

**FISCAL YEAR 2003-04
ADMINISTRATION REPORT
FOR
COMMUNITY FACILITIES DISTRICT NO. 1
OF
POWAY UNIFIED SCHOOL DISTRICT**

June 18, 2003

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ADMINISTRATION REPORT
FOR
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PREPARED FOR

POWAY UNIFIED SCHOOL DISTRICT
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INTRODUCTION

This Administration Report ("Report") provides an analysis of the financial and administrative obligations of Community Facilities District ("CFD") No. 1 of the Poway Unified School District ("District") resulting from the sale of (i) the Series 1998 Special Tax Bonds ("1998 Bonds") issued in February of 1998 in the amount of \$80,000,000 and (ii) the Series 2003 Special Tax Bond ("2003 Bonds") issued January of 2003 in the amount of \$5,815,835.10. All capitalized terms herein are used as defined in the Rate and Method of Apportionment ("RMA"), the Bond Indenture ("Indenture"), and the First Supplemental Bond Indenture ("First Supplemental Indenture") for CFD No. 1.

The 1998 Bonds and 2003 Bonds of CFD No. 1 are secured and repaid through the annual levy and collection of Special Taxes from all property subject to the Annual Special Tax within CFD No. 1. In calculating the Annual Special Tax requirement for Fiscal Year 2003-04, the Report describes (i) the remaining financial obligations of Fiscal Year 2002-03, (ii) the financial obligations of CFD No. 1 for Fiscal Year 2003-04, and (iii) the amount of new development which has occurred within the boundaries of CFD No. 1.

The Report is organized into the following sections:

Section I

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

Section II

Section II examines the financial activity in the funds and accounts established pursuant to the Indenture and Supplemental Indenture. A Fiscal Year summary is provided which lists all disbursements, Annual Special Tax receipts, and interest earnings.

Section III

Section III calculates the Annual Special Tax requirement based on the financial obligations of CFD No. 1 for Fiscal Year 2003-04.

Section IV

Section IV provides (i) a description of the Special Tax classifications and (ii) an update of the development which has occurred in CFD No. 1.

Section V

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

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

The aggregate Annual Special Tax levy of CFD No. 1 for Fiscal Year 2002-03 equaled \$6,970,349.78. A summary of the levy for Fiscal Year 2002-03 is shown in Table 1.

TABLE 1

AVERAGE SPECIAL TAX RATES AND LEVY OF FISCAL YEAR 2002-03

Item	Number of Units/Acres	Average Annual Tax ¹	Total Special Taxes
Class 1	3,617 Units	\$920.05	\$3,327,818.00
Class 2	989 Units	\$839.59	\$830,352.59
Class 3	910 Units	\$780.84	\$710,560.44
Class 4	550 Units	\$723.28	\$397,805.42
Class 5	82 Units	\$635.35	\$52,098.70
Class 6	30 Units	\$606.51	\$18,195.40
Class 7	444 Units	\$594.83	\$264,104.98
Class 8	285 Units	\$573.62	\$163,480.74
Class 9	136 Units	\$565.00	\$76,839.38
Class 10	913 Units	\$479.88	\$438,126.90
Class 11	128 Units	\$438.40	\$56,115.20
Class 12	160 Units	\$413.48	\$66,157.44
Class 13	1,164 Units	\$280.38	\$326,365.54
Class 14	381 Units	\$251.09	\$95,665.40
Class 15	665 Units	\$220.55	\$146,662.74
Grand Total	NA	NA	\$6,970,349.78
¹ Represents the average Annual Special Taxes levied in Fiscal Year 2002-03 for a given Special Tax class.			

David Taussig & Associates, Inc. ("DTA") has received delinquency information from the County of San Diego ("County") for the first and second installments of Fiscal Year 2002-03. For Fiscal Year 2002-03, 270 parcels were delinquent in paying a portion or all of their Annual Special Taxes which equates to a delinquency rate of 1.98%. DTA has concluded that CFD No. 1 will be able to meet its remaining obligation for Fiscal Year 2002-03.

II. FUNDS AND ACCOUNTS

The Indenture established eight (8) funds for CFD No. 1: the Administrative Expense Fund, Bond Fund, Improvement Fund, Rebate Fund, Redemption Fund, Reserve Fund, Special Revenue Fund, and Special Tax Fund. In addition, the Indenture and the First Supplemental Indenture established separate accounts and subaccounts within these funds. The funds, accounts, and subaccounts which are administered by the Fiscal Agent are shown in Table 2.

TABLE 2

FUNDS, ACCOUNTS, AND SUBACCOUNTS

Fund	Accounts	Subaccounts
Administrative Expenses Fund	Series 1998 Administrative Expense Account Series 2003 Administrative Expense Account	
Bond Fund	Series 1998 Bonds Interest Account Series 1998 Bonds Principal Account Series 2003 Bonds Principal Account	Series 2003 Bonds Capitalized Interest Subaccount
Improvement Fund	Improvement Account Cost of Issuance Account	Series 1998 Bonds Improvement Subaccount Series 2003 Bonds Improvement Subaccount Series 2003 Bonds Cost of Issuance Subaccount
Rebate Fund	Series 1998 Bonds Rebate Account Series 2003 Bonds Rebate Account	NA
Redemption Fund	Series 1998 Bonds Sinking Fund Redemption Account Series 2003 Bonds Redemption Account Series 1998 Bonds Optional Redemption Account Series 2003 Bonds Optional Redemption Account	NA
Reserve Fund	Series 1998 Bonds Reserve Account Series 2003 Bonds Reserve Account	NA
Special Revenue Fund	NA	NA
Special Tax Fund	NA	NA

All Special Tax receipts are to be deposited in the Special Tax Fund. The Indenture instructs the Fiscal Agent to transfer the Special Taxes to other funds and accounts in the amount and priority set forth below:

1. **Administrative Expense Fund** – an amount equal to the Administrative Expense Requirement for that Bond Year;
2. **Interest Account** – an amount necessary to make both interest payments due on the 1998 Bonds and the 2003 Bonds in such Bond Year.
3. **Principal Account** – an amount necessary to make the principal payment due on the outstanding 1998 Bonds and the 2003 Bonds in such Bond Year;
4. **Sinking Fund Redemption Account** – an amount necessary to make the Sinking Fund Payment due on the outstanding term bonds of the 1998 Bonds and the 2003 Bonds;
5. **Reserve Fund** – an amount required to bring the balance in the Reserve Fund to the Reserve Requirement;
6. **Administrative Expenses Fund** – an amount directed by the Administrator to pay any Administrative Expenses for such Bond Year in excess of the original amount deposited in the Administrative Expenses Fund;
7. **Rebate Fund** – an amount required to be set aside or rebated to the Internal Revenue Service; and,
8. **Special Revenue Fund** – any remaining portion of each apportionment of Special Taxes remaining in the Special Tax Fund following the completion of the above deposits for any Bond Year.

In addition to the funds discussed below, the District also maintains an Administrative Expense Fund and a Special Revenue Fund on behalf of CFD No. 1. These two (2) funds are held by the San Diego County Office of Education.

Pursuant to the Indenture, the Reserve Requirement for the 1998 Bonds was of \$6,225,748 as of May 1, 2003. The Reserve Requirement was met by a cash deposit of \$3,112,874 and reserve fund surety policy issued by MBIA Insurance Corporation. Pursuant to the First Supplement, the Reserve Requirement for the 2003 Bonds was being satisfied in full, by a reserve fund surety policy issued by MBIA Insurance Corporations.

A. Sources and Uses of Funds

The sources of funds for CFD No. 1 during the period of July 1, 2002, through May 1, 2003 totaled \$11,462,608.12. This amount consisted of \$5,535,012.71 in Special Tax receipts, \$354,175.94 of interest earnings, and \$5,573,419.47 in 2003 Bond proceeds. Table 3 shows the 2003 Bond proceeds and Table 4 lists the interest earnings for all funds, account and subaccounts created by the Indenture and Supplemental Indenture for this period.

TABLE 3

SERIES 2003 BOND PROCEEDS

Funds and Accounts	Proceeds
Series 2003 Bonds Improvement Subaccount	\$5,312,158.97
Series 2003 Bonds Cost of Issuance Subaccount	\$106,562.50
Series 2003 Bonds Capitalized Interest Subaccount	\$154,698.00

TABLE 4

**INTEREST EARNINGS
JULY 1, 2002 TO MAY 1, 2003**

Funds, Accounts and Subaccounts	Earnings
Administrative Expense Fund	\$0.10
Series 1998 Bonds Interest Account	\$0.00
Series 1998 Bonds Principal Account	\$0.00
Series 2003 Bonds Interest Account	\$0.00
Series 2003 Bonds Principal Account	\$0.00
Series 2003 Bonds Capitalized Interest Subaccount	\$147.24
Series 1998 Bonds Improvement Subaccount	\$2,834.04
Series 2003 Bonds Improvement Subaccount	\$5,055.89
Series 1998 Bonds Rebate Account	\$3,812.28
Series 2003 Bonds Rebate Account	\$0.00
Series 2003 Bonds Redemption Account	\$0.00
Series 2003 Bonds Optional Redemption Account	\$0.00
Series 1998 Bonds Reserve Account	\$151,848.74
Series 2003 Bonds Reserve Account	\$0.00
Special Revenue Fund	\$0.00
Special Tax Fund	\$190,426.81
Series 2003 Bond Cost of Issuance Subaccount	\$50.84

Total uses of funds during the period of July 1, 2002, to May 1, 2003, was \$6,193,012.96. Of this amount, \$5,830,213.76 was used for the payment of interest and principal to bondholders, \$91,020.10 was paid for legal consulting and professional services, \$154,779.10 was paid as a rebate, and \$117,000 was paid to secure a surety bond for 50% of the 1998 Bond Reserve Account.

A detailed analysis of all transactions within these funds and accounts for this period is included as Exhibit A.

B. Account Balances

The balances as of May 1, 2003, in the active funds and accounts established pursuant to the Indenture and the First Supplemental Indenture are shown in Table 5.

TABLE 5

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

Funds, Accounts and Subaccounts	Earnings
Administrative Expense Fund	\$13.62
Series 1998 Bonds Interest Account	\$0.00
Series 1998 Bonds Principal Account	\$0.00
Series 2003 Bonds Interest Account	\$0.00
Series 2003 Bonds Principal Account	\$0.00
Series 2003 Bonds Capitalized Interest Subaccount	\$154,845.24
Series 2003 Bonds Improvement Subaccount	\$5,317,214.86
Series 1998 Bonds Improvement Subaccount	\$3,043,997.27
Series 1998 Bonds Rebate Account	\$292,650.73
Series 2003 Bonds Rebate Account	\$0.00
Series 2003 Bonds Redemption Account	\$0.00
Series 2003 Bonds Optional Redemption Account	\$0.00
Series 1998 Bonds Reserve Account	\$3,111,008.24
Series 2003 Bonds Reserve Account	\$0.00
Special Revenue Fund	\$0.00
Special Tax Fund	\$6,813,657.06
Series 2003 Bond Cost of Issuance Subaccount	\$15,593.24

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

The Annual Special Tax requirement of CFD No. 1 for Fiscal Year 2003-04 is \$7,138,299.32. This amount represents (i) interest and principal payments due to bondholders in calendar year 2004, (ii) anticipated Administrative Expenses for Fiscal Year 2003-04, and (iii) funds for School Facilities. Table 6 shows the calculation of the Annual Special Tax Requirement of CFD No. 1 for Fiscal Year 2003-04.

TABLE 6

ANNUAL SPECIAL TAX REQUIREMENT FOR FISCAL YEAR 2003-04

FY 2002-03 Current and Expected Funds		\$8,304,971.93
Special Tax Fund Balance (5/1/03)	\$6,813,657.06	
Principal Fund Balance Series 1998 Bonds (5/1/03)	\$0.00	
Interest Fund Balance Series 1998 Bonds (5/1/03)	\$0.00	
Principal Fund Balance Series 2003 Bonds (5/1/03)	\$0.00	
Interest Fund Balance Series 2003 Bonds (5/1/03)	\$0.00	
Capitalized Interest Fund Balance Series 2003 Bonds (5/1/03)	\$154,845.24	
Series 1998 Reserve Fund Excess (5/1/03)	\$39,040.36	
Expected Special Tax Receipts	\$1,297,429.27	
FY 2002-03 Remaining Obligations		\$8,304,971.93
Series 1998 Bonds Interest Payment (10/1/03)	\$1,667,656.87	
Series 1998 Bonds Principal Payment (10/1/03)	\$2,670,000.00	
Series 2003 Bonds Interest Payment (10/1/03)	\$154,698.00	
Direct Construction Funds	\$3,812,617.06	
FY 2002-03 Surplus/(Draw on Reserve)		\$0.00
FY 2003-04 Uses of Funds		\$7,138,299.32
Series 1998 Bonds Interest Payment (4/1/04)	\$1,600,906.88	
Series 2003 Bonds Interest Payment (4/1/04)	\$122,130.00	
Series 1998 Bonds Interest Payment (10/1/04)	\$1,600,906.87	
Series 2003 Bonds Interest Payment (10/1/04)	\$122,130.00	
Series 2003 Bonds Principal Payment (10/1/04)	\$2,925,000.00	
Administrative Expense Budget for Fiscal Year 2003-04	\$112,616.16	
Direct Construction Funds	\$654,609.41	
Annual Special Tax Requirement FY 2003-04		\$7,138,299.32

IV. SPECIAL TAX CLASSIFICATIONS AND DEVELOPMENT UPDATE

CFD No. 1 encompasses approximately 5,200 gross acres of land located within the City of San Diego and the City of Poway (collectively, "Cities"). CFD No. 1 is comprised of four (4) principal development areas: Rancho Bernardo, Penasquitos East (Rancho Penasquitos), Carmel Mountain Ranch, and Sabre Springs. In addition, CFD No. 1 includes a number of properties which were annexed after formation. CFD No. 1 is anticipated to include approximately 6,169 single family detached units and 4,739 single family attached and apartments/mobile home units at build-out.

A. Special Tax Classifications

Each Fiscal Year, the District calculates the Annual Special Taxes to be levied against taxable property within CFD No. 1. The RMA defines two (2) categories of taxable property, "Developed Property" and "Undeveloped Property". Developed Property is in turn divided into fifteen (15) separate rate classifications which vary with land use (e.g., single family detached, single family attached, and apartment/mobile home) and dwelling unit size. The Special Tax classifications of Developed Property are shown in Table 7.

TABLE 7

SPECIAL TAX CLASSES OF DEVELOPED PROPERTY

Class	Land Use	Building Square Footage
1	Single Family Detached	> 2,100
2	Single Family Detached	1,901 – 2,100
3	Single Family Detached	1,701 – 1,900
4	Single Family Detached	1,401 – 1,700
5	Single Family Detached	1,251 – 1,400
6	Single Family Detached	< 1,251
7	Single Family Attached	> 1,400
8	Single Family Attached	1,251 – 1,400
9	Single Family Attached	1,101 – 1,250
10	Single Family Attached	901 – 1,100
11	Single Family Attached	751 – 900
12	Single Family Attached	< 751
13	Apartment/Mobile Home	> 900
14	Apartment/Mobile Home	751 – 900
15	Apartment/Mobile Home	< 751

Developed Property is distinguished from Undeveloped Property by the issuance of a building permit. Specifically, Developed Property means, for any Fiscal Year, all Assessor's Parcels in CFD No. 1 for which a building permit for a residential dwelling unit(s) has been issued as of March 1 of the previous Fiscal Year. For example, all Assessor's Parcels in CFD No. 1 for which a building permit was issued as of March 1, 2003, will be classified as Developed Property in Fiscal Year 2003-04.

B. Development Update

As of March 1, 2003, the Cities had issued building permits for 10,486 residential units, which equates to 96.13% build-out in Fiscal Year 2003-04. Table 8 lists the Developed Property of CFD No. 1 by Special Tax class for Fiscal Years 2000-01 through 2003-04.

TABLE 8

STATUS OF DEVELOPED PROPERTY

Class	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04
1	3,448 Units	3,559 Units	3,617 Units	3,646 Units
2	962 Units	981 Units	989 Units	991 Units
3	900 Units	908 Units	910 Units	911 Units
4	550 Units	550 Units	550 Units	550 Units
5	82 Units	82 Units	82 Units	82 Units
6	30 Units	30 Units	30 Units	30 Units
7	444 Units	444 Units	444 Units	444 Units
8	285 Units	285 Units	285 Units	285 Units
9	136 Units	136 Units	136 Units	136 Units
10	913 Units	913 Units	913 Units	913 Units
11	128 Units	128 Units	128 Units	128 Units
12	160 Units	160 Units	160 Units	160 Units
13	1,038 Units	1,164 Units	1,164 Units	1,164 Units
14	369 Units	381 Units	381 Units	381 Units
15	665 Units	665 Units	665 Units	665 Units
Total	10,110 Units	10,386 Units	10,454 Units	10,486 Units

V. METHOD OF APPORTIONMENT

Pursuant to the RMA, Special Taxes are levied in a three (3) step process.

In the first step, Developed Property shall be taxed at the applicable Annual Special Tax rate, which is the Initial Special Tax rate for the prior Fiscal Year escalated by an amount not to exceed 2.00%. If the Special Taxes raised pursuant to the first step are insufficient to meet the Annual Special Tax requirement, then Developed Property shall be taxed at the Initial Special Tax rate for the prior Fiscal Year escalated up to 4.00%, provided that there is a public hearing and Board approval. If the first two steps are insufficient to meet the Annual Special Tax requirement, then Undeveloped Property shall be taxed at a rate of up to \$750.00 per acre or fraction thereof of Net Undeveloped Property.

Application of the first step yields sufficient Special Taxes to satisfy the Annual Special Tax requirement for Fiscal Year 2003-04.

The Initial Special Tax rates for new Developed Property (Assessor's Parcels for which a building permit was issued between March 1, 2002 and March 1, 2003) is shown in Table 9. The Annual Special Tax for each classification of previously classified Developed Property (Assessor's Parcels for which a building permit was issued prior to March 1, 2002) was increased by two percent (2.00%) for Fiscal Year 2002-03 above the maximum Special Tax rate that was applicable to each such Assessor's Parcel in Fiscal Year 2002-03. The specific maximum Special Tax rates applicable to each class of Developed Property in CFD No. 1 for Fiscal Year 2003-04 are shown in Exhibit B.

TABLE 9

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

Class	Land Use	Building Square Footage	Amount
1	Single Family Detached	< 2,100	\$928.25
2	Single Family Detached	1,901 – 2,100	\$845.70
3	Single Family Detached	1,701 – 1,900	\$793.69
4	Single Family Detached	1,401 – 1,700	\$740.55
5	Single Family Detached	1,251 – 1,400	\$650.11
6	Single Family Detached	>1,251	\$632.01
7	Single Family Attached	< 1,400	\$603.74
8	Single Family Attached	1,251 – 1,400	\$575.49
9	Single Family Attached	1,101 – 1,250	\$569.83
10	Single Family Attached	901 – 1,100	\$488.41
11	Single Family Attached	751 – 900	\$460.16
12	Single Family Attached	> 751	\$430.76
13	Apartment/Mobile Home	< 900	\$287.19
14	Apartment/Mobile Home	751 – 900	\$258.91
15	Apartment/Mobile Home	> 751	\$229.52

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EXHIBIT A

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

EXHIBIT B

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