2,569 per lot or dwelling unit for the land in mass graded superpad condition. They still own all of the property as the first sales to homebuyers will not close until November 2005.

The overall site for this tract comprises Lot 1 of County of San Diego Tract No. 5333-1, according to Map No. 15004 recorded April 26, 2005.

This tract comprises Assessor Parcel No. 678-637-01. The assessed value was not available through RealQuest, but it would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the homebuyers will be  $\pm 1.53\%$  including the special taxes for the CFD.

This tract comprises a total of 218 attached residential units, thus there are not individual lots or lot sizes. On the 9.41 acre site, this indicates a density of 23.2 units per acre.

This site is being developed with tract of 218 attached townhomes called Bridgeport at 4S Ranch. As of the September 1, 2005 date of value there were 129 homes under construction and vacant land for the remaining 89 units. Of the 129 homes under construction, 29 were an average of +50-60% completed and 100 were an average of  $\pm 10\%$  completed.

## PROPERTY DATA, Continuing

There are six floor plans, mostly two-story units over garages on the ground floor, which are described as follows:

Residence One: 959 to 988 s.f., two-story, with 1 bedroom, loft, 1½ baths, and 1- or 2-car detached garage.

Residence Two: 1,054 to 1,059 s.f., two-story, with 2 bedrooms, 2 baths and 1- or 2-car detached garage.

Residence Three: 1,439 to 1,457 s.f., two-story, with 2 bedrooms, 2½ baths and 1- or 2-car attached garage.

Residence Four: 1,416 to 1,430 s.f., two-story, with 3 bedrooms, 3 baths and 2-car tandem attached garage.

Residence Five: 1,423 s.f., two-story, with 3 bedrooms, 3 baths and 2-car attached garage.

Residence Six: 1,436 s.f., three-story, with 3 bedrooms, 3½ baths and 2-car attached garage.

The base pricing from the first sales release in November 2004 was \$355,000 for Residence One, \$388,000 for Residence Four, \$400,000 for Residence Five and \$407,500 for Residence six (this release did not include all floor plans). The base pricing from the most recent sales release as of August 18, 2005 was \$373,000 for Residence One, \$429,500 for Residence Two, \$450,000 for Residence Three, \$451,000 for Residence Four, \$458,000 for Residence Five and \$463,000 for Residence Six. As of the September 1, 2005 date of value, there had been 92 homes released for sale and 83 had been sold. The models are due to be completed in early November and the first sales are due to close in mid November 2005.

### Title Report

A title report by North American Title Company dated July 26, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

## VALUATION

### Method of Analysis

This is similar to previous analyses with homes under construction and remaining vacant lots.

## VALUATION, Continuing

### Analysis of Homes Under Construction

For the 29 homes that are ±50-60% completed, I have considered an average cost amount of 55% of ±\$60.00 per s.f. total costs or \$33.00 per s.f. on the average home size of ±1,290 s.f., or an amount of ±\$43,000. This is added to the estimated finished lot value of \$175,000, as discussed next, resulting in a total of \$218,000 as an average for these 29 homes.

For the 100 homes that are ±10% completed, an average cost amount of 10% of ±\$60.00 per s.f. total costs or \$6.00 per s.f. on the average home size of ±1,290 s.f. indicates an amount of ±\$8,000. This is added to the estimated finished lot value of \$175,000, resulting in a total of \$183,000 as an average for these 100 homes.

### Analysis of Finished Lot Value

**Sale No. 1** was the sale of this vacant land to Greystone/Lennar Homes that closed in March 2004 at a price reflecting \$116,600 per finished lot. At that time, the indicated proforma home pricing was estimated at an average of \$370,000, though that appears to be on the high side when considering the proforma pricing for the larger units of San Moritz and Gianni. The current average base pricing of \$437,000 indicates an increase of 18% which is on the low side. As previously discussed for other of these sales that were negotiated about a year prior to the March 2004 closing, an upward time adjustment of at least 40% would support a closer indication at current date of ±\$163,000 per finished lot.

Similar upward time adjustments to the indications of \$139,800 and \$141,000 per finished lot from **Sale Nos. 2 and 3** would support upper limits at \$196,000 and \$197,000 per finished lot, due to the lower density which results in larger and higher-priced homes.

On the basis of a finished lot ratio, the ratio is typically lower for attached product such as the subject. Sale Nos. 1, 2 and 3 indicated finished lot ratios of 32% to 39%, with Sale No. 1 (the subject) appearing to be skewed by the relatively high proforma pricing, resulting in an abnormally low ratio. However, as previously discussed, the ratios indicated by the sales that closed in March 2004 tended to be much lower than the ratios indicated by more recent sales data. Overall, I have concluded on a finished lot ratio of 41-42%, and applied to the current average base pricing of ±\$437,000 the following indication results:

$$\$437,000 \times .41-.42 = \$179,170 \text{ to } \$183,540/\text{fm. lot}$$

In summary, I have concluded on a value of \$175,000 per finished lot for the subject tract.



### Deduction for Costs to get to Finished Lots

Information provided by Lennar Homes is that the remaining costs to get the subject lots/land from as is condition to finished lots is \$850,000, including costs plus pertinent fees.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

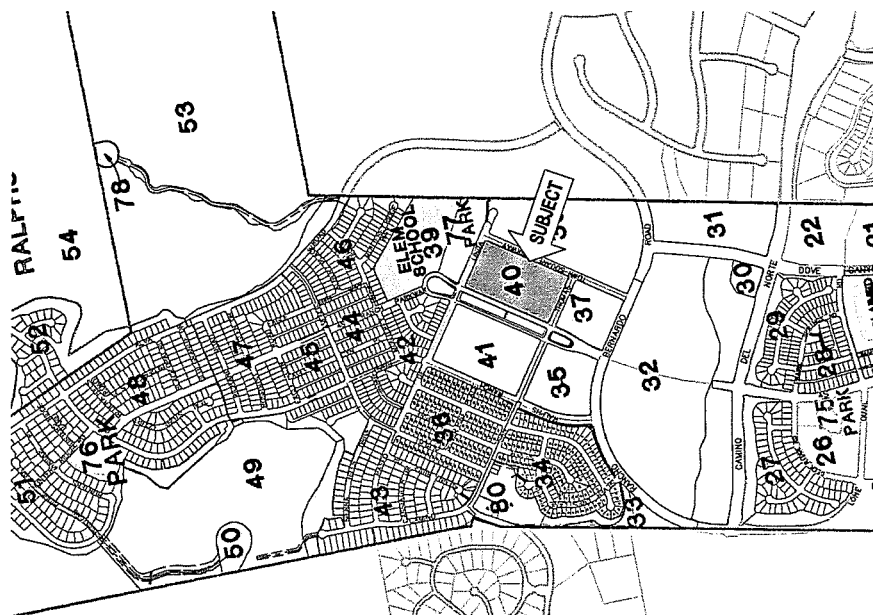
29 homes under construction @ \$218,000 =	\$ 6,322,000
100 homes under construction @ \$183,000 =	\$18,300,000
89 vacant lots, if in finished condition @ \$175,000 =	\$15,575,000
	\$40,197,000
Less remaining costs to get to finished lots:	- 350,000

Value Indication, As Is Condition:

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the subject Bridgeport tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

**\$39,340,000**

(THIRTY-NINE MILLION THREE HUNDRED FORTY THOUSAND DOLLARS)



GIANNI (STANDARD PACIFIC HOMES)

PROPERTY DATA

Location

This tract is located in the area bounded by Paseo de Linda at the north, 4S Ranch Parkway at the west, Town Square Parkway at the east, and Camino San Thomas along the southerly side. It is also referred to as Planning Area 40.

Record Owner/Ownership History

Standard Pacific 4S Townhomes LLC acquired the vacant land for this tract from 4S Kelwood General Partnership by deed recorded March 30, 2004, Document No. 0266835 at a price of \$20,000,000 or \$97,087 per lot or dwelling unit for the land in mass graded superpad condition. They still own all of the property as construction has not yet started.

Legal Description

The land for this tract comprises Lot 1 of County of San Diego Tract No. 5342-1, which is due to be recorded in October 2005.

Assessor Data-2004/05

This tract comprises Assessor Parcel No. 678-638-02. The assessed value was not available through RealQuest. The tax rate area is 64-105, with a current base tax rate of ±1.01%, but the overall tax rate to the homebuyers will be ±1.5% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract will comprise a total of 206 attached residential units, thus there are not individual lots or lot sizes. On the 11.84 acre site, this indicates a density of 17.4 units per acre.

Planned Development/Status of Construction

This site is planned to be developed with a tract of attached townhomes called Gianni at 4S Ranch. As of the September 1, 2005 date of value the site was in a flat, rough graded or mass graded superpad condition and no building permits had been pulled.

There will be five floor plans which are described as follows:

Plan 1 (Bellagio): 1,211 s.f., two-story, with 2 bedrooms, 2½ baths and 1-car garage plus storage.

PROPERTY DATA, Continuing

Planned Development/Status of Construction

Plan 2 (Milan): 1,356 s.f., three-story, with 2 bedrooms, 2 baths, deck and 1-car garage plus storage with option of den at bedroom 2.

Plan 3 (Pisa): 1,389 s.f., two-story, with 3 bedrooms or 2 master suites, 2½ baths and 2-car garage.

Plan 4 (The Colosseum): 1,460 s.f., three-story, with 3 bedrooms, morning room, 3½ baths, deck and 2-car garage with option of den at bedroom 3.

Plan 5 (Grand Canal): 1,578 s.f., two-story, with 3 bedrooms, 2½ baths and 2-car garage.

The base pricing from the first sales release on May 22, 2005 ranged from \$428,900 to \$495,900 or an average of ±\$457,000. The base pricing that was available on August 27 for the sales release on September 11 ranged from \$434,900 to \$505,900 or an average of ±\$465,000. As of the September 1, 2005 date of value there had been 27 homes released for sale and all had been sold. The first closings are anticipated to take place in July 2006.

Title Report

A preliminary report by Chicago Title Company dated July 20, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to previous analyses.

Analysis of Finished Lot Value

The analysis is similar to the previous Bridgeport tract, and that analysis would support a firm lower limit at \$175,000 per finished lot due to the higher density resulting in the smaller and lower priced homes. **Sale No. 3** was the sale of this vacant land to Standard Pacific that closed in March 2004 at a price reflecting \$139,800 per finished lot, and an upward time adjustment of at least 40% results in a current indication at ±\$196,000 per finished lot.

On the basis of a 41-42% finished lot ratio and the current average base pricing of \$465,000, the following indication results:

VALUATION, Continuing

$$\$465,000 \times .41-.42 = \$190,650 \text{ to } \$195,300/\text{fin. lot}$$

In summary, I have concluded on a value of \$195,000 per finished lot for the subject tract.

Deduction for Costs to get to Finished Lots

Information provided by Standard Pacific Homes is that the remaining costs to get the subject land from the as is mass graded superpad condition to finished lots is \$9,038,892, which includes costs for in-tract streets, utilities, amenities, etc., as well as the pertinent development impact fees.

Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

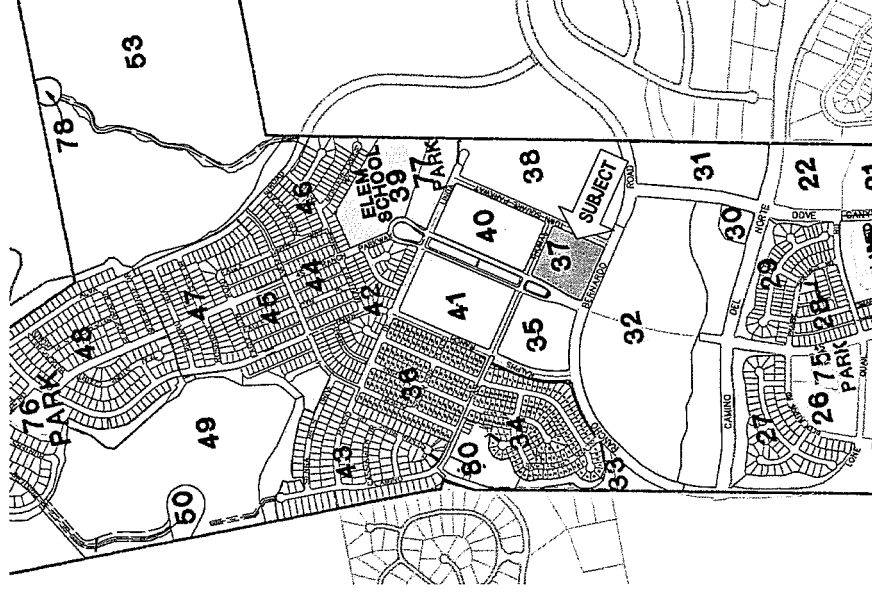
206 vacant lots, if in finished condition @ \$195,000 =	\$40,170,000
Less remaining costs to get to finished lots:	- 9,038,892
Value Indication, As Is Condition:	\$31,131,108

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 Gianni tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$31,130,000

(THIRTY-ONE MILLION ONE HUNDRED THIRTY THOUSAND DOLLARS)

MAP OF SAN MORITZ



SAN MORITZ (SHEA HOMES)

PROPERTY DATA

Location

This tract is located in the area bounded by Rancho Bernardo Rd. at the south, 4S Ranch Parkway at the west, Camino San Thomas at the north and Town Square Parkway at the east. It is also referred to as Planning Area 37.

Record Owner/Ownership History

4S Area 37 LLC (known by the builder name of Shea Homes) acquired the land for this tract from 4S Kelwood General Partnership, by deed recorded March 30, 2004, Document No. 0262188, at a price of \$13,000,000 or \$92,857 per lot or dwelling unit for the land in mass graded superpad condition. They still own all of the property as the first home sales will not close until October 2005.

Legal Description

This tract comprises Lot 263 of County of San Diego Tract No. 5229-1, according to Map No. 14747 recorded February 27, 2004.

Assessor Data-2004/05

This tract comprises Assessor Parcel Nos. 678-637-10-01 to 72 and 678-637-11-01 to 68. The assessed values were not available through RealQuest, but they would likely not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of ±1.01%, but the overall tax rate to the homebuyers is projected to be 1.55% including the special taxes for this CFD.

No. of Lots/Lot Sizes

This tract will comprise a total of 140 attached residential units, thus there are not individual lots or lot sizes. On the 7.08 acre site, this indicates a density of 19.8 units per acre.

Planned Development/Status of Construction

This site is being developed with tract of 140 attached tri-level rowhomes (townhomes) called San Moritz at 4S Ranch. As of the September 1, 2005 date of value there were 6 completed-unsold homes, 72 homes under construction, and vacant land in partially finished condition for the remaining 62 units in 12 buildings. Of the 72 homes under construction, 41 are an average of ±60-70% completed and 31 are an average of ±20-30% completed.

PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

Residence 1: 1,318 s.f., three-story, with 2 bedrooms, alcove, laundry, 2½ baths and 2-car attached garage.

Residence 2: 1,394 s.f., three-story, with 2 bedrooms, den/office, laundry, 2½ baths and 2-car attached garage.

Residence 3: 1,494 s.f., three-story, with 3 bedrooms, tech center, laundry, 3½ baths and 2-car attached garage.

The base pricing from the most recent and 5<sup>th</sup> sales release on August 27, 2005 was \$438,900 for Residence 1, \$443,900 for Residence 2, and \$501,900 for Residence 3. The lot premiums have ranged up to \$8,000. As of the September 1, 2005 date of value there were 72 homes released for sale and all had been sold. The first closings are expected in late October 2005.

Title Report

A preliminary report by First American Title Company dated September 17, 2004 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to previous analyses.

Analysis of Completed-Unsold Homes

These are the 6 completed homes including the 3 models. As previously indicated, the most recent base pricing is \$438,900 for Residence 1, \$443,900 for Residence 2 and \$501,900 for Residence 3, which indicates a total of \$1,384,700 or an average of ±\$462,000. In addition, there would be the significant model options and upgrades. The pricing for the subject homes is well supported by the strong sales activity in the subject tract with all homes sold that have been released for sale. The pricing is also supported by the pricing and sales activity in other nearby new tracts.

Similar to previous analyses, I have concluded on a conservative average value for these 6 completed-unsold homes at the average current base pricing, or an average of \$462,000.

Analysis of Homes Under Construction

For the 41 homes that are ±60-70% completed, I have considered an average cost amount of 65% of ±\$60.00 per s.f. total costs or \$39.00 per s.f. on the average home size of ±1,400 s.f., or an amount of ±\$55,000. This is added to the estimated finished lot value of \$195,000, as discussed next, resulting in a total of \$250,000 as an average for these 41 homes.

For the 31 homes that are ±20-30% completed, an average cost amount of 25% of ±\$60.00 per s.f. total costs or \$15.00 per s.f. on the average home size of ±1,400 s.f. indicates an amount of ±\$21,000. This is added to the estimated finished lot value of \$195,000, resulting in a total of \$216,000 as an average for these 31 homes.

Analysis of Finished Lot Value

The analysis is similar to that for the previous Gianni tract, and while the density of this tract is slightly lower, the homes are fairly similar in size and very similar in current pricing. Thus, the conclusion for this tract is the same at \$195,000 per finished lot.

Deduction for Costs to get to Finished Lots

Information provided by Shea Homes is that the remaining costs to get the subject lots/land from as is condition (partially finished to near finished condition) to finished lots is \$2,392,291.

Conclusion of Value

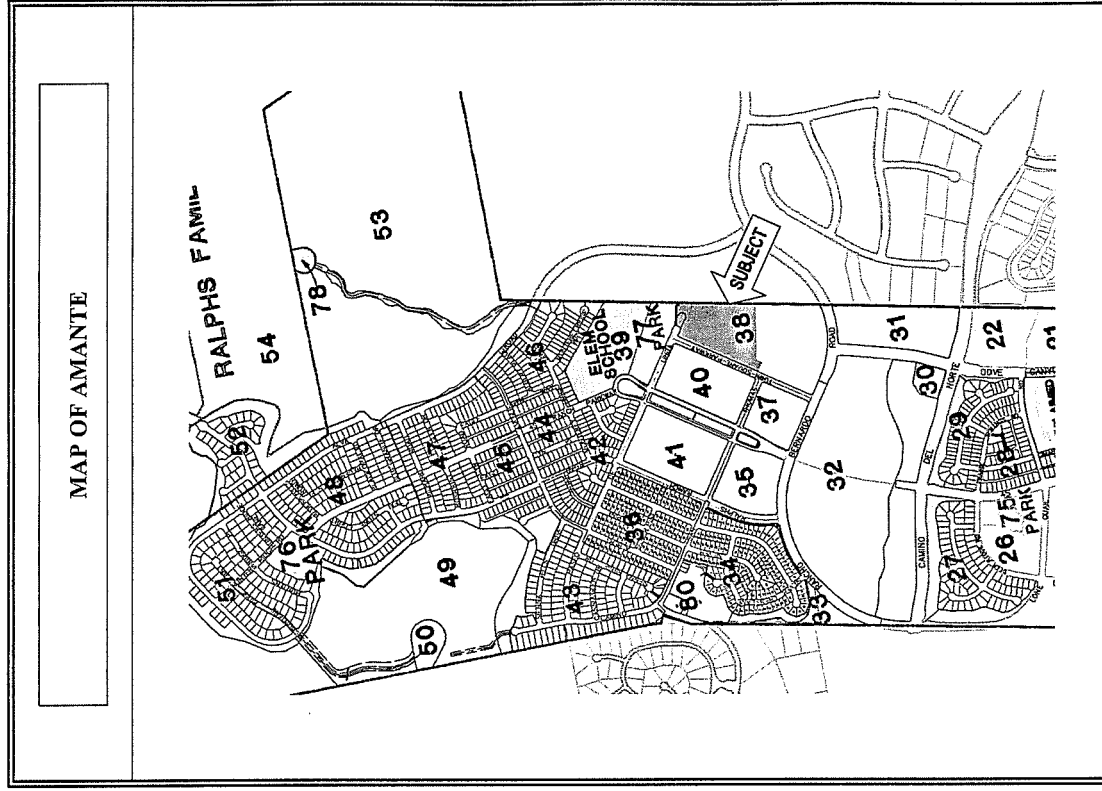
Based on the foregoing, the total value indication is calculated as follows:

6 completed/unsold homes @ \$462,000 =	\$ 2,772,000
41 homes under construction @ \$250,000 =	\$10,250,000
31 homes under construction @ \$216,000 =	\$ 6,696,000
62 vacant lots, if in finished condition @ \$195,000 =	\$12,090,000
	\$31,808,000
Less remaining costs to get to finished lots:	- 2,392,291
Value Indication, As Is Condition:	\$29,415,709

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 San Moritz tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$29,410,000

(TWENTY-NINE MILLION FOUR HUNDRED TEN THOUSAND DOLLARS)



AMANTE (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the southeast corner of Town Square Parkway and Paseo De Linda, extending southerly to Westford Way. It is also referred to as the northerly portion of Planning Area 38.

Record Owner/Ownership History

4S Ranch Planning Area 38 LLC (known by the builder name of William Lyon Homes) acquired the land for this tract and the Ravenna tract, discussed next, from 4S Kelwood General Partnership, by deed recorded March 26, 2004, Document No. 0253054. The sale price was \$39,000,000 for a total of 326 attached and detached homes or \$119,632 per lot (unit). They still own all of the property in this tract, as the first sale closings on completed homes are not anticipated to take place until late September 2005.

Legal Description

This tract comprises the northerly portion of Lot 1 of County of San Diego Tract No. 5328-1, according to Map No. 14965, recorded February 11, 2005, and referred to as Lots or Units 1 through 127.

Assessor Data-2004/05

This tract comprises a portion of Assessor Parcel No. 678-637-03. Thus, the assessed value for just this tract is not available, and likely would not reflect the current status of construction. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the homebuyers is projected to be 1.5% to 1.6% including the special taxes for this CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 127 lots in a condominium plan, with the lot sizes ranging from  $\pm 2,000$  s.f. to 3,000 s.f.

Planned Development/Status of Construction

This site is being developed with a tract of 127 detached courtyard-style homes called Amante at 4S Ranch. As of the September 1, 2005 date of value there were 94 homes under construction and 33 vacant lots in a near finished condition. Of the 94 homes under construction, 28 are an average of  $\pm 90\%$  completed (including the 4

PROPERTY DATA, Continuing

models), 27 are an average of  $\pm 60\text{--}70\%$  completed, and 39 are an average of  $\pm 30\text{--}40\%$  completed.

There are four floor plans which are described as follows:

Plan 1 (Dehesa): 1,454 s.f., two-story, with 2 bedrooms, den or optional bedroom 3, 2½ baths, and 2-car garage.

Plan 2 (Ladera): 1,743 s.f., two-story, with 3 bedrooms, 2½ baths, and 2-car garage.

Plan 3 (Prado): 1,825 s.f., two-story, with 2 bedrooms, den or optional bedroom 3, 2½ baths, and 2-car garage.

Plan 4 (Vina): 1,914 s.f., two-story, with 3 bedrooms, loft or optional bedroom 4, 2½ baths, and 2-car garage.

The base pricing from the first sales release in December 2004 was \$550,900 for Plan 1, \$580,900 for Plan 2, \$598,900 for Plan 3 and \$620,900 for Plan 4. The base pricing from the most recent and 6<sup>th</sup> sales release on July 9, 2005 was \$566,900 for Plan 1, \$610,900 for Plan 2, \$624,900 for Plan 3 and \$646,900 for Plan 4. The lot premiums in the first 6 releases have ranged up to \$20,000 but the average is  $\pm \$3,500$ . As of the September 1, 2005 date of value 73 homes had been released for sale and 68 had been sold. The first closings are scheduled to take place in late September 2005.

Title Report

A preliminary report by Chicago Title Company dated August 18, 2005 has been reviewed. The exceptions to title are fairly similar to those discussed for the previous subject Reunion tract plus some additional easements, and it has been assumed that none of the exceptions to title have a negative effect on the existing and planned development.

VALUATION

Method of Analysis

This is similar to previous analyses.

Analysis of Homes Under Construction

For the 28 homes that are  $\pm 90\%$  completed, I have considered an average cost amount of 90% of  $\pm \$60.00$  per s.f. total costs or \$54.00 per s.f. on the average home size of  $\pm 1,730$  s.f., or an amount of  $\pm \$93,000$ . This is added to the estimated finished lot value of \$285,000, as discussed next, resulting in a total of \$378,000 as an average for these 28 homes.

VALUATION, Continuing

For the 27 homes that are ±60-70% completed, an average cost amount of 65% of ±\$60.00 per s.f. total costs or \$39.00 per s.f. on the average home size of ±1,730 s.f. indicates an amount of ±\$67,000. This is added to the estimated finished lot value of \$285,000, resulting in a total of \$352,000 as an average for these 27 homes.

For the 39 homes that are ±30-40% completed, an average cost amount of 35% of ±\$60.00 per s.f. total costs or \$21.00 per s.f. on the average home size of ±1,730 s.f. indicates an amount of ±\$36,000. This is added to the estimated finished lot value of \$285,000, resulting in a total of \$321,000 as an average for these 39 homes.

Analysis of Finished Lot Value

The previous analysis of the Gianni tract supports a far lower limit for the subject at \$195,000 per finished lot due to the much higher density resulting in the much smaller and lower-priced homes. The previous analysis of the Garden Walk tract supports a firm upper limit for the subject at \$300,000 per finished lot due to the slightly larger lots resulting in the larger and higher-priced homes.

Sale No. 4 was the March 2004 sale of the subject land to William Lyon Homes at a price based on \$167,200 per finished lot. However, that was for the entire site, including the Ravenna tract (discussed next) which consists of a higher density and smaller attached product. Thus, an upward time adjustment of ±40% to a current indication at \$234,000 per finished lot supports a lower limit when considering only the subject Amante tract of the larger product.

Lastly, considering a finished lot ratio of 46-47% and the current average base pricing of ±\$612,000, the following indication results:

$$\$612,000 \times .46-.47 = \$281,520 \text{ to } \$287,640/\text{fin. lot}$$

In summary, I have concluded on a value of \$285,000 per finished lot for the subject tract.

Deduction for Costs to get to Finished Lots

Information provided by William Lyon Homes is that the remaining costs to get the subject lots from as is condition (partially finished to near finished) to finished lots is \$2,764,000, including the costs for physical items (streets, etc.) plus the remaining fees.

Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

VALUATION, Continuing

28 homes under construction @ \$378,000 =	\$10,584,000
27 homes under construction @ \$352,000 =	\$ 9,504,000
39 homes under construction @ \$321,000 =	\$12,519,000
33 vacant lots, if in finished condition @ \$285,000 =	\$ 9,405,000
	\$42,012,000
Less remaining costs to get to finished lots:	- 2,764,000
	\$39,248,000
Value Indication, As Is Condition:	

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 Amante tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$39,240,000

(THIRTY-NINE MILLION TWO HUNDRED FORTY THOUSAND DOLLARS)

RAVENNA (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the northeast corner of Rancho Bernardo Rd. and Town Square Parkway, extending north to Westford Way. It is also referred to as the southerly portion of Planning Area 38.

Record Owner/Ownership History

This was previously discussed for the Amante tract.

Legal Description

This tract comprises the southerly portion of Lot 1 of County of San Diego Tract No. 5328-1, according to Map No. 14965, recorded February 11, 2005, and referred to as Lots or Units 1 through 199.

Assessor Data-2004/05

This is the same as for the previous Amante tract, and the overall tax rate to the homebuyers is projected to be 1.5% including the special taxes for this CFD.

No. of Lots/Lot Sizes

This tract will comprise a total of 199 attached residential units, thus there are not individual lots or lot sizes. The density appears to be ±14 to 16 units per acre.

Planned Development/Status of Construction

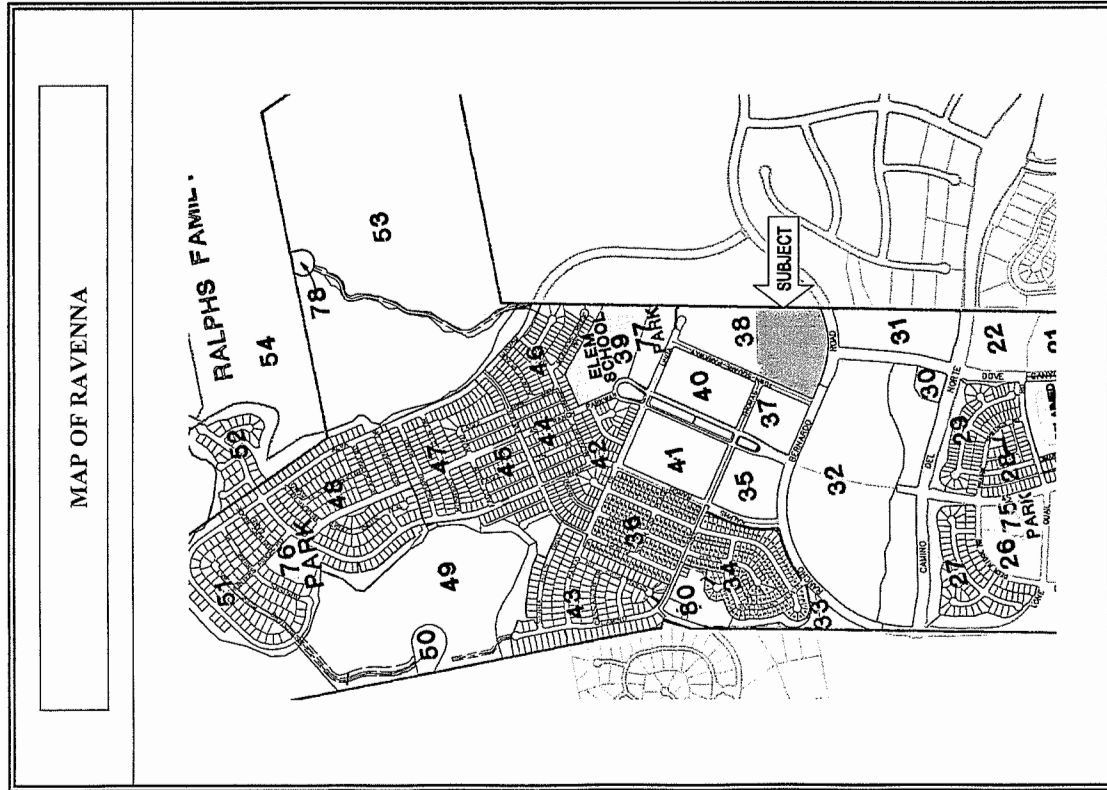
This site is being developed with a tract of 199 attached townhomes called Ravenna at 4S Ranch. As of the September 1, 2005 date of value there were 108 units under construction and vacant land in near finished condition for the remaining 91 units. Of the 108 units under construction, 31 are an average of ±60-70% completed, 23 are an average of ±40-50% completed and 54 are an average of ±20-30% completed.

There are three floor plans which are described as follows:

Plan 1 (Adriano): 1,476 s.f., two-story with mezzanine, with 2 bedrooms, loft, 2½ baths and 2-car garage.

Plan 2 (Classe): 1,405 s.f., two-story, with 3 bedrooms, 2½ baths, and 2-car garage with option of den at bedroom 3.

Plan 3 (Savio): 1,626 s.f., two-story, with 3 bedrooms, loft, 2½ baths and 2-car garage with options of den and bedroom 4.





**PROPERTY DATA, Continuing**

The base pricing from the first sales release in December 2004 was \$450,900 for Plan 1, \$445,900 for Plan 2 and \$480,900 for Plan 3. The base pricing from the most recent and 8<sup>th</sup> sales release on August 27 was \$475,900 for Plan 1, \$463,900 for Plan 2 and \$515,900 for Plan 3. The lot premiums have been an average of +\$2,000 to \$3,000. As of the September 1, 2005 date of value there had been 102 homes released for sale with 88 sold and 14 available. The first sale closings are scheduled to take place in early November 2005.

**Title Report**

This is the same as for the previous Amante tract.

**VALUATION**

**Method of Analysis**

This is similar to previous analyses.

**Analysis of Homes Under Construction**

For the 31 homes that are ±60-70% completed, I have considered an average cost amount of 65% of ±\$60.00 per s.f. total costs or \$39.00 per s.f. on the average home size of ±1,500 s.f., or an amount of ±\$58,000. This is added to the estimated finished lot value of \$200,000, as discussed next, resulting in a total of \$258,000 as an average for these 31 homes.

For the 23 homes that are ±40-50% completed, an average cost amount of 45% of ±\$60.00 per s.f. total costs or \$27.00 per s.f. on the average home size of ±1,500 s.f. indicates an amount of ±\$40,000. This is added to the estimated finished lot value of \$200,000, resulting in a total of \$240,000 as an average for these 23 homes.

For the 54 homes that are ±20-30% completed, an average cost amount of 25% of ±\$60.00 per s.f. total costs or \$15.00 per s.f. on the average home size of ±1,500 s.f. indicates an amount of ±\$22,000. This is added to the estimated finished lot value of \$200,000, resulting in a total of \$222,000 as an average for these 54 homes.

**Analysis of Finished Lot Value**

The previous analysis of the Gianni tract supports a close lower limit for the subject at \$195,000 per finished lot due to the slightly higher density resulting in the slightly smaller and lower-priced homes. The previous analysis of the Amante tract supports a far upper limit for the subject at \$285,000 per finished lot due to the lower density with larger and higher-priced detached homes. Also as indicated for the Amante tract, the time-adjusted indication for the purchase of the subject land resulted in an

**VALUATION, Continuing**

indication at \$234,000 per finished lot, which is an upper limit for this Ravenna tract being the higher density portion of the overall site.

Lastly, considering a finished lot ratio of 41-42% (reflecting the attached product) and the current average base pricing of ±\$485,000, the following indication results:

$$\$485,000 \times .41-.42 = \$198,850 \text{ to } \$203,700/\text{fin. lot}$$

In summary, I have concluded on a value of \$200,000 per finished lot for the subject tract.

**Deduction for Costs to get to Finished Lots**

Information provided by William Lyon Homes is that the remaining costs to get the subject lots from as is condition (partially finished to near finished) to finished lots is \$4,924,000, including the costs for physical items (streets, etc.) plus the remaining fees.

**Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

31 homes under construction @ \$258,000 =	\$ 7,998,000
23 homes under construction @ \$240,000 =	\$ 5,520,000
54 homes under construction @ \$222,000 =	\$11,988,000
91 vacant lots, if in finished condition @ \$200,000 =	\$18,200,000
Less remaining costs to get to finished lots:	\$43,706,000
	- 4,924,000
Value Indication, As Is Condition:	\$38,782,000

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 Ravenna tract, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

**\$38,780,000**

**(THIRTY-EIGHT MILLION SEVEN HUNDRED EIGHTY THOUSAND DOLLARS)**

# NEIGHBORHOOD THREE/4S KELWOOD OWNERSHIP

## PROPERTY DATA

### Location

This ownership is located toward the northerly end of 4S Ranch, on both sides of 4S Ranch Parkway, generally northerly of Monterey Ridge Way and extending north to the north side of Richard Rd. This ownership is referred to as Planning Areas 45, 46 and 47.

### Record Owner/Ownership History

All of this land is owned by 4S Kelwood General Partnership, and is part of the bulk ownership which was acquired a number of years ago. However, it is noted that there are pending sales of all of these lots to four different merchant builders and these sales are due to close in December 2005 and February 2006.

### Legal Description

The four separate tracts of homes that will comprise these three Planning Areas are identified as follows:

Planning Area	Final Tract Map
45	Lots 695 to 754 of Tract No. 5229-3
46	Lots 505 to 605 of Tract No. 5229-2
47A	Lots 755 to 770, 791 to 811, 820 to 841 & 856 to 866 of Tract No. 5229-3
47B	Lots 673 to 694, 771 to 790, 812 to 819 & 842 to 855 of Tract No. 5229-3

It is noted that Tract No. 5229-2 recorded as Map No. 14966 on February 15, 2005, and Tract No. 5229-3 is anticipated to record in November 2005.

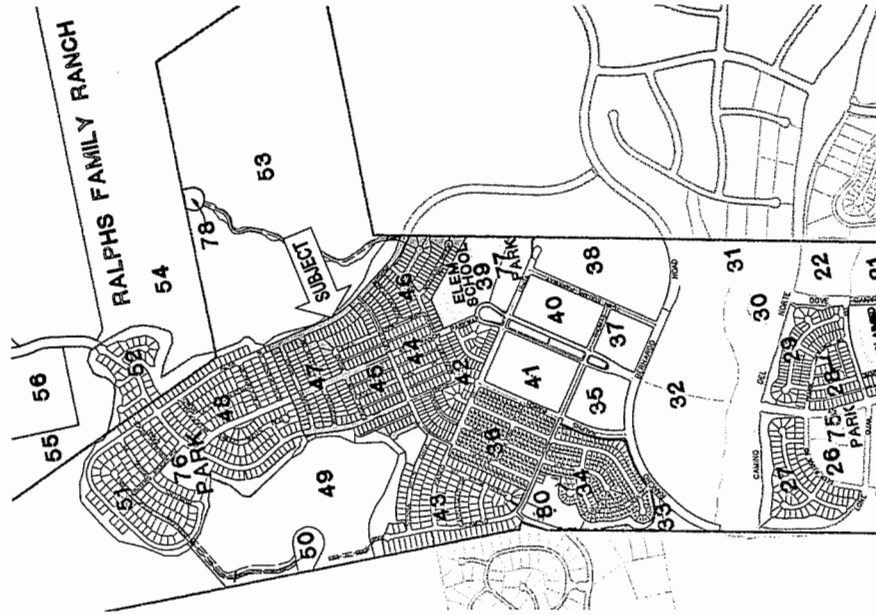
### Assessor Data-2004/05

The subject tracts comprise a portion of Assessor Parcel No. 678-050-48. Thus, assessed values are not available for each tract, and likely would not reflect the status of the land development. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the future homebuyers is projected to be a maximum of 1.9% including the special taxes for this CFD.

### No. of Lots/Lot Sizes/Planned Development

There are a total of 295 lots comprising this ownership in Neighborhood Three, and these are allocated into the four planned tracts by Planning Area, builder, number of lots, minimum lot size, and projected home sizing and pricing, as follows:

## NEIGHBORHOOD THREE/4S KELWOOD OWNERSHIP



PROPERTY DATA, Continuing

Planning Area	Builder	No. of Lots	Min. Lot Size	Home Size	Pricing
45	William Lyon	60	5,000 s.f.	2,797-3,481 s.f.	\$830,000 avg.
46	Buie	101	4,500 s.f.	2,696-3,047 s.f.	\$755,000 avg.
47A	Fieldstone	70	5,000 s.f.	±2,900-3,450 s.f.	\$855,000 avg.
47B	K. Hovnanian	64	5,000 s.f.	±2,900-3,450 s.f.	\$775,000 avg.
		295			

It is noted that Planning Area 45 will be a continuation of the Maybeck product that will be built on the adjacent Planning Area 44, thus the pricing is from the current Maybeck tract on Planning Area 44. The pricing for Planning Areas 46 and 47B reflects the proforma pricing when the sales were negotiated in September 2004. Planning Area 47A will be a continuation of the SilverCrest product that is currently being built on Planning Area 36, and the pricing is from the current status of that tract.

Current Status/Timing of Development

As of the September 1, 2005 date of value, Planning Area 46 consisted of lots in graded blue-top condition and Planning Areas 45 and 47 were in the process of being graded. The three sales of the lots comprising Planning Areas 46 and 47 are scheduled to close in December 2005, and the sale of the lots comprising Planning Area 45 is scheduled to close in February 2006. Construction is anticipated to start shortly after the land sales close.

Title Report

A title report has not been reviewed on these tracts. However, it has been assumed that the exceptions to title would be similar to those previously discussed for the other subject tracts. Thus, it has also been assumed that there are no pertinent exceptions to title that would negatively affect the development potential or the valuation.

VALUATION

Method of Analysis

This is similar to previous analyses.

Analysis of Finished Lot Values

Planning Area 45: This is the same as the previous analysis of the Maybeck tract comprising Planning Area 44, and the conclusion is the same at \$390,000 per finished lot.

VALUATION, Continuing

Planning Area 46: Sale No. 8 is the pending sale of these lots based on a price of \$355,000 per finished lot, which is due to close in December 2005. Considering also the previous analyses of the Rosemary Lane and Silhouette tracts, I have concluded that this is a supportable value at current date, thus the conclusion for these lots is \$355,000 per finished lot.

Planning Area 47A: Sale No. 11 is the pending sale of these lots based on a price of \$400,000 per finished lot, which is due to close in December 2005. It was also noted that these lots are to be developed with a continuation of the SilverCrest homes that are currently being built on Planning Area 36. The previous analysis of the SilverCrest tract concluded on a value of \$395,000 per finished lot. However, I have concluded that the pending sale price is supportable for this planning area, thus the conclusion is at \$400,000 per finished lot.

Planning Area 47B: Sale No. 12 is the pending sale of these lots at a price of \$400,000 per finished lot. Similar to the analysis of Planning Area 47A, I have concluded that this price is supportable, and the conclusion for this planning area is a value of \$400,000 per finished lot.

Deductions to Semi-Finished Condition

A deduction is made to reflect the costs to the builder to get from the semi-finished condition at which the lots will be delivered by the master developer to finished lot condition. This will reflect the condition at which the lots will be sold by the master developer. Based on information provided by the master developer (4S Kelwood General Partnership), the estimated cost deductions are as follows:

Planning Area	Est. Value/ Finished Lot	Less Costs From		Est. Value/ Semi-Fin. Lot
		Semi-Fin. Cond. to Fin. Lots		
45	\$390,000	\$29,000		\$361,000
46	\$355,000	\$24,000		\$331,000
47A	\$400,000	\$23,000		\$377,000
47B	\$400,000	\$23,000		\$377,000

Deduction for Grading & Infrastructure Costs

Lastly, a deduction is made to reflect an approximate allocation of the remaining master developer costs for the grading of these lots, plus construction of the infrastructure for these tracts as well as throughout the community. The remaining community infrastructure costs to the master developer include items of roads, parks, water tank, water pump station, gymnasium & pool, library & sheriff's building, and offsite water mains.

**VALUATION, Continuing**

The total of these remaining master developer costs are estimated at approximately \$88,000,000. Initially, a deduction of \$25,500,000 is made to reflect the estimated CFD bond proceeds for non-school facilities that will reimburse the master developer for a portion of these facilities. Thus, the net remaining costs are estimated at \$62,500,000.

Then, it is estimated that the costs to complete the grading and infrastructure specific to Planning Areas 45, 47, 48 and 51 is approximately \$29,000,000. It is noted that Planning Area 46 is already completed to the semi-finished condition, and Planning Areas 48 and 51 are discussed next in Neighborhood Four/4S Kelwood Ownership. These four planning areas (45, 47, 48 & 51) comprise a total of 483 lots. Thus, the \$29,000,000 cost indicates an amount of \$60,041 per lot. For Neighborhood Three, this cost is applied to the 194 lots in Planning Areas 45 and 47, which indicates the following:

$$194 \text{ lots @ } \$60,041 = \$11,647,954$$

The remaining community infrastructure costs are then \$62,500,000 less the \$29,000,000 amount, or \$33,500,000. These costs are allocated over the entire remaining master developer ownership which consists of the 295 lots in Neighborhood Three, the 289 lots in Neighborhood Four, plus the 30 lots in the second takdown of the Ivy Gate (Planning Area 4) that was previously discussed. Thus, the \$33,500,000 cost allocated over 614 lots is an amount of \$54,560 per lot. Allocating this amount to the 295 lots in Neighborhood Three indicates the following:

$$295 \text{ lots @ } \$54,560/\text{lot} = \$16,095,200$$

In summary, the total deduction for Neighborhood Three is \$11,647,954 plus \$16,095,200, or a total of \$27,743,154.

**Conclusion of Value**

Based on the foregoing, the total value indication is calculated as follows:

Planning Area 45: 60 lots @ \$361,000 (semi-finished cond.) =	\$ 21,660,000
Planning Area 46: 101 lots @ \$331,000 (semi-finished cond.) =	\$ 33,431,000
Planning Area 47A: 70 lots @ \$377,000 (semi-finished cond.) =	\$ 26,390,000
Planning Area 47B: 64 lots @ \$377,000 (semi-finished cond.) =	\$ 24,128,000
	\$105,609,000
Less cost allocation for remaining grading/infrastructure:	<u>27,743,154</u>
Value Indication, As Is Condition:	\$ 77,865,846

**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 Neighborhood Three/4S Kelwood ownership, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

$$\$77,860,000$$

(SEVENTY-SEVEN MILLION EIGHT HUNDRED SIXTY THOUSAND DOLLARS)

NEIGHBORHOOD FOUR/4S KELWOOD OWNERSHIP

PROPERTY DATA

Location

This ownership is located at the far northerly end of 4S Ranch, on both sides of 4S Ranch Parkway, and northerly of the lots along the north side of Richard Rd. This ownership is referred to as Planning Areas 48 and 51.

Record Owner/Ownership History

All of this land is owned by 4S Kelwood General Partnership, and is part of the bulk ownership which was acquired a number of years ago.

Legal Description

These two Planning Areas are identified as follows:

Planning Area	Final Tract Map
48	Lots 867 to 1041 of Tract No. 5229-3
51	Lots 1042 to 1154 of Tract No. 5229-3

As previously indicated, this tract map is anticipated to record in November 2005.

Assessor Data-2004/05

These Planning Areas comprise portions of Assessor Parcel Nos. 678-030-06 and 678-050-48. Thus, assessed values are not available for each Planning Area, and likely would not reflect the status of the land development. The tax rate area is 64-105, with a current base tax rate of  $\pm 1.01\%$ , but the overall tax rate to the future homebuyers is projected to be a maximum of 1.9% including the special taxes for this CFD.

No. of Lots/Lot Sizes/Planned Development

There are a total of 289 lots comprising this ownership in Neighborhood Four, and the number of lots, minimum lot size and projected home sizing and pricing is shown in the following table:

Planning Area	No. of Lots	Min. Lot Size	Home Size	Pricing
48	175	6,000 s.f.	$\pm 3,800$ s.f. avg.	\$980,000 avg.
51	114	7,000 s.f.	$\pm 4,200$ s.f. avg.	\$1,100,000 avg.
	289			

PROPERTY DATA, Continuing

Current Status/Timing of Development

As of the September 1, 2005 date of value, both Planning Areas were in the process of being graded. The master developer anticipates that these lots will be marketed for sale in the first quarter of 2006, and the sales would close in the fourth quarter of 2006.

Title Report

A title report has not been reviewed on these tracts. However, it has been assumed that the exceptions to title would be similar to those previously discussed for the other subject tracts. Thus, it has also been assumed that there are no pertinent exceptions to title that would negatively affect the development potential or the valuation.

VALUATION

Method of Analysis

The analysis is based on a discounted cash flow, since the land sales are not anticipated to take place for 15 to 16 months from the date of value. This discounted cash flow is on a quarterly basis and will reflect the land sales taking place in the 6<sup>th</sup> quarter of the cash flow (December 2006), and based on the value of the semi-finished condition, as discussed for Neighborhood Three. In addition, the allocation of the remaining grading and infrastructure costs is 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 48: The analysis of these 6,000 s.f. minimum lots is similar to the previous analyses of the Reunion and Travata tracts. Thus, the value conclusion for these lots is also the same, or \$425,000 per finished lot.

Planning Area 51: The analysis of these subject lots at 7,000 s.f. minimum is similar to the previous analysis of the Palomino tract which had 7,500 to 8,000 s.f. lots, but were being developed with fairly similar homes in terms of the size and pricing as are projected for the subject lots. Thus, the conclusion for Planning Area 51 is the same, or \$450,000 per finished lot.

Deductions to Semi-Finished Condition

This is similar to the discussion for Neighborhood Three, and the deductions are shown as follows:

VALUATION, Continuing

Planning Area	Est. Value/ Finished Lot	Less Costs From		No. Lots	Total Value@ Semi-Fin. Condition
		Semi-Fin. Cond. to Fin. Lots	Est. Value/ Semi-Fin. Lot		
48	\$425,000	\$25,000	\$400,000	175	\$70,000,000
51	\$450,000	\$25,000	\$425,000	114	\$48,450,000

Deduction for Grading & Infrastructure Costs

Based on the discussion for Neighborhood Three, the allocation of costs to these 289 lots in Neighborhood Four is the combined total of \$60,041 and \$54,560 per lot, or the total of \$114,601 per lot. This results in the following total:

$$289 \text{ lots @ } \$114,601/\text{lot} = \$33,119,689$$

Then, per the master developer, these costs are anticipated to be spent over the time period through the end of 2007, or through the last or ninth quarter in the cash flow which is September-November 2007. The costs are anticipated to be higher in the earlier quarters of the cash flow and lower after the land sales take place. Thus, I have concluded on amounts of \$5,000,000 for each of the first five quarters of the cash flow, \$2,500,000 for each of the next three quarters and \$619,689 for the last quarter.

Lastly, I have added a cost factor for Overhead/Marketing, and this reflects the master developer costs of overhead, administration, marketing, sales, etc. This amount is based on 5% of gross revenues from the land sales, and then distributed evenly over the 9 quarters in the cash flow.

Absorption/Rate of Land Sales

As previously indicated, the sales are anticipated to take place in December 2006, or the 6<sup>th</sup> quarter of the cash flow.

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 second quarter of 2005 indicates a range of rates from 11.0% to 25.0% or an average of 18.05%. However, this includes all types of development, and primarily much smaller projects than the subject. It is also noted that this rate is inclusive of profit to the master developer, since no line item for profit is deducted as an expense.

## DISCOUNTED CASH FLOW ANALYSIS

Quarterly		9/05-11/05	12/05-2/06	3/06-5/06	6/06-8/06	9/06-11/06	12/06-2/07	3/07-5/07	6/07-8/07	9/07-11/07	Total
REVENUES (Land Sales)											
	Planning Area 48	\$0	\$0	\$0	\$0	\$0	\$70,000,000	\$0	\$0	\$0	\$70,000,000
	Planning Area 51	\$0	\$0	\$0	\$0	\$0	\$48,450,000	\$0	\$0	\$0	\$48,450,000
	Total	\$0	\$0	\$0	\$0	\$0	\$118,450,000	\$0	\$0	\$0	\$118,450,000
PROJECT COSTS											
	Land Development	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$2,500,000	\$2,500,000	\$2,500,000	\$619,689	\$33,136,740
	Overhead/Marketing	5% \$658,056	\$658,056	\$658,056	\$658,056	\$658,056	\$658,056	\$658,056	\$658,056	\$658,056	\$5,922,500
	Total	\$5,658,056	\$5,658,056	\$5,658,056	\$5,658,056	\$5,658,056	\$3,158,056	\$3,158,056	\$3,158,056	\$1,277,745	\$39,059,240
NET CASH FLOWS		-\$5,658,056	-\$5,658,056	-\$5,658,056	-\$5,658,056	-\$5,658,056	\$115,291,944	-\$3,158,056	-\$3,158,056	-\$1,277,745	\$79,390,760
DISCOUNT FACTOR		20% 0.952381	0.909091	0.869565	0.833333	0.800000	0.769231	0.740741	0.714286	0.689655	
PV OF CASH FLOWS		-\$5,388,624	-\$5,143,687	-\$4,920,048	-\$4,715,046	-\$4,526,444	\$88,686,111	-\$2,339,300	-\$2,255,754	-\$881,203	
PRESENT VALUE		\$58,516,003									

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### VALUATION, Continuing

Considering that the subject property is relatively small as two separate tracts totaling 289 lots, and that the sell-off of the land is anticipated to take place in less than 1½ years, there is relatively limited risk. Furthermore, these are the last two remaining residential tracts in 4S Ranch, which has experienced very good market acceptance since its inception and through the current date.

Thus, I have concluded on a discount rate toward the lower end of the overall range, or a rate of 20%.

### Conclusion of Value

The discounted cash flow analysis is shown on the following page, which incorporates the foregoing factors. As indicated, this analysis results in a present value indication of the as is condition of the land at \$58,516,003.

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of Neighborhood Four/4S Kelwood ownership, subject to the Assumptions and Limiting Conditions, and as of September 1, 2005:

\$58,500,000

(FIFTY-EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS)

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# TABULATION OF RESIDENTIAL LAND SALES

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size or Density	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
1	NWC Rancho Bernardo Rd. & 4S Ranch Pkwy, San Diego (Bridgeport)	4S Kelwood Gen'l Ptnshp Greystone Homes 4S Area 35	3/04	218	23.2/ac	958-1,436 s.f. \$370,000 avg.	\$82,569 \$116,600	32%	PA 35 of 4S Ranch, Neighborhood 3; delivered as mass graded superpad
2	NEC Rancho Bernardo Rd. & 4S Ranch Pkwy, San Diego (San Moritz)	4S Kelwood Gen'l Ptnshp 4S Area 37 LLC	3/04	140	19.8/ac	1,318-1,494 s.f. \$360,000 avg.	\$92,857 \$139,800	39%	PA 37 of 4S Ranch, Neighborhood 3; delivered as mass graded superpad
3	NEC 4S Ranch Pkwy & Camino San Thomas, San Diego (Gianni)	4S Kelwood Gen'l Ptnshp Standard Pac. 4S Townhomes	3/04	206	17.4/ac	1,211-1,578 s.f. \$360,000 avg.	\$97,087 \$141,000	39%	PA 40 of 4S Ranch, Neighborhood 3; delivered as mass graded superpad
4	NEC Rancho Bernardo Rd. & Town Square Pkwy, San Diego (Amanite & 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
5	NWC 4S Ranch Pkwy & Camino San Thomas, San Diego (Garden Walk)	4S Kelwood Gen'l Ptnshp SCH 4S PA 41 LLC	3/04	136	±3,000	1,888-2,317 s.f. \$492,000 avg.	\$147,059 \$185,485	38%	PA 41 of 4S Ranch, Neighborhood 3; delivered as mass graded superpad
6	N/S Pasco 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
7	NWC Rancho Bernardo Rd. & Ralphs Ranch Rd., San Diego (Rosemary Lane)	4S Kelwood Gen'l Ptnshp Laing 4S Area 34 LLC	3/04	133	4,275	2,461-3,274 s.f. \$580,000 avg.	\$195,000 \$210,000	36%	PA 34 of 4S Ranch, Neighborhood 3; delivered as blue-top lots
8	SEC 4S Ranch Pkwy & Monterey Ridge Dr., San Diego (n/a)	4S Kelwood Gen'l Ptnshp Buic Communities	Escrow	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; due to close in 12/05
9	NWC Ralphs Ranch Rd. & Camino San Thomas, San Diego (SilverCrest)	4S Kelwood Gen'l Ptnshp Fieldstone 4S Area 36, LLC	3/04	127	5,000	2,901-3,365 s.f. \$635,000	\$210,000 \$225,000	35%	PA 36 of 4S Ranch, Neighborhood 3; delivered as blue-top lots
10	N/S Monterey Ridge Dr. at 4S Ranch Pkwy, San Diego (Meybeck)	4S Kelwood Gen'l Ptnshp Hearthstone Multi-Assot Entity	8/05 Escrow	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; PA 45 due to close in 2/06
11	NEC 4S Ranch Pkwy & Eagle Canyon Rd., San Diego (SilverCrest)	4S Kelwood Gen'l Ptnshp Fieldstone Communities	Escrow	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; to close in 12/05; to be continuation of PA 36
12	NWC 4S Ranch Pkwy & Engle Canyon Rd., San Diego (Evergreen)	4S Kelwood Gen'l Ptnshp K. Hovnanian Homes	Escrow	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; to close in 12/05

ADDENDA



**QUALIFICATIONS  
OF  
STEPHEN G. WHITE, MAI**

**PROFESSIONAL EXPERIENCE**

Real Estate Appraiser since 1976.  
1983 through current date: Self-employed; office located at 1370 N. Brea Blvd., Suite 205, Fullerton, CA 92835 (Phone: 714-738-1595)

1976-1982: Employed by Cedric A. White, Jr., MAI, independent appraiser located in Anaheim.  
Real estate appraisals have been completed on most types of properties for purposes of fair market value, leased fee value, leasehold value, easement value, partial acquisitions and severance damages.

**PROFESSIONAL ORGANIZATIONS**

Member, Appraisal Institute; MAI designation obtained 1985  
Affiliate Member, Pacific West Association of Realtors

**LICENSES**

Licensed by the State of California as a Certified General Real Estate Appraiser; OREA ID No. AG013311; valid through September 22, 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.

**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	NWC Albert Ave. & Pasco De Linda, San Diego (Reunion)	4S Kelwood Gen'l Ptnshp Davidson 4S Area 43 LLC	3/04	66	6,300	3,594-4,276 s.f. \$755,000 avg.	\$332,000 \$350,000	46%	PA 43 (North) of 4S Ranch, Neighborhood 3; delivered as blue-top lots
14	Camino San Thomas at Camp Ania Ave., San Diego (Travata)	4S Kelwood Gen'l Ptnshp Standard Pacific 4S Area 43	3/04	65	6,300	3,552-3,726 s.f. \$755,000 avg.	\$332,000 \$350,000	46%	PA 43 (South) of 4S Ranch, Neighborhood 3; delivered as blue-top lots
15	SE/S Carmel Valley Rd. at Wincsprings Dr., San Diego (Palomino)	4S Kelwood Gen'l Ptnshp K. Hovnanian at 4S, LLC	3/05	24	8,000	4,152-4,595 s.f. \$765,000 avg.	n/a \$300,000	39%	PA 2 of 4S Ranch, Neighborhood 2; delivered as partially finished lots; to be a continuation of PA 6
16	NW/O Carmel Valley Rd. at Wincereck Rd., San Diego (Ivy Gate)	4S Kelwood Gen'l Ptnshp Woodbridge 4S Area 4 LLC	3/05 Escrow	36 30 68	±15,000 (pad)	3,820-5,359 s.f. n/a	\$324,500 \$350,000	n/a	PA 4 of 4S Ranch, Neighborhood 2; delivered as partially finished lots
17	N'y corner Camino Del Sur & Pasco Del Sur, San Diego (Bridgewalk)	Black Mountain Ranch LLC Standard Pacific Corp.	5/05	69	2,450	1,706-1,969 s.f. \$650,000 avg.	\$260,870 \$300,000	46%	PA 13 of Del Sur, North Village, Phase II-B; delivered in blue-top condition; ±1.9% max. tax rate
18	S'y corner Parkside Crescent & New Park Terrace, San Diego (Madeira)	Black Mountain Ranch LLC Shea Homes Ltd. Ptnshp.	5/05	78	3,650	1,676-2,218 s.f. \$730,000 avg.	\$298,718 \$347,500	48%	Del Sur, North Village, Phase II-B; delivered in blue-top condition; ±1.85% tax rate
19	SWC Camino Del Sur & Casey Glen and NEC Cam. Del Sur & New Park Terrace, San Diego (Alcala)	Black Mountain Ranch LLC Hearthstone Multi-Asset Entity	5/05	83	4,500	2,463-2,583 s.f. \$770,000 avg.	n/a \$353,000	46%	Del Sur, North Village, Phase II-B; delivered in blue-top condition; ±1.9% max. tax rate
20	S/S Camino Del Sur, a block E/O Casey Glen, San Diego (Cabrillo)	Black Mountain Ranch LLC Standard Pacific Corp.	5/05 Escrow	26 36 62	5,000	2,420-3,018 s.f. \$790,000 avg.	\$326,923 \$360,000	46%	PA 9 of Del Sur, North Village, Phase II-B; delivered in blue-top condition; ±1.9% max. tax rate
21	NW/S Camino Del Sur at NW end of Del Sur community, San Diego (Avaron)	Black Mountain Ranch LLC Standard Pacific Corp.	Escrow	59	9,000	3,959-4,430 s.f. ±\$1,250,000 avg.	n/a \$585,000	47%	North Cluster of Del Sur community; delivered in blue-top condition; 1.7-1.9% tax rate
22	Stonebridge Pkwy at Stockwood Cove/Deprise Cove/Eden Mills Pl., San Diego (The Warrington Collection)	McMillin 47, LLC Warrington Scripps Assoc.	11/04 2/05	26 10 36	12,000	4,141-4,735 s.f. n/a	\$527,500 \$536,300	n/a	Stonebridge Estates, Phase 2; delivered as near finished lots; some territorial views; 1.4-1.5% tax rate
23	N/S Stonebridge Pkwy. at Old Creek Rd., San Diego (Sanctuary)	McMillin 47, LLC Shea Homes Ltd. Ptnshp.	1/05	82	12,000	4,408-5,556 s.f. n/a	\$522,000 \$530,800	n/a	Stonebridge Estates, Phase 2; delivered as near finished lots; some territorial views; 1.4-1.5% tax rate

Note: Home pricing is original proforma or earliest available

## 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.

Brighton Homes  
Citation Builders  
Davison-Ferguson Investment Devel.  
D.T. Smith Homes  
Irvine Company  
Kathryn Thompson Developers  
Mark Taylor, Inc.

### Developers:

Baldikoski, Klotz & Dragonette  
Best, Best & Krieger  
Bowie, Ameson, Kadi, Wiles & Giamone  
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.

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.

Mission Vicio Co.  
Premier Homes  
Presley Homes  
Rockefeller & Associates  
Taylor Woodrow Homes  
Unocal Land & Development

Nossaman, Guthner, Knox & Elliott  
Oliver, Barr & Vose  
Ollesiad, Freedman & Taylor  
Palmieri, Tyler, Wiener, Wilhelm & Waldron  
Paul, Hastings, Jonofsky & Walker  
Piggott, George B.  
Pohier, Rose  
Rosenthal & Zimmerman  
Rutan & Tucker  
Sikora & Price, Inc.  
Smith & Politski  
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.  
Elwanda 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 Ranccho  
St. Mark's Lutheran Church, Hac. Hts.  
Vineyard Christian Fellowship

### Other:

Biola University  
Cedars-Sinai Medical Center

Garden Grove Boys' Club  
The Sheepfold

## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURES**

#### **SPECIAL TAX BONDS, SERIES 2005 –**

##### **Summary of the Original Bond Indenture and the First Supplemental Indenture**

The following summary of selected provisions of the Original Bond Indenture, as amended and supplemented by the First Supplement Indenture, is made subject to all of the provisions of each such document. This summary discussion does not purport to be a complete statement of such provisions and prospective purchasers of the 2005 CFD Bonds are referred to the complete text of the Original Bond Indenture and the First Supplemental Indenture, copies of which are available upon request sent to the Fiscal Agent.

##### ***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 provisions of 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 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, as to the Series 2002 Bonds, an annual amount equal to \$40,000 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2003 and, as to the Series 2005 Bonds, an annual amount equal to \$42,448.32 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2006.

“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.

“Appraisal” means an appraisal prepared by the Appraiser or an MAI appraiser who is also a state certified appraiser, as defined in California Business and Professions Code Section 11340(c) appointed and retained by the School District or the District. Such appraisal shall be substantially based upon the

then applicable assumptions of and subject to the then applicable qualifications and limitations contained in the appraisal prepared by the Appraiser and dated May 30, 2002.

“Appraiser” means Stephen G. White, MAI.

“Authorized Representative” of the District means the Superintendent or the Deputy Superintendent, acting on behalf of the District, or any other person designated by the Board of Education, the Superintendent or the Deputy Superintendent and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related thereto.

“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 Series 2002 Bonds and any Parity Bonds authorized and issued by and at anytime Outstanding pursuant to the Indenture.

“Bond Service Fund” means the fund created and established pursuant to the provisions of the Indenture.

“Bond Year” means, as to each Series of the Bonds, 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 thereof to the September 1 immediately following such Delivery Date.

“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.

“Code” means the Internal Revenue Code of 1986, as amended.

“Costs of Issuance” means, as to each Series of the Bonds, all of costs of issuing such Series of the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, such Series of 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 such Series of 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 such Series 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 provisions of 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 each Series of the Bonds are issued and delivered to the initial purchaser thereof.

“Depository” shall mean 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.

“District” means Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District.

“DTC” shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

“First Supplemental Indenture” means the First Supplemental Indenture, dated as of November 1, 2005, entered into by and between the District and the Fiscal Agent, pursuant to and in order to amend and supplement the Indenture.

“Fiscal Agent” means Zions First National Bank, as successor to State Street Bank and Trust Company of California, N.A., 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 provisions of the Indenture.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2003 as to the Series 2002 Bonds and March 1, 2006 as to the Series 2005 Bonds.

“Investment Agreement” means any investment satisfying the requirements of Paragraph 11 of the definition of Permitted Investments.

“Land Secured Debt” means as to any Taxable Property (as such term is defined in the Special Tax RMA), (a) the principal amount of all Outstanding Series 2002 Bonds, Outstanding Parity Bonds previously issued and the Parity Bonds proposed to be issued allocable to such Taxable Property, (b) the principal amount of all other bonds secured by special taxes allocable to such Taxable Property and (c) the amount of all fixed lien assessments levied on such Taxable Property.

“Legislative Body” means the Board of Education of the School District, acting as the legislative body of the District.

“Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

“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” shall mean the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

“Outstanding” means as to each respective series of the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation;
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.

“Parity Bonds” means Bonds issued after the Series 2002 Bonds which are secured by and payable from an irrevocable first lien on the Net Special Tax Revenues which lien is on a parity with the lien securing the Series 2002 Bonds.

“Participant” shall mean 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, 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 repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a



perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

- D. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or 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 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 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" shall mean 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 which 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. 63-98 of the Board of Education of the School District adopted February 17, 1998.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Act.

"School Facilities Fund" means the fund by that name established pursuant to the provisions of the Indenture.

"Series" means any series of the Bonds issued pursuant to the Indenture.

“Series 2002 Bonds” means the \$25,000,000 Poway Unified School District Community Facilities District No. 6 Special Tax Bonds, Series 2002 issued pursuant to the Indenture

“Series 2002 Bonds School Facilities Account” means the account by that name established in the School Facilities Fund pursuant to the First Supplemental Indenture.

“Series 2005 Bonds” means the \$44,305,000 Poway Unified School District Community Facilities District No. 6 (4S Ranch) Special Tax Bonds, Series 2005.

“Series 2005 Bonds School Facilities Account” means the account by that name established in the School Facilities Fund pursuant to the First Supplemental Indenture.

“Special Tax” means the Special Taxes authorized to be levied in the District to finance the acquisition or construction of the School Facilities pursuant to the Act and the Special Tax RMA excepting therefrom (a) the One -Time Special Tax (as defined in the Special Tax RMA) and (b) the Assigned Annual Special Tax (as defined in the Special Tax RMA) for Undeveloped Property (as defined in the Special Tax RMA) located in Zone A (as defined in the Special Tax RMA) of the District.

“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 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 March 24, 1998, 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 thereto or supplemental thereto; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

“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.

“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 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 paragraph 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, 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 from mandatory sinking fund payments on such date pursuant to the provisions of the Indenture.
4. On or after March 2 and September 2 of each year after making the transfer and deposits required under paragraphs 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 paragraphs 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 paragraphs 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 paragraphs 1. through 6. above, monies remain in the Special Tax Fund, such monies shall remain on deposit in the Special Tax Fund 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), then excess moneys 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.

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 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 and (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 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. Any amounts remaining on deposit in the Costs of Issuance Fund on the earlier of the date on which all Costs of Issuance related to each Series of the Bonds have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date of each Series of the Bonds shall be transferred to the School Facilities Fund.

#### **School Facilities Fund.**

On the Delivery Date of the Series 2005 Bonds and prior to the deposit of the proceeds of the Series 2005 Bonds in the Series 2005 Bonds School Facilities Account of the School Facilities Fund, the Fiscal Agent shall deposit all funds then on deposit in the School Facilities Fund into the Series 2002 Bonds School Facilities Account. In disbursing monies from the School Facilities Fund pursuant to the Indenture to pay School Facilities Costs, the Fiscal Agent shall disburse all monies on deposit in the Series 2002 Bonds School Facilities Account for such purpose before disbursing any monies on deposit in the Series 2005 Bonds School Facilities Account.

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, 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 under the Indenture (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.

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 provisions of 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 from the Special Tax Fund to the Administrative Expense Fund and the Bond Service Fund required by the Indenture 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 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.

**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 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.

**Redemption Fund.**

Monies shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the provisions of the Indenture. Such monies shall be set aside and used solely for the purpose of paying the principal of, premium, if any, and interest on Bonds subject to optional or extraordinary mandatory redemption and the written instructions of an Authorized Representative given in accordance with the provisions of the Indenture. Any monies remaining on deposit in the Redemption Fund following the redemption of any such Bonds shall remain on deposit therein and shall be used for the purposes provided for in this paragraph.

***Investment of Funds.***

Unless otherwise specified in the Indenture, monies in the Special Tax Fund, the Bond Service Fund, the School Facilities 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 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.

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 under 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 where provided otherwise in the Indenture, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

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 Trustee is authorized, in making or disposing of any authorized investment, 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 Trustee or for any third person or dealing as principal for its own account.

### ***Parity Bonds.***

Subject to the satisfaction of the specific conditions set forth below, the District may at any time after the issuance and delivery of the Series 2005 Bonds issue Parity Bonds payable from Net Special Tax Revenues and other amounts deposited in the funds and accounts created under the Supplemental Indenture (other than in the Rebate Fund and the Administrative Expense Fund) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be used for the purpose of financing additional School Facilities Costs or refunding all or a portion of the Bonds or any Parity Bonds then outstanding.

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

1. The aggregate principal amount of the Series 2002 Bonds, the Series 2005 Bonds and all other Parity Bonds issued may not exceed \$130,000,000; 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.
2. The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Fiscal Agent; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.
3. The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:
  - A. The purpose for which such Parity Bonds are to be issued and the fund or funds and accounts therein, if any, into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of financing additional School Facilities Costs or refunding any Outstanding Bonds or Parity Bonds, including payment of all costs incidental to or connected with such refunding;



- B. The authorized principal amount of such Parity Bonds;
  - C. The date and the maturity date or dates of such Parity Bonds; provided that (1) each maturity date shall fall on a September 1, (2) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (3) fixed serial maturities or mandatory sinking fund payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;
  - D. The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;
  - E. The denominations and method of numbering of such Parity Bonds;
  - F. The amount and due date of each mandatory sinking fund payment, if any, for such Parity Bonds;
  - G. The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Fund to increase the amount therein to the Reserve Requirement;
  - H. The form of such Parity Bonds; and
  - I. Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.
4. There shall have been received by the Fiscal Agent the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Fiscal Agent (unless the Fiscal Agent shall accept any of such documents bearing a prior date):
- A. A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;
  - B. A written request of the District as to the delivery of such Parity Bonds;
  - C. An opinion of Bond Counsel to the effect that (1) the District has the right and power under the Act to adopt the Supplemental Indenture relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (2) the Indenture creates the valid pledge which it purports to create of the Net Special Tax Revenues and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (3) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures;
  - D. A further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes

of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds, the Bonds and Parity Bonds theretofore issued;

- E. A certificate of an Authorized Representative containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;
- F. A certificate of an Authorized Representative certifying that:
  - (1) The District has received a certificate from one or more Special Tax Consultants which, when taken together, certify that (a) the amount of the maximum Special Taxes that may be levied pursuant to the Special Tax RMA in each remaining Bond Year based only on the Taxable Property (as such term is defined in the Special Tax RMA) existing as of the date of such certificate is at least 1.10 times Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, provided, however, there shall be excluded from such calculation the Special Taxes on any parcel then delinquent in the payment of Special Taxes; and provided further that, for purposes of making such certifications, the Special Tax Consultant may rely on reports or certificates of such other persons as may be acceptable to the District, Bond Counsel and the underwriter of the proposed Parity Bonds; and
  - (2) Except in the case of the issuance of Parity Bonds to refund Outstanding Bonds or Parity Bonds, the District has received an Appraisal indicating that (a) the aggregate appraised value of all Taxable Property within the District is not less than three (3) times the aggregate amount of Land Secured Debt allocable to such Taxable Property and (b) the aggregate appraised value of all Undeveloped Property (as such term is defined in the Special Tax RMA) within the District is not less than 2.5 times the aggregate amount of Land Secured Debt allocable to such Undeveloped Property; and
- G. Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

***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 for any of the following purposes:

- 1. to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in 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 Bondholders;
- 2. 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;

3. to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondowners;
4. to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds; or
5. to provide for the issuance of Parity Bonds pursuant to the terms of the Indenture.

Exclusive of the Supplemental Indentures provided for in the paragraph above, 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 Special Tax Revenues superior to the pledge provided for in 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 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.

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

***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.

**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 Special Tax 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 the Indenture 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 the Indenture 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.

**Limitation on Senior or Parity Liens.** Except for the issuance of Parity Bonds pursuant to and as provided for in the Indenture, 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. 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, as applicable. Prior to July 1 of each year, the District shall ascertain the parcels on which such 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, as applicable, 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 tax bills to such property owners not later than the date on which the Auditor/Tax Collector of the County of San Diego annually mails the property tax bills.

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 Special Tax RMA, as applicable), 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 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 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 of the District which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Special Tax RMA or to limit the power or authority of the District to levy Special Taxes, pursuant to the Special Tax RMA, the District shall, from funds available under the Indenture, commence and pursue legal action in order to preserve the authority and power of the District to levy 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 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 the Code. To that end, the District will comply with all requirements 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 covenant 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 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, as applicable, 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.***

**Events of Default.**

The following events shall be Events of Default under the Indenture:

1. 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.
2. Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.
3. 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
4. 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.**

Except as to moneys on deposit in the Improvement Fund, 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:

- 1. 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;
- 2. By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- 3. 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 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 provided in the Indenture, 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 the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

## **IMPROVEMENT AREA B 2005 SPECIAL TAX BONDS –**

### **Summary of the Improvement Area B Bond Indenture**

The following summary discussion of selected provisions of the Improvement Area B 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 Improvement Area B Bonds are referred to the complete text of the Improvement Area B Bond Indenture, copies of which are available upon request sent to the Fiscal Agent.

#### ***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.

“Additional School Facilities” shall have the meaning given 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 B Special Taxes and preparing the annual Improvement Area B Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Improvement Area B Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Improvement Area B 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 B Special Tax disclosure statements and responding to public inquiries regarding the Improvement Area B Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area B 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 \$25,000 for Fiscal Year 2005-2006 and escalating at 2% each Fiscal Year thereafter commencing in Fiscal Year 2006-2007.

“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 B Special Tax RMA.

“Assessor’s Parcel” means an Assessor’s Parcel as defined in the Improvement Area B Special Tax RMA.

“Authorized Representative” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“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” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“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 \$30,000,000 Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area B 2005 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” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“Capitalized Interest Subaccount” 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.

“Code” means the Internal Revenue Code of 1986, as amended.

“Comptroller of the Currency” means the Comptroller of the Currency of the United States.

“Costs of Issuance” means, as to 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 B Special Taxes.

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Improvement Area B 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 B Special Tax resulting from the delinquency in the payment of Improvement Area B 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” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“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 B Special Tax RMA.

“Discrete Component” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“District” means Poway Unified School District Community Facilities District No. 6 (4S Ranch).

“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” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“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 B” means Improvement Area B of the District.

“Improvement Area B Improvement Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area B Special Tax” means the Special Tax authorized to be levied in Improvement Area B to finance the acquisition or construction of the Infrastructure Improvements pursuant to the Act, the Supplement to Mitigation Agreement and the Improvement Area B Special Tax RMA.

“Improvement Area B Special Tax Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area B Special Tax RMA” means the rate and method of apportionment of the Improvement Area B Special Tax approved at the special election held in Improvement Area B of the District on October 21, 2002, as may be modified from time to time in accordance with the Act.

“Improvement Area B 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.

“Infrastructure Improvement” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Indenture” means the Bond Indenture, as amended or supplemented pursuant to the terms thereof.

“Independent Accountant” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“Interest Account” means the account by that name established within the Bond Service Fund pursuant to the Indenture.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 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 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 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.

“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 B Special Tax RMA.

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

“Net Improvement Area B Special Tax Revenues” means Improvement Area B 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 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 thereof; 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” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“Prepayments” means Improvement Area B Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area B Special Tax.

“Principal Account” means the account by such name established in the Bond Service Fund pursuant to the Indenture.

“Principal Corporate Trust Office” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“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 \$2,623,751.07 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 to such term in the Supplement to Mitigation Agreement.

“Special Tax Consultant” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“Supplement to Mitigation Agreement” means the Supplement to 4S Ranch School Impact Mitigation Agreement made and entered into of June 17, 2002 by and among the School District, the District and 4S Kelwood General Partnership, as it may be amended or supplemented by the parties thereto.

“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.

“Supplemental Indenture” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“Surplus Special Taxes” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Tax Exempt” has the same meaning given such term in the Summary of the Original Bond Indenture and the First Supplemental Indenture above.

“Term Bonds” means the Bonds maturing on September 1, 2028 and 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 B Special Tax Fund.**

(a) The District shall, no later than the tenth (10th) Business Day after which Improvement Area B 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 B Special Tax Revenues to the Fiscal Agent and, except as set forth in the following sentence, such amounts shall be deposited in the Improvement Area B Special Tax Fund.

(b) With the exception of Improvement Area B Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of the Indenture, the Improvement Area B Special Tax Revenues deposited in the Improvement Area B 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 Improvement Area B 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 transfers 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 Improvement Area B 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 Improvement Area B Special Tax Fund to the Administrative Expense Fund the amounts specified in such 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 B Special Tax Fund, such monies shall remain on deposit in the Improvement Area B 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 the acquisition or construction of Additional School Facilities or School Facilities.

(c) The Fiscal Agent shall, upon receipt of Improvement Area B 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 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 Improvement Area B Special Tax Fund shall be transferred to the District to be utilized to finance the acquisition or construction of Additional 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, 2006 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.

#### **Cost 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 of the Bonds shall be transferred to the Improvement Area B Improvement Fund. Upon such transfer, the Costs of Issuance Fund shall be closed.

#### **Improvement Area B Improvement Fund.**

The Fiscal Agent shall, from time to time, disburse monies from the Improvement Area B Improvement Fund to pay Actual Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative (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 Improvement Area B Improvement Fund directly to the contractor or such other person, corporation or entity entitled to payment under the Indenture (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 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 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 Improvement Area B Improvement Fund to the Improvement Area B Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture. Upon such transfer, the Improvement Area B Improvement Fund shall be closed.

Notwithstanding anything 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 Infrastructure 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 B 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 Permitted 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 required by the Indenture 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 B 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 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 B 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, in accordance with the Indenture 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.

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 written 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 terms 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, as applicable. Following the redemption of any Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Improvement Area B 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.

#### **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 B 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 Fund; Transfers from the Letter of Credit Fund.**

1. 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 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 B 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 permitted by the Indenture) 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 B 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 Interest Account of the Interest Account of the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a Cash Deposit pursuant to the Indenture, the Fiscal Agent shall, upon receipt of Delinquency Proceeds representing the Improvement Area B 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 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 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 the Indenture, 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 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 may be 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 B Special Tax Fund, the Bond Service Fund, the Improvement Area B 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 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 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.

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 under 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 where provided otherwise, 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.

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 or any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in 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 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 B Special Tax Revenues superior to the pledge provided for in section, 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 pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The District shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Bondowners at their addresses as they appear in the bond register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the principal office of the District for inspection by all Bondowners. The failure of any Bondowner to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved as in provided in the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the 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 known by the Fiscal Agent to be owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the approval of any Supplemental Indenture 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 pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of 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.

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

#### ***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 under the provisions of the Indenture 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 Improvement Area B Special Tax Revenues.

**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 levied in such Fiscal Year to determine the amount of Improvement Area B Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to the Improvement Area B Special Tax is delinquent in the payment of Improvement Area B Special Taxes in the aggregate of \$5,000 or more or (b) any single parcel or parcels under common ownership subject to the Improvement Area B Special Tax are delinquent in the payment of Improvement Area B Special Taxes in the aggregate of \$10,000 or more, the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to the Indenture and for which the Improvement Area B 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 Improvement Area B Special Taxes levied in the such Fiscal Year, then the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to the Indenture and for which the Improvement Area B 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 B Special Taxes which have, or purport to have, any lien upon the Improvement Area B Special Taxes superior to or on a parity with the lien of the Bonds in the Indenture 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 B 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.

**Punctual Payment.** The District will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds issued under the Indenture on the date, at the place and in the manner provided in said Bonds, but only out of Improvement Area B Special Tax Revenues and such other funds as may provided in the Indenture.

**Levy of Improvement Area B Special Taxes.** The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area B Special Taxes. The District shall annually ascertain the parcels on which the Improvement Area B 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 B Special Tax in accordance with the Improvement Area B 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 B 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 B 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 B Special Tax on the next real property tax roll.

The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District has determined that, absent the certification described below, a reduction in the Maximum Special Tax authorized to be levied below the levels provided would interfere with the timely retirement of the Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the Maximum Special Tax, unless, in connection therewith, (i) the District receives a certificate from one or more 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 which may be levied on all Assessor's Parcels 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 B Special Tax RMA or to limit the power or authority of the District to levy Improvement Area B Special Taxes pursuant to the Improvement Area B Special Tax RMA, the District shall, from funds available under the Indenture, commence and pursue legal action in order to preserve the authority and power of the District to levy Improvement Area B Special Taxes pursuant to the Improvement Area B 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 B Special Tax Revenues and other funds provided for in 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(a) of the Code. To that end, the District will comply with all requirements of Section 148 of the Code to the extent applicable to the 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) 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. The District specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the Indenture.

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 Section 103 of the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant under the Indenture shall be deemed to be modified to that extent.

**Extension of Maturity.** The District shall not directly or indirectly extend the maturity dates of the Bonds or the time of payment of interest with respect thereto.

**CDIAC.** Not later than October 30<sup>th</sup> of each year, commencing October 30, 2006, and until October 30<sup>th</sup> following the final maturity of the Bonds, the District shall supply or cause to be supplied to the California Debt and Investment Advisory Commission by mail, postage prepaid, the information, if any, then required by Government Code Section 53359.5 to be submitted to such agency.

**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 B 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 B Special Tax Revenues to pay the principal of and interest on the Bonds when due.

**Other Acts and Requirements.** The District shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the District under the provisions of the Indenture. The District warrants that upon the date of execution and delivery of the Bonds, the conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the execution and delivery of such Bonds do exist, have happened and have been performed and the execution and delivery of the Bonds shall comply in all respects with the applicable laws of the State.

***Defeasance.***

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding 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 B 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:

1. 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;
2. 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
3. by depositing with an escrow bank appointed by the District, in trust, noncallable Permitted Investments of the type described in the Indenture, in such amount as an Independent Accountant shall determine (as set forth in a verification report from such Independent Accountant) will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District to preserve the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Notice of such election shall be filed with the Fiscal Agent not less than ten (10) days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the Fiscal Agent a certificate of an Independent Accountant stating its opinion as to the sufficiency of the 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 paragraph (c) above (the "Verification Report") and (ii) an opinion of Bond Counsel to the effect that the Bonds are no longer Outstanding. The Verification Report and opinion of Bond Counsel shall be acceptable in form and substance, and addressed to the District and the Fiscal Agent.

***Provisions Constitute 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 Improvement Area B 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.

After the issuance and delivery of the Bonds, the Indenture shall be irrevocable, but shall be subject to modification to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

***Events of Default.***

**Events of Default.**

The following events shall be Events of Default under the Indenture:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- (b) Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.
- (c) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying

such default and requiring the same to be remedied, shall have been given to the District by the Fiscal Agent or to the District and the Fiscal Agent by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Fiscal Agent's fees and expenses, which must be cured within such 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 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 provided in the Indenture, out of the 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 under the Indenture.

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

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy in the Indenture conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

## **APPENDIX E**

### **FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT**

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and entered into as of November 1, 2005, by and among the Poway Unified School District, on behalf of Community Facilities District No. 6 (4S Ranch) 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 Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District 2005 Special Tax Bonds (the “2005 CFD Bonds”) and Improvement Area B 2005 Special Tax Bonds (“Improvement Area B Bonds” and together with the 2005 CFD Bonds, the “2005 Bonds”);

#### **W I T N E S S E T H :**

**WHEREAS**, pursuant to each Bond Indenture, each dated as of November 1, 2005 (the “Bond Indenture”), by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the Bonds in the aggregate principal amount of \$44,305,000 and the Improvement Area B Bonds in the aggregate principal amount of \$30,000,000; and

**WHEREAS**, the 2005 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 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. 6 (4S Ranch) of the Poway Unified School District.

“Disclosure Representative” shall mean the Deputy Superintendent, Business Support Services 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 B” shall mean Improvement Area B of Community Facilities District No. 6 (4S Ranch) 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” 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, 2006, 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 this Continuing 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 2005 Bonds and any refunding bonds:

- (i) Principal amount of 2005 Bonds and any refunding bonds outstanding as of a date within 30 days proceeding the date of the Annual Report;
- (ii) Balance in the 2005 Bond Service Fund as of a date within 30 days proceeding the date of the Annual Report;
- (iii) Balance in the Reserve Fund and statement of Reserve Requirement as of a date within 30 days proceeding the date of the Annual Report;
- (iv) Balance in the 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 Community Facilities District No. 6 and Improvement Area B 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 within Community Facilities District No. 6 and Improvement Area B 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 2005 Bonds and any refunding bonds of Community Facilities District No. 6 and Improvement Area B and all other debt secured by a tax or assessments levied on parcels within Community Facilities District No. 6 and Improvement Area B.

- (vi) Information regarding the annual special taxes levied in Community Facilities District No. 6 and Improvement Area B, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (vii) Status of foreclosure proceedings of parcels within Community Facilities District No. 6 and Improvement Area B 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 within Community Facilities District No. 6 and Improvement Area B 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 in Community Facilities District No. 6 and Improvement Area B delinquent in payment of Special Tax,
  - total of such delinquency and percentage of delinquency in relation to total Special Tax levy,
  - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties within Community Facilities District No. 6 and Improvement Area B;
- (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 Community Facilities District No. 6 and Improvement Area B as of the immediately preceding October 31 required under State law;
- (xii) Any changes to the Rate and Method of Apportionment of Special Tax for either Community Facilities District No. 6 or Improvement Area B approved or submitted to the qualified electors of the Community Facilities

District No. 6 and Improvement Area B for approval prior to the filing of the Annual Report; and

(xiii) With respect to any improvement area (each an “Improvement Area”) created within Community Facilities District No. 6, the following information:

- A description of the status of formation of the Improvement Area,
- The amount of bonds authorized for the Improvement Area,
- The amount of bonds issued for the Improvement Area ,
- The date of issuance of such bonds, and
- A description of the use of the proceeds of bonds issued with respect to such Improvement Area.

(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.

#### 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 2005 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 unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the 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 described on Exhibit B attached hereto. 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 2005 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 2005 Bonds, (ii) prior redemption of the 2005 Bonds or (iii) payment in full of all the 2005 Bonds. If such determination occurs prior to the final maturity of the 2005 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 2005 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 2005 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 2005 Bonds in the manner provided in each Bond Indenture for amendments to each 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 2005 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 2005 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2005 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 each 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 7.02 and Section 7.05 of each Bond Indenture are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in each 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 2005 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 each 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 each 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 2005 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 Underwriters and the owners and beneficial owners from time to time of the 2005 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 2005 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. 6 (4S Ranch) of the Poway Unified School District 13626 Twin Peaks Road Poway, California 92064-3098 Telephone: (858) 679-2517 Telecopier: (858) 679-2642 Attention: Deputy Superintendent, Business Support Services
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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
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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
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If to the Participating Underwriter:	Stone & Youngberg LLC One Ferry Building San Francisco, California 94111 Telephone: (415) 445-2300 Telecopier: (415) 445-2395 Attention: Municipal Research Department
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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. 6  
(4S Ranch) 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 SEMI-ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District Special Tax Bonds. Series 2005 and Improvement Area B 2005 Special Tax Bonds

Date of Issuance: November 22, 2005

NOTICE IS HEREBY GIVEN that Community Facilities District No. 6 (4S Ranch) 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 November 1, 2005, by and among the Community Facilities District, Zions First National Bank, as Fiscal Agent and David Taussig & Associates, as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

David Taussig & Associates, as Dissemination Agent, on behalf of the Community Facilities District

cc: Community Facilities District No. 6 (4S Ranch)  
Stone & Youngberg LLC  
Zions First National Bank

## EXHIBIT B

### MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

# 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):

**\$44,305,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**SPECIAL TAX BONDS, SERIES 2005**

Provide nine-digit CUSIP® numbers\* if available, to which the information relates:

<u>Maturity</u> <u>(September 1)</u>	<u>CUSIP®</u> <u>No.</u>	<u>Maturity</u> <u>(September 1)</u>	<u>CUSIP®</u> <u>No.</u>
2006	738855PY5	2017	738855PL3
2007	738855PA7	2018	738855PM1
2008	738855PB5	2019	738855PN9
2009	738855PC3	2020	738855PP4
2010	738855PD1	2021	738855PQ2
2011	738855PE9	2022	738855PR0
2012	738855PF6	2023	738855PS8
2013	738855PG4	2024	738855PT6
2014	738855PH2	2025	738855PU3
2015	738855PJ8	2028	738855PX7
2016	738855PK5	2035	738855PZ2

**\$30,000,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**IMPROVEMENT AREA B**  
**2005 SPECIAL TAX BONDS**

Maturity (September 1)	CUSIP® No.†	Maturity (September 1)	CUSIP® No.†
2007	738855MU6	2018	738855NF8
2008	738855MV4	2019	738855NG6
2009	738855MW2	2020	738855NH4
2010	738855MX0	2021	738855NJ0
2011	738855MY8	2022	738855NK7
2012	738855MZ5	2023	738855NL5
2013	738855NA9	2024	738855NM3
2014	738855NB7	2025	738855NN1
2015	738855NC5	2028	738855NR2
2016	738855ND3	2036	738855NZ4
2017	738855NE1		

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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 F

### FORM OF 4S KELWOOD CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of November 1, 2005, 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 Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District Improvement Area B 2005 Special Tax Bonds (the “Improvement Area B 2005 Bonds”), and 4S Kelwood General Partnership, a California General Partnership (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 Improvement Area B 2005 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 Improvement Area B 2005 Bonds containing terms substantially similar to this Disclosure Agreement (as modified for such Major Developer’s development and financing plans with respect to the Improvement Area B), 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 Improvement Area 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. 6 (4S Ranch) 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*” means Improvement Area B of Community Facilities District No. 6 (4S Ranch) 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 in the Improvement Area responsible in the aggregate for 15% or more of the Special Taxes in the Improvement Area 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 Improvement Area B 2005 Bonds.

“*Participating Underwriter*” means Stone & Youngberg LLC, the original underwriter of the Improvement Area B 2005 Bonds required to comply with the Rule in connection with offering of the Improvement Area B 2005 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 Improvement Area.

“*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 the Improvement Area and used to pay debt service on the Improvement Area B 2005 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 April 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 Improvement Area B 2005 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, any 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 or, if known, an Affiliate's Property;

(viii) any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Property Owner's 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 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 or, if known, an Affiliate's 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 Improvement Area B 2005 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 Improvement Area B 2005 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, or under option to, 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 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 Improvement Area B 2005 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 Improvement Area B 2005 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 Improvement Area B 2005 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 Improvement Area B 2005 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 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 Improvement Area B 2005 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 Improvement Area B 2005 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, its officers, directors, employees and agents, harmless against any loss, expense and liabilities 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 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 Improvement Area B 2005 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 Improvement Area B 2005 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. 6 (4S Ranch) of the Poway Unified School District 13626 Twin Peaks Road Poway, California 92064-3098 Telephone: 858/679-2552 Telecopier: 858/513-0967 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:	4S Kelwood General Partnership c/o Newland Communities 10815 Rancho Bernardo Road, Suite 310 San Diego, California 92127-2189 Telephone: 858/674-1300 Telecopier: 858/674-1301 Attention: Michael L. Rust

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 Improvement Area B 2005 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.

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: November 1, 2005

4S KELWOOD GENERAL PARTNERSHIP,  
a California General Partnership

By: Kelwood Development Company LLC,  
a Delaware limited liability company

Its: Managing Partner

By: \_\_\_\_\_  
Name: Michael L. Rust  
Title: Vice President

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. 6 (4S Ranch) of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District Improvement Area B 2005 Special Tax Bonds

Date of Issuance: November 22, 2005

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 November 1, 2005. [The Property Owner anticipates that the Semi-Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

DISSEMINATION AGENT:  
Zions First National Bank

By: \_\_\_\_\_  
Its: \_\_\_\_\_

cc: Zions First National Bank  
Community Facilities District No. 6 (4S Ranch)  
of the Poway Unified School District  
4S Kelwood General Partnership

**EXHIBIT B**

**SEMI-ANNUAL REPORT**

**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)**

**IMPROVEMENT AREA B 2005 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 November 1, 2005, executed by the undersigned (the "Property Owner") in connection with the issuance of the above-captioned bonds by Community Facilities District No. 6 (4S Ranch) 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 Improvement Area B of 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 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," "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – General Information," "– Environmental Review," "– Environmental Permits" and "Property Ownership and Development" that

would materially and adversely interfere with the Property Owner's ability to develop and sell the Property as described in the Official Statement.

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## 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.

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### 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 November 1, 2005, 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 IMPROVEMENT AREA B 2005 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: \_\_\_\_\_

4S KELWOOD GENERAL PARTNERSHIP,  
a California General Partnership

By: Kelwood Development Company LLC,  
a Delaware limited liability company

Its: Managing Partner

By: \_\_\_\_\_  
Name: Michael L. Rust  
Title: Vice President



## EXHIBIT C

### MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

# 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):

**\$44,305,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**SPECIAL TAX BONDS, SERIES 2005**

Provide nine-digit CUSIP® numbers\* if available, to which the information relates:

Maturity (September 1)	CUSIP® No.†	Maturity (September 1)	CUSIP® No.†
2006	738855PY5	2017	738855PL3
2007	738855PA7	2018	738855PM1
2008	738855PB5	2019	738855PN9
2009	738855PC3	2020	738855PP4
2010	738855PD1	2021	738855PQ2
2011	738855PE9	2022	738855PR0
2012	738855PF6	2023	738855PS8
2013	738855PG4	2024	738855PT6
2014	738855PH2	2025	738855PU3
2015	738855PJ8	2028	738855PX7
2016	738855PK5	2035	738855PZ2

**\$30,000,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**IMPROVEMENT AREA B**  
**2005 SPECIAL TAX BONDS**

Maturity (September 1)	CUSIP® No.	Maturity (September 1)	CUSIP® No.
2007	738855MU6	2018	738855NF8
2008	738855MV4	2019	738855NG6
2009	738855MW2	2020	738855NH4
2010	738855MX0	2021	738855NJ0
2011	738855MY8	2022	738855NK7
2012	738855MZ5	2023	738855NL5
2013	738855NA9	2024	738855NM3
2014	738855NB7	2025	738855NN1
2015	738855NC5	2028	738855NR2
2016	738855ND3	2036	738855NZ4
2017	738855NE1		

**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): \_\_\_\_\_

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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 G

\_\_\_\_\_, 2005

Board of Education  
Poway Unified School District  
13626 Twin Peaks Road  
Poway, CA 92064-3098

**\$43,305,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**SPECIAL TAX BONDS, SERIES 2005**

**BOND OPINION**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by Community Facilities District No. 6 (4S Ranch) (the "District") of the Poway Unified School District (the "School District") of the Poway Unified School District Community Facilities District No. 6 (4S Ranch) Special Tax Bonds, Series 2005 in the aggregate principal amount of \$43,305,000 (the "Series 2005 Bonds"). The Series 2005 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), Resolution No. 14-2005 adopted by the Board of Education of the School District, acting in its capacity as the Legislative Body of the District, on October 10, 2005, and the Bond Indenture, dated as of August 1, 2002 (the "Indenture"), and entered into by and between the District and State Street Bank & Trust Company of California, N.A., as amended and supplemented by the First Supplemental Indenture, dated as of November 1, 2005 (the "First Supplemental Indenture"), entered into by and between the District and Zions First National Bank, as Fiscal Agent, as successor to State Street Bank & Trust Company of California, N.A. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture or the First Supplemental 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 Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the School District on behalf of itself and the District, the Underwriter, the Developer 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 Series

2005 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 Indenture, the First Supplemental 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 Series 2005 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 Series 2005 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.

It is to be understood that the rights and obligations under the Series 2005 Bonds, the Indenture and the First Supplemental 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 Bonds. The 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 Series 2005 Bonds. The Series 2005 Bonds are limited obligations of the District payable solely from and secured by a pledge of the Net Special Tax Revenues, and from certain other funds and accounts pursuant to the Indenture and the First Supplemental Indenture and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).

2. The Indenture and the First Supplemental Indenture have been duly and validly authorized, executed and delivered by, and constitute valid and binding obligations of, the District.

3. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Series 2005 Bonds for the interest on the Series 2005 Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Series 2005 Bonds to be subject to federal income taxation retroactive to the date of issuance of the Series 2005 Bonds. Pursuant to the Indenture and the First Supplemental Indenture, the District has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the District with the aforementioned covenants, the interest on the Series 2005

Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Series 2005 Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Series 2005 Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the Series 2005 Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Series 2005 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

We express no opinion as to any matter other than as expressly set forth above.

Respectfully Submitted,

BEST BEST & KRIEGER LLP

\_\_\_\_\_, 2005

Board of Education  
Poway Unified School District  
13626 Twin Peaks Road  
Poway, CA 92064-3098

**\$30,000,000**  
**POWAY UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 6**  
**(4S RANCH)**  
**IMPROVEMENT AREA B 2005 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. 6 (4S Ranch) Improvement Area B 2005 Special Tax Bonds in the aggregate principal amount of \$30,000,000 (the "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), Resolution No. 15-2005 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 October 10, 2005, and the Bond Indenture executed in connection therewith dated as of November 1, 2005, 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 Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the School District on behalf of the District 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 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 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 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.

It is to be understood that the rights and obligations under the 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 Bonds. The 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 Improvement Area B Special Taxes to the Owners of the Bonds. The Bonds are limited obligations of the District payable solely from and secured by a pledge of the Net 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. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Bond Indenture, the District has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the District with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax

liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

We express no opinion as to any matter other than as expressly set forth above.

Respectfully Submitted,

BEST BEST & KRIEGER LLP

## APPENDIX H

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2005 Bonds, payment of principal of and interest on the 2005 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2005 Bonds, confirmation and transfer of beneficial ownership interests in the 2005 Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2005 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, NY, will act as securities depository for the 2005 Bonds. The 2005 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 2005 Bond will be issued for each maturity of the 2005 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 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2005 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 2005 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 2005 Bonds, except in the event that use of the book-entry system for the 2005 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 2005 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 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 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 2005 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2005 Bonds documents. For example, Beneficial Owners of the 2005 Bonds may wish to ascertain that the nominee holding the 2005 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 2005 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 2005 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 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 Bonds, then the 2005 Bonds shall no longer be restricted to being registered in the 2005 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 2005 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2005 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2005 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2005 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 2005 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 2005 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 2005 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2005 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 2005 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 2005 Bonds or any error or delay relating thereto.*

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